

11 April 2024

Ms Anna Collyer  
Chair  
Australian Energy Market Commission  
Sydney South NSW 1235

By online submission: ERC0383

Dear Ms. Collyer,

**Providing flexibility in the allocation of interconnector costs rule change**

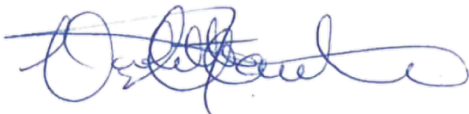
The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the Ministers' proposed rule change on Providing flexibility in the allocation of interconnector costs. This rule change will provide the opportunity for Ministers to agree on the cost allocation for new interconnectors which pass through their jurisdictions. This may assist in ensuring the timely delivery of the project, and as such we are supportive of the intent of this proposed rule change.

AEMO would encourage further consideration as to whether deadlines are required to ensure the workability of this rule change, as any inflexibility regarding when an agreement can be signed within the regulatory period may reduce the ability to deliver the project in a timely manner.

We have provided some further perspectives on select questions asked in the consultation paper in Appendix 1 below.

If you would like to discuss anything further, please contact Kevin Ly, AEMO Group Manager – Reform Development & Insights ([kevin.ly@aemo.com.au](mailto:kevin.ly@aemo.com.au)).

Yours sincerely,



Violette Mouchaileh  
**Executive General Manager – Reform Delivery**

## APPENDIX 1: AEMO'S VIEWS AND INSIGHTS ON THE CONSULTATION PAPER

This section discusses AEMO's views and insights related to specific questions posed or where views are sought throughout the Consultation Paper.

### **Question 1: Is the issue raised material enough to require changes to the regulatory Framework? Do you consider the issue raised by the proponents is a material one? Why do you consider this?**

AEMO agrees with the issues raised by the proponent. There is currently ambiguity in the rules as to how costs should be allocated for interconnectors which span across Commonwealth waters, noting that this issue is also being consulted on concurrently by the AER in their Basslink conversion issues paper.

Bill impacts may vary significantly between jurisdictions based on the cost recovery methodology outlined in the NER, which may be unpalatable for customers and the respective Ministers.

These issues highlighted above increase the risk of delays to projects, which may result in a deviation from the optimal timing of delivering ISP projects. This may then lead to a material reduction in benefits to consumers.

### **Question 2: Would the proposed solution address the issue raised by the proponent? Do you consider the proponents' proposed solution would address the issue identified in the rule change request?**

Allowing jurisdictions to come to an agreement on how the costs will be allocated provides additional certainty such that the issues identified above can be reduced. AEMO considers that this approach is an appropriate compliment to the cost allocation method in the NER.

### **Question 3: What are your views of the costs and benefits of the proposed solution? What do you consider will be the benefits and costs of the proposed solution?**

A key benefit of the proposed solution relates to the reduced ambiguity achieved for specific projects such as Project Marinus, which will improve the likelihood of projects achieving positive final investment decisions and improve the likelihood that ISP projects will be delivered at their optimal timing. It will also avoid administrative costs for further consultation on cost allocation issues (as seen in the Basslink conversion decision).

### **Question 4: What should be the minimum set of requirements for a cost allocation agreement? If jurisdictions were to enter into an inter-governmental agreement for the purpose of specifying a different interconnector cost allocation (different from the existing NER arrangements), what minimum requirements should apply to such an agreement? Should all interconnectors be eligible or only a subset, such as actionable ISP projects? Should the minimum criteria sit in the NER or in AER or other guidelines?**

AEMO considers that the contract should be legally binding and only reversible by agreement from all signatories. The rules or guidelines should clearly state that if there is a lack of clarity regarding how costs are to be allocated (e.g. if the agreement only focuses on upfront costs up to a specific point in

time, rather than considering ongoing costs and benefits), then the cost-allocation approach outlined in the NER should apply.

