



# INFORMATION

AUSTRALIAN ENERGY MARKET COMMISSION LEVEL 15, 60 CASTLEREAGH STREET SYDNEY NSW 2000  
T: 02 8296 7800 E: [AEMC@AEMC.GOV.AU](mailto:AEMC@AEMC.GOV.AU) W: [WWW.AEMC.GOV.AU](http://WWW.AEMC.GOV.AU)

## Providing flexibility in the allocation of interconnector costs

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

Our final rule 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 final 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 final rule which will 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.

The rule will apply to both government owned and funded assets as well as private infrastructure so that cost allocation outcomes can be agreed by Ministers separate from any planning and licensing approvals.

The final rule does not alter the existing pathway for interconnector cost allocation, but 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 final 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 final rule will not impact the total regulated revenue that a Transmission Network Service Provider (TNSP) would earn. However, an agreement will 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 will 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 final rule sets out roles and processes, providing clarity for governments, market bodies and TNSPs.

Following stakeholder feedback, we have made changes from the draft rule to clarify implementation requirements, ensuring the final rule can operate as intended. This includes bringing forward the commencement date to 3 July 2025.

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

Industry, markets bodies and government stakeholders generally supported the intent of the draft rule, in which the Commission sought to balance the need for flexibility in order to facilitate delivery of interconnector projects, while supporting consumers' long-term

interests and providing certainty for stakeholders. One stakeholder argued that facilitating agreements between governments will not accelerate the delivery of transmission projects nor provide investment certainty.

The Commission considers that its approach will contribute positively to the delivery of net-beneficial projects, particularly actionable Integrated System Plan (ISP) projects, by removing a potential barrier to jurisdictional support of projects. A lack of support could impact required jurisdictional approvals. We also consider that our final 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.

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

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

The more preferable final rule will contribute to achieving the NEO by:

- **Supporting emissions reduction** - Our final rule determination provides 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 final rule determination 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 not altering the existing pathway in the NER for interconnector cost allocation where jurisdictions have not entered into an agreement.
- **Implementation considerations** - Our final rule determination 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 final 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 final rule determination 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 or materially upgraded interconnectors. Our final 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 final rule would outweigh the administrative costs.

### The final rule commences 3 July 2025

We have brought forward the commencement date for the final rule to 3 July 2025 so it can be applied to cost allocations from the start of the 2026-2027 financial year.

Our final 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 and publish amendments by 3 July 2025.

The final rule will commence after these guidelines have been reviewed and updated, meaning that agreements could use the framework introduced by the final rule from 3 July 2025. This would enable agreed cost sharing arrangements to apply from 1 July 2026. To achieve this date relevant TNSPs would need to submit revised pricing methodologies to the AER by 1 October 2025.

For information contact:

A/Director, **Christian Dunk** (02) 8296 0699

Market Specialist, **Zak Rich** (02) 8296 0644

Media enquiries: [media@aemc.gov.au](mailto:media@aemc.gov.au)

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