



Monday, 30 September 2024

Anna Collyer
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**

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 welcome the opportunity to comment on the consultation paper following the rule change request from Transgrid on *Improving cost recovery arrangements for NNOs*.

The CEC supports the solutions proposed by the rule change request. The energy transition requires significant investment and upgrades in transmission infrastructure - NNOs offer an alternative investment pathway that can help reduce total costs.

NNOs provide flexible market-led alternatives to new transmission build-out. Energy storage asset developers compete through a tender process, often by proposing innovative technologies or novel applications of existing technologies, to provide bespoke solutions to network needs.

For this reason, we consider that reform is needed to the regulatory frameworks to remove regulatory uncertainty as to cost recovery for the duration of the project.

Transmission network service providers (TNSPs) are required to consider the most cost-effective solutions while complying with the regulatory requirements of maintaining system security. Getting the settings right for how costs are recovered will allow TNSPs to consider all options to meet these solutions by ensuring they are sufficiently incentivised to enter third party contracts for the provision of non-network services.

NNOs solutions are one of the very few market signals that recognise the reliability contributions associated with energy storage (including grid-forming inverters battery storage and other long duration energy storage (LDES)). This is because their significant energy reserves allow them to form effective substitutes to reduce or defer costly network upgrades. Energy storage also provide system security services such as inertia, system strength and voltage / frequency control, which will ensure security of the power system as the thermal generation retires.

More generally, the NNO framework offers a key way to value the many capabilities of energy storage technologies of all durations and incentivise investment in these assets. Energy storage already provides system integrity protection schemes (SIPS), solutions that offer a cost-effective alternative to increased and optimised grid utilisation. Energy storage can be deployed to maximise the integration of renewable energy by reducing network constraints. Energy storage assets also face fewer permitting requirements compared with designating transmission line corridors. This leads to faster construction and lower overall costs.

NNOs are undervalued in the RIT-T framework due to failing to value the full range of benefits provided by energy storage and requiring a 'total economic cost' approach that inflates the cost of the NNO relative to their alternatives, by not accounting for "total economic benefits".

We consider the reforms proposed by TransGrid will help to reduce barriers for energy storage assets entering the market and will deliver better outcomes for consumers in the long-term.

Cost recovery uncertainty

NNO projects are long lifespan assets requiring significant capital expenditure and needing revenue certainty for the duration of the projects to obtain financing. A TNSP procures NNO solutions provided over a long timeframe and need cost recovery certainty. Although the payments are passed through as operating costs, their cost recovery needs the same certainty as a network expenditure.

Initial cost recovery arrangements

The CEC considers that how the initial cost recovery is incorporated in the rules will influence the incentives for TNSPs to pursue, and developers, to provide NNOs as an integral and long-term solution to network needs. Certainty around cost recovery arrangements also attract more NNOs proponents to participate in the Expression of Interest (EOI) and the increased competition will drive innovation and overall network prices down.

The CEC supports the introduction of a pre-approval step allowing the TNSP to obtain cost recovery approval from the AER before entering into the Network Support Agreement as this will incentivise TNSPs to adopt NNOs.

We support the proposal for the TNSPs to include any administrative and negotiation costs as part of the network support payment allowance as this will incentivise TNSPs to adopt NNO solutions. TNSPs spend significant work and time on evaluating each NNO proposal in response to the Expression of Interest and choosing the preferred option. Additional time is spent on negotiating the preferred NNO with the AER.

We also consider that the pre-approval step will reduce regulatory uncertainty that is creating barriers to NNOs. Each NNO solution is bespoke and requires in depth modelling to satisfy the TNSP's technical requirements. Uncertainty in the early stages of development and prolonged

procurement times creates risk and translates into higher costs for the NNO proponents. This makes the financial case of energy storage more difficult, or for larger projects, non-viable.

