


Draft rule determinations on Providing flexibility in the allocation of interconnector costs

Public forum

4 July 2024

AEMC

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.

Introductory remarks

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Sally McMahon - Commissioner

Purpose of this forum

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John Mackay
Director – Networks & Technical

1 Acknowledgement of country and opening remarks	Sally McMahon
2 Purpose of this forum and Housekeeping	John Mackay
3 Key features of the draft rule	Christian Dunk/Zak Rich
4 Q&A Session	John Mackay
5 Next steps	John Mackay
6 Closing remarks	Sally McMahon

Housekeeping

- All participants are currently in 'listen-only' mode
 - Moderators can switch your mic/video on if you are invited to speak.
- Asking questions
 - Use the Q&A button on the bottom of your screen
 - Questions will be answered at a dedicated Q&A session
 - We will try to answer all questions, but will prioritise questions with most 'upvotes' first
- Presentations from today have been uploaded to the respective project pages on our website

COMPETITION PROTOCOL

KEY PRINCIPLES



The AEMC is committed to complying with all applicable laws, including the ***Competition and Consumer Act 2010*** (CCA), during this forum. Breaching the CCA can lead to serious penalties for individuals involved in any breach (including large financial penalties and imprisonment for key individuals involved). This protocol governs the way in which discussions will proceed at this forum, and each attendee agrees to adhere to this protocol in order to comply with the CCA.

Each attendee must make an independent and unilateral decision about their commercial positions and approach in relation to the matters under discussion in this forum.

Attendees must not discuss, or reach or give effect to any agreement or understanding which relates to:

- **pricing** for the products and/or services that any attendee supplies or will supply, or the terms on which those products and/or services will be supplied (including discounts, rebates, price methodologies etc)
- **targeting (or not targeting) customers** of a particular kind, or in particular areas
- **tender processes** and whether (or how) they will participate
- any decision by attendees:
 - about the purchase or supply of any products or services that other attendees also buy or sell
 - to not engage with persons or the terms upon which they will engage with such persons (i.e. boycotting); or
 - to deny any person's access to any products, services or inputs they require
- **sharing competitively sensitive information** such as non-publicly available pricing or strategic information including details of customers, suppliers (or the terms on which they do business), volumes, future capacity etc
- **breaching confidentiality obligations** that each attendee owes to third parties.

COMPETITION PROTOCOL

COMMUNICATION AND MEETING GUIDELINES



Attendees must ensure that all communications (including emails and verbal discussions) adhere to the ***Key Principles***.

This forum will be conducted in accordance with the following rules:

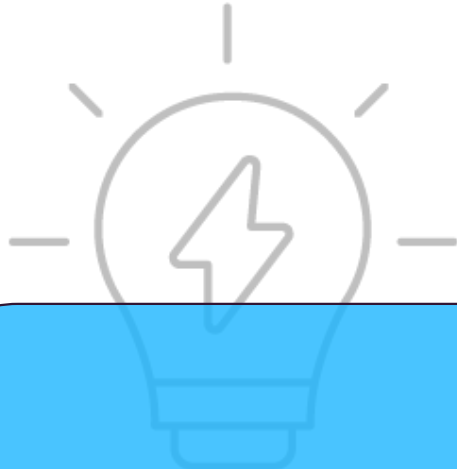
- The agenda for this forum does not include anything that could contravene the Key Principles set out in this protocol.
- We will read and minute the below *competition health warning*:
 - Attendees at this forum must not enter into any discussion, activity or conduct that may infringe, on their part or on the part of other attendees, any applicable competition laws. For example, attendees must not discuss, communicate or exchange any commercially sensitive information, including information relating to prices, marketing and advertising strategy, costs and revenues, terms and conditions with third parties, terms of supply or access.
 - Participating in this forum is subject to you having read and understood the protocol including the Key Principles.
- We will keep accurate minutes of the forum, including details of attendees.
- If something comes up during the forum that could risk contravening any competition laws, attendees should:
 - Object immediately and ask for the discussion to be stopped.
 - Ensure the minutes record that the discussion was objected to and stopped.
 - Raise concerns about anything that occurred in the forum with their respective legal counsel immediately afterwards.
- All attendees understand that any competitively sensitive matters must be subject to legal review before any commitment/agreement can be given.
- Any decision about whether, and on what terms, to engage with customers and suppliers is an independent and unilateral decision of each attendee.

