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Wednesday, 21 September 2022

Arek Gulbenkoglu
General Manager, Network Expenditure
Australian Energy Regulator
Level 17, 2 Lonsdale Street
Melbourne VIC 3000

Dear Mr. Gulbenkoglu

Re: Network Support Pass Through Application for 2021-22

Transgrid is writing to advise the Australian Energy Regulator (AER) that a negative network support event for Powering Sydney's Future (PSF) occurred in the 2021-22 regulatory year. The dollar basis of the financial values in this letter are noted in brackets. These align with the requirements of the AER's network support pass-through guideline.¹

A negative network support event occurs when actual network support payments are less than the approved network support allowance for that year. In its 2018-19 to 2022-23 revenue determination (2018-23 Revenue Determination), the AER approved a total network support allowance of \$19.13 million (\$ June 2018) for PSF, which included an allowance of \$10.04² million (\$ June 2018) for the 2021-22 regulatory year.

The PSF network support allowance is intended to enable us to use non-network solutions to manage the risk of supply outages in the inner Sydney and CBD area, before the new 330kV cable is operational in 2022-23. In its 2018-23 Determination, the AER stated "we ... consider demand management will likely have a greater role in managing potential unserved energy in the future and is likely to be a factor in whether a second circuit is required for the inner metro and CBD area."³

In 2021-22 our actual PSF network support payments were \$1.20 million (\$ June 2022), an over recovery of \$9.66 million (\$ June 2022).

In accordance with clause 6A.7.2 of the National Electricity Rules (NER), we are submitting this negative network support pass through of \$10.51 million (\$ December 2023), to be reflected in setting transmission prices for 2023-24.

¹ AER, Procedural guideline for preparing a transmission network support pass through application, June 2011.

² Equivalent to \$10.86 million (\$ June 2022).

³ AER Final 2018-19 to 2022-23 Determination, Attachment 6 – Capital expenditure, May 2018, pp. 132-133.

The network support pass through application is set out in Attachment 1. It has been prepared in accordance with clause 6A.7.2 of the NER and the AER's "procedural guideline for preparing a transmission network support pass through application" (Network Support Pass Through Guideline)⁴.

Please do not hesitate to contact me at [REDACTED] or on [REDACTED] if you would like to discuss our application

Yours sincerely

[REDACTED]

Stephanie McDougall

General Manager of Regulation

⁴ Published June 2011

Attachment 1 – 2021-22 Network support pass through application

In 2021-22, Transgrid experienced a negative network support event for Powering Sydney's Future (PSF). In order for the network support pass through amount to be incorporated in our 2023-24 transmission prices, we must seek the AER's approval to adjust its maximum allowable revenue (MAR) under clause 6A.7.2 of the NER.

The information required under clause 6A.7.2 of the NER and the AER's Network Support Pass Through Guideline is set out below. The dollar basis of the financial values in this application are noted in brackets.

1. Details of the network support event, including whether it was a positive or negative event

The network support event relates to PSF and occurred in 2021-22. In particular, it relates to contracting 50 MW of demand management for the 2021-22 summer.

It is a negative pass through event because our PSF network support payments in 2021-22 were less than the network support allowance in the 2018-23 Revenue Determination, for that year, by \$9.66 million (\$ June 2022). Adjusting for the time value of money, this is equivalent to a pass-through amount for the 2023-24 financial year of \$10.51 million (\$ December 2023).

2. Network support payment allowance

In its 2018-23 Revenue Determination, the AER approved:

- a total PSF network support allowance of \$19.13 million (\$ June 2018) for the 2018-23 regulatory period, and
- a network support allowance of \$10.04 million (\$ June 2018), or \$10.86 million (\$ June 2022) for the 2021-22 regulatory year.

3. Actual network support expenditure

In 2021-22, our actual PSF network support costs were \$1.20⁵ million (\$ June 2022). This amount is entirely direct costs incurred in accordance with the contract discussed in section 0.

4. Network support pass through amount, including time cost of money calculations

The value of the negative network support event in 2021-22 is \$9.66 million (\$ June 2022). Adjusting for the time value of money, this is equivalent to a pass-through amount for the 2023-24 financial year of \$10.51 million (\$ December 2023). This has been calculated using the model published by the AER together with its Network Support Pass Through Guideline.

Please find the calculation worksheet at Attachment 2.

⁵ Equivalent to \$1.18 million in nominal dollars (assumed to be \$ as at December 2021).

5. Reasons for the difference between the network support payment allowance and actual expenditure

The variation between the actual network support payments and the allowance is due to:

- COVID-19 and changes to office-based work patterns. This resulted in a marked reduction in Inner Sydney demand as people worked from home, which removed the need to procure higher levels of demand management, and
- one of the three contracted parties being unable to fulfil their contracted capacity resulting in no payments being made to them and the establishment fee paid to them refunded back to us.

6. Verification of actual network support expenditure

The network support payments have been audited as part of our annual regulatory accounts audit process. We will submit our audited regulatory accounts, for the financial year ending 30 June 2022, to the AER by 31 October 2022.

7. Evidence the network support amount occurs solely as a consequence of the network support event

The network support payments were incurred solely as a consequence of the network support event.

We have three separate parties contracted under “Network Support Agreement - Non-network Solutions for Powering Sydney’s Future” for a total of 50 MW of demand management in 2021-22. These parties are [REDACTED]. The contracts were entered into specifically for PSF.

