AUSTRALIAN ENERGY REGULATOR

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16 April 2024

Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY, NSW, 2001

Dear Ms Collyer

Re: Providing flexibility in the allocation of interconnector costs

The Australian Energy Regulator (AER) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on Providing flexibility in the allocation of interconnector costs. Please find below the AER's response to issues raised in the consultation paper.

<u>AER's role in assessing agreements</u>

If the relevant state and territory governments come to an agreement on the allocation of an interconnector's annualised costs to be recovered from consumers, the AER's preference is that our function be limited to a mechanistic role in implementing the agreed cost allocation. This role could involve a check against Rules requirements and any criteria set out in relevant guidelines. This approach will preserve the decision-making process undertaken by jurisdictions in reaching a cost allocation agreement.

<u>Implementability of the proposed approach</u>

The AER considers that any proposed Rules must provide appropriate mechanisms to implement cost allocation agreements in revenue determinations and any other decisions that the AER must make. We note that the rule change proposal, and the AEMC's consultation paper, does not present indicative Rules drafting. However, we look forward to working with the AEMC and stakeholders in developing this through the rule change process.

The AER also suggests consideration be given to the mechanism for amending cost allocation agreements once they are entered into. For instance, how any changes are reflected in subsequent revenue determinations and under what circumstances these could be reopened or renegotiated. Further, the Rules should make clear which parties could request the renegotiation of agreements – for example whether it could be by one or all jurisdictions party to the agreement, or even by a different entity.

To help ensure consistency in the treatment of interconnectors, the AER also recommends that the proposed rule change be applicable to any interconnector – not just those that are Integrated System Plan (ISP) projects.

<u>Criteria for assessing agreements</u>

The AER supports the minimum criteria set out in the rule change proposal, that the agreement must:

- be legally binding on the States and Territories
- clearly specify the allocation of interconnector project costs to each jurisdiction and how, if at all, the allocation is to change over the life of the asset (e.g., percentage allocation of overall costs)
- specify the timeframe over which the agreed allocation would exist (e.g., the life of the asset), and
- be submitted to the AER prior to a specified regulatory deadline.

Further, the AER recommends these minimum criteria for the contents of an agreement be set out in the Rules. This will help provide certainty for stakeholders.

<u>Timeframes</u>

In order to incorporate the interconnector cost allocation agreement in revenue determinations, the AER must receive this agreement in a timely manner. Ideally, the agreement would be already reflected in a TNSP's revenue proposal. If that is not possible, then the next best alternative would be for the agreement to be provided to the AER at the same time the relevant TNSPs submit their revenue proposal. This would assist in more meaningful stakeholder engagement on the revenue proposal as the allocation agreement for an interconnector may have a substantial impact on price outcomes for consumers.

While this may be an ideal outcome, we understand that, in practice, it may be challenging for an agreement to be settled and signed by all parties in this time. As such the AER is open to exploring alternative timeframes in reference to either the finalisation of the relevant network business' revenue determination and/or the Coordinating Network Service Provider's publication of transmission charges in each NEM region.

The AER appreciates the opportunity to provide feedback on the consultation paper and are available to discuss our comments further if needed.

Yours sincerely

[redacted]

Stephanie Jolly
Executive General Manager
Consumers, Policy and Markets

Sent by email on: 16.04.2024