Draft rule determination

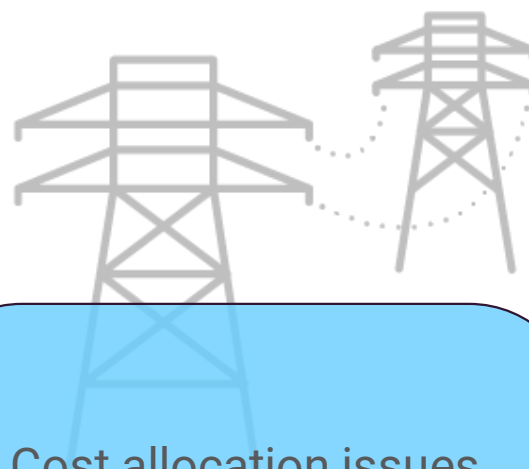
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Providing flexibility in the allocation of interconnector costs

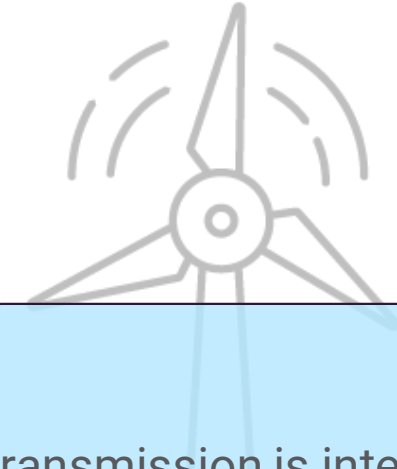
Reasons for the rule change



The Commonwealth, Victorian and Tasmanian Energy Ministers submitted a rule change request to the AEMC on 8 December 2023

