INFORMATION

Improving the cost recovery arrangements for transmission non-network options

The AEMC has made a more preferable draft rule that is in the long-term interest of consumers

The AEMC has made a more preferable draft rule which would improve the cost recovery arrangements for transmission non-network options (NNOs). Our draft rule would reduce barriers to NNO projects by creating more flexibility and certainty within the cost recovery framework. NNOs are expected to play an important role in ensuring transmission system needs are met at lowest cost as the energy system transitions to net zero. The draft determination and draft rule is in response to a rule change request submitted by Transgrid on 17 April 2024.

We are seeking stakeholder feedback: written submissions responding to this draft determination and draft rule must be lodged with the Commission by **30 January 2025**.

Our draft rule supports the uptake of NNOs in the transmission system by improving cost recovery certainty and timing

The draft rule would improve cost recovery certainty and timing for transmission network service providers (TNSPs) when they implement a NNO project by amending the processes by which TNSPs can seek cost recovery approval from the Australian Energy Regulator (AER). The draft rule does this by:

- **Creating a new ex ante process by which TNSPs can apply to the AER to adjust their network support payment allowance to account for significant new or changed NNO projects mid-regulatory control period.** The draft rule would increase initial cost recovery certainty and timing for TNSPs by changing the AER's assessment from ex post to ex ante and enabling forecast costs to be recovered in the same year in which they are expected to be incurred. A TNSP could elect to use the new mid-period process if the respective NNO project satisfies the eligibility criteria and thresholds specified in the AER's new *Network alternative support payment guideline*.
- **Enabling TNSPs to seek AER ex ante approval of a 'methodology' for how services are expected to be used and costs adjusted over time under an agreement between a TNSP and NNO provider.** This would enable TNSPs and the AER to agree that usage and other contractual terms affecting costs meet the assessment criteria against which they will later be assessed. The AER's *Network alternative support payment guideline* would also set out the required content for methodologies, and any eligibility criteria and thresholds which would apply.
- **Allowing for timely implementation.** The draft rule specifies immediate implementation (expected March 2025). A transitional rule would enable application of the new process prior to the AER finalising the *Network alternative support payment guideline*.

This would create a more level playing field between NNO projects (which are treated as operating expenditure) and network options (which are treated as capital expenditure) by aligning cost recovery flexibility and certainty under the respective frameworks to a greater extent.

The draft rule contributes to achieving the NEO

The more preferable draft rule would contribute to achieving the National Electricity Objective (NEO) by:

- **Improving market efficiency** - increasing the uptake of NNOs relative to the status quo due to more cost recovery certainty. This should reduce negotiation and transaction costs

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for NNO projects and, to the extent cost recovery uncertainty is currently acting as a barrier, improve incentives for TNSPs to undertake these types of projects.

- **Supporting innovation and flexibility** - increasing the uptake of new technologies by reducing barriers to NNO projects. An increase in the use of NNO projects would support the application of new technology and business models in the National Electricity Market.
- **Aligning with good regulatory practice** - improving cost recovery certainty within current arrangements based on a consistent, simple and predictable process for stakeholders. The draft rule also takes a principles-based approach by delegating key implementation considerations to AER guidelines.

The AEMC considers the more preferable draft rule would better contribute to the NEO than the approach proposed by the proponent. The draft rule is largely consistent with the proposal, but key differences include:

- implementation matters such as eligibility criteria and thresholds are delegated to AER guidelines (noting that the approach proposed in the rule change request did not include eligibility criteria or a formal role for AER guidelines in setting such criteria).
- an AER determination on a methodology would not constitute approval of future costs but rather would inform future decisions by the AER and provide TNSPs a high degree of certainty that payments in line with the methodology would be approved.

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