AUSTRALIAN ENERGY MARKET COMMISSION

RULE

Draft rule determination

National Electricity Amendment (Providing flexibility in the allocation of interconnector costs) Rule 2024

Proponents

The Honourable Chris Bowen MP, Minister for Climate Change and Energy
The Honourable Nick Duigan MLC, Minister for Energy and Renewables
The Honourable Lily D'Ambrosio MP, Minister for Energy and Resources

20 June 2024

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About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country

The AEMC acknowledges and shows respect for the traditional custodians of the many different lands across Australia on which we all live and work. We pay respect to all Elders past and present and the continuing connection of Aboriginal and Torres Strait Islander peoples to Country. The AEMC office is located on the land traditionally owned by the Gadigal people of the Eora nation.

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Citation

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Summary

1 The Australian Energy Market Commission (the AEMC or Commission) has decided to make a more preferable draft rule (draft rule) to introduce greater flexibility in allocating costs for critical interconnector projects across the National Electricity Market (NEM). This is in response to a rule change request submitted by the Honourable Chris Bowen MP, Federal Minister for Climate Change and Energy, The Honourable Lily D'Ambrosio MP, Victorian Minister for Energy and Resources, and The Honourable Nick Duigan MLC, Tasmanian Minister for Energy and Renewables (the Ministers).

2 There is broad consensus that transmission is a critical enabler for the transition to net zero, both in the NEM and the economy more broadly. This transition will require an unprecedented level of investment in, and build of, transmission infrastructure to deliver power from renewable generation and energy storage to consumers, and a need to deliver infrastructure quickly.

3 The Australian Energy Market Operator (AEMO) has identified new inter-regional transmission interconnectors as actionable and future investments, including Marinus Link, in its optimal development path for the NEM.

4 The rule change request proposes allowing for an agreement to be reached by governments on the allocation of interconnector costs where, absent such an agreement, the existing cost allocation framework would otherwise be a barrier to the interconnector's development. The rule change request suggests that the current regulatory framework is not sufficiently flexible to address barriers, such as cost recovery imbalances that could result in material electricity bill impacts in one jurisdiction over others, making it difficult for projects to proceed.

5 Given that transmission is a critical enabler of new low-cost generation and for the transition to net zero, the Commission considers that removing barriers to the delivery of net beneficial transmission infrastructure is in the long-term interests of consumers. Delayed or cancelled investment in transmission infrastructure required for the transition to net zero would be costly to consumers.

6 The Commission recognises the importance of transparency and considers that Ministers, using the pathway in this draft rule, should communicate the benefits of any agreement to consumers in a timely way. This would complement the requirement in the draft rule to publish an agreement made for the purposes of the draft rule.

7 We are seeking feedback on our draft determination and rule by **1 August 2024**.

Our draft rule supports timely investment in and delivery of new inter-regional interconnectors by providing Ministers with the flexibility to address barriers to delivery

8 Our more preferable draft rule provides a mechanism to address the risk that jurisdictions may not support net beneficial projects, potentially making it difficult for the projects to proceed. This could occur if consumers in one interconnected state were worse off, even where the totality of benefits to the NEM were positive. We have enabled this rule to apply to both government owned and funded assets as well as private infrastructure so that undesirable cost allocation outcomes can be addressed by Ministers separate from any planning and licensing approvals.

9 The draft rule retains the existing pathway for interconnector cost allocation, but also provides an alternative cost allocation mechanism which enables the implementation of an interconnector cost allocation agreement (agreement) made between Ministers in respect of a new regulated

interconnector.

10 The draft rule would not impact the total regulated revenue that a Transmission Network Service Provider (TNSP) would earn. However, an agreement would allow for a specified amount of a TNSP's total revenue to be collected through a TNSP in the counterparty government's NEM region. Projects would also still need to pass the Regulatory Investment Test for Transmission (RIT-T) and AEMO's feedback loop to ensure they generate net benefits for the NEM.

11 The draft rule differs from the proposed rule through the addition of a number of implementation details, and through changes to the level and sequence of the Australian Energy Regulator's (AER's) involvement.

Stakeholder support for transparency and the timely delivery of interconnector projects shaped our more preferable draft rule

12 Stakeholder submissions generally reflect a need to balance the flexibility to deliver interconnector projects with support for consumers' long-term interests. Industry stakeholders and market bodies broadly support the rule change proposal, while consumer groups consider that consumers' long term interests may be better served by a broad-reaching rule change to the current cost-sharing provisions of the NER.

13 We consider that our more preferable draft rule strikes an appropriate balance between providing transparency to stakeholders by requiring, for example, the publication of agreements and granting jurisdictions sufficient flexibility to progress net beneficial interconnector projects.

14 The Public Interest Advocacy Centre (PIAC) considered that the Ministers' rule change proposal should be consolidated with one that it submitted which is intended to "improve the ability for the costs of strategic transmission projects to be recovered from the beneficiaries of that investment."[1] For reasons further discussed in this draft determination (see section 1.2), the Commission has decided to proceed with the Minister's rule change request because it addresses a different and more urgent challenge associated with the distributional impacts of cost allocation that could delay or be a barrier to delivering required interconnectors. If unaddressed, there could be significant additional costs to consumers. This rule change proposal can be treated independently because it would not necessarily be addressed by, or affect the ability to consider issues raised in, the PIAC rule change proposal.

The Commission considers the draft rule is in the long term interests of consumers

15 The Commission has considered the National Electricity Objectives (NEO),[2] the revenue and pricing principles,[3]and the issues raised in the rule change request and assessed the draft rule against four assessment criteria outlined below.

16 The more preferable draft rule is likely to better contribute to achieving the NEO than the proposed rule by:

- **Supporting emissions reduction -** Our draft rule would provide flexibility in interconnector cost allocation, removing barriers to the timely delivery of net beneficial interconnectors which provide new interconnection between NEM regions. In turn, this increases the ability and

1 PIAC, Transmission charging rule change request, p. 2.
2 Section 7 of the National Electricity Law (NEL).
3 Section 7A and 88B of the NEL.

timeliness of additional renewable energy generation to connect and therefore efficiently contributes to achieving government targets for reducing Australia's greenhouse gas emissions.

- **Promoting principles of market efficiency -** Our draft rule supports the delivery of net beneficial interconnectors, which will enable additional generation assets to connect and reduce wholesale costs for consumers. It does this by providing a new pathway where governments would agree the specific cost allocation for the interconnector, while retaining the existing pathway in the NER for interconnector cost allocation where jurisdictions have not agreed to enter into an agreement.
- **Implementation considerations** - Our draft rule supports timely delivery of interconnectors through the alternative cost allocation pathway by clarifying and specifying implementation matters, including requirements for a valid agreement as well as defined roles and processes. Our draft rule supports the implementation of a successful market-wide solution by providing flexibility for an agreement to be made between two or more Ministers and requiring agreements to be published for transparency.
- **Promoting principles of good regulatory practice -** Our draft rule reduces uncertainty by specifying and clarifying matters related to the application of agreements, including specifying that flexibility in the allocation of interconnector costs only applies to qualifying interconnectors, which are new regulated interconnectors. Our draft rule also complements other reforms to promote the timely delivery of critical transmission projects, including other initiatives and new rules. We consider that the benefits of our draft rule would outweigh the administrative costs.

How our draft rule would work

A new pathway for interconnector cost allocation through agreements between governments

17 Our draft determination provides flexibility in the allocation of interconnector costs. Our draft rule would retain the existing pathway for interconnector cost allocation and provide a new pathway that enables the implementation of interconnector cost allocation agreements (agreements) between governments.

18 Our draft rule provides flexibility for two or more Ministers to make an agreement. The parties to an agreement could be either:

- each relevant Minister for the regions that costs are being transferred between; or
- each relevant Minister for the regions that costs are being transferred between and the relevant Minister for any other region that voluntarily agrees to be part of the agreement.

19 To be implemented, an interconnector cost allocation agreement must satisfy a minimum set of implementation criteria.

20 Our draft rule would:

- apply for interconnectors providing prescribed transmission services that are new or materially upgraded
- apply for interconnectors currently providing market network services that convert to providing prescribed transmission services
- allow an agreement to remain in place for the period of time agreed by the relevant Ministers
- work for both TNSPs and Intending TNSPs.

21 Our draft rule clarifies implementation matters in specific jurisdictions:

- Victoria is an adoptive jurisdiction, but our draft rule would apply in Victoria without modification since it can apply in the same way as other jurisdictions in the NEM
- If the Australian Capital Territory (ACT) is within a region that is taking a transfer of costs (New South Wales (NSW)), the ACT Minister must be consulted on the agreement (or an amendment to the agreement), but does not need to be party to the agreement.

Roles and processes related to interconnector cost allocation agreements

22 Our draft determination would allow governments to give interconnector cost allocation agreements (agreements) to TNSPs and Co-ordinating Network Service Providers (CNSPs).

23 An agreement would not impact the total regulated revenue that a TNSP would receive. Total regulated revenue for each TNSP, inclusive of revenue associated with the relevant interconnector, would continue to be determined by the AER in the normal manner every five years. However, an agreement would allow for a specified amount of a TNSP's total revenue to be collected from a CNSP in the counterparty government's NEM region. That CNSP would collect the additional revenue required from their customers.

24 The agreements would contain the information required for the TNSP to determine the interconnector transfer amount. TNSPs and CNSPs would then be required to reflect the agreement into their amended or proposed pricing methodologies before submitting to the AER, either as part of a revenue determination process or midway through a regulatory control period.

25 Under the draft rule the AER would be required to assess whether an agreement meets the implementation criteria and whether the amendments to the pricing methodology provide for giving effect to the agreement in accordance with the requirements of chapter 6A. The AER would not assess the merits of an agreement. The draft rule also makes provision for where the pricing methodology has not received final approval in time to set the impending year's prices.

26 To give effect to the agreement in accordance with the NER, TNSPs would amend their pricing methodologies to facilitate the adjustment to the annual aggregate revenue requirement (AARR) component. Affected CNSPs and TNSPs would be responsible for giving effect to the agreements by applying a number of notification, publication, and payment requirements in the rules. The draft rule also provides for adjustments to prevent unintended consequences, such as double counting of interconnector transfer amounts or potential double payments. The draft rule does not provide for TNSPs to alter the current way in which settlement residue auction proceeds are distributed.

27 Our draft rule also facilitates jurisdictions amending their original agreements, so long as the amended agreement satisfies all the implementation criteria applicable to new agreements.

28 The draft rule diverges from the rule change request by incorporating a number of implementation details that were not originally considered in the Ministers' proposal. The draft rule requires affected TNSPs to commence the process of implementing the agreement, by submitting them to the AER along with their pricing methodology. This removes unnecessary procedural steps, and better reflects the AER's limited role in implementing transmission pricing. Finally, the draft rule also diverges from the proposal by providing flexibility for jurisdictions to either submit agreements to TNSPs for incorporation as part of their revenue determination process, or to submit them during an existing regulatory control period.

The draft rule (if made) would allow agreements to apply from 18 September 2025

29 If made as a final rule, we propose that the final rule commences on 18 September 2025.

30 Our draft rule includes transitional requirements for the AER to review and, where it considers necessary or desirable, amend and publish its pricing methodology guidelines and information guidelines. The AER would need to complete these reviews within 12 months of the publication of the final rule (if made).

31 The final rule (if made) would commence after these guidelines have been reviewed and updated, meaning that agreements could be applied from 18 September 2025.

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solution by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and contributes to well-informed, high quality rule changes.

How to make a written submission

Due date: Written submissions responding to this draft determination and rule must be lodged with Commission by 1 August 2024.

How 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.**[4]

Tips for making submissions on rule change requests are available on our website.[5]

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive or defamatory content, or content that is likely to infringe intellectual property rights).[6]

Next steps and opportunities for engagement

There are other opportunities for you to engage with us, such as one-on-one discussions or industry briefing sessions.

The AEMC will be holding a public forum on 4 July 2024 to discuss the draft rule determination.

You can also request the Commission to hold a public hearing in relation to this draft rule determination.[7]

Due date: Requests for a hearing must be lodged with the Commission by 27 June 2024.

How to request a hearing: 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**. Specify in the comment field that you are requesting a hearing rather than making a submission.[8]

For more information, you can contact us

Please contact the project leader with questions or feedback at any stage.

Project leader:	Christian Dunk
Email:	christian.dunk@aemc.gov.au
Telephone:	+61 2 8296 0699

4 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission

5 See: https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/our-work-3

6 Further information about publication of submissions and our privacy policy can be found here: https://www.aemc.gov.au/contact-us/lodge-submission

7 Section 101(1a) of the NEL.

8 If you are not able to lodge a request online, please contact us and we will provide instructions for alternative methods to lodge the request.

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1 The Commission has made a draft determination

This draft determination is to make a more preferable draft rule in response to a rule change request submitted by The Honourable Chris Bowen MP, Federal Minister for Climate Change and Energy, The Honourable Lily D'Ambrosio MP, Victorian Minister for Energy and The Honourable Nick Duigan MLC, Tasmanian Minister for Energy and Renewables (the Ministers). We are seeking feedback on this draft rule.

For more detailed information on:

- why we made the draft rule, refer to chapter 2
- how our draft rule would work, refer to chapters chapter 3 and chapter 4 and Appendices D and E.
- the rule change request and background context, refer to Appendix A.

1.1 Our draft rule would provide flexibility in the allocation of interconnector costs

The proponents have identified cost allocation issues that impact the ability of TNSPs and jurisdictions to progress interconnector projects which are net beneficial through the regulatory framework. The Ministers argue that jurisdictions should have the flexibility to address issues that cannot otherwise be addressed through the existing cost allocation framework for interconnectors in the NER and associated guidelines.

The proponents identified the following issues with the existing regulatory framework:

- The existing rules are unclear or inapplicable for interconnectors spanning Commonwealth waters.
- The cost recovery of an interconnector may result in a material bill impact to one or both jurisdictions' electricity consumers.
- Jurisdictional agreement and support may be required to address uncertainty and enable Nationally Significant Transmission Projects to proceed.

The 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. AEMO's Integrated System Plan (ISP) has identified an ODP for the transmission system, including a number of interconnector projects.

These interconnectors are necessary to enhance or provide new interconnection between NEM regions. As a result, these interconnectors will provide net benefits to consumers and play an essential role for the optimal development of the transmission system.

The draft rule provides flexibility in the allocation of interconnector costs. Our draft rule would retain the existing pathway for interconnector cost allocation and also provide a new pathway that enables the implementation of interconnector cost allocation agreements (agreements) between governments.

See chapters chapter 3 and chapter 4 for a detailed description of our draft rule.

1.2 Our draft rule was shaped by stakeholder support for transparency and the timely delivery of interconnector projects

Stakeholder submissions generally reflect a need to balance the flexibility to deliver interconnector projects with support for consumers' long-term interests.

Industry stakeholders and market bodies broadly support the rule change proposal. They see benefit in providing flexibility in the NER to support the delivery of interconnector projects and noted the benefits for consumers of ensuring the timely delivery of interconnector projects.[9]

Consumer groups considered that consumers' long-term interests may be better served by a broad-reaching rule change that changed the current cost sharing provisions of the NER,[10] and raised concerns about the transparency of inter-governmental agreements.

PIAC considered that the Ministers' rule change proposal should be consolidated with one that PIAC submitted,[11] which is intended to "improve the ability for the costs of strategic transmission projects to be recovered from the beneficiaries of that investment".[12] The Commission has decided to proceed with the Ministers' rule change because it addresses a different and more urgent challenge associated with the distributional impacts of cost allocation that could delay or be a barrier to delivering required interconnectors. If unaddressed, there could be significant additional costs to consumers. This rule change proposal can be treated indepedently because it would not necessarily be addressed by, or affect the ability to consider issues raised in, the PIAC rule change proposal.

The Ministers' rule change proposes flexibility for Ministers to agree to an interconnector cost allocation to overcome barriers to the development of net beneficial interconnector projects. The PIAC rule change request proposes a more fundamental examination of the cost allocation framework. Ministers may continue to require the flexibility to make agreements and have them implemented in order for beneficial projects to proceed, regardless of the regulatory framework in place at a particular time.

Most stakeholders think that the AER should perform a limited role in implementing jurisdictions' agreements which excludes an assessment of an agreement's merit.[13] Our draft rule would not require the AER to assess the merits of an agreement. The AER's role in our draft rule would be more procedural, with its role limited to confirming that the agreement meets the criteria specified in the rules and that pricing methodologies comply with the requirements of the rules.

For more detailed information on stakeholder feedback, refer to chapters chapter 3 and chapter 4.

1.3 Our determination would promote timely investment decisions on critical transmission projects

There is broad consensus that transmission is a critical enabler for the transition to net zero, both in the NEM and the economy more broadly. This transition will require an unprecedented level of investment in, and build of, transmission infrastructure to deliver power from renewable generation and energy storage to consumers, and a need to deliver infrastructure quickly.

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9 Submissions to the consultation paper: Australian Energy Market Operator, pp. 2-4; Australian Energy Regulator, pp. 1-2, Carbon Zero Initiative, pp. 1-2; Clean Energy Finance Corporation, p. 2; Energy Networks Australia, pp. 3-5; Marinus Link Pty Ltd, p. 3; TasNetworks, pp. 1-2; Transgrid pp. 1-2.