Project proponents require transparency around the NNO assessment and selection process. The current process around capital risk requires improvements to outline how NNOs are assessed and publish assessment details when comparing a network versus a non-network solution. Transgrid is one TNSP that has advanced NNOs and proposed changes to allow for innovative solutions to managing the grid. This is encouraging and likely much needed. However, we consider there is scope for improving the transparency of the assessment and selection process undertaken by a TNSP, which will attract more NNO proposals.

Ongoing cost recovery arrangements

NNO projects span over multiple revenue periods due to the types of technologies contracted. It is critical for their financeability that there is certainty around ongoing cost recovery in future revenue determination periods, especially where NNO costs differ from expected levels, including variations arising due to contract terms.

Uncertainty as to the treatment of a termination payment in particular raises significant barriers to financeability for NNO proponents. The risk of non-recovery is particularly critical for longer lifespan projects. It is unclear under the current rules whether a termination payment is considered part of the agreed network support agreement and how it would be assessed.

We support the termination fee being recoverable and it should be sufficient and commensurate with the type of projects. We also consider the AER must be clear on the set of circumstances that could result in a termination and should consult with market participants in determining criteria details.

Without an avenue for the AER to provide binding upfront recovery approval of payments linked to certain contract terms such as termination fee, in appropriately defined and limited circumstances, the rules are unlikely to facilitate long lifespan projects and contracts. We encourage the AEMC to ensure that the solution they develop under this rule change process facilitates long lifespan projects. Otherwise, the rules framework will only support a limited subset of NNO projects that use shorter contract durations.

The treatment of ongoing variations to the payment profile should be transparent for all parties involved. We suggest the AER should be required to consult with both the TNSP and the NNO provider under the proposed 6A.7.2 B (e) and 6A.7.2 A(e) and that the AER otherwise has a discretion to consult with such other persons as the AER considers appropriate.

Other considerations

Alignment with improving security framework rule change

The CEC sees benefits in the two frameworks being aligned. Extending the ex-ante consideration of NNO expenditure for network augmentation would serve a similar purpose as the NNO cost recovery for system security. It will reduce the regulatory burden on TNSPs and the AER. It will also reduce the complexity for NNO proponents and make it easier for them to demonstrate the value proposition of the combined non-network services and system security services.

Cost recovery timing

The CEC supports closing the gap between when a decision on a NNO solution is made and the cost recovery timeframe. Delays to recovering NNO related costs are material and disincentivise TNSPs to seek and adopt non-network solutions.

Assessment criteria

We note that the AEMC has identified it will assess the rule change request against the criteria of principles of

- market efficiency
- innovation and flexibility
- principles of good regulatory practice.

We consider this is an artificially narrow framework given the potential benefits enabled by improvements to the NNO framework.

As identified in this submission, enhancements to the NNO framework are likely to play a key role in incentivising energy storage solutions at both short, medium and long durations. This will significantly increase the range of technological solutions available, helping to meet the reliability and security elements of the NEO. Energy storage solutions also play a key role in increasing hosting capacity, further supporting price and reliability outcomes as per the NEO.

We strongly encourage the AEMC to consider the longer-term implications of improvements to the NNO framework, with these benefits in mind.

Conclusion

In a decentralised power system, NNOs can reduce, defer or replace the need for transmission network investment, potentially delivering more timely and lower cost outcomes for consumers using a range of innovative technologies and applications for network needs. NNOs have the potential to be an important and flexible contribution to a TNSP's portfolio. Transgrid's proposed reforms will help level the playing field between network and non-network option and remove barriers to NNOs being implemented. This is particularly important to assets that have a long lifespan, which need investor certainty as to cost recovery for the duration of the project.

The CEC welcomes further engagement with the AEMC as this review continues. Further queries can be directed to Ana Spataru on aspataru@cleanenergycouncil.org.au or Diane Staats on dstaats@cleanenergycouncil.org.au.

Kind regards

Christiaan Zuur
Director, Market, Investment and Grid