28 January 2025

James King
Australian Energy Market Commission (AEMC)
Submitted via www.aemc.gov.au

Dear Mr. King,

Improving the cost recovery arrangements for Transmission non-network options (ERC0391)

Introduction

Hydro Tasmania welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft determination on the *Improving the cost recovery arrangements for Transmission non-network options (ERC0391)* rule change request.

Hydro Tasmania supports the fair consideration of NNO projects as potential network solutions. We agree that the NNO framework provides an opportunity for innovative solutions that address network challenges and reduce consumer costs. It also offers a novel means by which to recognise and value the reliability contributions of storage assets.

While we are broadly supportive of the rule change, Hydro Tasmania would like to take this opportunity to raise for consideration some potential flow-on effects and implications. Our comments focus on instances where these assets have the potential to overlap with competition and investment signals in the existing market. We believe it will be important to balance cost recovery certainty against maintaining an adequate risk allocation for NNO assets, particularly where a portion of the asset continues to be market-facing. We propose that as this rule change progresses, careful consideration is given to how revenue certainty for NNO projects may impact market demand profiles and investment signals for other market-facing competitors.

The issue is described in more detail below.

Issue

Although the changes proposed in the draft determination would level the regulatory playing field, it is important to consider how they may impact broader incentives in the NEM, particularly for dispatchable storage investment and operation.

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The draft rule determination would allow TNSPs to:

> *"… seek AER ex ante approval of a 'methodology' for how services are expected to be used and forecast costs adjusted over time under an agreement between a TNSP and NNO provider."*

We appreciate that further detail regarding this approval process may be provided when the AER publishes the *Network Alternative Support Payment Guideline*. At this stage, however, Hydro Tasmania does not have a full understanding of how NNO services may be "used" by TNSPs and what "methodologies" the AER would be able to approve.

Providing some degree of regulated return would soften the risk profile for NNO storage projects but would likely impact existing market incentives. What the transmission system needs and what the market needs are not necessarily aligned. A trading asset with a lower risk profile (an NNO project) may have different motivations and could afford to take different market positions. Without clear boundaries on their operational mandate, projects that retain a portion of market-facing operation would be able to compete with existing storage operators as partially supported market participants. This risks generating inequities in the market that could impact revenues for existing operators and dilute investment appetite in pure market-facing storage.

Any rule change that potentially dilutes market incentives for investment in storage needs to be appropriately considered. The Australian Energy Market Operator's (AEMO) latest 2024 Integrated System Plan (ISP) found that storage capacity in the NEM would need to increase 16-fold from 3 GW today to 49 GW by 2050. Additionally, the Clean Energy Council's (CEC) 2024 The Future of Long Duration Energy Storage report noted that this capacity growth would need to occur in the context of limited financial support mechanisms for long duration energy storage (LDES) and repeated increases in capital costs. Potential competition from NNO projects could worsen an investment environment that is already struggling to attract sufficient storage investment.

Hydro Tasmania believes that as this Rule Change progresses, further information should be provided on the potential operation of NNO projects and associated assets. We propose that the rule change place greater emphasis on the AER's responsibility to strike a balance between achieving network cost efficiencies and maintaining investment signals for market-facing storage.

Further discussion is included in Attachment A.

Hydro Tasmania commends the AEMC for their ongoing engagement with industry as this rule change has progressed. If you wish to discuss any aspect of this submission, please contact Dylan Sahlin at dylan.sahlin@hydro.com.au.

Yours sincerely,

Colin Wain
Manager Policy Development

Attachment A

One potential approach to achieving this balance would be directing that the AER consider how investment signals may be impacted when approving a payment methodology. A clause requiring the AER to consider how NNO projects may impact existing investment signals in the NEM could be inserted into Clause 6A.6.6A(e1) of the National Electricity Rules (NER). This consideration could be specified as part of the "eligibility criteria or thresholds" or the "relevant factors" described in Clauses 6A.6.6A(e1)(2) and 6A.6.6A(e1)(4).

Alternatively, the consideration of impacts on existing investment signals could be included in the AEMC's final determination. It could be noted under Section 3.1.3 of the determination, included as part of the guidance to the AER on the eligibility criteria that should be set out in the *Network Alternative Support Payment Guideline*.

These options would allow the AER to continue providing support to the most efficient network solutions while reinforcing the importance of existing market signals and incentives in the minds of proponents and regulators.