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Australian Energy Market Commission

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Consultation Paper: Improving the cost recovery arrangements for non-network options rule – ERC0391

Essential Energy appreciates the opportunity to submit feedback to the Australian Energy Market Commission (**AEMC**) on its consultation paper related to the rule change request proposed, *Improving the cost recovery arrangements for non-network options*.

Essential Energy manages over 183,000 km of powerlines, covering 95% of New South Wales and parts of southern Queensland, serving more than 890,000 customers. While Essential Energy, as a Distribution Network Service Provider (**DNSP**), has historically not procured Non-Network Options (**NNOs**) at the same scale as Transmission Network Service Providers (**TNSPs**), we recognise the increasing role that NNOs may play in the future, particularly as technological advancements make them more accessible and economic at the distribution level.

This submission focuses on the importance of regulatory frameworks that provide clarity, reduce risk, and ensure equitable cost recovery mechanisms, regardless of whether NNOs are deployed at the transmission or distribution level. Essential Energy supports the proposed changes by Transgrid and emphasises the need for consistent treatment between TNSPs and DNSPs to foster flexibility in delivering non-network solutions.

Creating improvements for NNOs arrangements

Future NNOs offered by DNSPs, such as using batteries to maintain reliability on the distribution network, have the potential to be delivered at a lower cost than traditional network solutions, presenting a genuine opportunity to reduce costs for consumers. However, we agree with the rule change proponents that the current regulatory framework creates barriers to wider deployment of NNOs by introducing revenue uncertainty and regulatory delays due to cost recovery timing issues.

The proposed changes put forward by Transgrid, particularly the proposed introduction of an ex-ante review process, would enhance the competitiveness of NNOs by reducing the financial and administrative risks involved in their procurement. This, in turn, could encourage greater uptake of NNOs across both transmission and distribution networks, leading to a more diverse and resilient energy system.

Essential Energy supports the introduction of an ex-ante approval process for network support payments. The current ex-post cost recovery mechanism, where costs are only assessed and approved by the AER after they have been incurred, creates cash flow risks and delays in cost recovery for network service providers. We agree with Transgrid that these delays, which can extend up to two years, could impact the finances of the network service provider and also contribute to fluctuating consumer

price paths. The introduction of a pre-approval mechanism would mitigate these issues by providing certainty before entering into agreements with NNO providers. This would streamline the cost recovery process and offer greater investment certainty to both networks and prospective NNO providers. Over time, this increased certainty would likely expand the range of NNO services offered to the market, as providers recognise a clear and mature pathway for market growth.

Furthermore, allowing upward adjustments to the network support payment allowance during the regulatory period, subject to AER approval, ensures that unforeseen increases in NNO costs can be managed without resorting to a delayed pass-through mechanism which can span several years. The absence of such adjustments for NNO solutions creates an imbalance between traditional network and NNO investments, which should be corrected.

Relevance to Distribution Networks

While the rule change proposal primarily focuses on NNOs currently offered by TNSPs, Essential Energy believes the issues identified cost recovery uncertainty, timing delays, and regulatory complexity are equally relevant for DNSPs. As DNSPs increasingly explore non-network solutions, similar cost recovery challenges would arise for the distribution network, given that DNSPs operate under comparable economic regulations and revenue determination processes. Therefore, we believe any rule change resulting from this proposal should apply equally to both transmission and distribution networks, ensuring that DNSPs can also benefit from pre-approved cost recovery mechanisms.

This alignment between transmission and distribution frameworks is crucial, as DNSPs may encounter future opportunities to deploy NNOs for localised network support, demand management, and grid stability. By creating a uniform approach, the AEMC can ensure that NNOs are adopted more broadly where they offer the most efficient solution, whether at the transmission or distribution level.

Conclusion

Essential Energy is committed to engaging in any reforms that serve the long-term interests of consumers, and we look forward to contributing to the next stage of consultation. To this end, we support the proposed changes to the cost recovery framework for NNOs. Ensuring that both TNSPs and DNSPs have access to clear, predictable, and equitable cost recovery mechanisms will be key to fostering greater utilisation and deployment of NNOs.

If you have any questions in relation to this submission, please contact Anders Sangkuhl, Regulatory Strategy Manager via anders.sangkuhl@essentialenergy.com.au or via phone 0409 968 326. We look forward to engaging further with the AEMC as the rule change process progresses.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Hilary Priest".

Hilary Priest
Head of Regulatory Affairs