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Thursday, 11 April 2024

Ms Anna Collyer  
Chair  
Australian Energy Market Commission  
Lodged online: [www.aemc.gov.au](http://www.aemc.gov.au)

**Project Ref: ERC0383**

Dear Ms Collyer,

**AEMC's Providing flexibility in the allocation of interconnector costs.**

Transgrid welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) *Providing flexibility in the allocation of interconnector costs* consultation paper. The AEMC's consultation paper, which is in response to a rule change by several Energy Ministers, seeks to provide flexibility to enable the delivery of net beneficial interconnectors that may face barriers to delivery under the current regulatory framework.

The energy network in Australia is changing faster than ever. For decades, energy transmission has largely been focussed on a network of relatively static, centrally located coal and gas-fired power stations as well as some hydroelectricity. However, as AEMO's 2022 Integrated System Plan (**ISP**) points out, there will be a rapid change from coal-fired generation to grid-scale wind and solar power by 2050, and this will also include increased interconnector builds and upgrades between states.

Transgrid strongly supports the rule change proposal so that interconnector projects, which otherwise wouldn't proceed, can proceed and provide the appropriate benefits to the NEM. Interconnectors benefit millions of Australians across the NEM and enable more efficient sharing of renewable energy between the states. Given this, it is important the regulatory framework is appropriate and enables these projects to go ahead.

We acknowledge that this consultation is focused on changes to the cost recovery arrangements for interconnectors based on inter-governmental agreements. As such this consultation is limited and does not consider wider strategic NEM wide projects and the benefits, they provide to those consumers outside the jurisdiction they are built.

We note Public Interest Advocacy Centre (**PIAC**) has submitted a rule change that proposed wider cost recovery arrangement changes. The rule change proposes a 'beneficiary pays' approach to funding strategic transmission projects as it will contribute to achieving the National Electricity Objective (NEO).

Transgrid supports the idea of moving away from the current method of allocating transmission costs towards a “beneficiary pays” method for projects that provide NEM wide benefits. We support the notion of a truly national NEM and the role transmission investment has in supporting the operation of the whole market.

As such, we support a cost allocation methodology that meets the following criteria:

- **Fair and simple** – the cost allocation methodology should result in a fairer allocation of the costs of ISP projects across the NEM given strategic transmission projects provide NEM-wide benefits and should be determined in a simple and transparent basis.
- **Predictable** – any new charging method should result in predictable prices and not result in volatility. Consumers should not be adversely impacted such as high volatility in consumer bills in different regions. The stability of cost allocation arrangements will be important for both networks and consumers.

We look forward to working with the AEMC to develop cost recovery arrangement that reflect a fairer cost allocation methodology applied to all ISP projects. If you or your staff require any further information or clarification on this submission, please contact Zainab Dirani at [zainab.dirani@transgrid.com.au](mailto:zainab.dirani@transgrid.com.au).

Yours faithfully



Nicole Ryan  
General Manager – Community, Stakeholder and Government