



INFORMATION

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Providing flexibility in the allocation of interconnector costs

We have published a consultation paper seeking your feedback

The Australian Energy Market Commission (AEMC) has published a consultation paper in response to a rule change request from the Honourable Chris Bowen MP, Minister for Climate Change and Energy, The Honourable Nick Duigan MLC, Minister for Energy and Renewables, and The Honourable Lily D'Ambrosio MP, Minister for Energy and Resources (the proponents or the Ministers). The rule change seeks to provide flexibility to enable the delivery of net beneficial interconnectors that may face barriers to delivery under the current regulatory framework.

We are seeking stakeholder submissions on the consultation paper by **11 April 2024**.

Ministers consider that the existing regulatory framework may not be flexible enough to address barriers to delivering net beneficial interconnectors

The National Energy Market (NEM) is undergoing a once in a generation transformation as it transitions to net zero, underpinned primarily by renewable forms of electricity generation and storage. Interconnectors are considered to be a critical element of the transition so that new generation can connect to the NEM and to enhance connectivity between NEM regions. The interconnectors in the Australian Energy Market Operator's (AEMO) Integrated System Plan are expected to provide net benefits to consumers and play an essential role for the optimal development of the transmission system.

Ministers' consider that the existing regulatory framework is not sufficiently flexible to address barriers that may impact the delivery of net beneficial interconnectors. These barriers include:

- The existing rules are unclear or inapplicable for interconnectors spanning Commonwealth waters, such as the Marinus Link project.
- The cost recovery of an interconnector may result in a material bill impact to one or both jurisdiction's electricity consumers. A materially higher bill impact in one jurisdiction compared to another jurisdiction may make it difficult for projects to proceed.
- Jurisdictional agreement and support may be required to address uncertainty and enable Nationally Significant Transmission Projects.

The proponents argue that without change, net beneficial interconnector projects may not be delivered and net market benefits may go unrealised. These interconnectors may also be intended beneficiaries of the Commonwealth's \$20 billion Rewiring the Nation plan which is intended to facilitate lower costs and faster delivery of new or upgraded transmission.

Ministers recommend developing a framework to give effect to inter-governmental agreements on cost allocation

Ministers propose a new framework in the National Electricity Rules (NER) to address these barriers. The proposed amendments would give effect to inter-governmental agreements on interconnector cost allocation. This would provide an alternate pathway in addition to the existing regulatory framework. The rule change request does not seek to change the regulatory approval process, such as the Regulatory Investment Test for Transmission and AEMO's feedback loop assessment, that ensures projects generate net benefits.

An inter-governmental agreement would need to be submitted to the Australian Energy Regulator (AER) under the proposal in order for it to be given effect. It would also have to

meet certain criteria, such as:

- be legally binding on the States and Territories in question
- clearly specify the allocation of interconnector project costs to each jurisdiction and how, if at all, the allocation is to change over the life of the asset (e.g. percentage allocation of overall costs)
- specify the time frame over which the agreed allocation would exist (e.g., the life of the asset), and
- be submitted to the AER prior to a specified regulatory deadline.

The proposed amendments would not change the existing cost allocation framework in the NER for interconnectors where jurisdictions have not agreed to enter into an agreement on the allocation of interconnector costs. As a result, the rule change request, if implemented, would effectively provide two pathways for the allocation of interconnector costs.

The Commission welcomes feedback on the proposed criteria and other implementation design questions in the consultation paper, such as the minimum requirements for an agreement and the best mechanism for cost recovery.

We encourage you to provide your feedback

Stakeholders are invited to make submissions to the consultation paper. Written submissions responding to this consultation paper must be lodged with the Commission by 11 April 2024.

To make a submission go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code ERC0383.

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14 March 2024