10 Submissions to the consultation paper: Energy Consumers Australia, pp. 1-2; Public Interest Advocacy Centre, pp. 1-4.

11 Submission to the consultation paper: Public Interest Advocacy Centre, p. 1.

12 Public Interest Advocacy Centre, Transmission charging rule change request, 23 February 2024, p. 2.

13 Submissions to the consultation paper: Australian Energy Market Operator, p. 3; Australian Energy Regulator, p. 1; Energy Networks Australia, p. 4; Marinus Link Pty Ltd, p. 3.

Our draft rule would provide flexibility for net beneficial interconnector projects to be developed that otherwise may not have progressed due to barriers under the current regulatory framework. Delayed or cancelled investment in transmission infrastructure required for the transition to net zero would be costly to consumers.

Other policy and regulatory work is underway to promote the timely delivery of transmission projects. Our draft rule complements other rule changes and initiatives, as explained in section 3.4.

2 The rule would contribute to the energy objectives

2.1 The Commission must act in the long-term interests of energy consumers

The Commission can only make a rule if it is satisfied that the rule will or is likely to contribute to the achievement of the relevant energy objectives.[14]

For this rule change, the relevant energy objective is the NEO:

The NEO is:[15]

> to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—
>
> (a) price, quality, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system; and
>
> (c) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The targets statement, available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NEO.[16]

2.2 We must also take these factors into account

2.2.1 We have considered whether to make a more preferable rule

The Commission may make a rule that is different, including materially different, to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NEO.[17]

For this rule change, the Commission has made a more preferable draft rule. The reasons are set out in section 2.3 below.

2.2.2 We have considered the revenue and pricing principles for this rule change

We also have to take into account the revenue and pricing principles when making rules for or with respect to transmission system revenue and pricing.[18]

In making this draft determination, the Commission has considered the following aspects of transmission system revenue and pricing to be most relevant:

- The regulation of prices charged or that may be charged by owners, controllers or operators of transmission systems for the provision by them of services that are the subject of a transmission determination.[19]

14 Section 88(1) of the NEL.
15 Section 7 of the NEL.
16 Section 32A(5) of the NEL.
17 Section 91A of the NEL.
18 The revenue and pricing principles are set out in section 7A of the NEL.
19 Schedule 1 item 16(1) of the NEL.

- The regulation of prices that AEMO charges or may charge for the provision of shared transmission services.[20]
- The economic framework, mechanisms or methodologies to be applied or determined by the AER for the purposes of items 15 and 16 including (without limitation) the economic framework, mechanisms or methodologies to be applied or determined by the AER for the derivation of the revenue (whether maximum allowable revenue or otherwise) or prices to be applied by the AER in making a transmission determination.[21]

The Commission has taken into account these principles in making this draft determination and rule. The draft rule promotes these principles because our draft rule does the following:

- Where an agreement has been made between two or more Ministers and has been validated by the AER, the draft rule specifies the regulatory arrangements for incorporating the agreement into transmission pricing for the purpose of giving effect to the allocation agreed by the Ministers. This includes the prices that AEMO may charge for the provision of shared transmission services from interconnectors relating to Victoria.
- Provides discretion for TNSPs to amend their pricing methodologies to incorporate a valid agreement that amends how much revenue TNSPs collect from consumers in their respective regions and to provide the amended pricing methodology to the AER for approval. The AER must assess whether the TNSPs' proposed amendments to their pricing methodologies comply with the requirements of the rules, and if so, approve these amendments.

2.2.3 The draft rule would not apply in the Northern Territory

The proposed rule would not apply in the Northern Territory, as it amends provisions in NER Chapter 6A which does not apply in the Northern Territory.[22]

See Appendix C for more detail on the legal requirements for our decision.

2.2.4 The draft rule would apply in Victoria

Given that Victoria is an adoptive jurisdiction, Chapter 6A of the NER applies differently in Victoria, compared to other jurisdictions in the NEM. However, the draft rule can apply in Victoria without modification since it can apply to AEMO (as the CNSP in Victoria) in the same way it applies to CNSPs in other regions. Minor amendments are made to clause S6A.4.2 to reflect the changes in Chapter 6A for the draft rule.

See chapter 3 for more detail on the application of the draft rule in Victoria.

2.3 How we have applied the legal framework to our decision

The Commission must consider how to address barriers that may impact the delivery of net beneficial interconnectors against the legal framework.

We identified the following criteria to assess whether the proposed rule change, no change to the rules (business-as-usual), or other viable, rule-based options are likely to better contribute to achieving the NEO:

- **Emissions reduction:** Would the rule change efficiently contribute to achieving government targets for reducing, or that are likely to reduce, Australia's greenhouse gas emissions?

20 Schedule 1 item 16(2) of the NEL.

21 Schedule 1 item 20 of the NEL.

22 Under the NT Act and its regulations, only certain parts of the NER have been adopted in the Northern Territory. The version of the NER that applies in the Northern Territory is available on the AEMC website at: https://energy-rules.aemc.gov.au/ntner.

- **Principles of market efficiency:** Would the rule change support market efficiency by supporting the delivery of net beneficial interconnectors, which will enable additional generation assets to connect and reduce wholesale costs for consumers?
- **Implementation considerations:** Would the rule change assist in timely delivery and implementation of a successful market wide solution?
- **Principles of good regulatory practice:** Would the rule change reduce uncertainty and complement other reforms underway?

These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request, for impacts within the scope of the NEO. Our reasons for choosing these criteria are set out in section 4.2 of the consultation paper.

The Commission has undertaken a regulatory impact analysis to evaluate the impacts of the various policy options against the assessment criteria. Appendix B outlines the methodology of the regulatory impact analysis.

The rest of this section explains why the draft rule best promotes the long-term interest of consumers when compared to other options and assessed against the criteria.

2.3.1 Contribution to achieving government targets for reducing greenhouse gas emissions

Our draft rule would provide flexibility in interconnector cost allocation, removing barriers to the timely delivery of net beneficial interconnectors which are a critical enabler of the transition to net zero by enhancing or providing new interconnection between NEM regions. Our draft rule would therefore efficiently contribute to achieving government targets for reducing Australia's greenhouse gas emissions. For example, our draft rule would contribute to achieving:

- the Commonwealth Government's 2030 target of 43 per cent below 2005 emissions levels
- Commonwealth and state government renewable energy targets, for example, the Commonwealth's commitment to a national renewable energy target of 82 per cent by 2030.

These targets are identified in the targets statement published by the Commission. It does this by supporting the timely delivery of critical interconnector infrastructure required to facilitate the transition to a net zero energy system.

Our draft rule would provide an alternate pathway to deliver projects that might otherwise not be developed. For example, Project Marinus is identified in AEMO's draft 2024 ISP as an actionable ISP project on the ODP as it contributes to achieving current environmental policies including net zero targets. This includes the Marinus Link interconnector (Stages 1 and 2) as well as the North West Transmission Developments.[23] Compared to business as usual, our draft rule facilitates the emissions reduction benefits of the Marinus Link interconnector project which enables additional renewable energy generation to connect to the NEM.

2.3.2 Promoting principles of market efficiency

Our draft rule promotes principles of market efficiency by supporting the delivery of net beneficial interconnectors, which will enable additional generation assets to connect and reduce wholesale costs for consumers. Our draft rule would do this by:

- providing a new pathway where governments would agree the specific cost allocation for the interconnector; and

23 AEMO, Draft 2024 Integrated System Plan, p. 12. Available at https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2023/draft-2024-isp-consultation/draft-2024-isp.pdf?la=en

- retaining the existing pathway in the NER for interconnector cost allocation where jurisdictions have not agreed to enter into an agreement on the allocation of interconnector costs.

2.3.3 Supporting implementation considerations

Our more preferable draft rule is likely to better contribute to the achievement of the national electricity objective than the proposed rule because it would assist in timely delivery of interconnectors through an alternative pathway by specifying the implementation matters outlined below.

- Requiring that a set of implementation criteria must be satisfied for an agreement to be valid and able to be implemented by the relevant TNSPs and CNSPs in transmission pricing. Our draft rule is more preferable as it amends some criteria proposed in the rule change proposal and includes additional criteria to facilitate implementation within existing regulatory processes.[24] It also sets out these criteria in the rules rather than in guidelines as proposed in the rule change request.
- Clarifying that the relevant Ministers would need to submit a valid and implementable agreement to the TNSP and each specified CNSP at least 9 months before the start of the first implementation year of the agreement. Our draft rule is more preferable as it provides more detail on this timing than the rule change proposal.[25] The timing is important to facilitate the agreement being implemented in transmission pricing, which has specified timing requirements in the NER.
- Clarifying that an agreement would remain in place for the life of the asset unless otherwise agreed by the relevant Ministers, as per the rule change request. Our draft rule requires that an agreement specify the first and last implementation years in which it would apply.[26]
- Specifying the responsibilities of Ministers, TNSPs, CNSPs and the AER, as detailed in chapters chapter 3 and chapter 4 of this draft determination. Our draft rule is more preferable than the rule change proposal as it specifies how the cost allocation agreed under the agreement is to implemented into pricing and the associated roles and responsibilities of all relevant parties, including TNSPs, CNSPs and the AER.
- Clarifying that an agreement can be amended by the relevant Ministers if it continues to satisfy all of the implementation criteria. Our draft rule is more preferable than the rule change proposal as it details requirements to notify the TNSP and CNSP of an amendment to an agreement, and where applications must be made by the TNSP or may be made by the CNSP, to the AER, to amend their respective pricing methodologies.[27]
- Clarifying that our draft rule applies in Victoria as an adoptive jurisdiction without modification since it can apply to AEMO (as the CNSP in Victoria) in the same way it applies to CNSPs in other regions.[28]
- Requiring the AER to review, and if necessary, update relevant guidelines, including the Pricing Methodology Guidelines and Information Guidelines, to reflect the requirements of the draft rule. This is consistent with the rule change proposal, which proposed that AER guidelines would need to be amended.[29]

24 Draft rule, clause 6A.29.4(b).
25 Draft rule, clauses 6A.29.4(b)(7)(iv) and 6A.15.2(a)(3).
26 Draft rule, clause 6A.29.4(7)(iv).
27 Draft rule, clauses 6A.29.4(j)-(k) and 6A.15.2.
28 NER clause S6A.4.2.
29 Rule change request (Providing flexibility in the allocation of interconnector costs), p. 6.

Our draft rule supports the implementation of a successful market-wide solution as outlined below.

- Providing flexibility for an agreement to be made between two or more Ministers. The parties to the agreement must comprise each relevant Minister for each region interconnected by the specified interconnector and, if applicable, each relevant Minister for any other region for which an amount specified under the agreement is to be allocated by the CNSP for the region.[30] This is more preferable than the rule change proposal which proposed that agreements could only be made by the relevant Ministers for each region interconnected by the specified interconnector.
- Requiring the AER to publish agreements to provide transparency for consumers on interconnector cost allocation between jurisdictions.[31] The Commission also recommends that jurisdictions explain the benefits to affected consumers.

2.3.4 Promoting principles of good regulatory practice, including complementing other reforms underway

Our draft rule would reduce uncertainty by specifying or clarifying the matters outlined below.

- Clarifying that flexibility in the allocation of interconnector costs only applies to qualifying interconnectors, which are new regulated interconnectors,[32] or any existing market network service provider (MNSP) that intends to reclassify its network services as prescribed transmission services to become a regulated interconnector. This is more preferable than the rule change request which proposed to apply to all interconnectors.
- Requiring that an interconnector agreement must specify the transmission system assets that it applies to.[33]
- Requiring that where an agreement applies to the NSW region (which contains the ACT) the agreement must contain a statement confirming that the ACT Minister has been consulted about the agreement, and any amendment to the agreement. However, the ACT Minister does not need to be a party to the agreement.[34]
- Confirming that the draft rule can apply to Intending TNSPs.

Our draft rule complements other reforms to promote the timely delivery of critical transmission projects, including the following new rules and other initiatives:

- The Commonwealth's $20 billion low cost finance Rewiring the Nation plan to upgrade Australia's electricity grids. The Clean Energy Finance Corporation (CEFC) is the financing body for the plan.[35]
- Agreement by the Energy and Climate Change Ministerial Council Meeting (ECMC) to develop the Nationally Significant Transmission Projects Framework.[36]
- The Commission recently made two new electricity rules which came into effect on 29 March 2024, as detailed below.

30 Draft rule, clause 6A.29.4(b)(5).

31 NER clause 6A.11.3(a) already requires information submitted with a pricing methodology to be published, and Draft rule clause 6A.15.2(c).

32 See chapter 3 for detail on what is defined as a new regulated interconnector under our draft rule.

33 Draft rule, clause 6A.29.4(b)(2) and (b)(7)(i).

34 Draft rule, clause 6A.29.4(b)(9).

35 The Commonwealth and Victorian Governments have announced that Marinus Link will receive concessional debt financing through Rewiring the Nation, subject to the CEFC's statutory decision-making process. See The Hon Chris Bowen MP, Minister for Climate Change and Energy, Joint media release: Investing in the future of Tasmanian energy with Marinus Link, 3 September 2023. Available at https://minister.dcceew.gov.au/bowen/mediareleases/joint-media-release-investing-future-tasmanian-energy-marinus-link#:~:text=Marinus%20Link%27s%20latest%20cost%20estimates,to%20be%20%24106%2D117%20million.

36 ECMC, Meeting Communique, 24 November 2023.

  - The new rule for *Sharing concessional finance benefits with consumers (ERC0349)* provides a mechanism to enable the benefits of concessional finance provided by governments to flow through to reduced interconnector charges for customers. Our draft rule would provide a new mechanism for allocating those reduced charges between interconnected regions.
  - The new rule for *Accommodating financeability in the regulatory framework (ERC0348)* improves the ability of TNSPs (including interconnectors) to efficiently raise finance, where needed, to deliver actionable ISP projects in a timely and efficient way.
- The Commission also undertook the *Transmission Planning and Investment Review* in 2022-23 to examine short, medium and long-term improvements to the regulatory framework and several rule changes have been initiated or completed as a result of that work.
- PIAC has submitted a rule change request which proposes changes to the allocation of interconnector costs to align with a beneficiary pays principle.[37] PIAC's rule change proposes a holistic review of the standard allocation of transmission projects costs on the basis of energy flows. That rule change does not consider whether jurisdictions require flexibility to make agreements on cost allocation outside of the standard cost allocation framework, which the Ministers' rule change seeks to provide.

We consider that the benefits of our draft rule would outweigh the administrative costs. Our draft rule addresses barriers that may impact the delivery of net beneficial interconnectors. This outweighs the increased administrative burden on governments developing an agreement, the AER in validating an agreement and TNSPs and the AER incorporating an agreement into pricing processes.

37 Public Interest Advocacy Centre, Transmission pricing rule change request, 23 February 2024, p. 1. Available at https://www.aemc.gov.au/rule-changes/allocation-coststransmission-projects.

3 How our draft rule would operate - a new framework for interconnector cost allocation

This chapter sets out how our draft rule would operate in terms of general matters relating to the new interconnector cost allocation framework. Chapter 4 sets out how our draft rule would operate in terms of processes and roles.

Box 1: SUMMARY OF DRAFT DETERMINATION - A NEW FRAMEWORK FOR INTERCONNECTOR COST ALLOCATION

Our draft determination provides flexibility in the allocation of interconnector costs. Our draft rule would retain the existing pathway for interconnector cost allocation and provide a new pathway that enables the implementation of an agreement between governments.

Our draft rule provides flexibility for two or more Ministers to make an agreement. The parties to an agreement could be either:

- each relevant Minister for the regions that costs are being transferred between; or
- each relevant Minister for the regions that costs are being transferred between and the relevant Minister for any other region that voluntarily agrees to be part of the agreement.

To be implemented, an interconnector cost allocation agreement must satisfy a minimum set of implementation criteria.

Our draft rule would:

- apply to interconnectors that are new or materially upgraded
- apply to interconnectors currently providing market network services that convert to regulated interconnectors
- allow an agreement to remain in place for the period of time agreed by the relevant Ministers
- work for both TNSPs and Intending TNSPs.

Our draft rule clarifies implementation matters in specific jurisdictions:

- Victoria is an adoptive jurisdiction, but our draft rule would apply in Victoria without modification since it can apply in the same way as other jurisdictions in the NEM.
- If the ACT is within a region that has a CNSP responsible for a transfer of costs (NSW), the ACT Minister must be consulted on the agreement (or an amendment to the agreement), but does not need to be party to the agreement.

Our draft rule includes transitional requirements for the AER to review and, where it considers necessary or desirable, amend and publish its pricing methodology guidelines and information guidelines. The AER would need to complete these reviews within 12 months of the publication of the final rule (if made). Under our draft rule, the final rule (if made) would commence after these guidelines have been reviewed, on 18 September 2025.

3.1 Our draft rule would retain the existing interconnector cost allocation pathway and provide a new pathway for state government agreements

Our draft rule would:

- **retain the existing pathway for interconnector cost allocation:** not change the existing interconnector cost allocation framework in the NER where jurisdictions have not agreed to enter into an agreement on the allocation of interconnector costs.

- **provide a new alternative pathway for interconnector cost allocation:** where agreements are entered into between state governments, those agreements would override elements of the NER that would otherwise prescribe the cost allocation method.

