



# Providing flexibility in the allocation of interconnector costs

## **The Commission has made a more preferable draft rule to introduce greater flexibility in allocating costs for interconnector projects across the National Electricity Market (NEM)**

**We are seeking stakeholder feedback on our draft determination:** Written submissions responding to this draft determination and draft rule must be lodged with the Commission by 1 August 2024.

Our draft determination 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 to provide an alternative pathway in the National Electricity Rules (NER) for the allocation of interconnector costs by giving effect to inter-governmental agreements that determine the cost allocation for a specific interconnector.

## **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**

The Commission has made a more preferable draft rule which would provide 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.

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 made between Ministers for a new regulated interconnector.

Our draft rule provides flexibility for two or more Ministers to make an agreement. The agreement must also satisfy a minimum set of implementation criteria to be valid.

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 and AEMO's feedback loop to ensure they generate net benefits for the NEM.

The draft rule sets out roles and processes, providing clarity for governments, market bodies and TNSPs.

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

Stakeholder submissions to our consultation paper generally reflect a desire 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.

We consider that our more preferable draft rule strikes an appropriate balance between providing transparency to stakeholders by requiring the publication of agreements, and granting jurisdictions sufficient flexibility to progress net beneficial interconnector projects. The Commission recognises the importance of transparency and recommends that governments communicate the benefits of any agreement to consumers in a timely way.

The Public Interest Advocacy Centre (PIAC) considered that the Ministers' rule change proposal should be consolidated with one that it submitted which proposes changes to the allocation of interconnector costs to align with a beneficiary pays principle. The Commission 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

The more preferable draft rule would contribute to achieving the NEO 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 timeliness of additional renewable energy generation to connect and therefore efficiently contribute 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 entered 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 setting out requirements for a valid agreement as well as defining 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. 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.

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

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).

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

### We are holding a public forum on the draft determination

We will hold a public forum webinar on 4 July 2024.

The purpose of the forum is to provide an overview of the draft determination and to give stakeholders an opportunity to ask questions.

Interested stakeholders can register [here](#) for the forum.

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