



Thursday, 30 January 2025

James King
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney, 2000, NSW

ERC0391 Improving the cost recovery arrangements for non-network options (NNOs) Rule 2025 – Draft determination

Dear Mr King,

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia, representing nearly 1,000 of the leading businesses operating in renewable energy, energy storage, and renewable hydrogen. The CEC is committed to accelerating the decarbonisation of Australia's energy system as rapidly as possible while maintaining a secure and reliable supply of electricity for customers.

We would like to provide further feedback to the draft rule change on *Improving cost recovery arrangements for NNOs*.

We are supportive of the proposed changes, which we consider are set to improve the process for approving and contracting with NNO proponents to deliver network improvements. Our comments seek to add more nuance to the draft determination.

Overview

The changes to the NNO cost recovery arrangements will improve coordination between NNO proponents and TNSPs, recognising the role of non-network solutions in supporting the grid. Drawing from the experience of progressing NNO projects to date, we propose the AEMC further considers details around the payment methodology, the NNO selection process, and the transitional arrangements.

Refining the methodology approval settings to consider the materiality threshold and timing will better reflect the lessons learnt from implementing NNO projects. We also consider that the early termination payment requires a greater level of regulatory certainty.

As the energy transition progresses, most NNO projects will rely on clean energy projects. Their contribution to decarbonisation is a key differentiation to other types of network support solutions. This competitive advantage could be recognised by the rule change.

The AEMC could also ensure that existing projects are not delayed by unforeseen regulatory changes when implementing the rule change.

Payment methodology

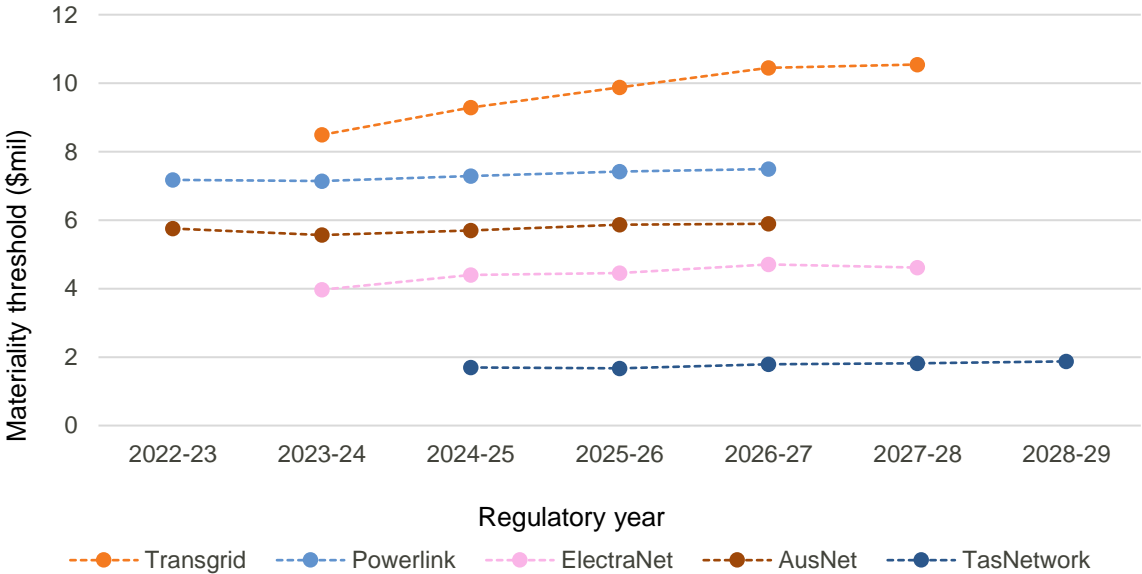
A known barrier in advancing NNO projects is ensuring payment certainty. The draft rule introduces a new process to adjust the network support payment allowance and an ex ante approval of a methodology that allows costs to be adjusted over multiple regulatory periods. We support this change as it gives TNSP and NNO proponents more flexibility in recovering costs.

It is important for the AEMC to understand the implication of the eligibility criteria and thresholds set by the methodology. The proposed threshold is set above 1% of the approved unsmoothed revenues in a regulatory year. We note that a similar materiality threshold is found in the ISF rule change. In this instance, the rationale for a threshold was to manage the ex ante review of large projects, similar to how significant capital expenditures are reviewed through the Contingent Project Application process.

However, network services procured for system strength or inertia are not similar in value or size to NNO to warrant a similar materiality threshold rationale. We consider this would derail the scope of the rule change.

Based on the current regulatory period’s annual revenue (unsmoothed), NNO projects meeting the materiality threshold would need to range from \$1.8 to \$10.5 million (Figure 1). However, an energy storage asset does not cost 10 times more in different NEM regions. We also know that NNO projects are more beneficial in regions with high demand and variability of load.

Figure 1 The material threshold (as currently proposed) for each TNSPs based on the AER final decision on TNSPs annual building block revenue requirements (unsmoothed) for their current regulatory period



It becomes prohibitive for TNSPs with large MAR since they would need to enter, at minimum, into contracts worth \$50 million over a regulatory control period. From a NNO proponent perspective, we view this as a barrier for many battery projects to enter an NNO contract since

the value of these contracts is often lower than the threshold. These projects would be preferred in some parts of the NEM and not others, which would be a missed opportunity for system stability.

NNO services are not the main financial driver for large renewable storage energy projects. Instead, these network support payments are in addition to the predominant merchant component of many battery projects.