The Ministers consider that the current cost allocation framework for transmission in the NER and associated AER guidelines is not sufficiently flexible to address unique scenarios, for example where an interconnector would have disproportionately adverse price consequences for a State or Territory's household or businesses.[38] To address this issue, the Ministers propose providing flexibility for governments to enter into agreements on interconnector cost allocation and to have those agreements implemented.[39]

Stakeholders consider that the existing regulatory arrangements are not sufficiently flexible to provide cost allocation outcomes that are acceptable to electricity consumers in different regions. Energy Networks Australia (ENA) considers that Marinus Link may not proceed for this reason.[40] Stakeholders support providing a new pathway for an agreement to be made between jurisdictions, to ensure that net beneficial interconnector projects are delivered.[41]

We consider that, with the rapid expansion and volume of transmission projects to be developed to support the transition of the NEM, unique circumstances may delay or prevent the delivery of net beneficial interconnectors under the existing regulatory framework. Our draft rule addresses this issue by providing governments with the flexibility to agree to alternative interconnector cost allocation arrangements. This supports timely delivery of interconnector infrastructure, enabling additional generation assets to connect and reducing wholesale costs for consumers.

The Commission recognises the importance of transparency and considers that Ministers using this new alternative pathway for interconnector cost allocation should communicate the benefits of any agreement to consumers in a timely way.

Projects would also still need to pass the Regulatory Investment Test for Transmission (RIT-T) and AEMO's feedback loop to ensure they generate net benefits for the NEM.[42]

3.1.1 The parties to the agreement are the relevant Ministers in the regions where the interconnector is located or costs are to be allocated

Our draft rule provides flexibility for two or more Ministers to make an agreement. Under our draft rule, the parties to an agreement could be either:[43]

- each relevant Minister for the regions that costs are being transferred between; or
- each relevant Minister for the regions that costs are being transferred between and the relevant Minister for any other region that voluntarily agrees to be part of the agreement.

The term 'relevant Minister' defines when a Minister would be the Minister for a region.[44] Neither the Commonwealth nor ACT Ministers will be a 'relevant Minister' for any region. In practice, this means that unless regional boundaries change, there will be one relevant Minister for each region that is required to be party to the agreement, since the regional boundaries currently align with jurisdictional boundaries. However, our draft rule provides flexibility for governments of regions that are not required to be a party, including the Commonwealth Government, to become a party to

38 Rule change request, p. 4.
39 Rule change request, p. 6.
40 Submission to the consultation paper: Energy Networks Australia, p. 3.
41 Submissions to the consultation paper: Australian Energy Market Operator, p. 3; Marinus Link Pty Ltd, p. 2; Transgrid, p. 1; Energy Networks Australia, p. 3.
42 NER clause 5.16A.5(b).
43 Draft rule, clause 6A.29.4(b)(5).
44 Draft rule, clause 6A.29.4(a).

the agreement. There may be circumstances where the customers in a third jurisdiction are key beneficiaries of an interconnector between two other jurisdictions. In this circumstance, the Minister for the third jurisdiction may want to sign onto the agreement (so that their customers contribute to the costs of the interconnector) to ensure timely delivery of the benefits of that interconnector. This contributes towards implementing a successful market-wide solution and delivering market-wide benefits.

AEMO supported providing flexibility for an agreement to be made between two or more Ministers for similar reasons.[45]

3.1.2 An interconnector cost allocation agreement must meet a minimum set of criteria

Our draft rule would introduce a new defined term 'interconnector cost allocation agreement'.[46] An agreement must satisfy a minimum set of implementation criteria, set out in Box 2 below, in order to be implemented under the rules.[47] We consider that this provides regulatory certainty for TNSPs, CNSPs, consumers and the AER.

Box 2: Implementation criteria to be satisfied for an agreement to be an interconnector cost allocation agreement

- the agreement must be expressed to be made for the purposes of clause 6A.29.4;
- the agreement must identify the interconnector that it relates to (the specified interconnector);
- the specified interconnector must be a qualifying interconnector (see section 3.2 for more information);
- the specified interconnector must not, at any time after the start of the first implementation year, provide market network services;
- the relevant Ministers for the regions that costs are being transferred between must be parties to the agreement (see section 3.1.1 for more information);
- the agreement must be binding and executed as a deed and must not be subject to any unfulfilled conditions;
- the agreement must specify all the following matters:
  a. the transmission system assets to which it relates
  b. the TNSP for the specified interconnector (see chapter 4 for more information)
  c. each CNSP for the region to which costs are to be transferred and responsible for allocating those costs to customers through transmission pricing
  d. each implementation year applicable to the agreement
  e. the interconnector transfer amount to be allocated by each responsible CNSP in each implementation year, or how it is to be calculated (see chapter 4 and Appendix E for more information)
- a certified copy of the agreement must have been provided to the TNSP and each responsible CNSP (see chapter 4 for more information);

45 Submission to the consultation paper: Australian Energy Market Operator, p. 3.
46 Draft rule, new definition in Chapter 10 of the NER.
47 Draft rule, clause 6A.29.4(b).

- where the region of a responsible CNSP contains the ACT, the agreement must contain a statement confirming that the ACT Minister has been consulted in relation to the agreement, and any amendment to it (see section 3.6.2 for more information).

Source: AEMC, Draft rule clause 6A.29.4(b).

A specified interconnector has the meaning given in clause 6A.29.4(b) of our draft rule. That is, a specified interconnector:

- must be a qualifying interconnector (see section 3.2 for more information),
- is the interconnector for which an agreement is made and must be identified in the agreement, and
- must not provide market network services at any time after the start of the first implementation year.

An agreement must be binding and executed as a deed and must not be subject to any unfulfilled conditions. These requirements provide certainty that the agreement is in final agreed form and is not, for example, a memorandum of understanding, and that there are no further steps to be taken before the agreement is ready to be implemented, and no risk that the agreement will fall away because conditions precedent to the agreement are not met. The requirement for a deed reflects what seems likely to be needed for the agreement to be binding.

The rule change request proposed that an agreement would need to meet the following criteria to be implemented:[48]

- being legally binding on the relevant jurisdictions
- specify the allocation of costs between jurisdictions
- specify the time frame for the agreed cost allocation; and
- be submitted to the AER prior to the specified regulatory deadline.

Stakeholders considered that an agreement should have to meet a minimum set of criteria to provide regulatory certainty and implementation of an agreement.[49] The AER and ENA also suggested that any criteria should be set out in the NER rather than in AER Guidelines. The rule change request proposed that AER Guidelines could set out such criteria to provide high-level guidance to governments.[50] We have included the minimum set of criteria in the rules to provide greater clarity and certainty for stakeholders and to ensure that agreements made using this pathway can be implemented.

Our draft rule incorporates the proposed criteria from the rule change request and also includes additional criteria. Our draft rule is a more preferable rule as it provides additional clarity over the information that must be included in an agreement, to enable agreements to be implemented through existing pricing processes by TNSPs, CNSP and the AER, as explained further in chapter 4.

48 Rule change request, p. 6.

49 Submissions to the consultation paper: Australian Energy Regulator, p. 2; Clean Energy Finance Corporation, p. 2; Energy Networks Australia, p. 2, 4; Australian Energy Market Operator, pp. 2-3.

50 Rule change request, p. 6.

3.2 Our draft rule would apply to interconnectors that are new or materially upgraded or converting to be regulated

Our draft rule would apply to qualifying interconnectors.[51] A qualifying interconnector means an interconnector that satisfies at least one of the following criteria:[52]

- **converting from market network service provider to a regulated interconnector:** as at 12 September 2024, the network services provided by means of the interconnector were market network services;
- **new regulated interconnector:** as at 12 September 2024, construction of the interconnector had not commenced, or
- **materially upgraded regulated interconnector:** after 12 September 2024, construction commenced on a project to materially upgrade the rated power transfer capability of the interconnector and that material upgrade was the subject of an actionable ISP project.

Our draft rule provides regulatory clarity and supports a successful market-wide implementation. It is more preferable than the rule change proposal as it provides additional specificity regarding which interconnectors it would apply to.

ENA and AEMO considered that new and converting interconnectors (such as Marinus Link and Basslink, respectively) should be eligible for agreements, and that it was unlikely that TNSPs would want to use the proposed rule for existing interconnectors.[53]

3.3 Our draft rule would work for both TNSPs and Intending TNSPs

Our draft rule would work for both interconnectors of current TNSPs and also for interconnectors that are not operating at the time the agreement is made - at which time the operator would be an 'Intending TNSP' for the purposes of chapter 6A. This supports good regulatory practice by clarifying that the draft rule would also apply to intending TNSPs.

The current rules categorise transmission service providers as either:

- **TNSPs:** are currently providing prescribed transmission services, or
- **Intending TNSPs:** are intending to provide prescribed transmission services.

An Intending TNSP includes both:

- a person intending to construct a new regulated transmission project (e.g. Marinus Link).
- an existing MNSP that intends to reclassify its network services as prescribed transmission services to become a TNSP (e.g. Basslink).

Our draft rule can apply to Intending TNSPs without amendments to the NER. This is because when the AER decides to commence a transmission determination process for an Intending TNSP to enable it to provide prescribed transmission services, the AER must prepare a commencement and process paper that specifies the date by which an Intending TNSP is to submit its initial revenue proposal and proposed pricing methodology under clause 6A.10.1 of the NER.[54]

The draft rule provides a path for an agreement to be submitted to the AER by a relevant TNSP with its proposed pricing methodology that contains amendments to give effect to the agreement.[55] This is discussed further in chapter 4.

51 See the definition of 'qualifying interconnector' in draft rule, clause 6A.29.4(a).
52 The dates will be the date that a final rule is made, if made.
53 Submissions to the consultation paper: Energy Networks Australia, p. 4; Australian Energy Market Operator, p. 2.
54 NER clause 6A.9.3(b)(2).
55 Draft rule, clause 6A.10.1(j).

There were no stakeholder submissions on this matter.

3.4 An interconnector cost allocation agreement would remain in place for the time agreed by the relevant Ministers

Our draft rule requires that an agreement specify the financial years in which cost transfers between regions are to occur (called 'implementation years' in the draft rule).[56] Our draft rule clarifies implementation matters, supporting the delivery of net beneficial interconnectors.

The Ministers proposed that one of the minimum criteria for agreement should be that agreements remain in place for the life of the asset unless otherwise agreed by the relevant Ministers.[57] Our draft rule instead provides more flexibility by allowing the Ministers to specify the years over which the agreement applies, which could be the life of the asset, or some other agreed time frame.

Stakeholders supported requiring agreements to state their intended duration.[58] ENA suggested that the only minimum criteria for an agreement should be duration of the agreement and a definition of the assets to which it applies.[59]

3.5 How the draft rule would be applied in particular jurisdictions of the NEM

3.5.1 How the draft rule would apply in Victoria

Victoria is an adoptive jurisdiction, but our draft rule can apply without modification in Victoria because:

- the rule applies to CNSPs
- AEMO (as the CNSP in Victoria) can carry out the functions given to CNSPs in the draft rule in its role as CNSP
- the draft rule does not create a mechanism to adjust the maximum allowed revenue (MAR) of a TNSP, but rather, facilitates an adjustment to the total aggregate annual revenue requirement (AARR) that is allocated by the CNSP for a region, which can be implemented by AEMO for a TNSP that is not a declared transmission system operator (DTSO).

In their submission to our consultation paper, AEMO opposed any additional oversight by the AER of their Victorian Transmission Planning function.[60] Our draft rule does not include any additional oversight by the AER of AEMO's Victoria's Transmission Planning function.

3.5.2 How the draft rule would apply in the ACT

The ACT has a unique arrangement in the NEM in that it is a participating jurisdiction under the NEL, but does not have its own region under the NER.[61] Based on the NEM's current regional boundaries, the ACT jurisdiction lies wholly within the NSW region. The Commission recognises that the ACT Minister may have an interest in the outcomes of an agreement that affects the NSW region, since it would also affect the consumers in the ACT.

56 Draft rule, clause 6A.29.4(7)(iv).

57 Rule change request, p. 8.

58 Submissions to the consultation paper: Australian Energy Regulator, p. 2; Energy Networks Australia, p. 4; Marinus Link Pty Ltd, p. 3; Australian Energy Market Operator, pp. 2-3.

59 Submission to the consultation paper: Energy Networks Australia, p. 4.

60 Submission to the consultation paper: Australian Energy Market Operator, p. 4.

61 The Commonwealth is also a participating jurisdiction under the NEL without its own region, however, it is different to the ACT since the Commonwealth does not have its own population of consumers.

Therefore, our draft rule:

- does not require the ACT Minister to be a party to an agreement affecting the NSW region,
- but where the region of a responsible CNSP contains the ACT (i.e. NSW), the draft rule requires the agreement to contain a statement confirming that the Minister for the ACT has been consulted in relation to the agreement and, where applicable, any subsequent amendment to it.[62]

Our draft rule maintains consistency with the rest of the NEM in its operation, but also recognises that NSW agreements can impact ACT consumers.

There were no stakeholder submissions but the Commission consulted directly with the ACT on this matter.

3.6 Transitional provisions and commencement date

3.6.1 Transitional requirement to amend AER Guidelines

Under the current rules, the AER must publish pricing methodology guidelines and information guidelines, which inform the preparation of TNSPs' pricing methodologies.[63]

Our draft rule includes transitional arrangements that would require the AER to review and, where it considers necessary or desirable, amend and publish the following guidelines to take into account the final rule (if made):[64]

- the pricing methodology guidelines; and
- the information guidelines.

In amending the above guidelines, the AER must comply with the transmission consultation procedures.[65]

Our draft rule would provide a period of 12 months after the publication of the final rule (if made) for the AER to review and amend the above guidelines to take into account the rule.

There were no stakeholder submissions on this matter.

3.6.2 The rule should commence operation after the AER has updated its Guidelines

Our draft rule proposes that the rule would commence 12 months after the rule is made, which would allow time for the AER to review, amend and publish its amended pricing methodology guidelines and information guidelines.

We consider that it should take no longer the 12 months after the publication of the final rule (if made) for the AER to review these guidelines. This is because the new cost allocation framework in this draft determination provides a limited role for the AER and does not involve a merits-based assessment of the agreement between jurisdictions.

Therefore, if the final rule is made, the rule would commence 12 months after the final determination is published, which on current time frames is on Thursday 18 September 2025.

62 Draft rule, clause 6A.29.4(b)(9).
63 NER clauses 6A.17.2(h) and 6A.25.2.
64 Draft rule, Savings and transitional rules, clause 11.[XXX].2(a).
65 Draft rule, Savings and transitional rules, clause 11.[XXX].2(b).

Question 1: Are any other transitional provisions required?

Question 2: Is the commencement date appropriate?

Stakeholder feedback is sought on our draft rule that would include a transitional period of 12 months and a commencement date of September 2025.

4 How our draft rule would operate - roles and processes

Box 3: SUMMARY OF DRAFT DETERMINATION - ROLES AND PROCESSES

An agreement would not impact the total regulated revenue that a TNSP would receive. Total regulated revenue for each TNSP, inclusive of revenue associated with the relevant interconnector, would continue to be determined by the AER in the normal manner every five years. However, an agreement would allow for a specified amount of a TNSP's total revenue to be collected from a CNSP in the counterparty government's NEM region. That CNSP would collect the additional revenue required from their customers.

Our draft determination would allow jurisdictions to give agreements to TNSPs and CNSPs. These agreements set out the relative contributions of the jurisdictions (by determining the 'interconnector transfer amounts' or the manner in which these are to be calculated). TNSPs and CNSPs would then be required to reflect the agreement in their amended or proposed pricing methodologies before submitting to the AER, either as part of a revenue determination process or midway through a regulatory control period.

Under the draft rule the AER would be required to assess whether an agreement meets the implementation criteria and whether the amendments to the pricing methodology provide for giving effect to the agreement in accordance with the requirements of chapter 6A. The AER would not assess the merits of an agreement. The draft rule also makes provision for where the pricing methodology has not received final approval in time to set the impending year's prices.

To give effect to the agreement in accordance with the NER, TNSPs would amend their pricing methodologies through adjustments to the annual aggregate revenue requirement (AARR) component. Affected CNSPs and TNSPs responsible for giving effect to the agreements would have a number of notification, publication, and payment requirements in the rules. The draft rule also provides for adjustments to prevent unintended consequences. The draft rule does not provide for TNSPs to alter the current way in which settlement residue auction proceeds are distributed under the NER.

Our draft rule also facilitates jurisdictions amending their original agreements, so long as the amended agreement satisfies all the implementation criteria applicable to new agreements.

The draft rule diverges from the rule change request by incorporating a number of implementation details that were not originally considered in the Ministers' proposal. The draft rule requires affected TNSPs to commence the process of implementing the agreement, by submitting them to the AER along with their pricing methodology. This removes unnecessary procedural steps, and better reflects the AER's limited role in implementing transmission pricing. Finally, the draft rule also diverges from the proposal by providing flexibility for jurisdictions to either submit agreements to TNSPs for incorporation as part of their revenue determination process, or to submit them during an existing regulatory control period.

4.1 Relevant jurisdictions can provide valid agreements to the relevant TNSPs and CNSPs

To give effect to an agreement the relevant jurisdictions would provide it to the TNSP for the interconnector and the CNSPs for the regions to which costs are being transferred. These agreements set out the relative contributions of the jurisdictions to the specified interconnector

(by determining the 'interconnector transfer amounts' or the manner in which these are to be calculated).[66] The interconnector transfer amount could, for example, be calculated in accordance with a formula or as a proportion of total costs for a specified interconnector. This provides flexibility for the relevant Ministers to develop and agree the interconnector transfer amount. The amount, or manner of its calculation, would be published by the AER as part of the agreement (as explained in section 4.3.3) providing transparency for consumers in the relevant regions.

