

15 April 2024

Alisa Toomey
Director
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Dear Alisa

Re: Providing flexibility in the allocation of interconnector costs (ERC0383)

TasNetworks appreciates the opportunity to provide comments in response to the consultation paper¹ on the rule change request proposing the use of intergovernmental agreements to apportion the recovery of regulated interconnector revenues between regions in the National Electricity Market (**NEM**). We note that Energy Networks Australia (**ENA**) has also prepared a submission in relation to this matter and TasNetworks endorses the comments made by the ENA.

TasNetworks is the Transmission Network Service Provider (**TNSP**) in Tasmania and was responsible for developing the original business case for the construction of Marinus Link, a new undersea high voltage interconnector connecting the Tasmanian and Victorian electricity transmission networks. As such, we recognise the key role that greater interconnection between regions of the NEM has to play in transitioning the Australian economy to a low carbon future and are also very mindful of the impact that network costs can have on our customers, large and small.

Despite the significant customer benefits that Marinus Link is projected to offer, particularly in mainland regions of the NEM, and the importance of the project to the Optimal Development Path set out by the Australian Energy Market Operator in successive Integrated System Plans, the cost recovery arrangements in the National Electricity Rules (**NER**) have long posed a threat to the project. Under the current arrangements for the economic regulation of transmission services, there would be a significant disparity between the extent to which Tasmanian customers would be asked to contribute towards the cost of Marinus Link and the distribution of customer benefits across the NEM.

TasNetworks concurs that an alternative to those arrangements is needed and is supportive of the rule change proposal from The Honourable Chris Bowen MP, Minister for Climate Change and Energy, The Honourable Lily D'Ambrosio MP, Minister for Energy and Resources and The Honourable Nick Duigan MLC, Minister for Energy and Renewables (the Energy Ministers). The proposed rule change offers a means by which the cost sharing of additional interconnection between Tasmania and Victoria might be resolved, in a way that is not possible under the regulatory framework as it currently stands.

TasNetworks envisages that the interconnector revenues allocated to TNSPs to recover under intergovernmental agreements would be best recovered through the Coordinating Network Service Provider (**CNSP**) arrangements in Chapter 6A of the NER, or a variation thereof. The final rule will need

¹ AEMC, *Providing flexibility in the allocation of interconnector costs*, Consultation paper, 14 March 2024

to ensure amendments to TNSP pricing methodologies can be made to recognise changes required as a result of an intergovernmental agreement.

The purpose of the rule change proposal is to provide flexibility in relation to the recovery of interconnector revenues. It will be important that the enabling amendments to the NER allow for a degree of flexibility in the application of intergovernmental agreements. The provisions introduced to enable the use of intergovernmental agreements to apportion the recovery of interconnector revenues between regions should:

- recognise the timing of an intergovernmental agreement will be uncertain and the arrangements should provide flexibility to recognise an intergovernmental agreement at any time during a regulatory control period; and
- allow for the renegotiation of intergovernmental agreements over time. As the NEM transitions towards a low emissions power system, market conditions and the power system will change, and if those changes are significant enough, the parties to an interconnector cost-sharing agreement may wish to reflect those changes in the agreement.

In its recent determination in relation to the Sharing of Concessional Finance Benefits with Consumers rule change, the AEMC made a more preferable rule change that provides flexibility in how concessional finance benefits are passed through to customers. Similar arrangements could be considered for the implementation of intergovernmental agreements – noting that the concessional finance rule change only impacts revenue recovery, whereas the interconnector cost allocation rule change also requires changes to transmission pricing arrangements.

It will be important that intergovernmental cost sharing arrangements are transparent to consumers. There will be customer price impacts of the agreements and it will be important that TNSPs can explain the impact to customers as part of ongoing customer engagement. At a minimum, the regional cost recovery splits applying to interconnectors should be published along with the time period covered by the intergovernmental agreement. Regulated interconnectors should also be required to annually publish a breakdown of annual revenue allowances by NEM region.

In addition to the rule change proposed by the Energy Ministers, further amendment of the NER is required to establish revenue recovery allocation arrangements for interconnectors where an intergovernmental agreement is not in place. In the absence of an approved intergovernmental agreement for an interconnector the existing provisions in the NER relating to interconnector revenue recovery would apply to any new interconnector by default and, as has been widely recognised in relation to an interconnector like Marinus Link, those provisions are not fit for that purpose.

Providing an additional mechanism in the NER for apportioning interconnector revenues between NEM regions that is not, as is the case with the current arrangement, driven by the location of assets within those regions, offers a number of benefits. Firstly, it could provide a potentially preferable solution to interconnector cost sharing (in the absence of an intergovernmental agreement) for interconnectors that, like Marinus Link, are developed by third parties other than regional TNSPs. It could also provide any new interconnector, particularly interconnectors involving assets that are located completely or largely outside the jurisdiction(s) they are built to serve, with a more equitable alternative than the existing interconnector revenue recovery arrangement, and it would provide an option that might also negate the need for an intergovernmental agreement. Having an alternative to the current revenue sharing method which is not dependent on negotiations between governments may also provide the proponents of new interconnectors with a level of certainty that their project will not have to rely on an intergovernmental agreement in order to proceed.

TasNetworks envisages that this new arrangement would supplement, rather than replace, the existing arrangements for the sharing of interconnector revenue recovery between NEM regions or the proposed recognition of intergovernmental agreements for the same purpose.

While TasNetworks is advocating for the inclusion of another option in the NER for sharing interconnector revenue recovery, we do not see this proposal as a reason to delay implementation of the Energy Ministers' rule change proposal.

Once again, thank you for the opportunity to comment on the consultation paper regarding the provision of flexibility in the allocation of interconnector costs. To discuss the views expressed in this letter please contact Chris Noye, Leader Regulation at Chris.Noye@TasNetworks.com.au.

Yours sincerely



Chantal Hopwood
Head of Regulation