

10 April 2024

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

Project Reference code: ERC0383

Dear Ms Collyer,

## Flexibility in the allocation of interconnector costs – Consultation paper

Energy Networks Australia (ENA) welcomes the opportunity to make this submission in response to the Commission’s consultation paper on the above Rule change request.<sup>1</sup> ENA supports the Rule change request and considers that it should be progressed as soon as practicable without being consolidated with other rule change requests.

ENA agrees with the consultation paper’s observation that the National Energy Market (NEM) is undergoing a once in a generation transformation as it transitions to net zero, underpinned primarily by renewable forms of electricity generation and storage. ENA’s electricity transmission members are focused on delivering timely and efficient investment in the transmission infrastructure to enable this transition to be achieved at the lowest cost to electricity consumers.

As part of this transition, the Australian Energy Market Operator (AEMO) has recognised the need for increased interconnector capacity, and associated timings, in its Optimal Development Path (ODP) for the transmission system. It follows that any impediments to the timely delivery of interconnector capacity is contrary to the long term interests of consumers.

ENA considers it essential that the Rule change proceeds so that interconnector projects that are economically justified through the Regulatory Investment Test – Transmission (RIT-T) and AEMO’s Integrated System Plan (ISP) are supported by revenue recovery arrangements that are fit for purpose. In relation to Marinus Link, ENA agrees with the Rule change proponents that significant issues arise with the existing arrangements for revenue recovery. Furthermore, ENA agrees that future problems may arise in relation to other interconnector projects.

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<sup>1</sup> AEMC, Consultation paper, National Electricity Amendment (Providing flexibility in the allocation of interconnector costs) Rule 2024, 14 March 2024.

In the Attachment to this submission ENA addresses each of the Commission's questions in the consultation paper. The key messages to draw from ENA's response are:

- The Rule change request has identified a material issue that warrants a change to the existing revenue recovery arrangements for interconnectors. Consumers will be the beneficiaries of the proposed change because it will remove a potential barrier to the timely delivery of interconnector projects.
- The proposed solution will provide flexibility by allowing the revenue recovery arrangements to reflect the agreement reached by the relevant jurisdictions. ENA considers that each jurisdiction will have a strong interest in considering the net impact on consumers in its State, and negotiating a revenue recovery arrangement that is consistent with their long-term interests. As such, it is not necessary for a jurisdictional agreement to satisfy any additional criteria beyond those proposed in the Rule change request.
- The role of the Australian Energy Regulator (AER) should be limited to verifying that each TNSP's proposed pricing methodology reflects the terms of the jurisdictional agreement. It would not be appropriate for the AER to determine whether an agreement reached between jurisdictional Governments is desirable from a regulatory perspective.
- As the revenue recovery arrangements applying to the interconnector would need to be settled prior to the relevant TNSP submitting a contingent project application or Revenue Proposal to the AER, the details of the agreement would typically be lodged as part of that submission. More generally, a relatively simple process could be introduced for the AER to verify that each Transmission Network Service Provider's (TNSP) pricing methodology reflects the terms of a jurisdictional agreement.
- The existing transmission pricing arrangements in clause 6A.29.3 of the Rules already provide for the recovery of regulated revenues for multiple transmission network service providers within a region. Under these provisions, a Coordinating Network Service Provider (CNSP) is appointed to recover revenue on behalf of the TNSPs that provide prescribed transmission services in that region. The CNSP's role can readily be extended to include the recovery of the annual revenue requirement for an interconnector asset in accordance with a jurisdictional agreement.

ENA looks forward to working with the Commission as it progresses this Rule change request to the draft determination stage. In the meantime, if you would like to discuss this submission, please contact Verity Watson in the first instance at the following email address: [vwatson@energynetworks.com.au](mailto:vwatson@energynetworks.com.au).

Yours sincerely



Dominique van den Berg  
Chief Executive Officer

## Attachment - Responses to the Commission's questions

ENA's responses to the Commission's questions in its consultation paper are set out below.

