

Explanatory statement

Proposed network alternative support payment guideline

Consultation paper

December 2025

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Amendment record

Version	Date	Pages
Version 1	12 December 2025	11

Invitation for submissions

The Australian Energy Regulator (AER) invites interested parties to make written submissions on the proposed Network alternative support payment guidelines by close of business, 30 January 2026.

Submissions should be sent electronically to costpassthroughs@aer.gov.au. Alternatively, you may mail submissions to:

Ms Kami Kaur
General Manager
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We ask that all submissions sent in an electronic format are in Microsoft Word or other text readable document form.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested. All non-confidential submissions will be placed on the AER's website.

For further information regarding the AER's use and disclosure of information provided to it, see the [ACCC/AER Information Policy](#), which is available on our website. We request parties wishing to subject confidential information:

- clearly identify the information that is the subject of the confidentiality claim
- provide a non-confidential version of the submission in a form suitable for publication.

If you have enquiries about this paper, lodging a submission or would like to meet with us to discuss issues raised in this paper, please contact costpassthroughs@aer.gov.au.

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1 Overview

The AER exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions.

As the independent regulator, the national energy objectives guide the AER's work in the long-term interests of consumers.

The purpose of the Network alternative support payment guideline (the Guideline) is to outline how the AER will generally consider and determine applications from transmission network service providers (TNSPs) under rules 6A.6.6A(a) and 6A.7.2A of the NER to:

- adjust network support payment allowances to account for new or amended transmission non-network options (NNOs)
- approve a methodology for how NNO costs are expected to be incurred and adjusted over the life of an agreement between a TNSP and NNO provider.

The AER is required to make and publish this Guideline under clause 6A.6.6A(e1) of the NER by 13 March 2026.¹

The AER is conducting a consultation process in making the proposed Guideline. This explanatory statement sets out the provision of the NER under or for the purposes of which this proposed Guideline is made, and the reasons for making the Guideline. The AER seeks written submissions from interested parties on the proposed Guideline.

1.1 Next Steps

Table 1.1 sets out our next steps and processes in making and publishing the Guideline.

Table 1.1 Indicative timeline

Indicative Date	Milestone
12 December 2025	AER publishes proposed Guideline with explanatory statement for consultation with invitation for submissions.
30 January 2026	Submissions on proposed Guideline close.
13 March 2026	AER to publish final Guideline.

¹ NER, clause 11.183.2 which provides the AER is required to develop and publish the Guideline by no later than 12 months after the commencement of the *National Electricity Amendment (Improving the cost recovery arrangements for transmission non-network options) Rule 2024* (Amending Rule) on 13 March 2025.

1.2 Key questions for stakeholders

In relation to the proposed Guideline, we have the following questions for stakeholders:

Consultation questions

- 1) Do stakeholders have any comments, suggestions, or improvements concerning the proposed Guideline?
- 2) What, if any, additional matters might the proposed Guideline need to consider?

2 Background

2.1 The rule change

As set out in the final rule determination,² the AEMC has made a more preferable final rule to amend the cost recovery framework for transmission NNOs in response to a rule change request.

The AEMC stated that the aims of these determinations include:³

- Reducing barriers to NNO projects and supporting the application of new technologies and business models in the NEM.
- Reducing negotiation and transaction costs for NNO projects by improving cost recovery and revenue certainty for TNSPs investing in NNO projects.
- Leveling the playing field between network and non-network expenditure in terms of timing flexibility and cost recovery certainty, in order to support lowest cost consumer outcomes during the energy transition.

2.2 Final rule and requirements for the AER

Clauses 6A.6.6A(a) and 6A.7.2A(a) of the NER establishes a regulatory framework for adjustments to a TSNP's network support payment allowance and the AER's determination of a methodology for network alternative support payments relating to NNO projects.

Clause 6A.6.6A(a) of the NER enables TNSPs to seek a determination from the AER that a proposed payment methodology for an NNO project will be consistent with the operating expenditure (opex) objectives, criteria and factors which we collectively refer to as the 'prudence and efficiency' of network expenditure.