The Ministers' rule change request envisaged that jurisdictions would submit their agreement directly to the AER.[67] Other stakeholders said that agreements should be submitted to the AER by the relevant TNSP, along with their proposed pricing methodology.[68]

In making this draft rule, we consider that requiring jurisdictions to initially submit their agreements to the AER would introduce an additional and unnecessary step. Under our draft rule, the AER can satisfy their obligations (as explained in section 4.3) by receiving an agreement at the same time as they receive an affected TNSP's proposed pricing methodology.

Question 3: Is the process for submitting the agreement appropriate?

Our draft rule would require that jurisdictions provide agreements directly to affected TNSP(s). We are interested in your views on whether there are more preferable approaches.

4.2 TNSPs would be required to amend their pricing methodologies to give effect to an agreement and seek AER approval of their pricing methodology

Box 4: Draft determination - our draft rule requires TNSPs to incorporate the cost transfers provided for in agreements into their pricing methodologies, and to receive approval of those methodologies from the AER

Our draft determination would require that once the TNSP(s) and CNSPs receive an agreement from jurisdictions, they would amend their pricing methodologies to allow for the cost transfers provided for in the agreement, and submit that proposed methodology to the AER for approval. This could occur as part of a TNSP's revenue determination for the next regulatory control period, or it could be accommodated at any time during a five-year regulatory control period.

The Ministers described the proposed rule as operating by allowing "agreed allocations to be reflected in each relevant TNSP's transmission determination".[69] A TNSP's transmission determination consists of a revenue determination and a pricing methodology.[70] The AER approves both when making a transmission determination for a TNSP. Supportive stakeholders suggested that agreements should be implemented through amendments to pricing methodologies of affected TNSPs (particularly for the TNSPs responsible for facilitating interconnector revenue cost recovery; the 'CNSP').[71]

66 Draft rule, clause 6A.29.4(b)(7)(v).
67 Rule change request, p. 7.
68 Submissions to the consultation paper: Energy Networks Australia, p. 4; Marinus Link Pty Ltd, p. 3.
69 Rule change request, pp. 5-6.
70 NER clause 6A.2.2.
71 Submissions to the consultation paper: TasNetworks, p. 1; Energy Networks Australia, p. 5; Marinus Link Pty Ltd, p. 3.

Our view is that our draft rule, which requires TNSPs to amend their pricing methodologies, provides the most straightforward and transparent approach to implementing agreements. We do not consider that revenue determinations need to be amended since the cost transfer is implemented in transmission pricing and the agreement would not impact the total regulated revenue that a TNSP would receive.

4.2.1 TNSPs would amend their pricing methodologies to give effect to the agreement in accordance with the NER requirements

After receiving the agreement, the draft rule would require the TNSP for the interconnector specified in the agreement to ensure their pricing methodology provides for giving effect to the agreement, in accordance with the pricing requirements in chapter 6A.[72] It also enables the CNSPs responsible for allocating the interconnector transfer amount to give effect to the agreement in its pricing methodology.[73]

Our draft rule reflects the following approach:

- The TNSP(s) and CNSPs are not parties to the agreement and it is not intended that agreements can impose obligations directly on them. TNSPs and CNSPs give effect to the transfers specified in the agreement solely by performing their obligations under chapter 6A.
- In addition, the agreement can only be given effect in the manner provided for in chapter 6A and it is not intended that the agreement itself can modify chapter 6A or the obligations of the TNSP or CNSPs under chapter 6A.

See section 4.4 below for further details on how TNSPs and CNSPs would give effect to agreements through their pricing.

4.2.2 Relevant TNSPs must submit the agreement and their proposed pricing methodology, which gives effect to the agreement, to the AER

The TNSP will be required to submit a copy of the relevant agreement along with their pricing methodology to the AER.[74] Our draft rule would require a certified copy of the agreement to be given to the TNSP and CNSPs to enable them to submit the agreement to the AER.[75]

The AER must assess whether the pricing methodology provides for giving effect to the transfer of the interconnector transfer amount under the agreement in accordance with the requirements of the rules, and that the agreement satisfies the implementation criteria in the rules.[76] Our draft rule clarifies this implementation consideration, which was not detailed in the rule change request.

The AER's role and the scope of its assessment is discussed further in the following section, section 4.3.

4.2.3 Agreements can be incorporated into pricing methodologies either as part of a revenue determination, or by amending the pricing methodology midway through a regulatory control period

Our draft rule would provide that agreements can be implemented either through the beginning of a new transmission determination process as part of the submission of a proposed pricing

72 Draft rule, clause 6A.24.1(b2)(1).
73 Clause 6A.24.1(b2)(2).
74 Draft rule clause 6A.10.1(j) or 6A.15.2(a)(4).
75 Draft rule, clause 6A.29.4(b)(8).
76 Draft rule, clauses 6A.11.1(a)(7), 6A.15.2(d) and 6A.24.1(b2).

methodology, or during a regulatory control period.[77] The Ministers' proposal describes agreements being submitted as part of a TNSP's regulatory determination.[78] ENA considered that agreements could be submitted as part of a contingent project application or regulatory determination.[79]

If an agreement is submitted as part of the usual revenue determination process, the agreement would need to be provided to the TNSP before the TNSP is required to submit its revenue proposal and pricing methodology to the AER.[80] However, if an agreement is submitted during an existing regulatory control period, our draft rule would require the agreement to be submitted to the affected TNSP and CNSP(s) at least nine months before the intended commencement of the agreed cost allocation.[81] The details of each of these two cases is discussed below.

Agreements could be incorporated into proposed pricing methodologies submitted as part of the standard transmission determination process

Under the usual process, a TNSP is required to submit its revenue proposal and pricing methodology to the AER 17 months before the expiry of the TNSP's current revenue determination.[82] Agreements provided to the TSNP would need to be included with the material provided at that time.[83] If an agreement is to be submitted as part of this determination process, the agreement would need to be provided to the TNSP in the lead up to the submission deadline. In practice, we expect governments would engage with affected TNSPs and CNSPs well before this deadline to ensure the agreement, when formally provided, will be valid and implementable.

Given the significant construction time frames for large infrastructure projects like interconnectors there should be ample time to ensure agreements are provided to TNSPs to incorporate into their pricing methodologies submitted as part of the next regulatory determination process. For context, AEMO estimated that the interconnector 'VNI West' would take around nine years to complete from early works to finishing construction.[84]

There would also be an ability to incorporate agreements into pricing methodologies midway through a regulatory control period

The rule would also facilitate the AER approving amendments to an existing pricing methodology for situations where an agreement is made during an existing regulatory control period and needs to be implemented before the next regulatory control period.[85] In practice, this pathway is more likely to be used for amendments to agreements than for new agreements, for the reasons discussed in the preceding paragraph.

If an agreement (or amended agreement) is submitted during an existing regulatory control period, our draft rule would require the application for an amendment to the pricing methodology to be

77 NER clause 6A.10.1(a) and draft rule, clause 6A.10.1(j) as part of a new transmission determination and draft rule, clause 6A.15.2 as part of an amendment during a regulatory control period.

78 Rule change request, p. 7.

79 ENA submission to our consultation paper p 4. Contingent projects are major network infrastructure assets which have been flagged in long-term investment plans. When a network business has met the requirements to request cost recovery from consumers for one of these projects, it submits a contingent project application to the AER for approval; see https://www.aer.gov.au/industry/networks/contingent-projects/contingent-projects.

80 NER clause 6A.10.1(a).

81 Draft rule, clause 6A.15.2(a)(3).

82 NER clause 6A.10.1(a).

83 Draft rule, clause 6A.10.1(j).

84 AEMO, 2022 Integrated System Plan (ISP), July 2022. Available at https://aemo.com.au/en/energy-systems/major-publications/integrated-system-plan-isp/2022-integrated-system-plan-isp.

85 Draft rule, clause 6A.15.2.

submitted to the AER at least nine months before the intended commencement of the agreed cost allocation.[86] The agreement would need to be provided to the affected TNSP and CNSP(s) before that deadline to allow them to prepare the application.

Once the affected TNSP and CNSP(s) submits an application to the AER to amend an existing pricing methodology, the AER will be able to approve that amendment during a regulatory control period where the agreement meets the implementation criteria and the amended pricing methodology provides for giving effect to it in accordance with the requirements in the rules.[87] By allowing for amendments to give effect to an agreement during a regulatory control period, the draft rule provides greater flexibility and supports implementation considerations.

The AER's power to amend a pricing methodology mid-regulatory control period would be limited to approving amendments where the amended pricing methodology only varies to the extent which is necessary to implement the transfers provided for in the agreement through the transmission pricing process in chapter 6A.[88] That is, the draft rule does not allow the TNSP (or CNSP) to amend a pricing methodology through this process for changes unrelated to the implementation of interconnector transfer amounts under agreements.

Question 4: Is the process for amending the pricing methodology appropriate?

Our draft rule would require affected TNSPs to amend their pricing methodologies after receiving an agreement from jurisdictions and to submit these to the AER. These could be submitted as part of a revenue determination, or midway through a regulatory control period. We are interested in your views on whether this provides the best process for giving effect to agreements.

4.3 The role of the AER in assessing agreements and approving the pricing methodology

Box 5: Draft determination - the role of the AER

Our draft determination would require the AER to:

- assess whether an agreement satisfies the minimum implementation criteria (as explained in chapter 3)
- assess that proposed pricing methodologies provide for giving effect to an agreement in accordance with the requirements of the rules
- publish the agreement and pricing methodology as part of assessing a pricing methodology which has been proposed or amended to give effect to an agreement.

Our draft rule would also make provision for where the pricing methodology has not received final approval in time to set the impending year's prices. Our draft rule would not require the AER to assess the merits of an agreement.

The Ministers' proposal described the AER as being responsible for determining whether the agreement met specified criteria (see chapter 3).[89] Stakeholders largely supported a limited role

86 Draft rule, clause 6A.15.2(a)(3).
87 Draft rule, clause 6A.15.2(d).
88 Draft rule, clause 6A.15.2(d)(2)(ii).
89 Rule change request, p. 6.

for the AER with respect to the approval of agreements, specifying that agreements should be checked against minimum criteria and that pricing methodologies should be approved where consistent with the original cost allocation agreement.[90] The AER proposed that their function be "limited to a mechanistic role in implementing the agreed cost allocation".[91]

4.3.1 The AER's would be required to assess whether an agreement meets the implementation criteria

The Commission's draft determination is that the AER should not have a role in assessing the merits of an agreement, but rather should only assess whether the agreement meets the implementation criteria specified in the rules.[92] The view of the Commission is that jurisdictions are well-placed to determine whether agreements are in the interests of the consumers in their respective jurisdictions, and have a strong incentive to ensure that they are. Furthermore, our view is that this rule will encourage proactive engagement between jurisdictions, potentially affected TNSPs, and CNSPs and the AER before an agreement is made to ensure it can be implemented and will be valid.

Once the agreement is submitted to the AER, the AER will assess whether the agreement satisfies the implementation criteria. The AER does not have a role in assessing the merits of the allocation or agreement itself.

If the agreement does not satisfy the implementation criteria, the AER will notify the relevant TNSP. [93] The AER cannot approve a proposed or amended pricing methodology for the TNSP for a specified interconnector under an agreement unless the AER is satisfied that the agreement satisfies all the implementation criteria.[94]

However, this process largely relies on the TNSP submitting a valid and implementable agreement to the AER as the timing and structure of the existing regulatory processes do not readily facilitate changes being made to the agreement if it does not satisfy the criteria. Therefore, the Commission expects that:

- jurisdictions would have a strong incentive to ensure that the agreement submitted to the TNSP is valid and implementable
- jurisdictions, TNSPs, CNSPs and the AER would informally engage with each other on the requirements for agreements prior to their formal submission to the AER to ensure a smooth regulatory process once the formal process is initiated by the TNSP.

4.3.2 The AER would be responsible for assessing whether the proposed pricing methodology provides for giving effect to the agreement

Where the agreement is assessed as meeting the implementation criteria, the AER's existing role of approving TNSP pricing methodologies would include assessing whether the pricing methodology provides for giving effect to the agreement in accordance with the requirements of the rules.[95] The AER would only be able to approve amendments to the pricing methodology to the extent those amendments are necessary to give effect to the agreement (or amendment to the

90 Submissions to the consultation paper: Energy Networks Australia, p. 4; Marinus Link Pty Ltd, p. 3; Australian Energy Market Operator, p. 3; Energy Users Association of Australia, p. 3; Australian Energy Regulator, p. 1.

91 Submission to the consultation paper: Australian Energy Regulator, p. 1.

92 See chapter 3 and criteria in draft rule clause 6A.29.4(b).

93 Draft rule, clauses 6A.11.1(a)(7) for an agreement submitted as part of the revenue determination process and clause 6A.15.2(b) for an agreement submitted during a regulatory control period.

94 Draft rule, clause 6A.14.3(f1) and 6A.15.2(d)(1).

95 Draft rule, clause 6A.15.2(d)(2), NER clauses 6A.12.1(a1)(1) and draft rule, clause 6A.14.3(f1).

agreement) and if the pricing methodology continues to comply with the requirements for a pricing methodology under chapter 6A.

Where an agreement is submitted as part of the revenue determination process, the usual consultation requirements of that process will apply.[96] When an agreement is submitted during a regulatory control period, the draft rule requires the AER to consult with the other TNSPs who are responsible for implementing the agreement,[97] and may also, in its discretion, consult with any other parties it considers appropriate.[98]

The effect of this is that the consultation may be different depending on whether the agreement is submitted during a revenue determination process, or as a bespoke amendment to a pricing methodology during a regulatory control period. This is because the revenue determination process already specifies consultation requirements that occur. It is not the Commission's intention that the AER would be required to consult broadly on the amendments to a pricing methodology arising from an interconnector cost allocation agreement. However, the Commission recognises that where the agreement is submitted as part of the revenue determination process, it will form part of that broader process. The draft rule does not require the AER to consider or address any stakeholder feedback that it might receive in relation to an agreement submitted as part of the revenue determination process since the AER's role is limited to assessing whether the agreement satisfies the implementation criteria and whether the amendments to the pricing methodology are consistent with the other requirements of chapter 6A.

4.3.3 AER would publish the agreement and pricing methodology

When an agreement is incorporated into a TNSP's pricing methodology as part of a revenue determination process, the AER must publish that pricing methodology and associated information, such as the agreement.[99] In the circumstance that the AER receives an application to amend an existing pricing methodology during a regulatory control period, it has to publish that pricing methodology and the associated agreement.[100]

4.3.4 Where a proposed or amended pricing methodology has not yet been approved, prices are set in accordance with a draft decision or by rolling forward the previous year's arrangements

Current clause 6A.24.3 deals with the basis for setting prices where approval of a pricing methodology is delayed and prices for the coming financial year need to be set. The draft rule amends this clause to provide for a situation where there is a delay in approving a request for an amendment to a pricing methodology under new clause 6A.15.2 and to explain which interconnector transfer amount is used if there is a delay. If the AER has made a draft decision approving the proposed pricing methodology, then the interconnector transfer amount would be calculated using the amount specified by the agreement provided for in that methodology. Otherwise, consistent with current clause 6A.24.3, the arrangements from the prior year are rolled forward for a year and this would include rolling forward the prior year's calculation of the interconnector transfer amount – which, in the case of a new agreement, would be zero.

96 For example, NER clauses 6A.11.3 and 6A.12.2.
97 This would include the relevant CNSPs, who are also TNSPs.
98 Draft rule, clause 6A.15.2(e).
99 NER clause 6A.11.3(a)(3).
100 Draft rule, clause 6A.15.2(c).

Question 5: Is the level of engagement between jurisdictions, the AER and affected TNSPs appropriate or should there be, for example, more formal engagement before agreements and the pricing methodology are submitted to the AER?

Our draft rule removes a formal role for the AER prior to a TNSP submitting an agreement and pricing methodology to the AER. We consider that there is an incentive for jurisdictions to engage with the AER and relevant TNSPs informally before the rules process is initiated, to ensure agreements are given effect along the intended timeline. We are interested in your views on the process by which agreements and the relevant proposed or amended pricing methodologies are received by the AER.

4.4 TNSPs and CNSPs would give effect to agreements once modified pricing methodologies are approved

Box 6: Draft determination - affected TNSPs and CNSPs would give effect to agreements through transmission pricing by adjusting the AARR of relevant TNSPs, and would have information, collection, and payment responsibilities under our draft rule

Our draft rule provides that once the AER has approved the TNSP's proposed pricing methodology, the agreement is implemented through the annual transmission price setting process. This would involve:

- giving effect to the agreement in the first implementation year
- requiring responsible CNSPs to allocate interconnector transfer amounts as part of the allocation of all AARR in their region
- CNSPs collecting and transferring relevant interconnector transfer amounts
- affected TNSPs and CNSPs providing the notifications and information necessary to facilitate the implementation of agreements
- adjustments to prevent double counting or pricing distortions.

Our draft rule does not provide for agreements to alter how the settlement residue proceeds are currently allocated under the NER.

Our draft rule clarifies the implementation considerations covered in this section, which were not detailed in the rule change request.

See Appendix E where we provide worked examples of how the rule would apply through two illustrative examples.