**Question 1: Is the issue raised material enough to require changes to the regulatory framework? Do you consider the issue raised by the proponents is a material one? Why do you consider this?**

Yes, the issue raised is sufficiently material to warrant a Rule change. The existing Rules are unable to determine how the revenue requirements for Marinus Link should be recovered from electricity consumers. As explained in the Rule change request, Marinus Link may not proceed if the revenue recovery arrangements cannot be resolved.

Further, similar issues may arise in the future, whereby the existing arrangements are not sufficiently flexible to provide revenue recovery outcomes that are acceptable to electricity consumers in the NEM regions affected by an interconnector project.

**Question 2: Would the proposed solution address the issue raised by the proponent? Do you consider the proponents' proposed solution would address the issue identified in the rule change request?**

ENA supports the proposed solution because it allows the interconnected jurisdictions to determine the revenue recovery arrangements. It is evident from the Rule change request that this solution provides flexibility to tailor a solution for each interconnector.

As noted in the Rule change request, the allocation contained in the jurisdictional agreement should not be adjusted through the operation of the Modified Load Export Provisions (MLEC) provisions. This outcome can be achieved by setting the value of the interconnector assets to zero for the purposes of applying the MLEC. The Rule change drafting will need to provide for this treatment of the interconnector assets to ensure that the sharing specified in the jurisdictional agreement is implemented as intended.

**Question 3: What are your views of the costs and benefits of the proposed solution? What do you consider will be the benefits and costs of the proposed solution?**

The benefits of the Rule change would substantially outweigh the costs of making and implementing it.

The Rule change proponents have correctly identified the significant costs to electricity consumers if much needed interconnector projects are either delayed or do not proceed because of difficulties with the existing revenue recovery arrangements. In the case of Marinus Link for example, the expected net benefits are in the region of \$2 billion over the life of the project.<sup>2</sup>

The costs to all consumers of making the Rule change are very modest compared to the expected benefits. For example, ENA considers that the AER's role would be limited to verifying that the pricing methodologies of the respective TNSPs reflected the terms of the jurisdictional agreement (as opposed to assessing the acceptability of those agreements). On that basis, the regulatory costs of administering the new Rule would be relatively low.

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<sup>2</sup> Marinus Link, Project Assessment Conclusions Report, June 2021, page 75.

For each of the TNSPs affected by the Rule change, it is reasonable to expect that the incremental costs of implementing the Rule change would also be negligible.

**Question 4: What should be the minimum set of requirements for a cost allocation agreement? If jurisdictions were to enter into an inter-governmental agreement for the purpose of specifying a different interconnector cost allocation (different from the existing NER arrangements), what minimum requirements should apply to such an agreement? Should all interconnectors be eligible or only a subset, such as actionable ISP projects? Should the minimum criteria sit in the NER or in AER or other guidelines?**

A jurisdictional agreement should specify the revenue recovery arrangements for interconnector assets, including the definition of the assets and the duration of the agreement. ENA does not consider that any other criteria are required, as the Government in each jurisdiction is best placed to ensure that the agreement it reaches is in the long term interests of the electricity consumers in their region.

As ENA considers that a jurisdictional agreement should only be required to specify the details of the revenue allocation arrangements and the duration of the agreement, it is appropriate to set out these requirements in the Rules, rather than AER guidelines.

In general, ENA would expect a jurisdictional agreement to only relate to new interconnectors. However, if an initial agreement has a shorter term than the life of the asset, it will need to be renegotiated later. At that time, the agreement would relate to an existing interconnector. Accordingly, the Rules should avoid language that inadvertently prohibits the renegotiation of a jurisdictional agreement.

ENA also notes that similar issues relating to the recovery of Marinus Link's revenue will also apply to Basslink when it converts to regulated status. With the exception of this case, it is unlikely that TNSPs will want to make use of the proposed Rules in relation to interconnectors that are currently operational.