The purpose of clause 6A.7.2A of the NER is to enable TNSPs to apply to the AER during a regulatory control period for a determination to the adjust the TNSPs network support payment allowance for the remaining regulatory year(s) of that regulatory control period.

Clauses 6A.6.6(e)(13a) and 6A.7.2(i)(3)(ii) of the NER also require the AER to take into account an ex-ante determination made on a methodology for a network alternative support payment in any future related TNSP pass through or revenue determination for costs incurred under the same contract.

The AER will also have regard to previous determinations on a methodology for a network alternative support payment when assessing a TNSP's application to adjust its network support payment allowance under clause 6A.7.2A of the NER.

² AEMC, *Rule determination, National Electricity Amendment (Improving the cost recovery arrangements for transmission non-network options) Rule*, 13 March 2025, p. i.

³ AEMC, *Rule determination, National Electricity Amendment (Improving the cost recovery arrangements for transmission non-network options) Rule*, 13 March 2025, pp. 7–9.

2.2.1 Transitional requirements for the AER

The final rule change includes a transitional rule which took effect from 13 March 2025 and will be in effect until the publication of the AER's final Guideline.⁴

Under the transitional rule, TNSPs are able to apply to the AER for a determination on a methodology or adjustment of the network alternative support payment allowance where an agreement with a single or multiple NNO providers (which may be in draft or executed form) meets the eligibility criteria and materiality threshold described in clause 11.183.3:

Eligibility criteria

- The application must be made after completion of all relevant regulatory processes (including RIT-T disputes and material changes in circumstances).
- All services in the agreement being reviewed must be 'preferred options' under a completed RIT-T or a 'secondary option' approved by the AER on the basis it is a lower cost option than the RIT-T preferred option.

Materiality threshold

- The agreement's expected average annual payment must exceed 1% of AER approved unsmoothed revenues in a regulatory year for the current regulatory period.⁵

2.2.2 The AER's role

Clause 6A.6.6A(e1) requires the AER to publish the Guideline which is to set out the following specified matters in relation to an application for a determination under clause 6A.6.6A(a) or clause 6A.7.2(a):

- the information to be included in an application;
- any eligibility criteria or thresholds that will apply before the AER will accept an application;
- the process and timeframes for the AER to make its determination;
- the relevant factors the AER must consider in making its determination; and
- any other matters the AER considers relevant.

An application submitted by a TNSP must comply with any relevant requirements in the Guideline.⁶ A determination made by the AER must be consistent with the Guideline (as applicable).⁷

⁴ AEMC, *Rule determination, National Electricity Amendment (Improving the cost recovery arrangements for transmission non-network options) Rule* (Amending Act), 13 March 2025, pp. 21–22; clause 11.183.3.

⁵ Amending Act, clause 11.183.3(b)(3).

⁶ NER, clause 6A.6.6A(b).

⁷ NER, clause 6A.6.6A(d)

3 Proposed new AER guideline

3.1 Lodging an application – Pre-engagement, timing and thresholds

3.1.1 Pre engagement

An application by a TNSP for a determination should include all relevant information and evidence to assist the AER's consideration of the application, and determination of prudence and efficiency. Providing an application that meets the eligibility criteria and materiality thresholds is the responsibility of the applicant.

TNSPs may engage with us before applying for a determination. The primary aim of any early engagement is ensure TNSPs make eligible and high-quality applications that provide all the relevant information needed to enable the AER to make informed and timely determinations.

Early engagement will be at the AER's discretion. Generally, we will not provide advice at this stage on whether a proposed network support payment allowance adjustment, or payment methodology is likely to be considered prudent and efficient. Early engagement will typically be limited to circumstances where:

- any RIT-T and related regulatory processes have been substantially completed as they relate to the determination application;
- there is sufficient information available on NNO projects or payment methodologies;
- there is a material need to engage before an application can otherwise be made; and
- AER resourcing is available.

3.1.2 Application timing

Applications to the AER for approval of a network support payment allowance adjustment, or a determination on a methodology for network alternative support payment, should be made after any regulatory investment test for transmission (RIT-T) and/or related regulatory processes to identify the preferred option have been completed, but prior to contract execution.