Once approved as part of the pricing methodologies, the TNSP and CNSPs would give effect to the agreement through the transmission pricing process in Part J of chapter 6A as follows:

- Each year, a TNSP receiving an increased contribution to their AARR from another jurisdiction would notify the CNSP for each region making that increased contribution how much the amount would be (the interconnector transfer amount).
- The CNSPs in turn would include the relevant amount in the allocation and adjustment process that is used to determine prices for its region.
- The CNSPs would then pay the amount they are responsible for collecting to the relevant TNSP.

- Consequential adjustments would be made to the TNSP's AARR in the region from which the costs are being transferred, to avoid double counting.

In Appendix E we have developed two worked examples to illustrate how the rule could be implemented. The rest of this section provides the details for how our draft rule would provide for giving effect to agreements through pricing methodologies.[101]

4.4.1 Agreements would impact pricing in the first implementation year

TNSPs would start setting prices in accordance with an agreement in the first implementation year.[102] The term 'implementation year' is used to refer to the financial years in which cost transfers are to be made. The first implementation year is the first financial year the agreement is to take effect. This allows for an agreement to be made while the specified interconnector is still under development, with cost transfers only commencing once the interconnector is in commercial operation. The implementation years align with financial years because this is the basis upon which pricing is currently implemented (i.e. on a financial year basis).

4.4.2 Agreements would be given effect by adjusting the AARR of relevant TNSPs

There are a number of ways in which the rules could be amended to facilitate these agreements, but the Commission considers that requiring CNSPs to recover the amount by adjusting the total AARR as proposed in the rule change request provides an appropriate outcome for consumers.[103]

Stakeholders have a variety of views on which pricing methodology component should be altered to give effect to an agreement

The Ministers' proposal was that agreements should allow the relevant TNSPs to reflect the cost allocation of the interconnector's AARR between their respective consumers. The proposal did not detail how the pricing methodologies of those TNSPs should be amended to give effect to agreements. ENA suggested that agreements could be implemented by amending the AARR of relevant TNSPs, but should not be implemented through the adjusted operation of modified load export charge (MLEC) provisions.[104] EUAA suggested that agreements should be treated separately in TNSP revenue determinations, similar to how the Victorian Transmission Easement Tax is allocated into the *prescribed common transmission services* pricing category.[105]

We considered a number of policy options

The Commission considered the following options for incorporating the transfer amount under the agreement into TNSP pricing:

- as an adjustment to the total AARR for a region

101 We also recommend interested stakeholders refer to the CEPA report published alongside this draft determination for further explanation of the modified load export charge and settlement residue auction aspects of interconnector pricing. Available at https://www.aemc.gov.au/sites/default/files/2024-06/CEPA%20Report%20Settlements%20Residue%20Auction%20and%20Modified%20Load%20Export%20Cost.pdf

102 See the definition of 'implementation year' in the draft rule, chapter 10.

103 The AARR is the maximum annual revenue to be raised by a TNSP incorporating their allowed earnings, adjusted for: specific regulatory matters (NER rule 6A.7) or contingent projects (NER rule 6A.8) or revocation or amendment of existing pricing methodology (NER rule 6A.15); operating and maintenance costs expected to be incurred in the provision of prescribed common transmission services (NER clause 6A.22.1); transfers pursuant to interconnector cost recovery (NER clause 6A.22.1).

104 Submission to the consultation paper: Energy Networks Australia, pp. 3 and 5.

105 Submission to the consultation paper: Energy Users Association of Australia, p. 3; AusNet Services 2024-25 Application for Pass-through of Easement Tax Event (March 2024). Available at www.aer.gov.au/system/files/2024-04/AusNet%20Services%202024-25%20ELT%20Pass%20Through%20Application%20-%20March%202024.pdf

- as an adjustment to the non-locational component of transmission use of system (TUOS) or common services (both of which would mean the costs would be spread among the relevant network's consumers on a postage stamp basis)
- through adjustments to MLEC
- a hybrid of the above options.

Our draft determination would require that agreement cost allocations should be reflected as an adjustment to the total AARR to be allocated in a region

Our draft determination is to require the interconnector transfer amount to be incorporated into the calculation of total AARR that the responsible CNSP is allocating in its region.[106]

Applying the interconnector transfer amounts to the total AARR for the responsible CNSP's region reflects the Commission's preference to:

- prevent agreements from introducing unintended distortions to the balance of the locational and non-locational signals received by consumers, and thereby potentially undermining principles of market efficiency.
- simplify outcomes, improving the ability to implement the rule, aligning with the assessment framework for the rule.

The Commission considers that the alternative options have the following potential disadvantages:

- Incorporation into the non-locational component of prescribed TUOS services or the common services component could lead to a distortion of the balance of locational and non-locational signals received by consumers.
- Adjusting the operation of existing provisions for MLEC to give effect to the entirety of the agreement would be complex.[107]
- Adopting a hybrid model would introduce additional complexity to an already complex aspect of network regulation, and would still require judgements as to how to weigh different changes between the various elements.

4.4.3 CNSPs would be responsible to collect the interconnector transfer amounts and pay them to the TNSP for the interconnector

As explained above, the responsible CNSPs would treat the interconnector transfer amount as part of the allocation of all relevant AARR within their respective regions and would set prices accordingly.[108]

The responsible CNSPs would also be responsible for paying those amounts over the year to the TNSP for the specified interconnector in equal monthly instalments.[109]

Therefore, the interconnector's TNSP will receive the interconnector transfer amount in monthly instalments from the CNSPs in the connected region(s), and not through transmission prices within its own region.[110] In order to avoid double counting, our draft rule requires the specified

106 Draft rule, clause 6A.29.2(a)(1)(iv) and clause 6A.22.2(b). The 'responsible CNSP' refers to the CNSP for the region that the interconnector costs are being transferred to. If costs are being transferred to more than one region, there will be more than one responsible CNSP.

107 The draft rule does, however, require agreements to adjust the optimised replacement cost used for calculating MLEC. See below in section 4.4.5 and draft rule, clause 6A.29.4(i).

108 Draft rule, clause 6A.22.2(b).

109 Draft rule, clause 6A.29.4(f).

110 Some interconnectors will be owned by different TNSPs (who may be a CNSP) in each of the regions it interconnects. In other cases, one TNSP will own the whole interconnector and apportion its total AARR between regions. The interconnector transfer amount will be the transfer after that apportionment is made and needs to be deducted from its AARR for the region from which the costs are being transferred.

interconnector's TNSP to reduce its AARR by the interconnector transfer amount they will receive.[111]

4.4.4 Affected transmission networks would have to provide requisite information, notifications, and publications

The draft rule would require affected CNSPs and TNSPs to provide the notifications and information necessary to implement agreements.

Affected TNSPs would have reporting and notification obligations

Where the TNSP's pricing methodology provides for giving effect to the agreement, the TNSP is required to:

- first, calculate the interconnector transfer amount (or amounts) each year in accordance with the agreement,[112] and
- second, to notify the amount (or amounts) to the responsible CNSP(s).[113]

The TNSP is also required to provide any other information needed by the CNSP to implement the agreement.[114] The TNSP must also publish agreements impacting them, and annually publish and update all interconnector transfer amounts.[115]

Affected CNSPs would have obligations to publish and provide requisite details

CNSPs implementing an agreement would be required to publish with their pricing methodology all MLEC to apply the following financial year by 15 February (as they currently do) and also the interconnector transfer amounts to be allocated by the CNSP for the following financial year by 15 March each year.[116]

4.4.5 The draft rule provides for adjustments to prevent unintended consequences

The draft rule also provides for adjustments to calculations to prevent any potential double counting and pricing distortions.[117]

Preventing double counting of interconnector transfer amounts

Agreements do not change the total revenue any TNSP receives. A TNSP receiving an increased contribution from another jurisdiction would be required to deduct this additional amount (the interconnector transfer amount) from the AARR they need to raise from their own region.[118]

Removing potential double payments

The draft rule also confirms that if a CNSP pays an interconnector transfer amount to the TNSP for a specified interconnector, it is not required to pay the same amount under other provisions of the rules (such as clause 6A.27.4).[119]

Preventing the MLEC from undermining cost allocations specified in the agreement

111 Draft rule, clauses 6A.22.1(4) and 6A.29.4(g).
112 Draft rule, clause 6A.29.4(d)(1).
113 Draft rule, clause 6A.29.4(d)(2).
114 Draft rule, clause 6A.29.4(e).
115 Draft rule, clause 6A.24.2(e).
116 Draft rule, clause 6A.24.2(b).
117 Draft rule, clause 6A.29.4(g) to (i).
118 Draft rule, clause 6A.29.4(g).
119 Draft rule, clause 6A.29.4(h).

Our draft rule would also require TNSPs to prevent the MLEC process from changing the cost allocation specified in the agreement.[120]

ENA provided a proposal on how the rules could be amended to prevent the allocation in the agreement from being adjusted through the operation of MLEC.[121] In the case of interconnectors, MLECs are applied by determining the relative contribution of all connection points - including the interconnector - to the peak use of the exporting network's assets. The contribution of the interconnector to peak demand is then used to determine the gross amount the importing TNSP will need to raise from their consumers to transfer to the exporting TNSP. This calculation is undertaken for flows going both ways on an interconnector, and the 'net MLEC' is then applied through pricing.

The draft rule requires responsible CNSPs to set the 'optimised replacement cost' value of interconnector assets specified in the agreement to zero for the purposes of determining the MLEC for flows between the regions connected by the specified interconnector. This avoids the interconnector transfer amount deducted from a region flowing back through modified load export charges to that region.[122] This is intended to prevent the MLEC from effectively unwinding some proportion of the cost allocations specified in the agreement. MLEC would still apply with respect to other transmission assets within a region. This could increase or reduce the amount transferred between TNSPs in the interconnected regions independently of the agreement.

120 Draft rule, clause 6A.29.4(i).

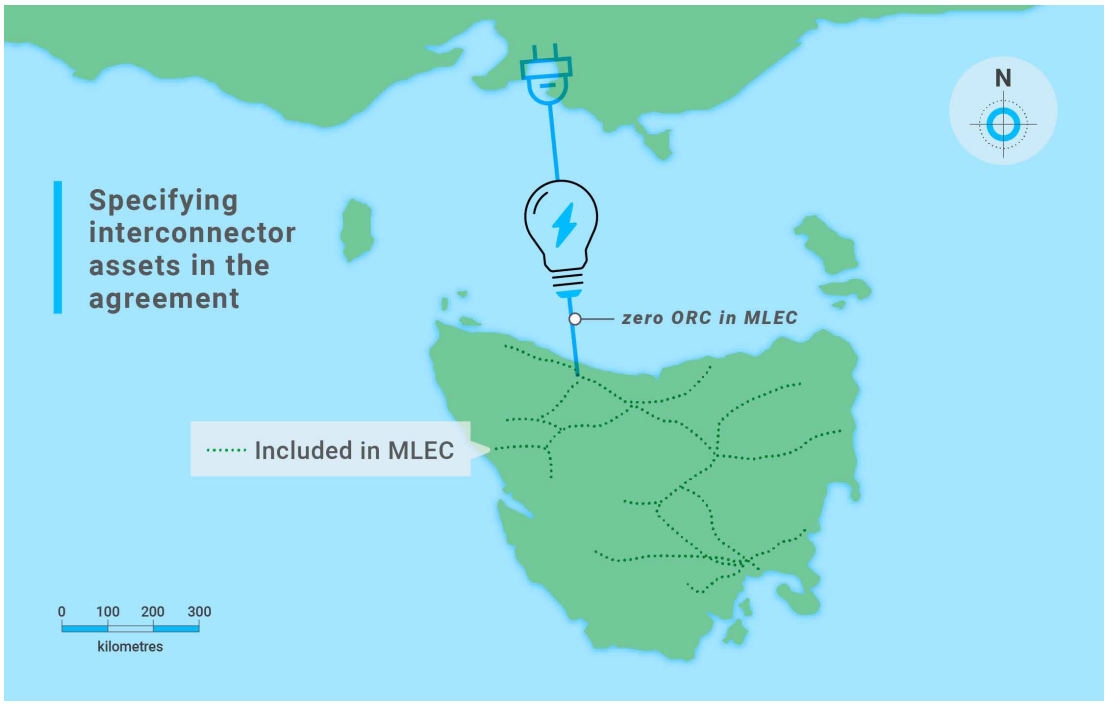
121 Submission to our consultation paper: Energy Networks Australia, p. 3: ENA suggested that this could be achieved by 'setting the value of the interconnector assets to zero for the purposes of applying the MLEC'.

122 Draft rule, clause 6A.29.4(i).

Box 7: Addressing the potential impact of MLEC on interconnector cost allocation outcomes

Requiring TNSPs to set the optimised replacement cost (ORC in the examples below) of interconnector assets in their MLEC calculations does not replace all impacts of MLEC. Jurisdictions may, however, wish to use the flexibility our proposed rule change provides to address the broader impacts of MLEC. The use of the rule as specified above is illustrated in Example 4.1 where the interconnector assets are assets specified under the agreement.

Example 4.1: Specifying interconnector assets in the agreement

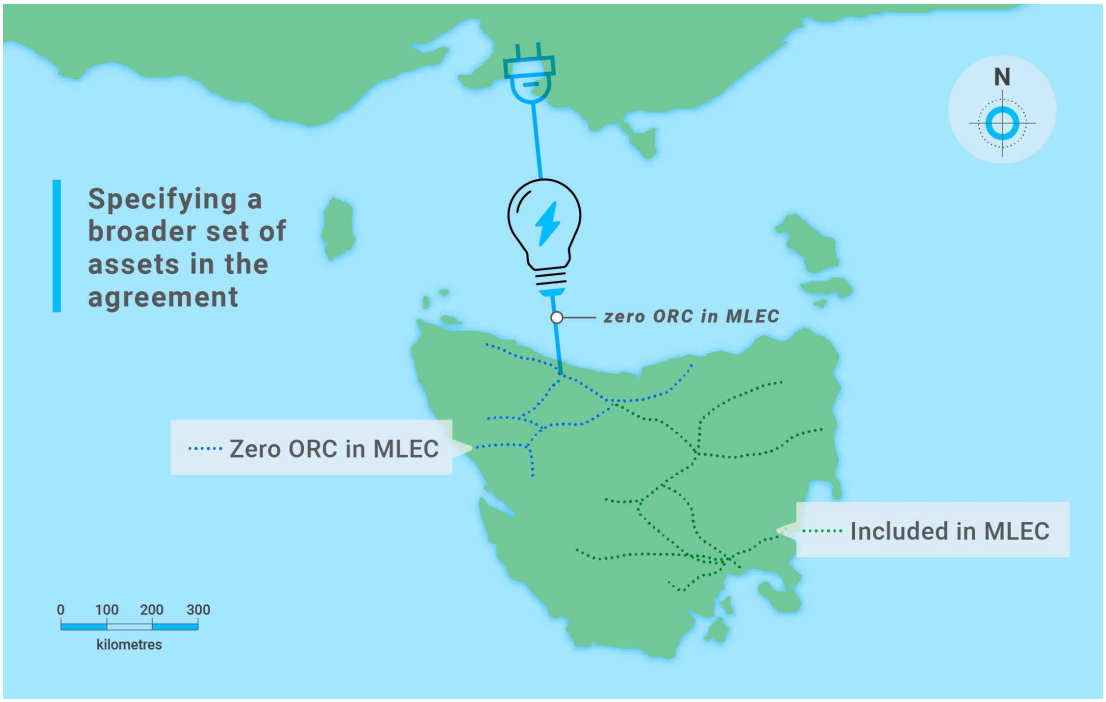


An agreement may take a broader approach to specifying the transmission system assets

Setting the optimised replacement cost of transmission assets specified in the agreement to zero for the MLEC calculations will not address the pricing impacts of interconnector flows on other transmission assets located in the region that are not specified in the agreement. Jurisdictions may wish to minimise this secondary impact on pricing by specifying additional transmission assets in the agreement for the purposes of MLEC calculation.[A] In giving effect to the agreement, the affected TSNPs would then run MLEC with a zero optimised replacement cost for all assets specified.[B]

Potential distortions to the agreed cost allocations caused by the operation of MLEC can be significantly reduced where this broader specification of the assets includes those assets most significantly impacted by the new interconnector. Example 4.2 provides an illustrative example of how an agreement may wish to specify additional assets.

Example 4.2: Specifying a broader set of assets in the agreement



An agreement may require TNSPs to subtract the estimated MLEC impact of interconnector demand flows

Finally, in a complex integrated electricity grid, it may be difficult to determine exactly which assets to specify to address any unintended impacts of MLEC. For jurisdictions who wish to minimise the MLEC impacts associated with the new interconnector, the rule provides that a valid agreement either specifies the interconnector transfer amount 'or the manner in which that amount is to be calculated'.[C]

In specifying the manner of calculation, agreements could require relevant TSNPs to subtract the MLEC pricing impacts arising from flows across the new interconnector from the interconnector transfer amount. It may be difficult for affected TNSPs to calculate the causality and quantum of flows, but we would expect jurisdictions to engage with potentially affected TNSPs around how this outcome is best achieved and contained in a prospective agreement.

[A] See draft rule, clause 6A.29.4(b)(7)(i).

[B] See draft rule, clause 6A.29.4(i).

[C] See draft rule, clause 6A.29.4(b)(7)(v).

