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Dear Victoria

**Efficient Management of System Strength on the Power System – Addendum to Submission on Draft Decision**

Further to our submission to the Draft Decision on 17 June 2021, AusNet wishes to raise an additional matter for consideration as part of this rule change process. This relates to the lack of clarity in the National Electricity Rules (NER) regarding the responsible party in Victoria for entering into Network Support Agreements (NSAs) that may be required to maintain system strength during planned outages.

AusNet's submission of 17 June highlights that when scheduling planned outages over the last 9 months in certain parts of the network, AEMO Operations has advised AusNet to consider obtaining an NSA to enable the planned outage to proceed. This is driven by the need to manage system strength, issues caused by minimum demand and solar shake off.

To date, AusNet has not entered into an NSA for this purpose but we anticipate NSAs will be required to support critical works during the 2022-27 regulatory period. Due to the split in transmission responsibilities in Victoria, we have been engaging with AEMO Victorian Planning (as the jurisdictional planner) to ascertain whether the Declared Transmission System Operator (DTSO) or the jurisdictional planner is accountable for entering into NSAs for this purpose under the regulatory framework. We have been unable to reach a resolution.

We have also sought advice from the AER on whether AusNet is able to recover the costs of NSAs under the NER, and the supporting evidence that would be required. Advice from the AER was received on 18 June and has led us to submit this addendum.

For the reasons outlined below we consider that clarifications to the NER are required to put in place a workable framework in Victoria. Specifically, the jurisdictional planner should be assigned clear responsibility for entering into NSAs to support planned outages where this is the most efficient option to address system strength issues. This clarification would ensure efficient decisions are made to enable our maintenance program to proceed in an efficient manner and at the lowest possible cost to customers.

We note that the draft rule as currently drafted does not expressly allocate to the Victorian TNSP (as the System Strength Provider) responsibility for entering into NSAs to support

planned outages.<sup>1</sup> This would also be the case even if the system strength standard is amended to include enabling planned outages as an explicit requirement.<sup>2</sup>

In addition, as a commercial business, we consider the current framework leaves material cost recovery risk with AusNet, while we do not have the levers to manage this risk (for example, via augmentation).

### Victorian transmission arrangements – System Strength

The below diagram sets out the roles and responsibilities of various parties in Victoria in relation to system strength.

AEMO	National Planning	<ul style="list-style-type: none"> <li>• Sets zones for system strength</li> <li>• Declares system strength shortfalls</li> </ul>
	Victorian Planning (and VicGrid)	<ul style="list-style-type: none"> <li>• Planning to meet system strength standards</li> <li>Δ <i>Planning to keep system accessible for maintenance</i></li> <li>• Responsible for procuring system strength solutions, including in response to a declared shortfall and Network Support Control Ancillary Services (NSCAS)</li> </ul>
	Operations	<ul style="list-style-type: none"> <li>• Responsible for operating the system in a secure state</li> <li>Δ <i>Must assess outage impacts on system operations (unique to Victoria) and prevent planned outages that threaten system security including system strength shortfalls</i></li> <li>• Can direct generation to provide system strength services</li> </ul>
AusNet		<ul style="list-style-type: none"> <li>• Responsible for forward planning of outages</li> <li>• Must cancel outages at AEMO Ops' request</li> <li>• Incentivised to limit market constraints from planned outages</li> </ul>
<ul style="list-style-type: none"> <li>• Largely consistent across Australia</li> <li>Δ <i>Unique to Victoria</i></li> </ul>		

AusNet's role is limited to outage planning and management. The Victorian jurisdictional planner is responsible for planning for adequate system strength, which must necessarily include ensuring the system is accessible for maintenance. In clause 5.20C.3(c)(2) of the NER currently, the System Strength Service Provider is expressly required to consider the range and level of system strength services it is reasonably likely to require to address a fault level shortfall, "taking into account planned *outages*, the risk of unplanned *outages* and the potential for the *system strength services* to impact typical patterns of *dispatched generation* in *central dispatch*".<sup>3</sup> It follows that the Victorian jurisdictional planner (AEMO) be required to consider the same factors in the wider system strength context. AusNet (as the DTSO) is not involved in assessing the adequacy of system strength, nor in assessing and implementing efficient options to ensure system strength is adequate to enable essential maintenance to go ahead.

### Responsibility for entering NSAs to support planned outages in Victoria

The current NER do not clearly define whether the DTSO or jurisdictional planner are responsible for entering into NSAs to enable essential maintenance to occur, particularly in circumstances where AEMO has not given notice of a system strength shortfall. Similarly, the new clause S5.1.14 as currently drafted provides no guidance.

