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Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

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Improving the cost recovery arrangements for non-network options

Nexa Advisory welcomes the opportunity to provide a submission on the AEMC's *Improving the cost recovery arrangements for non-network options* consultation paper.

Nexa is a 'for purpose' advisory firm. Our unwavering focus is accelerating the clean energy transition in a way that provides secure, reliable, and affordable power for consumers of all types. Nexa Advisory is a team of experienced specialists in the energy market, policy and regulation design, stakeholder engagement, and advocacy. We work with public and private clients including renewable energy developers, investors and climate impact philanthropists to help them get Australia's clean energy transition done.

We note the timeliness of this rule change given the 2024 ISP call for several non-network options as part of the identified actionable projects. While we appreciate the AEMC's intention to support the development of non-network solutions, this must be done in a way which provides the most competitive outcomes, minimises regulatory burden and delivers value for consumers.

Problems with the regulatory framework, not financeability

Nexa has long discussed the inadequacy of the current regulatory system to deliver the transmission required for the energy transition[1]. This is due to the current framework being developed for a 'steady state' power system, to promote stability of existing network with limited, incremental improvements to meet demand while minimising gold-plating. However, the current system is undergoing rapid transformation and will require significant network investment and development.

As we have previously discussed[2], there have been many issues associated with the amount of time – often many years[3] - between the RIT-T and the determination of costs that TNSPs are allowed to levy on customers. This mismatch has been the focus of many reforms to the process, given the potential for changing circumstances and costs[4].

Additionally, the ex-post review process is an example of inefficient risk allocation for Transmission Network Service Providers (TNSP). While ex-post assessments ensure recovery of

[1] Nexa Advisory, We Plan and then Don't Build, May 2024
[2] Nexa Advisory, Supercharging Transmission Buildout, September 2024
[3] AEMC, Transmission Planning and Investment Review – Stage 3, Sept 2022
[4] AEMC, Material change in network infrastructure project costs, Oct 2022

efficient expenditure, they can create uncertainty and revenue risk for TNSPs[5]. This was highlighted in the consultation paper of this rule change. This process may discourage TNSPs from ensuring prudency and efficiency in managing risks throughout delivery, encouraging them to focus too narrowly on any costs which trigger an ex-post review.

We have previously discussed the need for broader regulatory reforms – such as a shift towards performance-based regulation or improved contestability in delivering key transmission projects across the NEM. We have also highlighted that incremental reforms and rule changes have:

- been limited to the existing regulatory paradigm;
- complicated the regulatory process; and
- slowed decision-making around key transmission projects.

In addition to a regulatory paradigm that is not fit-for-purpose, we echo that key barriers to building transmission include:

- Securing and maintaining social licence;
- Supply chain issues; and
- Limited workforce.

We note the advantages of non-network solutions in overcoming these barriers given their smaller footprint, and therefore support the AEMC's focus to help deliver these solutions. For example, we recently highlighted the successful and timely development of the Waratah Super Battery in New South Wales. Although this is being delivered under the jurisdictional framework (which includes contestable elements), this is a strong example of the 'virtual' transmission assets which the national framework should be enabling.

The AEMC should focus on developing market-based frameworks (as through the *Improving security frameworks for the energy transition* rule change) and aligning these with the delivery of non-network options – rather than undertaking ongoing regulatory reforms. If the regulated monopoly TNSPs are unwilling or unable to invest in non-network solutions, then the AEMC should consider whether the market should be opened to allow unregulated entities to deliver the transmission or non-network solutions required.

Proposed rule change

While we agree that the initial revenue certainty exists, we do not agree that this should be addressed through amendment of cost recovery timing in a way which shifts financial risks on to consumers.

Our submission to the recent *Accommodating Financeability in the Regulatory Framework* highlighted the previous lack of support for many of the elements of that rule change as well as a lack of evidence of the problem in the existing regulatory framework[6]. We echo that the current rule change appears to be a similar re-prosecution of financeability issues by TNSPs.

[5] AEMC, Managing ISP project uncertainty through targeted ex post reviews, Rule determination, Aug 2024
[6] Nexa Advisory, Accommodating Financeability in the Regulatory Framework: Draft Determination, February 2024

While the proposed pre-approval process may provide flexibility and certainty around cost recovery to TNSPs and network service providers, we consider they are the most appropriate participant to bear this risk given their exclusive right, but no obligation to deliver these projects under the national framework.

We also disagree with the AEMC's suggestion that there is a need for similar arrangements in the distribution network. We have previously discussed that batteries owned by Distribution Network Service Providers (DNSP) present risks to competition and would not be in the best interest of consumers[7]. Additionally, any discussion around distribution-level non-network solutions should be contained to the AEMC's *Electricity pricing for a consumer-driven future* review and should remain out of scope of this rule change.

Thank you for the opportunity to provide input on the consultation paper. We welcome the opportunity to further discuss any aspect of our submission - please contact either myself or Jordan Ferrari, Director - Policy and Analysis, jordanferrari@nexaadvisory.com.au.

Yours Sincerely,

Stephanie Bashir
CEO and Principal
Nexa Advisory

[7] Nexa Advisory, AER Community Battery Class Waiver submission, January 2023