4.4.6 Settlement residue auction proceeds

Our draft rule does not provide for the agreement to alter the way that settlement residue auction (SRA) proceeds are currently allocated under the NER.[123]

The Commission has decided not to allow agreements to alter the allocation of SRA proceeds because the method of giving effect to these agreements should minimise distortions to the

123 See NER clause 3.6.5 and rule 3.18.

market. SRA proceeds reflect market processes. Other components of the pricing methodology (such as MLEC) directly reflect network use.

Stakeholders did not raise matters related to SRA proceeds in their submissions. In further engagement, however, some stakeholders communicated the view that SRA proceeds are a market mechanism and therefore should not be in scope of this rule change.

Question 6: Is the AARR the right pricing element to adjust to give effect to agreements?

Our draft rule provides that CNSPs would give effect to the transfers provided for in an agreement by adding the interconnector transfer amount to the total AARR for the region. The CNSP is then responsible for allocating that total to services following the process in Part J of chapter 6A. We have outlined some other options, and we are interested in your views on whether there are more preferred approaches.

Question 7: Does the draft rule treat MLEC appropriately to give effect to the intention of agreements?

Our draft rule requires affected TNSPs to prevent MLEC from effectively unwinding the cost allocations specified in the agreement. To achieve this, the interconnector assets specified in the agreement will be given a zero 'optimised replacement cost' value in the MLEC calculations. The construction and operation of the interconnector itself, however, will change the use of other network assets. This includes the impact that one jurisdiction may have on the peak use of non-interconnector assets in another region. These changes will affect the outcome of MLEC calculations, and so affect inter-regional cost transfers. To note, these effects:

- will have varying degrees of significance
- reflect how MLEC would be applied to non-interconnector assets in the absence of an agreement.

We seek feedback from stakeholders on alternative approaches, and how they might be implemented in the rules.

Question 8: Have we accurately described the potential impacts MLEC may have on agreed cost allocations? Does our proposed rule change provide jurisdictions with an appropriate level of flexibility to address these potential concerns?

Our draft rule requires affected TNSPs to set the optimised replacement cost of transmission system assets specified in the agreement to zero for the purposes of MLEC calculation. Jurisdictions who are concerned about MLEC implications could account for the impacts of MLEC in two possible ways:

(1) they could include additional transmission assets under the agreement for the purposes of clause 6A.29.4(i) likely specifying those assets they consider to be most significantly impacted by the new interconnector.

(2) they could require affected TNSPs to calculate the interconnector transfer amount in a manner which effectively 'subtracts' MLEC impacts. Relevant CNSPs would identify the aggregate pricing impacts of demand flows facilitated by the new interconnector and would subtract these from the eventual determination of AARR in their region.

We seek feedback on whether:

- we have accurately identified areas of potential concern for jurisdictions
- it is appropriate to for the draft rule to provide the flexibility outlined
- the flexibility is provided in a suitable manner.

4.5 Jurisdictions would have the ability to amend the agreement, and these amendments would need to be incorporated into pricing arrangements

Box 8: Draft determination - jurisdictions would be able to amend agreements

The draft rule would allow jurisdictions to amend agreements, with all the same implementation criteria applying as if it were a new agreement.

The rule change request outlines that the parties to any agreement should be able to make adjustments to that agreement.[124] Several stakeholders suggested that agreements should be able to be amended with the unanimous assent of the signatory jurisdictions.[125]

The Commission agrees with these views. The requirement for unanimous agreement of the original parties to the agreement can be provided for in the agreement itself.

An amended agreement must still meet all the implementation criteria which apply to new agreements, including the provision of the agreement to all affected TNSPs and CNSPs.[126] The TNSP under an agreement must apply to the AER under draft rule clause 6A.15.2 if the agreement is amended.[127] The CNSP must also apply to the AER if the amendment to the agreement requires an amendment to its pricing methodology.[128] The draft rule would enable the AER to amend pricing methodologies accordingly, so long as they consulted with the relevant CNSPs and any other such persons it considers appropriate and the proposed amended pricing methodology continues to comply with applicable requirements of the Rules.[129]

124 Rule change request, p. 8.
125 Submissions to the consultation paper: Australian Energy Regulator, p. 2; TasNetworks, p. 2; Australian Energy Market Operator, p. 2.
126 Draft rule, clauses 6A.29.4(b) and 6A.15.2(d)(1).
127 Draft rule, clauses 6A.15.2 and 6A.29.4(j).
128 Draft rule, clause 6A.29.4(k).
129 Draft rule, clause 6A.15.2.

A Rule making process

A standard rule change request includes the following stages:

- a proponent submits a rule change request
- the Commission initiates the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a draft determination and draft rule (if relevant)
  - stakeholders lodge submissions on the draft determination and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule (if relevant).

You can find more information on the rule change process on our website.[130]

A.1 The Ministers proposed a rule to enable flexibility in the allocation of interconnector costs

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 proponents or the Ministers) submitted this rule change request on 8 December 2023.

The proposal seeks to provide an alternative pathway in the NER for the allocation of interconnector agreement costs by giving effect to inter-governmental agreements that determine the cost allocation for a specific interconnector. The proposed solution would require a written agreement to be submitted to the AER to enable it to make its determination on the validity of an interconnector agreement. In order for the AER to take an agreement into account, it would need to meet certain criteria. The rule change request proposed that AER guidelines could set out such criteria to provide high-level guidance to governments.

The proposal would not change the existing cost allocation framework in the NER for interconnectors where jurisdictions have not entered into an agreement on the allocation of interconnector costs. The proponents note that under the proposed solution transmission projects would still need to pass the RIT-T and AEMO's feedback loop to ensure they generate net benefits for the NEM.

A.2 The proposal addressed barriers in the regulatory framework to the delivery of net beneficial interconnectors

The Ministers identified that cost allocation issues may impact the ability of TNSPs and jurisdictions to progress interconnector projects which are net beneficial through the existing regulatory framework. The Ministers argued that the existing cost allocation framework for interconnectors in the NER and associated guidelines are not sufficiently flexible to resolve these issues.

These issues are explained in chapter 2 of the consultation paper for this rule change.[131]

130 See our website for more information on the rule change process: https://www.aemc.gov.au/our-work/changing-energy-rules

131 AEMC, Consultation paper - Providing flexibility in the allocation of interconnector costs, 14 March 2024, pp. 6-8.

The Ministers considered that without the rule change, actionable ISP interconnector projects may not be delivered and net market benefits to the NEM may go unrealised. Additional generation investment may be required to fill the gap that non-delivery of these projects would create to meet electricity demand, system security and reliability requirements, and to achieve jurisdictional emissions reduction targets and net zero commitments in the electricity sector.

A.3 It proposed to do so by introducing flexibility into the NER by providing two pathways for the allocation of interconnector costs

The proposal from the Ministers seeks to improve the likelihood that net beneficial interconnectors are developed. It does this by introducing an alternative pathway in the rules for interconnector cost allocation to be determined by jurisdictions.

The proposal is explained in more detail in chapter 3 of the consultation paper for this rule change.[132]

A.4 The process to date

On 14 March 2024, the Commission published a notice advising of the initiation of the rule making process and consultation in respect of the rule change request.[133] A consultation paper identifying specific issues for consultation was also published. Submissions closed on 11 April 2024. The Commission received 11 submissions as part of the first round of consultation, two of which were late submissions. The Commission considered all issues raised by stakeholders in submissions. Issues raised in submissions are discussed and responded to throughout this draft rule determination.

132 AEMC, Consultation paper - Providing flexibility in the allocation of interconnector costs, 14 March 2024, pp. 6-8.

133 This notice was published under section 95 of the NEL.

B Regulatory impact analysis

The Commission has undertaken regulatory impact analysis to make its draft determination.

B.1 Our regulatory impact analysis methodology

We considered a range of policy options

The Commission compared a range of viable policy options that are within our statutory powers. The Commission analysed these options:

- the proposal in the rule change request
- a business-as-usual scenario where we do not make a rule
- and a more preferable rule that provides greater clarity than the proposal in the rule change request in terms of revenue and pricing arrangements, roles and responsibilities of relevant parties and other implementation considerations and is, therefore, likely to better contribute to the achievement of the national electricity objective.

These options are described in chapter 2.

We identified who would be affected and assessed the benefits and costs of each policy option

The Commission's regulatory impact analysis for this rule change used qualitative methodologies. It involved identifying the stakeholders impacted and assessing the benefits and costs of policy options. The depth of analysis was commensurate with the potential impacts. The Commission focused on the types of impacts within the scope of the NEO.

Table B.1 summarises the regulatory impact analysis the Commission undertook for this rule change. Based on this regulatory impact analysis, the Commission evaluated the primary potential costs and benefits of policy options against the assessment criteria. The Commission's determination considered the benefits of the options minus the costs.

Table B.1: Regulatory impact analysis methodology

Assessment criteria	Primary costs	Primary benefits	Stakeholders affected	Methodology QT = quantitative, QL = qualitative
Emissions reduction	Nil.	Improves ability for generators (including renewables) to connect in the NEM, which is likely to reduce emissions.	• All Australians	QL: stakeholder feedback to assess all benefits and costs to the listed stakeholders
Principles of market efficiency	Nil	May allow net beneficial interconnector projects to progress when they may not have under the current arrangements. This would increase the ability of generators and storage providers to connect to the NEM, which may reduce wholesale prices.	• Generators and storage providers • Consumers	QL: stakeholder feedback to assess all benefits and costs to the listed stakeholders.
Implementation considerations	TNSPs need to incorporate	Increased flexibility through additional	• Governments	QL: stakeholder feedback to assess all benefits and costs to the listed stakeholders

Assessment criteria	Primary costs	Primary benefits	Stakeholders affected	Methodology QT = quantitative, QL = qualitative
	agreements into their pricing arrangements. The AER needs to validate agreements and incorporate them into revenue and pricing processes, and update it relevant guidelines.	cost allocation pathway may remove barriers to the development of interconnectors. Clarity and transparency in relation to how the draft rule would be implemented.	• AER • AEMO • TNSPs • Intending TNSPs	
Principles of good regulatory practice	The draft rule would provide flexibility through an alternative process for jurisdictions to agree on interconnector cost allocation. The existing interconnector cost allocation rules remain in place for other interconnector	Allowing for jurisdictions to agree on alternative interconnector cost allocation may allow net beneficial interconnector projects to progress when they may not have otherwise.	• Governments • AER • AEMO • TNSPs • Intending TNSPs • Generators and storage providers	QL: stakeholder feedback to assess all benefits and costs to the listed affected stakeholders

Assessment criteria	Primary costs	Primary benefits	Stakeholders affected	Methodology QT = quantitative, QL = qualitative
	projects. Negotiation of agreements between governments has the potential to impact timeframes for projects.			

C Legal requirements to make a rule

This Appendix sets out the relevant legal requirements under the NEL for the Commission to make a draft rule determination.

C.1 Draft rule determination and draft rule

In accordance with sections 91A and 99 of the NEL, the Commission has made this more preferable draft rule and draft determination in relation to the rule proposed by 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 proponents or the Ministers).

The Commission's reasons for making this draft rule determination are set out in chapter 2.

A copy of the more preferable draft rule is attached to and published with this draft determination. Its key features are described in chapters chapter 3 and chapter 4 and Appendix D.

C.2 Power to make the rule

The Commission is satisfied that the more preferable draft rule falls within the subject matter about which the Commission may make rules.

The more preferable draft rule falls within section 34(1)(a)(iii) of the NEL as it relates to the activities of persons participating in the national electricity market or involved in the operation of the national electricity system.

In addition, the draft rule falls within the matters in items 16(1), 16(2) and 20 of Schedule 1 to the NEL as it relates to:

- the regulation of prices charged, or that may be charged, by owners, controllers or operators of transmission systems for the provision by them of services that are the subject of a transmission determination;
- the regulation of prices that AEMO charges, or may charge, for the provision of shared transmission services;
- the economic framework, mechanisms or methodologies to be applied or determined by the AER for those purposes.

The more preferable draft rule is likely to better contribute to achieving the NEO than the proposed rule by:

- **Promoting principles of market efficiency -** Our draft rule supports the delivery of net beneficial interconnectors, which will enable increased generation assets to connect and reduce wholesale costs for consumers. It does this by providing a new pathway where governments would agree the specific cost allocation for the interconnector, while retaining the existing pathway in the NER for interconnector cost allocation where jurisdictions have not agreed to enter into an agreement.
- **Promoting principles of good regulatory practice -** Our draft rule reduces uncertainty by specifying and clarifying matters related to the application of agreements. Our draft rule also complements other reforms to promote the timely delivery of critical transmission projects, including other initiatives and new rules. We consider that the benefits of our draft rule would outweigh the administrative costs.

- **Implementation considerations** - Our draft rule supports timely delivery of interconnectors through the alternative cost allocation pathway by clarifying and specifying implementation matters. Our draft rule supports the implementation of a successful market-wide solution by providing flexibility for an agreement to be made between two or more Ministers and requiring agreements to be published for transparency.
- **Supporting emissions reduction -** Our draft rule would provide flexibility in interconnector cost allocation, removing barriers to the timely delivery of net beneficial interconnectors, and therefore efficiently contribute to achieving government targets for reducing Australia's greenhouse gas emissions.

The Commission's reasons are discussed in more detail in chapter 2.

C.3 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NEL to make the draft rule
- the rule change request
- submissions to the consultation paper
- the revenue and pricing principles
- the Commission's analysis as to the ways in which the draft rule will or is likely to contribute to the achievement of the NEO.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.[134]

The Commission may only make a rule that has effect with respect to an adoptive jurisdiction if satisfied that the proposed rule is compatible with the proper performance of AEMO's declared network functions.[135] The more preferable draft rule is compatible with AEMO's declared network functions because it does not affect those functions. The draft rule is consistent with AEMO's existing declared network functions and its role as CNSP in Victoria.

C.4 Making electricity rules in the Northern Territory

The NER, as amended from time to time, apply in the Northern Territory, subject to modifications set out in regulations made under the Northern Territory legislation adopting the NEL.[136] Under those regulations, only certain parts of the NER have been adopted in the Northern Territory.

The more preferable draft rule does not relate to parts of the NER that apply in the Northern Territory. As such, the Commission has not considered Northern Territory application issues.

134 Under s. 33 of the NEL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy. On 1 July 2011, the MCE was amalgamated with the Ministerial Council on Mineral and Petroleum Resources. In December 2013, it became known as the Council of Australian Government (COAG) Energy Council. In May 2020, the Energy National Cabinet Reform Committee and the Energy Ministers' Meeting were established to replace the former COAG Energy Council.

135 Section 91(8) of the NEL.

136 These regulations under the NT Act are the National Electricity (Northern Territory) (National Uniform Legislation) (Modifications) Regulations 2016

D Explanation of drafting approach

D.1 Overview of the draft rule

D.1.1 New defined terms

The draft rule introduces several key new concepts into the rules:

- The term 'interconnector cost allocation agreement' (agreement) is used to refer to the agreement between the Ministers for the regions affected by the cost transfer.
- The rules include a list of 'implementation criteria' that must be satisfied for the agreement to be treated as a valid agreement under the rules.
- The term 'specified interconnector' refers to the interconnector that an agreement relates to.
- The term 'implementation year' is used to refer to the financial years in which cost transfers are to be made. This allows for an agreement to be made while the specified interconnector is still under development, with cost transfers only commencing once the interconnector is in commercial operation. The implementation years align with financial years because this is the basis on which pricing is currently implemented (i.e. on a financial year basis).
- The term 'interconnector transfer amount' refers to the amount to be transferred in an implementation year from one region to another.

D.1.2 Implementation through the transmission pricing process

Once an agreement is made it must be provided to the TNSP for the specified interconnector in the region *from which* the costs are being transferred and to the CNSPs in the regions *to which* the costs are being transferred and who are responsible for allocating the interconnector transfer amount for implementation under the applicable provisions in the rules.

This would work as follows:

- The first step for the TNSP and CNSPs is to have the agreement taken into account in the approval process for its pricing methodology. This would occur either as part of the usual AER transmission determination process, or at any other time if the agreement is made or amended part way through the regulatory control period cycle.
- Once approved as part of the pricing methodologies, the TNSP and CNSPs would give effect to the agreement through the transmission pricing process in Part J of chapter 6A as follows:
  - Each year, the TNSP in the region from which the costs are being transferred, would notify the interconnector transfer amount to the CNSP for each region that interconnector costs are being transferred to.
  - The CNSPs in turn would include the amount in the allocation and adjustment process that is used to determine prices for its region and would pay the amount they are responsible for collecting to the TNSP.
  - Consequential adjustments would be made to the TNSP's AARR in the region from which the costs are being transferred, to avoid double counting.

D.1.3 Description of new, amended and deleted provisions

The following table describes the draft rule in clause order and describes how and why relevant changes have been made.