We consider the NER should be amended as a matter of urgency to clarify that the responsible party is the jurisdictional planner. This amendment is essential to address operational issues

<sup>1</sup> Draft rule, new clause S5.1.14.

<sup>2</sup> A potential model for incorporating an express reference to planned outages in the new clause S5.1.14(b) is in the current clause 5.20C.3(c)(2), which the draft rule proposes to delete.

<sup>3</sup> AusNet notes that the draft rule proposes to delete clause 5.20C.3(c).

that are faced today and is also required to clarify how the proposed draft rule should be applied in Victoria.

This clarification would have the following benefits to help achieve the NEO by ensuring the lowest cost, most efficient option to addressing issues to poor system strength are adopted, while enabling essential network maintenance to proceed.

1. A single party would be accountable for assessing and implementing the optimal solution to address these system strength issues. This party would have a strong and clear incentive to undertake thorough and robust analysis, properly considering the costs and benefits of different solutions, given that they would be responsible for bearing the costs of the various options. This party's incentives to reduce overall costs would strongly align with the interests of customers. (Although we note that under the current framework the DTSO bears any increase in network risk that results from these decisions).

As we are currently operating in an environment with much uncertainty around future developments that may impact system strength (including coal generator closures and long lead times for proposed projects – such as those in the ISP), this analysis is complex and necessarily based on many assumptions. This increases the importance of a strong incentive to carry out a robust and holistic assessment.

2. The party who is able to manage the risk should bear the risk. It is appropriate for the jurisdictional planner to be exposed to the risk that its planning decisions could result in the need for NSAs to support planned outages. These can be very costly and should be avoided where there is a more efficient solution. Conversely, the DTSO should not be exposed to the risk of paying NSA costs where it does not have levers to avoid or minimise the need for these (e.g. it cannot augment).

3. As the jurisdictional planner is accountable for procuring NSAs to address declared system strength gaps, there may be cost savings in the jurisdictional planner bundling NSAs to address multiple needs, including to support planned outages.

This point is also applicable under the new draft rule which, as currently drafted, only requires the SSS Provider to use “reasonable endeavours” to make system strength services available to AEMO. While this facilitates the use of NSAs, they and other system strength services are an alternative to planning and design decisions. In Victoria, if the SSS Provider elects not to procure system strength services but the planning and design decisions are such that planned outages are still materially constrained, it is not clear whether the DTSO (having responsibility for maintaining and operating the network) could be expected to enter into NSAs to support outages.

Furthermore, the new clause S5.1.14 does not expressly require the SSS Provider to take into account how its ability to meet the system strength standard will be affected by planned outages or the risk of unplanned outages.

AusNet and AEMO Victorian Planning would need to work together closely on the supporting analysis and operation of any NSA regardless of which party ultimately undertakes the NSA.

### **Cost recovery of NSA costs for planned outages**

As set out in our main submission, we note that the system strength shortfall and associated cost recovery rules are defined in relation to system normal conditions and credible contingencies, rather than outage conditions. In particular, the existing Network Support pass through in Chapter 6A relates to network support payments made to generators:

- to address a declared system strength shortfall;

- to address a declared inertia shortfall; or
- as an alternative to augmentation.

In relation to network support payments made to support planned outages, the AER has advised that AusNet may be able to recover NSA costs using this pass through mechanism, as they may be viewed as an alternative to augmentation.

However, the AER's advice is that the NSA must be identified by AEMO as being an efficient alternative to augmentation. Specifically, the AER said:

*AusNet Services would need to provide evidence that AEMO has come to the conclusion (including in accordance with the usual planning process requirements and planning criteria that it operates under in respect of augmentations) that the relevant network support service is the optimal and preferred solution as the means of addressing those system strength issues. We consider this would involve evidence of the analysis undertaken by AEMO around the system strength need / gap, the options considered to meet this need, the options considered and why network support is the most efficient option (as would occur in a business case process).<sup>4</sup>*

We do not disagree with the AER's advice on how the current rules operate. However, it presents an additional material risk to AusNet, by clarifying that our ability to recover NSA costs is dependent on robust and timely analysis being provided by AEMO.

#### **Next steps**

We encourage the AEMC to consider this issue as part of this rule change and would welcome a discussion to provide further background.

Please contact Charlotte Eddy, Manager Economic Regulation on 0434 893 873 with any questions relating to this addendum.

Sincerely,



Adrian Hill  
Acting EGM, Regulation and External Affairs  
**AusNet Services**

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<sup>4</sup> AER Response to AusNet Services questions in relation to network support - received 18 June 2021 (full version available on request)