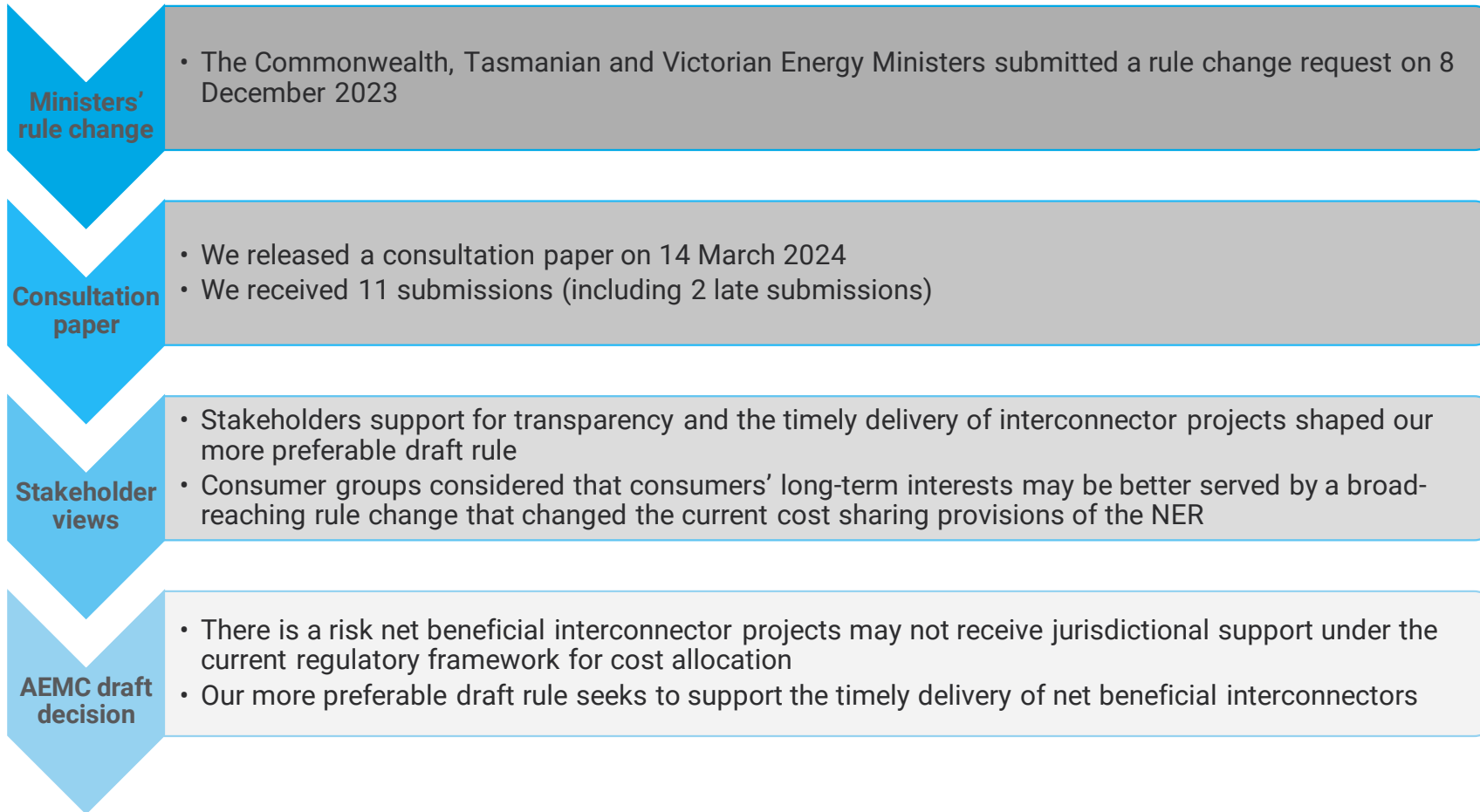


Cost allocation issues may prevent TNSPs and jurisdictions progressing net beneficial interconnector projects through the current regulatory framework



Transmission is integral to the NEM's transition to net zero. AEMO's ISP has identified an 'optimal development pathway' including several interconnector projects

Rule change process to date



Key features – qualifying interconnector

- Our draft rule would:

Retain the existing pathway for interconnector cost allocation

Provide a new pathway that enables the implementation of interconnector cost allocation agreements between governments

- Our draft rule would apply to qualifying interconnectors:

New regulated interconnectors

... as well as

Converting from market network service provider to a regulated interconnector

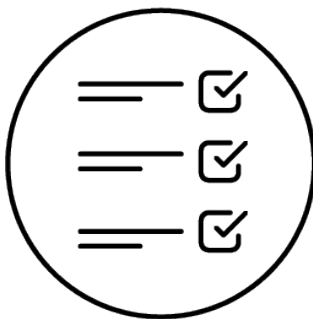
Materially upgraded regulated interconnector

Key features – framework for interconnector cost allocation



Two or more Ministers can make an interconnector cost allocation agreement (agreement)

- Parties to an agreement can be either:
 1. each relevant Minister for the regions that costs are being transferred between; or
 2. 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.
- Ministers for each region interconnected by the interconnector *must* be party to an agreement and other Ministers *may* be party to it.
- The draft rule provides for interconnector agreements to be amended with all signatories' assent.



An interconnector agreement must satisfy a minimum set of implementation criteria

- The agreement must specify:
 - the interconnector that it relates to and that must be a qualifying interconnector (outlined on previous slide).
 - the transmission system assets to which it relates
 - the TNSP for the specified interconnector
 - the relevant CNSPs responsible for transferring and allocating costs through pricing (see implementation slide)
 - the interconnector transfer amount to be allocated in each implementation year or how it is to be calculated
- The agreement must be binding and executed as a deed.



Our draft rule clarifies implementation questions in specific jurisdictions and proposes a commencement date

- 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.
- For agreements concerning the NSW region, 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
- Commence 12 months after the rule is made to allow the AER time to amend and publish pricing methodology and information guidelines

Key features - roles and processes

Interconnector agreement



- Sets out relative contributions of jurisdictions to interconnector costs
- Made by two or more Ministers
- Must satisfy minimum criteria (as outlined in previous slide)