Table D.1: Overview of the draft rule

Clause	Description of draft rule
Chapter 6A	
6A.10.1(c)	This minor drafting change would complete the description of each Part in chapter 6A by adding a reference to Part D, which deals with Intending TNSPs.
6A.10.1(j)	Rule 6A.10 deals with, among other things, the submission to the AER of a TNSP's proposed pricing methodology. Proposed new paragraph (j) would require the proposed pricing methodology of a TNSP for a specified interconnector to be accompanied by a copy of the agreement.
6A.11.1(a)(7)	Proposed new clause 6A.11.1(a)(7) requires the AER to notify the TNSP if it considers that an agreement submitted with the TNSP's proposed pricing methodology does not satisfy the implementation criteria in proposed clause 6A.29.4(b).
6A.14.3(f1)	Proposed new clause 6A.14.3(f1) requires that the AER does not approve a proposed pricing methodology for the TNSP for a specified interconnector under an agreement unless the AER is satisfied that the agreement satisfies all the implementation criteria in clause 6A.29.4(b).
6A.15	Rule 6A.15 provides for the AER to revoke a revenue determination or amend a pricing methodology for wrong information or error. The current contents of the rule is renumbered as clause 6A.15.1, with consequential changes to the headings and relevant cross references. A new clause 6A.15.2 is introduced which would allow the AER to approve an amendment to a TNSP's existing pricing methodology during a regulatory control period if an agreement affecting that TNSP is made or amended. The TNSP would apply to the AER to approve the amendment to its existing pricing methodology and include a copy of the agreement with its application. The application would need to be made at least 9 months before the start of the first implementation year the new or amended agreement applies to. The AER would publish the application and the agreement. The AER would assess whether the agreement satisfies the implementation criteria in clause 6A.29.4(b) and whether the amendments to the pricing methodology are consistent with the requirements for pricing methodologies under chapter 6A. The AER does not have a role in assessing the merits of the allocation or agreement itself. The AER would only be able to approve amendments to the pricing methodology to the extent those amendments are

Clause	Description of draft rule
	necessary to give effect to the agreement (or amendment to the agreement) and if the pricing methodology continues to comply with the requirements for a pricing methodology under chapter 6A. The AER would be required to consult with other affected TNSPs before approving the amendment but otherwise would have a discretion as to any other consultation it wishes to conduct. This would be different to the process that occurs where an agreement is submitted as part of the revenue determination process (i.e. commencing under clause 6A.10.1). This is because the revenue determination process already specifies consultation requirements. It is not the Commission's intention that the AER would be required to consult broadly on the amendments to a pricing methodology arising from an agreement. However, the Commission recognises that where the agreement is submitted as part of the revenue determination process, it will form part of that broader process. The AER is not required to consider or address stakeholder feedback received in relation to the agreement since the AER's role is limited to assessing whether the agreement satisfies the implementation criteria in clause 6A.29.4 and whether the amendments to the pricing methodology are consistent with the other requirements of chapter 6A.
Part J	In Part J and elsewhere in chapter 6A, both 'aggregate annual revenue requirement' and its short form 'AARR' are used. Similarly, both 'annual service revenue requirement' and its short form 'ASRR' are both used. For consistency and ease of use when searching the rules, it is proposed to use the short forms 'AARR' and 'ASRR' in preference to the long form defined terms in the following provisions: clauses 6A.23.2, 6A.23.3, 6A.23.3A and 6A.23.4 and 6A.24.1(b).
6A.22.1(3) (deleted)	Clause 6A.22.1 defines the aggregate annual revenue requirement, or 'AARR', of a TNSP. The AARR is based on the maximum allowed revenue, adjusted as specified in the clause. At present, clause 6A.22.1(3) refers to the allocation agreed between TNSP in accordance with clause 6A.29.3. The draft rule removes this paragraph and instead the point is covered by proposed new clauses 6A.22.2(b) and 6A.29.2(a)(1)(iii). This change is for clarification and is not intended to alter the way that TNSPs currently give effect to agreements under clause 6A.29.3.
6A.22.1(4)	A new subparagraph (4) is included in clause 6A.22.1 that would require the TNSP for a specified interconnector to deduct from its AARR for the region *from which* interconnector costs are being transferred, the amount to be collected by the CNSP in the region *to which* the costs are being transferred. It is intended that the TNSP would still receive the same amount of revenue in total, but because the interconnector transfer amount would be paid to it by the CNSP for the

Clause	Description of draft rule
	second region under clause 6A.29.4(f), the same amount should not also be included in the AARR allocation process.
6A.22.2(b)	Clause 6A.22.2 explains how the annual service revenue requirement or 'ASRR' is calculated for each category of prescribed transmission service of a TNSP. The calculation multiplies the TNSP's AARR by the attributable cost share for the relevant service category. For a CNSP, the amount used in the calculation is its own AARR plus any AARR of other TNSPs within the region (current clause 6A.29.1(a)), plus the AARR of any TNSP in an interconnected region that it has agreed to allocate (current clause 6A.29.1(a)(1), and also current clause 6A.22.1(3)). Under the draft rule, the interconnector transfer amount would also be added to the amount used to calculate ASRR amounts for the CNSP's region. To clarify these arrangements, it is proposed to: • renumber the current text in clause 6A.22.2 as paragraph (a) and have it subject to the new paragraph (b), and • insert a new paragraph (b) that explains that for a CNSP, the ASRR is calculated using the total amount described above and that references to AARR in the pricing principles in clause 6A.23.2 are taken to be references to that total amount. The following consequential changes are also made to reflect this approach: • as explained above, clause 6A.22.1(3) is deleted since the adjustment provided for there will instead be made through proposed clause 6A.22.2(b), • the drafting in the chapeau and paragraph (a) of clause 6A.23.2 (which sets out the transmission pricing principles) is adjusted to reflect that the CNSP may be allocating AARR of other TNSPs or amounts that may not be directly linked to the provision of services within the region, • in clause 6A.23.6(b1), which deals with the contents of the pricing methodology of a CNSP, subclause (1) is amended to reflect the new approach, with a similar change made to clause 6A.25.2(g)., and • clause 6A.29.1(a) is restructured, as explained further below, to clarify the CNSPs responsibilities for allocation and related adjustments within its region.
6A.23.2	Consequential changes are made to the pricing principles in clause 6A.23.2 to reflect that a CNSP may be allocating AARR of other TNSPs or amounts that may not be directly linked to the provision of services within the region.
6A.24.1(b1)(1)	Clause 6A.24.1(b1) describes the required contents of the pricing methodology of a CNSP. A consequential change is

Clause	Description of draft rule
	made to subparagraph (1) covering the CNSP's responsibilities for allocation and related adjustments for its region.
6A.24.1(b2)	A new clause 6A.24.2(b2) is added that applies to the pricing methodology of the TNSP and CNSPs responsible for giving effect to an interconnector cost allocation through the pricing arrangements in chapter 6A. It requires the pricing methodologies to provide for giving effect to the transfer of applicable interconnector transfer amounts in accordance with chapter 6A. The clause is intended to reflect the following principles: • The TNSP and CNSPs are not parties to the agreement and it is not intended that agreement can impose obligations directly on them. The means by which TNSPs and CNSPs give effect to the required transfers is solely by performing their obligations under chapter 6A. • In addition, the agreement itself can only be given effect to in the manner provided for in chapter 6A and it is not intended that the agreement itself can modify chapter 6A or the obligations of the TNSP or CNSPs under chapter 6A.
6A.24.2	Clause 6A.24.2 deals with publication of pricing methodologies and prices. Paragraph (b), which sets out requirements applicable to CNSPs, is amended to require the CNSP to publish details of any interconnector transfer amounts that it has been required to allocate. A new paragraph (e) requires the TNSP for a specified interconnector to publish the relevant agreement and the total interconnector transfer amounts to be allocated in the upcoming implementation year (i.e. financial year).
6A.24.3	Clause 6A.24.3 deals with the basis for setting prices where approval of a pricing methodology is delayed and prices for the coming financial year need to be set. The clause is extended to allow for delay to a request to approve an amendment to a pricing methodology under new clause 6A.15.2 and to explain which interconnector transfer amount is used if there is a delay. If the AER has made a draft decision approving the proposed pricing methodology the interconnector transfer amount would be calculated using the agreement provided for in that methodology. Otherwise, consistent with current clause 6A.24.3, the arrangements from the prior year are rolled forward for a year and this would include rolling forward the prior year's calculation of the interconnector transfer amount – which, in the case of a new agreement, would be zero.
6A.25.2(g)	Clause 6A.25.2 describes the required contents of the AER's pricing methodology guidelines.

Clause	Description of draft rule
	A consequential change is made to paragraph (g)(1) to align it with the new approach to clause 6A.24.1(b1)(1).
6A.29.1	Clause 6A.29.1 establishes the arrangements that apply where there are multiple TNSPs within a region. Paragraph (a) provides for the TNSPs in the region to appoint a CNSP and states that the CNSP is responsible for allocating all AARR within the region and any AARR it has agreed to allocate under clause 6A.29.3. The draft rule retains the arrangements for appointment of a CNSP in paragraph (a), with some minor drafting changes removing the concept of 'appointing providers', to clarify the clause. The draft rule also inserts a new paragraph (b), which specifies that where only one TNSP provides prescribed transmission services in a region, that TNSP is taken to be the CNSP for the region for the purpose of chapter 6A and a related clause in chapter 2. This replaces old clause 6A.29.2. The remainder of clause 6A.29.1 becomes clause 6A.29.2.
6A.29.1A	New clause 6A.29.1A(a) is old clause 6A.29.1(b) and states that each TNSP calculates its own AARR for each region it operates in. Paragraph (b) is based on old clause 6A.29.1(e) and requires each TNSP in a region that is not the CNSP to notify its AARR for the region to the CNSP and other information required by the CNSP.
6A.29.2(a) (was part of 6A.29.1(a))	New clause 6A.29.2 deals with the responsibilities of a CNSP (some of which are taken from previous clause 6A.29.1). New paragraph (a) explains that these responsibilities cover both allocation of the AARR and the related adjustments (such as the adjustments that allow for the costs and other amounts subtracted at clause 6A.22.1(2) to be added back at clause 6A.23.3(h)). Paragraph (a) also lists all the amounts that the CNSP is responsible for, which are: • its own AARR, • the AARR of other TNSPs for services provided within the CNSP's region, • any allocation agreed under clause 6A.29.3, and • any interconnector transfer amount that is to be allocated within the region.
6A.29.2(b) (was 6A.29.1(b))	Current clause 6A.29.1(b) requires a TNSP (that is not the CNSP) to give the CNSP information it needs to allocate the TNSP's AARR. The clause is relocated to be clause 6A.29.1A(a).
Former 6A.29.1(c)	Paragraph (c) of current clause 6A.29.1 has the effect that the total AARR of all TNSPs within a region must be used by

Clause	Description of draft rule
	the CNSP for allocation purposes. The clause is deleted as the requirement is covered in revised paragraph (a), which now specifically sets out each relevant amount.
6A.29.2(b) (was 6A.29.1(d))	Current clause 6A.29.1(c) explains that the CNSP undertakes the allocation process for all transmission connection points in the region and so exempts other TNSPs from dealing with certain matters in their pricing methodologies. The clause is renumbered and consequential drafting changes are made.
6A.29.2(c) (was 6A.29.2(e))	Current clause 6A.29.1(e) requires a TNSP (that is not the CNSP) to promptly provide information reasonably requested by the CNSP to enable the CNSP to properly perform its functions under Part J. This paragraph is moved to clause 6A.29.2A and amended.
6A.29.2(d) (was 6A.29.1(f))	Current clause 6A.29.1(f) is renumbered and drafting changes are made to reflect the changes elsewhere in the clause. The reference to old paragraph (d) is omitted.
Former clause 6A.29.1(g)	Paragraph (g) of current clause 6A.29.1 currently explains that where there is only one TNSP in a region, references to a CNSP in provisions dealing with NTP function expenditure are taken to be a reference to the TNSP. The draft rule deletes paragraph (g) and instead deals with the point in clause 6A.29.2.
Former clause 6A.29.2	Current clause 6A.29.2 explains that in regions where only one TNSP provides prescribed transmission services, that TNSP is responsible for the allocation of AARR within the region. Chapter 6A has several other clauses along similar lines so it is proposed to instead include a new paragraph (b) in clause 6A.29.1 to provide that where only one TNSP provides prescribed transmission services in a region, that TNSP is taken to be the CNSP for the region for the purpose of chapter 6A and a related clause in chapter 2. Old clause 6A.29.2 is therefore deleted and replaced with a new clause dealing with the functions of a CNSP and related obligations of other TNSPs within a region.
6A.29.3(a)	Clause 6A.29.3 allows for the allocation of AARR of several regions as one process, if agreed by the TNSPs responsible for allocation within those regions. Drafting changes are made to reflect that this will be the CNSP and that the CNSP undertakes the allocation and makes the related adjustments.
6A.29.4	New clause 6A.29.4 provides for allocation of interconnector costs to other regions in accordance with an agreement.
6A.29.4(a)	Paragraph (a) in the new clause sets out two new local definitions used only in the new clause. Other definitions introduced by the draft rule are global definitions defined in Chapter 10. .

Clause	Description of draft rule
	• The term 'relevant Minister' defines when a Minister would be the Minister for a region. Neither the Commonwealth nor ACT Ministers will be a 'relevant Minister' for any region; otherwise it is each Minister with any part of its jurisdiction in the region. In practice this means that unless regional boundaries change, there will be one relevant Minister for each region, since the regional boundaries currently align with jurisdictional boundaries. • The term 'qualifying interconnector' defines when an interconnector qualifies to be a specified interconnector that an agreement can apply to. The definition covers (in summary) interconnectors converting from network market service provision after 12 September 2024 (in practice, only Basslink), interconnectors that commence construction after 12 September 2024 (in practice, excluding Project Energy Connect) and interconnectors that are materially upgraded after 12 September 2024 as part of an actionable ISP project.
6A.29.4(b)	Paragraph (b) in the new clause sets out the implementation criteria that must be satisfied by an agreement if it is to be implemented through approved pricing methodologies of the TNSP and CNSP. The agreement is required to state that it is made for the purposes of clause 6A.29.4 and to identify the specified interconnector that it relates to, which must be a qualifying interconnector and must not provide market network services at any time the cost transfer arrangements are operating. The parties to the agreement must be all the relevant Ministers; but other Ministers could also be a party by choice. The agreement must be binding and executed as a deed and not to be subject to any unfulfilled conditions. The agreement must specify all of the following matters: • the transmission system assets to which it relates, • the TNSP for the specified interconnector, being the TNSP in the region from which the interconnector costs are being transferred (and noting that the TNSP may also operate in the adjacent jurisdiction if it owns the whole interconnector, or that it may only own those parts of the interconnector assets in its own region), • each CNSP responsible for allocation of an interconnector transfer amount, • each implementation year applicable to the agreement, and • the interconnector transfer amount to be allocated by each responsible CNSP in each implementation year, or the manner in which that amount is to be calculated. •

Clause	Description of draft rule
	The clause also requires a certified copy of the agreement to have been provided to the TNSP and each CNSP. For an agreement that is being submitted as part of a proposal under clause 6A.10.1, this will need to be at least 17 months before the start of the first implementation year (refer to clause 6A.10.1(a)), and in practice before then in order for the TNSP to be able to take the agreement into account in its proposal. For an application to amend a pricing methodology under clause 6A.15.2 the agreement will be needed at least 9 months before the start of the first implementation year that the new or amended agreement applies to. This timing requirement is necessary to ensure the agreement is provided in time to be implemented in accordance with the existing processes under the NER for TNSPs to submit pricing methodologies with their revenue proposals to the AER and to subsequently implement pricing. Where the region of a responsible CNSP contains the ACT, the agreement is required to contain a statement confirming that the Minister for the ACT has been consulted in relation to the agreement and, where applicable, any amendment to it. In practice, under this current arrangement whereby regions are generally aligned with state boundaries, this means the NSW region.
6A.29.4(c) to (f)	Paragraphs (c) to (f) of new clause 6A.29.4 provide the details for implementation of the interconnector cost transfer. This can only occur where the TNSP's pricing methodology provides for giving effect to the agreement in accordance with the Rules. Where that condition is satisfied, the TNSP is required to, first, calculate the interconnector transfer amount (or amounts) each year in accordance with the agreement, and, second, to notify those amounts to the responsible CNSPs. The TNSP is also required to provide any other information needed by the CNSP to implement the agreement. The CNSP is then required to pay the interconnector transfer amount to the TNSP in monthly instalments.
6A.29.4(g) to (i)	Paragraphs (g) to (i) provide for adjustments to avoid double counting or other distortions. Paragraph (g) requires the AARRs used for allocation by a CNSP in a region to be reduced by the interconnector transfer amounts that are being collected in another region. The reason for this adjustment is explained above in relation to clause 6A.22.1. Paragraph (h) confirms that if a CNSP pays an interconnector transfer amount to the TNSP for a specified interconnector, it is not required to pay the same amount under other provisions (such as clause 6A.27.4). Paragraph (i) requires an adjustment to the optimised replacement costs used for calculating modified load export charges payable to or by the CNSPs for the regions that are interconnected by the specified interconnector, to avoid the

Clause	Description of draft rule
	interconnector transfer amount that has been deducted from a region flowing back through modified load export charges to that region.
6A.29.4(j) and (k)	These paragraphs require the TNSP under an agreement to apply under clause 6A.15.2 for an amendment to its pricing methodology if an agreement is provided to the TNSP, or if the agreement is amended, during a regulatory control period. The CNSP may do so, but it is not required to unless the specified conditions are met. These paragraphs also recognise that the TNSP (and CNSP if applicable) will also need to submit the agreement with a proposed pricing methodology at the beginning of the next regulatory control period under 6A.10.1(j) so that the changes continue to apply for future regulatory control periods as well.
6A.29A.1	This clause is deleted because it is replaced by new clause 6A.29.1(b), which specifies that where there is only one TNSP in a region, that TNSP is the CNSP.
Schedule 6A.4	Schedule 6A.4 explains how chapter 6A applies to AEMO. Minor consequential drafting changes are made in paragraphs (c)(3), (f) and (o).
Chapter 10	
Co-ordinating Network Service Provider	The defined term is amended to include a reference to the TNSP taken to be a CNSP under clause 6A.29.1(b).
Implementation year	This new term refers to a financial year for which a CNSP is to allocate an interconnector transfer amount in respect of the specified interconnector to which the agreement relates.
Interconnected	This new term clarifies the phrase 'interconnected region' which is used in chapter 6A but not separately defined.
Interconnector cost allocation agreement	This new term refers to an agreement between two or more Ministers made for the purposes of clause 6A.29.4.
Interconnector transfer amount	This new term refers to the amounts specified in, or calculated in accordance with, an agreement that a CNSP is responsible for allocating.
Regulated interconnector	This defined term is used in several places in chapter 3 including in relation to settlement residues, the application of market prices caps and settlement residue auctions. The term as currently defined (including under deeming provisions in chapter 9) does not extend to new interconnectors. The draft rule amends the defined term to include specified interconnectors.
Chapter 11	

Clause	Description of draft rule
New rule	A transitional rule requires the AER to review and where it considers it necessary or desirable amend, the pricing methodology guidelines and the information guidelines so that they can be updated to reflect the new requirements in the draft rule. The AER has 12 months to do this before the rule commences.