The Integrated System Plan (ISP) outlines the lowest-cost pathway of essential generation, storage and transmission infrastructure to meet consumers' energy needs for secure, reliable and affordable energy, and to achieve net zero emissions targets. AEMO considers that it is unlikely that an interconnector would be developed that is not identified within the ISP, however given some jurisdictions have (and others are beginning) system planning frameworks of their own it is possible an interconnector could be planned and delivered in a framework outside of the ISP. As such we consider that the rule change should allow agreements to cover non-ISP interconnectors if they happen to arise.

AEMO would also like the AEMC to consider whether agreements between more than two jurisdictions should be considered as part of the rule change. If a third jurisdiction would be the main beneficiary of an interconnector between two other jurisdictions, they may want to sign onto an agreement (resulting in customers from their jurisdiction paying for the interconnector) to ensure its timely delivery.

**Question 5: What should be the role for the AER and what should be the timeframes for jurisdictions submitting an agreement? What should be the AER's role in assessing inter-governmental agreements on interconnector cost allocation? How should an agreement impact on revenue determinations or other processes? What timeframes should apply to jurisdictions when submitting such agreement to the AER?**

AEMO agrees with the position in the consultation paper that the AER's role should be to confirm consistency of the agreement with the specified criteria but not to otherwise assess the agreement, which would have been subject to decision-making processes within jurisdictions.

With regards to AEMO's Victorian Planning function, if there is oversight by the AER to ensure reconciliation occurs between the cost-allocation in the agreement with the actual amount spent, consistent with current regulatory provisions, AEMO should not inadvertently become subject to an AER oversight process where it is not currently subject to one.

The proponents suggest that jurisdictions will need to submit agreements by a specified deadline prior to the beginning of the next regulatory control period. AEMO queries the need for a deadline given Contingent Project Applications can be lodged at any point in the regulatory control period. Jurisdictions would likely sign agreements as soon as practicable, therefore this high degree of inflexibility may be insufficient to ensure timely delivery of ISP projects. Further, neighbouring TNSPs may be on different regulatory control period cycles which may complicate the inclusion of any deadlines.

**Question 6: What is the best mechanism to recover costs if jurisdictions agree to an alternative cost allocation? Could this be facilitated through the current arrangements for transmission pricing? If not, what changes are required?**

Cost allocation is undertaken in accordance with the relevant rules and guidelines and is a crucial input into a TNSP's revenue determination. AEMO considers that given the complexities of this process the AER and TNSPs' perspectives should be front of mind as there are likely unforeseen ramifications of a prescribed cost allocation approach.

AEMO Victorian Planning currently sets transmission prices for the Victorian network via the transmission use of system arrangements. This includes aggregating all the contractual pricing from Declared Transmission System Operators (DTSOs) and any revenue allowances set by the Australian Energy Regulator (AER) for DTSOs. Given the unique nature of the recovery arrangements in Victoria for Transmission Use of System (TUOS) charges, we would like to engage further with the AEMC to discuss any rule clarifications specially designed to allow recovery of costs as a result of jurisdictional cost allocation agreements.

The Victorian Government has established VicGrid, which will have a key role in planning and developing electricity transmission infrastructure in Victoria. As such, there will be changes to the Victorian arrangements, including AEMO's role in Victoria. It is important that these forthcoming changes be considered in this rule change.

**Question 7: Should any transparency requirements apply to an agreement? Should jurisdictions or TNSPs have an obligation to publish any details of the cost allocation agreement?**

Agreements should be transparently published where interested parties can easily find them. Placing them alongside TUOS information on either the TNSP's or the AER's website would be appropriate.

**Question 8: Are there other important implementation considerations? How long would it take to implement the changes suggested in the rule change request? Are there additional measures that should be considered that would support the effective implementation of the desired solution?**

No comment

**Question 9: Are there alternative, more preferable solutions? Do you consider alternative, more preferable solutions exist to address the identified issue?**

No comment.

**Question 10: Do you agree with our proposed assessment criteria? Are there additional criteria that the Commission should consider or criteria included here that are not relevant?**

No comment