The network support payments made in 2021-22 relate only to the availability fees for 25 MW of capacity secured under the network support agreements, out of the total 50 MW. This was due to one of the three contracted parties being unable to fulfil their contracted capacity (25 MW) resulting in no payments being made to them. The establishment fee paid to this contractor was also refunded back to us in 2021-22 as the contractor was unable to fulfil their contracted capacity for the duration of the contract.

Payments do not relate to dispatch fees because the available 25 MW was not dispatched in 2021-22 (apart from testing).

8. Details on the provider of the network support service

8.1. General details

We have three providers of PSF network support services:

- [REDACTED] - the network support agreement between Transgrid and [REDACTED] commenced on 20 December 2018 and expired on 30 April 2022.
- [REDACTED] - the network support agreement between Transgrid and [REDACTED] commenced on 21 December 2019 and expired on 30 April 2022.
- [REDACTED] - the network support agreement between Transgrid and [REDACTED] commenced on 24 December 2019 and expired on 30 April 2022.

The services provided under these agreements are demand management (DM) services, where:

- DM is defined as “demand management by way of the reduction of the consumption of electricity by a Source and / or the provision of non-market generation by a Source as required by a Call” and
- DM Services is defined as “DM and related services described in this agreement to be provided by the Provider”.

The agreement (clause 3) requires that each of the three contracted parties must:

- “provide the DM Services and operate and maintain the Sources with reasonable care and in accordance with all Applicable Laws and Good Electricity Industry Practice” and
- “ensure that each Block is available and capable of providing DM at all times during each Annual Support Period”

8.2. Details on processes used to award the network support services contract

In May 2018, we commenced an open two-stage RFT process to flexibly procure demand management to manage the risk of supply outages before the new 330kV cable in the inner Sydney and CBD area is operational. The RFT was designed to:

- allow us to procure demand management (80 MW in aggregate) should demand forecasts or cable conditions change, and
- focus on more efficient lower cost solutions should the demand management market further improve with more non-network providers.

Stage 1 of the RFT process closed 31 July 2018. A total of 82 parties downloaded the tender and seven responses were received.

Each response included several components or blocks associated with different technologies and capacities. A total of 42 blocks were offered, with a maximum 116 MW of capacity. As requested, respondents nominated a fee structure for each block comprising:

- establishment fees (one-off setup costs)
- availability fees (a monthly fee for that block to be made available), and
- dispatch fees (a \$/MWh rate for running the block).

We held one-on-one meetings with each of the proponents to discuss their responses and clarify any outstanding matters. In some cases, we invited proponents to provide further written information following these discussions.

We applied a detailed network solutions evaluation methodology to assess the responses. Offers were then selected in order of least cost until the energy volume requirement, as described in the RIT-T Project Assessment Draft Report (PADR), was met.

On this basis, we awarded a four year contract to [REDACTED] which would be ready in time for the 2018-19 summer.

In May 2019, Stage 2 of the RFT process commenced to procure an additional 20-60 MW of demand management, and ensure the efficient lowest cost solutions were being sourced should the demand management market have improved. Tenders closed on 31 July 2019 with four submissions received, totalling 31 MW of network support services. Offers were then selected in order of least cost until the energy volume requirement, as described in the RIT-T Project Assessment Draft Report (PADR).

On this basis, TransGrid awarded a three year contract to [REDACTED] a three year contract to [REDACTED] as well as a continuation of [REDACTED] contract. A total of 25 MW was contracted for 2019-20, and 50 MW contracted for 2020-21 and 2021-22.

Stages 3 and 4 of the RFT process were subsequently undertaken to each procure an additional 20-30 MW of demand management, and ensure the efficient lowest cost solutions were being sourced should the demand management market have improved. No submissions were received to stages 3 or 4. The existing contracted services were maintained.

8.3. Details on whether the RIT-T criteria have been met

The PSF RIT-T was completed following the publication of the RIT-T Project Assessment Conclusions Report concluded (PACR) in November 2017. The PACR found that PSF is expected to deliver significant net market benefits by managing the risk of substantial unserved energy to inner Sydney⁶. The preferred option (Option 2A), included the use of non-network solutions:

- before network commissioning, and
- to defer the network build by one year.

The contracts with non-network providers were not entered into as part of this RIT-T process. This is consistent with the way a preferred network option is treated under the RIT-T. In particular, it reflects the fact that a RIT-T is required to be undertaken sufficiently in-advance of the 'identified need' and when the network service provider(s) need to contract suppliers (of either network or non-network services).

9. Details on the TNSP's decisions and actions in managing the network support event

Our incurred direct costs are for contracting 50 MW of demand management for summer 2021-22, with payments made for 25 MW only. The magnitude of demand management that was contracted is consistent with the preferred option (Option 2A) of the RIT-T PACR. The forecast non-network costs in the PACR were reflected in the AER's 2018-23 Revenue Determination.

The lowest cost demand management capacity that met the requirements was contracted for multiple years to manage the risk of that capacity being contracted to other parties in subsequent years.

The 2021-22 network support payments relate only to the availability fees for the 25 MW of capacity which successfully performed under testing. No payments were made to the provider who were unable to fulfil their contracted capacity. The payments made do not relate to dispatch fees because the 25 MW was not dispatched in 2021-2022 (apart from testing).

⁶ TransGrid & AusGrid, RIT-T Project Assessment Conclusions Report, Powering Sydney's Future, November 2017, p48