**Question 5: What should be the role for the AER and what should be the timeframes for jurisdictions submitting an agreement? What should be the AER's role in assessing inter-governmental agreements on interconnector cost allocation? How should an agreement impact on revenue determinations or other processes? What timeframes should apply to jurisdictions when submitting such agreement to the AER?**

Given that jurisdictional agreements will have been negotiated between relevant Governments, it is appropriate for the AER to assume that the agreement is in relevant consumers' long-term interests. This leaves no role for the AER other than to ensure that each applicable jurisdictional agreement contains the minimum set of requirements specified in the Rules, and is given effect properly.

In most instances, a jurisdictional agreement will relate to a new interconnector project where a revenue determination has not yet been made. For that reason, ENA considers that the project proponent could submit a jurisdictional agreement and its proposed pricing methodology as part of its Contingent Project Application (CPA) or revenue determination (if applicable).

If a jurisdictional agreement affects another TNSP's approved pricing methodology<sup>3</sup>, that TNSP should be required to notify the AER of the proposed changes to its approved pricing methodology within, say, 40 business days of the jurisdictional agreement being made. Given the limited scope of this change, the Rules could require that the AER reviews and approves the proposed change in the pricing methodology in a relatively short period, for example, within 30 business days of receiving the request.

**Question 6: What is the best mechanism to recover costs if jurisdictions agree to an alternative cost allocation? Could this be facilitated through the current arrangements for transmission pricing? If not, what changes are required?**

ENA considers that the revenue allocation arrangements should be given effect through amendments to Part J of Chapter 6A. These Rules<sup>4</sup> already provide for the recovery of revenue by one TNSP in a region, known as a Coordinating Network Service Provider (CNSP), on behalf of other TNSPs in that region. Murraylink, which is an interconnector between Victoria and South Australia, currently makes use of these provisions as its annual revenue requirement is recovered 55% through AEMO (the Victorian CNSP) and 45% through ElectraNet (the South Australian CNSP).

ENA considers that relatively minor drafting changes could be made to the existing CNSP provisions to give effect to a jurisdictional agreement. From an implementation perspective, each jurisdictional agreement will need to provide sufficient information for the relevant TNSPs and CNSPs to give effect to the intended sharing arrangements. From the perspective of each CNSP, there needs to be clarity regarding the amount of revenue in relation to the interconnector that is to be recovered from customers in its region. To achieve that outcome, the owner of the interconnector will need to identify the annual revenue requirement that is attributable to the interconnector and the percentage allocation to each of the regions that are a party to the jurisdictional agreement.

**Question 7: Should any transparency requirements apply to an agreement? Should jurisdictions or TNSPs have an obligation to publish any details of the cost allocation agreement?**

As noted in answer to question 5, typically jurisdictional agreements and the proposed pricing methodologies would be submitted alongside a CPA or revenue determination. While the agreement may contain some confidential provisions, it would be appropriate for the project proponent to provide details of the revenue recovery arrangements in its CPA or revenue proposal. In particular, ENA notes that the project proponent will want to explain the price impact of its proposed project on electricity consumers in each relevant jurisdiction.

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<sup>3</sup> For example, the revenue recovery arrangements for a project proponent may require a TNSP in another region to amend its pricing methodology to give effect to the jurisdictional agreement.

<sup>4</sup> Clause 6A.29.

**Question 8: Are there other important implementation considerations? How long would it take to implement the changes suggested in the rule change request? Are there additional measures that should be considered that would support the effective implementation of the desired solution?**

ENA notes that the proposed changes appear to be relatively straightforward, so the proposed Rule could be implemented without delay. ENA also notes that detailed implementation issues may emerge as the Commission develops its draft Rules. To assist the Commission, ENA would welcome further dialogue during the development of the Rules drafting to resolve any emerging issues efficiently and collaboratively.

**Question 9: Are there alternative, more preferable solutions? Do you consider alternative, more preferable solutions exist to address the identified issue?**

No, ENA is not aware of a more preferable solution.

**Question 10: Do you agree with our proposed assessment criteria? Are there additional criteria that the Commission should consider or criteria included here that are not relevant?**

Yes. ENA supports the Commission's assessment framework and does not propose any changes.