Amended or proposed pricing methodology



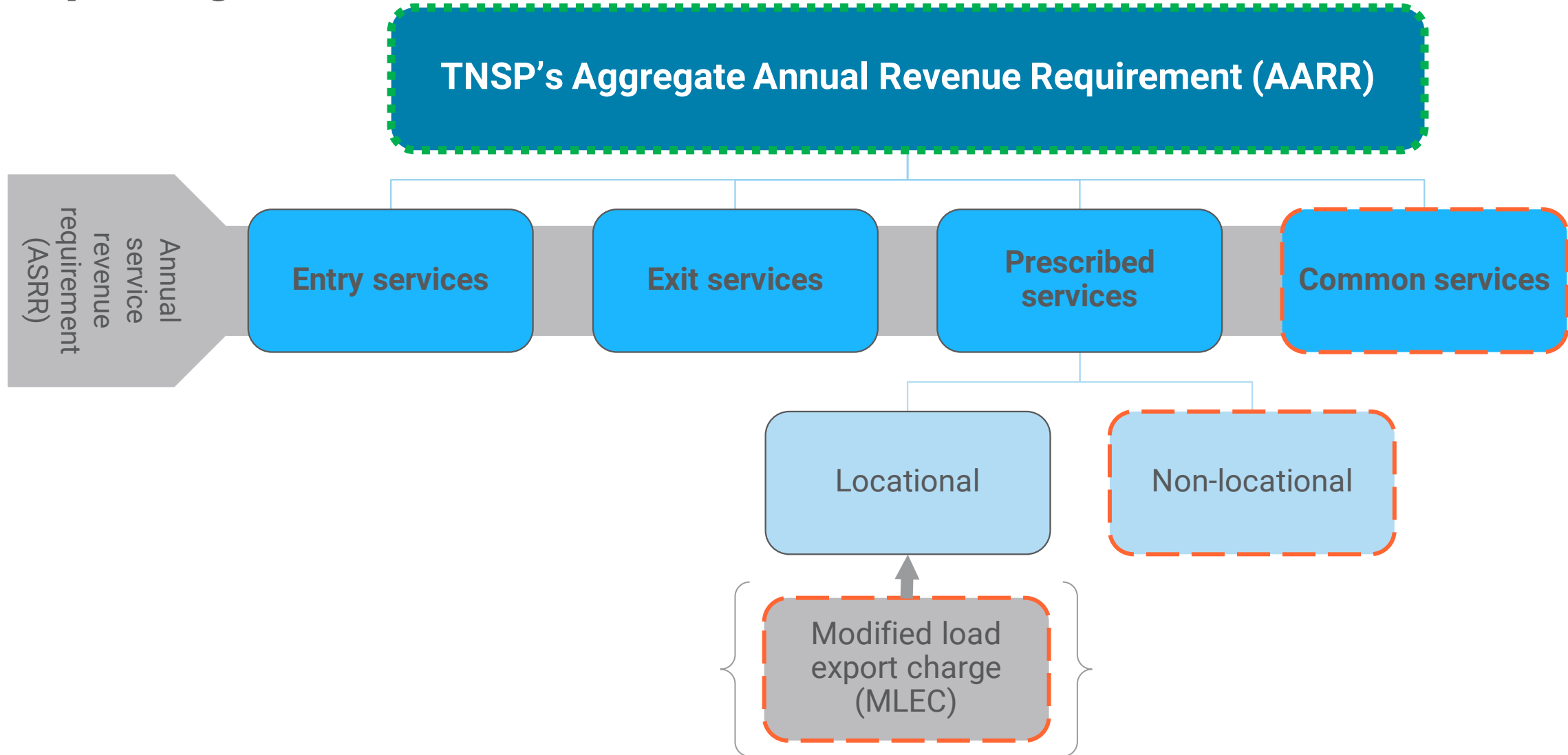
- TNSPs and CNSPs are required to reflect the agreement in pricing methodology
- Interconnector agreement may be given effect as part of revenue determination or midway through regulatory control period

Approved pricing methodology



- AER assesses whether the agreement meets implementation criteria
- AER do not assess the merits of interconnector agreements
- AER publishes the agreement
- TNSPs give effect to the agreement through adjustment to annual aggregate revenue requirement (AARR)