Similarly, AER approval of 'secondary options' based on a 'material change in circumstances' should be completed. Tender processes should be largely finalised to enable TNSPs to provide information on costs, payments and payment methodologies in an application that is likely to reflect the final agreement between a NNO service provider and the TNSP.

3.1.3 Eligibility criteria and materiality threshold

In accordance with clause 6A.6.6A(e1)(2), the following eligibility criteria and threshold will apply before the AER will accept an application made under clause 6A.6.6A(a) or clause 6a.7.2A(a):

- The application should be made after completion of all relevant regulatory processes (including completion of RIT-T disputes and AER determinations on ‘material changes in circumstances’), and before any contracts are executed.
- All services in the application must be ‘preferred options’ under a completed RIT-T, or a ‘secondary option’ approved by the AER following a ‘material change in circumstances’.
- The application must include the relevant information outlined in Chapter 4 of the Guideline.
- The expected average annual payment caused by a NNO project or portfolio of projects with the same payments or payment methodologies, must exceed 1% of AER approved unsmoothed revenues in a regulatory year for the current regulatory control period.⁸
- NNO projects submitted together in a portfolio must meet the same need and be substantially identical in regard to their proposed payments or payment methodologies.⁹

3.2 Reviewing an application – Consultation, assessment of prudence and efficiency and timing of decisions

3.2.1 Consultation on an application

We propose to adopt a similar consultation approach as used for pass through applications under the NER¹⁰. In the case of a determination, this means the AER may consult with the relevant TNSP and such other persons as the AER considers appropriate, on any matters arising out of application as the AER considers appropriate.

In practice, the consultation process may include:

- publishing notification that an application has been received, and the likely timeframe for the assessment;
- publishing a summary of the application with appropriate redactions for confidential and commercial-in-confidence information, including an outline of the NNO projects and/or payment methodologies being assessed;
- calling for submissions on the application, where the AER considers sufficient non-confidential material is available for stakeholders to meaningfully consider;
- using information requests and targeted consultation with the TNSP or other parties as necessary; and
- publishing a summary of the determination with appropriate redactions for confidential and commercial-in-confidence information, including our reasoning for decisions on the prudence and efficiency of the payment methodologies assessed.

⁸ Or 1% of forecast revenues for intending (newly regulated) TNSPs.

⁹ This may be demonstrated through an independent review and assessment of the draft contracts in the portfolio.

¹⁰ NER, clause 6A.7.3(i).

3.2.2 Assessment of prudence and efficiency

Consistent with clauses 6A.6.6A(a)(3)–(5) and 6A.7.2A(b)(1)–(3), the factors the AER must consider in making determinations in accordance with this Guideline are the operating expenditure objectives, criteria and factors set out in clauses 6A.6.6(a),(c)(1)–(3) and (e)(1)–(14) of the NER. Collectively, these establish the framework for considering whether expenditure (or future expenditure) for network alternative support payment services is likely to be prudent and efficient.

This Guideline provides principles-based guidance on how the AER will interpret the relevant criteria under clauses 6A.6.6A and 6A.7.2A of the NER to determine the prudence and efficiency of expenditure for network alternative support services, or a payment methodology for these services. Prudence and efficiency are defined in Table 1.

Table 2 Factors the AER must consider

Factors		Key considerations
1.	Prudence Whether there is a reasonable need to contract the proposed NNO service or develop a payment methodology for a NNO service (as relevant).	Whether there is sufficient information and evidence to satisfy the AER of the need for and scope of the relevant NNO service. This may include evidence that the NNO service being considered is: <ul style="list-style-type: none"> • a 'preferred option' through the RIT-T process, or an amendment to the process; or • a 'secondary option' approved by the AER following a material change in circumstances (for example, on the basis it is a lower cost option than the RIT-T preferred option).
2.	Efficiency Whether the network support payment allowance adjustment or methodology for a network alternative support payment (as relevant) reasonably reflects efficient costs, or the least cost that the TNSP could reasonably achieve in the circumstances.	Whether there is sufficient information and evidence to satisfy the AER. This may include evidence that the NNO payments or methodology reflect: <ul style="list-style-type: none"> • efficient costs; or • the least cost that a TNSP could reasonably achieve in the circumstances.