We encourage the AEMC to consider removing the threshold requirement to ensure relevant NNO projects are not overlooked by TNSPs. This further allows TNSPs to make prudent and efficient expenditure decisions that benefit consumers through delivery of lower cost projects that maintain network security.

We acknowledge that a key intent of the eligibility criteria and materiality threshold is also to reduce the burden on the AER. The administrative work involved is likely similar to assessments made during the revenue determination stage. However, given the nature of NNO projects, we consider that it is crucial to have the right settings for TNSPs to deliver benefits for consumers from NNO projects. According to current transmission annual planning reports from TNSPs, the number of NNO projects is still modest.

As the market evolves, the number may increase, but there would already be accumulated knowledge about the process.

Several energy storage CEC members have raised concerns about how TNSP regulatory requirements interact with the project financeability of NNO proponents. To maintain revenue certainty for TNSPs, as outlined in the rule change request, it is important to recognise that TNSPs would apply for a network support allowance close to when the network support service would be provided.

Efficiency and progress in project approval would therefore improve if TNSPs could apply for the pricing methodology before it applied for the revenue proposal or the payment allowance. This separation ensures TNSPs have revenue certainty without being tied to the project development progress, and vice-versa. This consideration is crucial for projects with long lead time or those faced with potential supply chain delays.

Under the proposed methodology, the treatment of early termination payment remains unclear. The AEMC notes in the draft rule that the *AER must have regard to any methodology that has been determined under clause 6A.6.6A or clause 6A.7.2A relevant to that agreement for network support services* under three possible cost recovery processes:

1. When setting the network support payment allowance during the revenue determination process
2. When adjusting the network support payment allowance under the new proposed mid-period process
3. When seeking to recover costs through the network support pass through “true up” mechanism

The TNSP and the NNO proponents need certainty over an early termination payment, which should be agreed upon as part of the network support payment, tied to the duration of a relevant contract. Currently, we are not sufficiently confident that the draft rule adequately addresses early termination payments as described in the draft determination.

We understand that the rules are meant to be broad and not overly prescriptive. However, we suggest that a draft note be included that describes the types of matters the AER should take into consideration in the guideline.

Similar to treatment of cost variation, the mid-period process allows for greater flexibility of cost recovery. However, the circumstances for changes in payments can vary and be unpredictable. The CEC recommends that the AEMC provide more detailed guidance on how these costs should be treated and clarify the AER's role in retaining the discretion to consider the methodology.

Lastly, some CEC members have expressed a need for further clarity on the interaction between existing market signals and NNO incentives in the payment methodology. While we acknowledge that the methodology will be detailed on the *Network Alternative Support Payment Guideline* it is timely for the AEMC to consider the range of elements that could inform the methodology.

NNO selection process

The National Electricity Objective accounts for the emissions reduction contribution during the RIT-T process. If a NNO project is selected, emissions reduction is already factored in. However, an emissions reduction criterion could also be part of the eligibility criteria for payment as part of the AER's payment methodology.

Many future NNO projects are expected to be energy storage solutions that utilise clean technologies. For example, the Silver City Project in Broken Hill was selected over the TNSP-owned diesel turbines and emissions reduction played a key role in this selection. Projects with high upfront investment capital benefit from an additional network support agreement revenue and their selection could be advanced by recognising their contribution to decarbonising the power grid.

The NNO selection process depends on accurately forecasting the cost of the NNO expenditure. While the draft rule ensures allowable costs are adjusted during a mid-regulatory period, any additional costs due to variations are recuperated through the ex post process. Under the current rule change process, it may be appropriate to consider any improvements to the ex post process to reduce the number of years a TNSP may be required to recover costs from potential allowance exceedance.

Transitional arrangements

The draft determination states that the rule change would commence in March 2025. We consider this is a timely timeframe for new NNO projects, but we would suggest that AEMC also consider how the rule change interacts with current NNO projects.

The AEMC could consider a shorter timeframe for the AER to publish the *Network Alternative Support Payment Guideline*. Alternatively, we encourage the AEMC to explore how to ensure current projects are not impacted by the process of drafting and consulting on the guideline. One option could be a temporary transitional provision that ensures ongoing projects are not at risk of being delayed by this process.

Distribution NNO cost recovery framework

The AEMC has rejected the option for the distribution NNO framework to align with the transmission framework. The rationale was that DNSPs have a different framework to manage alternative network solutions that allows them to recover costs by managing risks across multiple projects.

The CEC has been supportive of reforms that incentivise development of energy storage assets on the distribution and sub-transmission networks operated by DNSPs. Although many of the reforms we have been advocating for are out of scope under this rule change, we consider there are benefits to aligning the cost recovery frameworks for TNSPs and DNSPs for NNO projects.

Energy storage, classified as a bi-directional unit, will be responding to the same AEMO NEM Dispatch Engine signals regardless of whether they are connected at the transmission or sub-transmission level. These assets could prove valuable to maintain network stability at critical locations and would be implemented at a lower cost to consumers.

While tariff structures reforms are much more critical to removing barriers for battery projects connecting to the distribution network, we consider that this rule change could play a forward looking role in reducing regulatory burden. This would prove efficient in the long-term.

The CEC welcomes any engagement with the AEMC on any of the points raised in our submission in the lead up to the final determination. Broadly, we consider that the preferred draft rule will create a more equal treatment of capital and operating expenditures for TNSPs and support NNO proponents to work collaboratively with TNSPs to advance NNO projects. Our comments are intended to assist the AEMC in making a final decision. For more information, please contact Ana Spataru at aspataru@cleanenergycouncil.org.au.

Kind regards

Christiaan Zuur

Director, Market, Investment and Grid