Key features – implementing agreements in transmission pricing

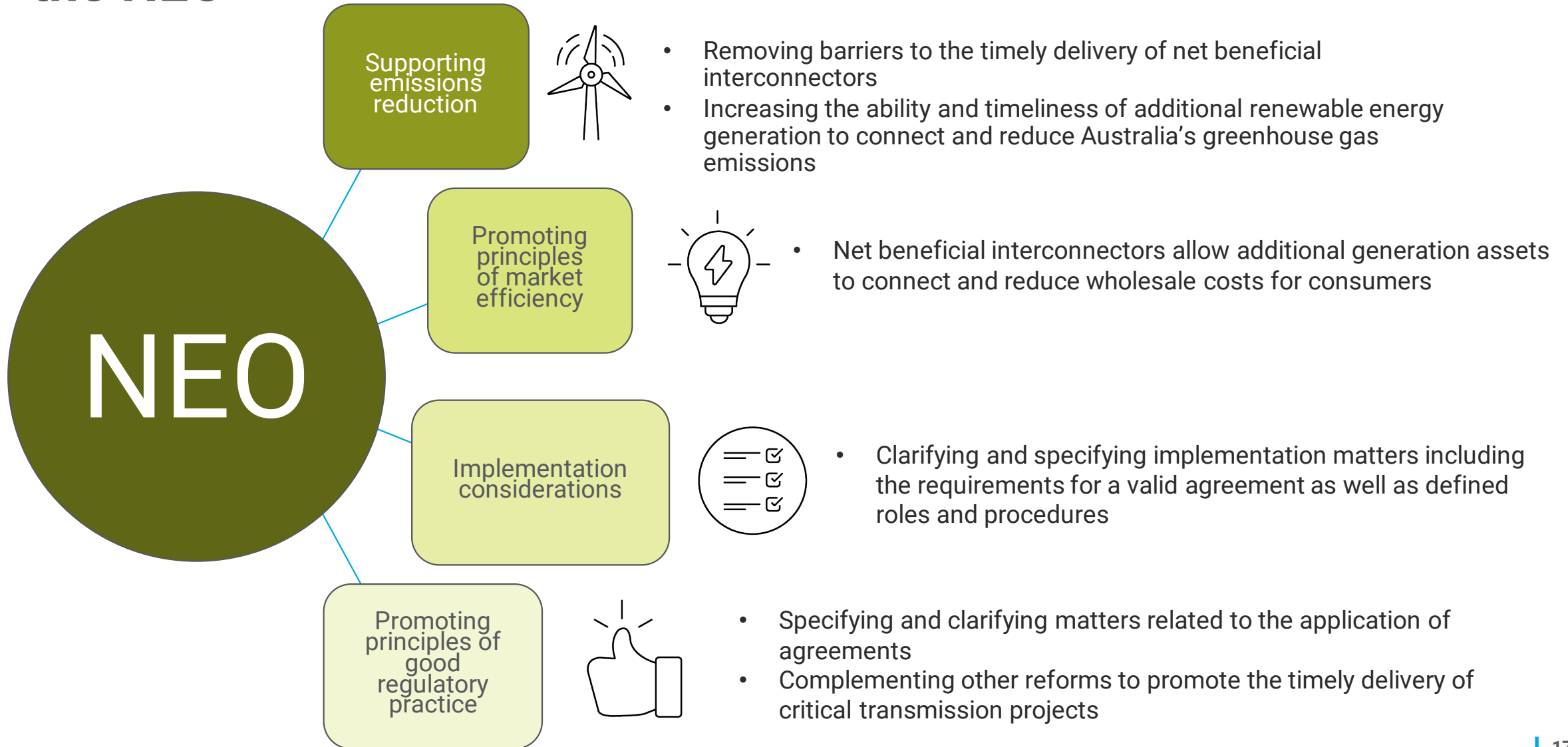


Key features – the role of MLEC and SRA

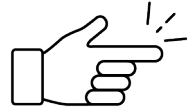
Modified load export charge (MLEC)	
What is MLEC?	<ul style="list-style-type: none">• MLEC calculates how much one region will charge consumers in another region for the use of their transmission assets.
Our draft rule...	<ul style="list-style-type: none">• requires the CNSPs to set the 'optimised replacement cost' of specified assets to zero for the MLEC.• provides jurisdictions with the flexibility to alter MLEC by changing the assets which are 'specified'.

Settlements residue auction (SRA)	
What are SRAs?	<ul style="list-style-type: none">• SRA proceeds arise when electricity is bought and sold between two regions at different prices.• Auction participants can then bid on a share of these proceeds.
Our draft rule...	<ul style="list-style-type: none">• does not provide for agreements to alter the SRA process

Our more preferable draft rule contributes to better achieving the NEO

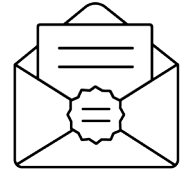
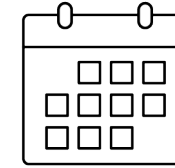


We are interested in stakeholder views



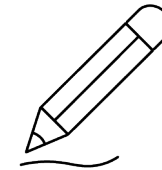
Transitional provisions

Commencement date



Process for submitting agreements

Process for amending agreements



Engagement between jurisdictions, AER and TNSPs

Use of AARR as the pricing element



Treatment of MLEC and potential impact upon agreed cost allocations

Process for amending pricing methodology



Q&A

Providing flexibility in the allocation of interconnector costs draft rule determination

4 July 2024

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Timeline and next steps



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Closing Remarks

Sally McMahon - Commissioner

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Keep in touch

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