Source: AEMC

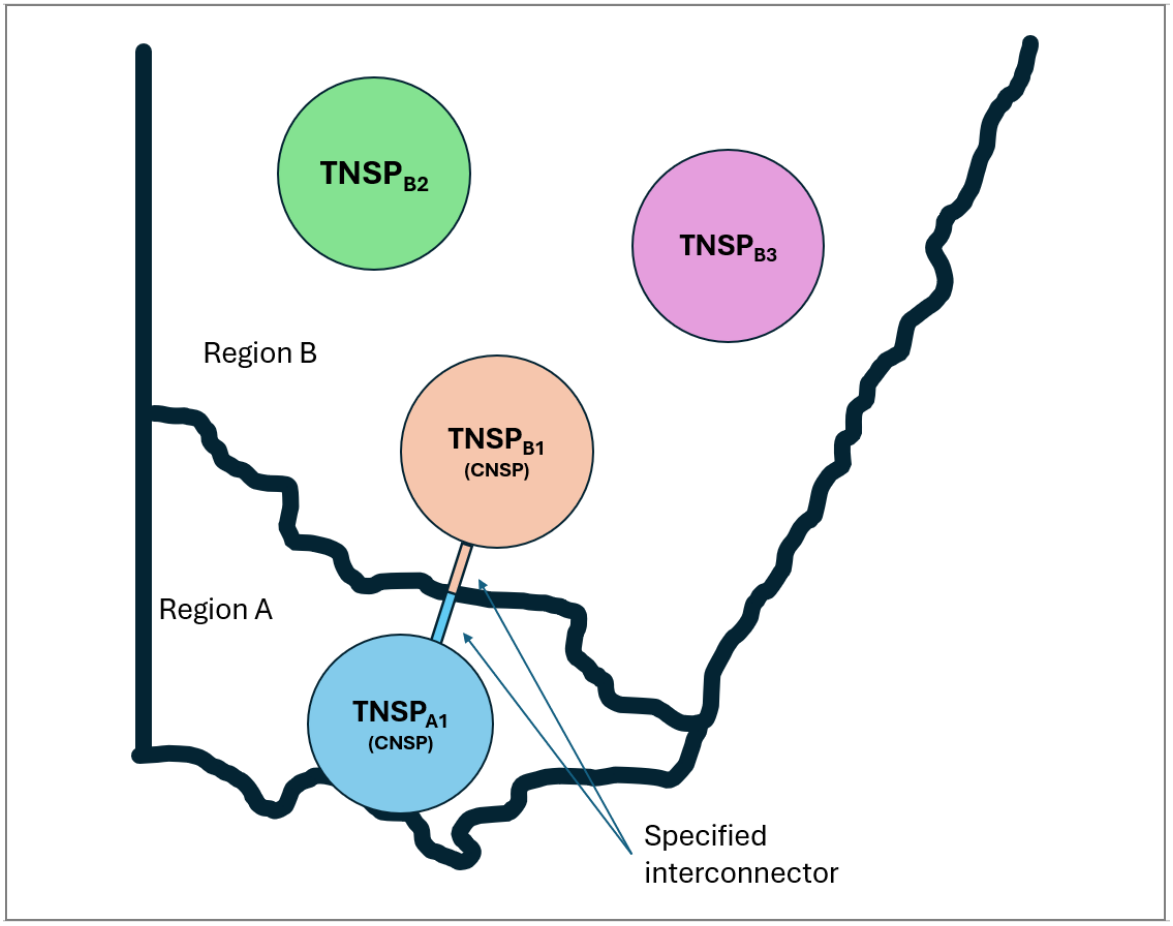
E How the draft rule would give effect to agreements through transmission pricing: worked examples

E.1 Integrated interconnector

E.1.1 Scenario

- An interconnector is to be built by the two existing TNSPs on either side of their region's border. An example of this could be a hypothetical project similar to Project EnergyConnect interconnector (which also crosses a third region).
- $TNSP_{A1}$ is in Region A; $TNSP_{B1}$ is in Region B. Both TNSPs are the CNSP for their respective regions.
- The assets on each side of the border will form part of the relevant TNSP's asset base. The project costs are about the same on either side of the border and it is estimated that $500 million will enter each TNSP's RAB for the assets forming part of the interconnector that each respectively owns.
- Each TNSP's transmission determination will therefore reflect the costs, including opex and the return on and return of capital, associated with the part of the interconnector it owns. However, neither transmission determination will separately identify these costs.
- The additional amount of annual revenue attributable to these interconnector costs, to be collected by each TNSP, is estimated at $30 million per year in each region. The actual annual amount over the life of the asset will depend on the transmission determination process.
- The result is that of a total of an estimated $60 million per year for the interconnector as a whole, 50% is collected in each region.
- The Ministers for Regions A and B agree that Region A should instead pay for 40% of the annual costs, and Region B should pay for 60%.
- The Ministers (presumably in consultation with the AER and TNSPs, but that would not be required in the draft rule) agree a methodology for calculating the interconnector transfer amount that would achieve their preferred split of annual costs between regions. For example, the methodology might work on the basis that if the annual costs attributable to the interconnector is $30 million in each region, the amount to be transferred to give a 40:60 split would be $6 million from Region B to Region A. Using the same methodology, if the total annual cost were $15 million ($7.5 million in each region), the amount to be transferred would be $1.5 million.
- Alternatively, the Ministers might agree a fixed amount such that regardless of actual cost outcomes over time, the transfer is always $2 million (real) from Region B to Region A.
- The Ministers put in place an interconnector cost allocation agreement that specifies that the agreement is in effect for 15 years from the start of flows on the new interconnector.
- The interconnector will take 10 years to build.

Figure E.1: Illustrative example of an integrated interconnector



E.1.2 Giving effect to the agreement

- The agreement will specify the time from which cost transfers need to be implemented. This seems most likely to be after operation commences but the rules are flexible on this to allow for the flexibility that now also exists in the transmission determination process to support financeability.
- $TNSP_{A1}$ will inform $TNSP_{B1}$ of the amount of the interconnector transfer amount from Region B for each implementation year, calculated applying the methodology in the agreement.[137]
- $TNSP_{B1}$, as the CNSP for Region B, adds the interconnector transfer amount to the total AARRs for all TNSPs in Region B (including itself).[138]
- $TNSP_{B1}$ will be required to publish the agreement and interconnector transfer amounts to be allocated in the upcoming year.[139]
- In equal monthly instalments over the course of the year, $TNSP_{B}$ transfers the interconnector transfer amount to $TNSP_{A}$.[140]

137 Draft rule, clauses 6A.29.2(a)(1), (2).
138 Draft rule, clause 6A.29.2(a)(1).
139 Draft rule, clause 6A.24.2.
140 Draft rule, clause 6A.29.4(f).

- $TNSP_A$ reduces its AARR for Region A by the interconnector transfer amount, so it does not collect more revenue than its maximum annual revenue (as adjusted).[141]
- The impacts of the agreement can be simplified in a table:

Table E.1: Simplified impacts of agreement: integrated interconnector (m = million)

	Interconnector AARR raised through TNSPs		AARR recovered by TNSPs who built and own the Interconnector	
	Region $_A$	Region $_B$	$TNSP_A$	$TNSP_B$
Pre-agreement	$30m	$30m	$30m	$30m
Post-agreement	$24m	$36m	$30m	$30m

Note: To simplify this example, we have not incorporated the impact of MLEC and settlement residue auction proceeds.

E.1.3 MLEC

- $TNSP_{A1}$ and $TNSP_{B1}$ will run the pricing model which determine MLEC to derive the locational component of transmission pricing.
- For the transmission assets specified in the agreement, $TNSP_{A1}$ and $TSNP_{B1}$ set the 'optimised replacement cost' to zero for the purpose of modelling inter-regional flows. This ensures that the contribution of inter-regional demand, through the interconnector connection points, do not flow through to the locational signals in prices which could potentially undermine the cost allocations agreed to in the agreement. [142]
- $TNSP_{A1}$ does this for the modelling of flows from Region A to Region B. $TNSP_{B1}$ does this for the modelling of flows from Region B to Region A.

E.2 Standalone interconnector

E.2.1 Scenario

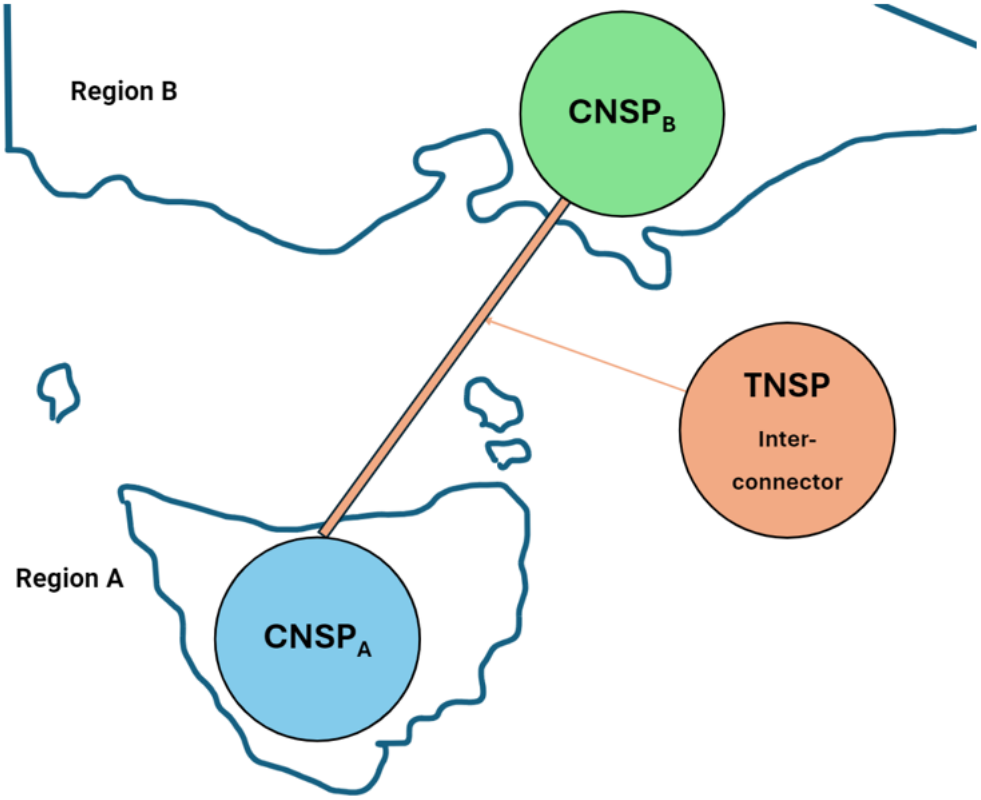
- An interconnector is to be built and will be owned by a TNSP for whom the interconnector represents the entirety of their regulated assets. An example of a standalone interconnector could be a hypothetical project similar to Basslink which is owned by APA Group and is not part of a broader collection of assets providing transmission services within Victoria or Tasmania.
- The interconnector TNSP ($TNSP_{Interconnector}$) connects to $CNSP_A$ in Region A and $CNSP_B$ in Region B.
- The costs of construction and eventual asset base for $TNSP_{Interconnector}$ will be $800 million.
- The transmission determination of $TNSP_{Interconnector}$ will only relate to the costs, including opex and the return on and return of capital, associated with the interconnector it owns.
- The amount of annual revenue attributable to the interconnector is estimated at a total of $50 million per year. The actual annual amount over the life of the asset will depend on the transmission determination process.
- Without an interconnector cost allocation agreement, the operation of the rules would result in Region A contributing around 70% of the annual costs, and Region B around 30%, through the annual AARR allocation process conducted by the CNSP in each region.

141 Draft rule, clauses 6A.22,1(4) and 6A.29.4(g).

142 Draft rule, clause 6A.29.4(i). For a discussion on how jurisdictions may choose to use the flexibility in the rule to alter the impacts of MLEC, see chapter 4.

- The Ministers for Regions A and B reach an agreement that requires that Region A and Region B pay for 50% of the annual costs respectively.
- The agreement has the methodology for working out the interconnector transfer amount to give effect to this agreement. It is a simple formula that compares 70% of the AARR each year to 50%, with the difference being the transfer amount from Region B to Region A.
- The agreement specifies that it will have effect for the economic life of the interconnector (40 years), or until the agreement is amended.
- The interconnector will take 10 years to build.

Figure E.2: Illustrative example of a standalone interconnector



E.2.2 Giving effect to the agreement

- From the first implementation year, TNSP$_{Interconnector}$ works out the amount of its AARR to be collected in each region using the 50:50 split. It then notifies these amounts to CNSP$_A$ and CNSP$_B$. This is done as part of setting annual transmission pricing. [143]
- CNSP$_B$ adds the interconnector transfer amount to the total AARRs for all TNSPs in Region B (including itself).[144]
- TNSP$_{Interconnector}$ will be required to publish the agreement and interconnector transfer amounts to be allocated in the upcoming year.[145]

143 Strictly, the TNSP calculates AARR for each region using the 70:30 split, then reduces its AARR for Region A by the interconnector transfer amount and notifies that amount to the CNSP for Region A, and the AARR for Region B plus the interconnector transfer amount to the CNSP for Region.

144 Draft rule, clause 6A.29.2(a)(1).

145 Draft rule, clause 6A.24.2.

- In equal monthly instalments over the course of the year, $CNSP_B$ transfers the interconnector transfer amount to $TNSP_{Interconnector}$.[146]
- $CNSP_A$ and $CNSP_B$ also transfer the part of the AARR of $TNSP_{Interconnector}$ that they have collected in their respective regions in the usual way.
- The result is that $TNSP_{Interconnector}$ receives its total AARR for the year from Regions A and B with customers in each of Regions A and B funding those costs equally.
- The impacts of the agreement can be simplified in a table:

Table E.2: Simplified impacts of agreement: standalone interconnector (m = million)

	Interconnector AARR raised through TNSPs		AARR recovered by TNSPs who built and own the Interconnector
	Region $_A$	Region $_B$	$TNSP_{Interconnector}$
Pre-agreement	$35m	$15m	$50m
Post-agreement	$25m	$25m	$50m

Note: To simplify this example, we have not incorporated the impact of MLEC and settlement residue auction proceeds.

E.2.3 MLEC

- $CNSP_A$ and $CNSP_B$ will run the pricing model which determine MLEC to derive the locational component of transmission pricing.
- $CNSP_A$ does this for the modelling of flows from Region A to Region B. $CNSP_B$ does this for the modelling of flows from Region B to Region A.
- The 'optimised replacement cost' of the assets specified in the agreement are set to zero for the purpose of MLEC modelling. This ensures that the contribution of inter-regional demand, through the interconnector connection points, do not flow through to the locational signals in prices which could potentially undermine the cost allocations agreed to in the agreement.[147]

146 Draft rule, clause 6A.29.4(f).

147 Draft rule, clause 6A.29.4(i). For a discussion on how jurisdictions may choose to use the flexibility in the rule to alter the impacts of MLEC, see chapter 4.

Abbreviations and defined terms

AARR	Aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Agreement	Interconnector cost allocation agreement
ASRR	Annual service revenue requirement
CNSP	Coordinating network service provider
CEFC	Clean Energy Finance Corporation
Commission	See AEMC
DTSO	Declared transmission system operator
ECMC	Energy and Climate Change Ministerial Council
ENA	Energy Networks Australia
EUAA	Energy Users Association of Australia
ISP	Integrated System Plan
MAR	Maximum allowed revenue
MLEC	Modified load export charge
MNSP	Market network service provider
NEL	National Electricity Law
NEM	National Energy Market
NEO	National Electricity Objective
NER	National Electricity Rules
NT Act	*National Electricity (Northern Territory) (National Uniform Legislation) Act 2015*
NTP	National Transmission Planner
ODP	Optimal Development Pathway
ORC	Optimised replacement cost
PIAC	Public Interest Advocacy Centre
Proponent	The individual / organisation who submitted the rule change request to the Commission
Relevant Minister	The Minister for a region
RIT-T	Regulatory investment test for transmission
SRA	Settlement residue auction
TNSP	Transmission network service provider
TUOS	Transmission use of system
VNI	Victoria to New South Wales Interconnector