The specific information the AER considers in any assessment will vary on a case-by-case basis depending on the nature and circumstances of the application and the available information and evidence. The AER may have regard to factors and information as set out in Table 2.

Table 3 Factors and information the AER may have regard to

Factors	Key considerations
<p>1. The extent to which the forecast payments or methodology:</p> <ul style="list-style-type: none"> • is the outcome of a competitive approach to market; or • where a competitive process is not possible, reflects the least cost the TNSP could reasonably achieve in the circumstances through a direct or negotiated approach to a NNO provider. 	<p>Whether there is sufficient information and evidence to satisfy the AER. This may include evidence of:</p> <ul style="list-style-type: none"> • a competitive tender taking place for the NNO service considered; or • a comparison of costs across comparable NNO services to determine reasonable cost, where a competitive process was not possible.
<p>2. Whether a proposed contract for a NNO service or payment methodology contains elements that will or will likely result in unnecessary costs being incurred.</p>	<p>Whether there is sufficient information and evidence to satisfy the AER. This may include information regarding:</p> <ul style="list-style-type: none"> • the mix of cost components and structure of payment methodologies; • risks or triggers that result in unnecessary or unreasonable cost components; • any terms that may be unreasonable, unnecessary or overly ambiguous; or • any conditions that may be unreasonable, unnecessary or overly ambiguous.
<p>3. Whether a proposed contract for a NNO service or payment methodology is not unreasonable in the circumstances.</p>	<p>Whether there is sufficient information and evidence to satisfy the AER. This may include evidence and information relating to:</p> <ul style="list-style-type: none"> • the economic cost and/or other relevant cost information used in the RIT-T process, including any early or indicative quotes from a NNO provider; • the costs of realistic alternatives for obtaining the same service or otherwise meeting the identified need, including network and non-network alternatives; • the level of compensation needed to recover all reasonable costs incurred, net of alternative revenue sources, in developing the NNO service; and • payments or payment methodologies for similar services in similar circumstances, including other NNO services reviewed by the AER or in other publicly available information.

Factors		Key considerations
4.	Any other matters the AER considers relevant	As appropriate, and as needed depending on the nature and circumstances of the application and NNO services considered.

3.2.3 Timeframe for a decision

We propose to adopt a similar timeframe for a decision as set out by the NER for assessing cost pass through applications,¹¹ and as set out for ex-ante determinations in the [System security network support payment guideline](#). In the case of an application for a determination under clause 6A.6.6A(a1) or clause 6A.7.2A, the AER will make a determination within 40 business days from the later of either the date it receives an application that meets the eligibility criteria and materiality threshold set out in section 3.3, or the date it receives the additional information sought by the AER in a subsequent information request.

This timeframe aims to balance the need to ensure that a determination for a payment methodology can be executed in a timely manner, while allowing for any consultation processes that the AER may carry out as part of the determination process, including seeking further information from the relevant TNSP, or other parties as necessary.

If the AER is satisfied that the making of a determination involves issues of such complexity or difficulty that the 40-business day limit should be extended, the AER may extend that time limit by a further period of up to 60 business days. In this case, the AER will advise the TNSP in writing of the additional time required. It is expected this option to extend the timeframe for a decision will only be used in exceptional circumstances.

¹¹ This timeframe is consistent with the timeframe for a cost pass through determination under NER clause 6A.7.3(e)

4 Other related matters

The AER notes that there are a number of guidelines in place which act in a similar manner or focus on related issues. We consider that there may be scope, sometime in the future, to rationalise or consolidate interrelated guidelines.

The NSW *Electricity Infrastructure Investment Act* (2020) has conferred a regulatory role upon the AER. The AER expects to undertake a targeted review of the *Transmission Efficiency Test and revenue determination for non-contestable network infrastructure projects* to incorporate the *National Electricity Amendment (Improving the cost recovery arrangements for transmission non-network options) Rule*, once this Guideline has been finalised.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
EII	Energy Infrastructure Investment
NEM	National Electricity Market
NER	National Electricity Rules
NNO	Non-network option
RIT-T	Regulatory investment test for transmission
TNSP	Transmission network service provider