

# Network alternative support payment guideline

AER draft guideline

**December 2025**

© Commonwealth of Australia 2025

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 4.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 4.0 AU licence.

### **Important notice**

The information in this publication is for general guidance only. It does not constitute legal or other professional advice. You should seek legal advice or other professional advice in relation to your particular circumstances.

The AER has made every reasonable effort to provide current and accurate information, but it does not warrant or make any guarantees about the accuracy, currency or completeness of information in this publication.

Parties who wish to re-publish or otherwise use the information in this publication should check the information for currency and accuracy prior to publication.

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601  
Email: [aerinquiry@aer.gov.au](mailto:aerinquiry@aer.gov.au)  
Tel: 1300 585 165

AER reference: 20089988

### **Amendment record**

| Version   | Date             | Pages |
|-----------|------------------|-------|
| Version 1 | 12 December 2025 | 16    |

# Contents

|          |   |           |
|----------|---|-----------|
| <b>1</b> | <b>Introduction .....</b>   | <b>1</b>  |
| 1.1      | The AER's role .....  | 1         |
| 1.2      | Confidentiality .....   | 2         |
| 1.3      | Structure of the guideline .....  | 2         |
| 1.4      | Process for revision .....  | 3         |
| <b>2</b> | <b>Regulatory framework.....</b>  | <b>4</b>  |
| 2.1      | Purpose of the determination .....  | 4         |
| 2.2      | Nature of the determination .....   | 6         |
| 2.3      | Operationalising clauses 6A.6.6A and 6A.7.2A .....  | 7         |
| <b>3</b> | <b>Processes, timelines, thresholds, information and factors for our determinations .</b> | <b>8</b>  |
| 3.1      | Pre-application .....   | 8         |
| 3.2      | Lodging an application – timing .....   | 8         |
| 3.3      | Lodging an application – eligibility & thresholds .....                                   | 9         |
| 3.4      | Consultation on an application .....  | 10        |
| 3.5      | Assessing prudence and efficiency .....   | 10        |
| 3.6      | Timeframe for decision .....  | 13        |
| <b>4</b> | <b>Information requirements to make an application .....</b>                              | <b>14</b> |
| 4.1      | Demonstrating eligibility and thresholds .....  | 14        |
| 4.2      | Demonstrating prudence and efficiency .....   | 15        |
|          | <b>Glossary .....</b>   | <b>16</b> |

# 1 Introduction

The Australian Energy Regulator (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 this Guideline is to outline how the AER will generally approach 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.<sup>1</sup>

## 1.1 The AER's role

The *Improving the cost recovery arrangements for transmission non-network options* Rule (the ICRA Rule), which commenced operation on 13 March 2025, amends the cost recovery framework for TNSPs implementing NNO projects. NNO projects are projects that do not involve typical 'poles and wires' construction while still helping to meet network requirements. For example, a NNO could be to contract for energy storage services to support the capacity of the grid in a particular location.

The ICRA Rule:

- allows (but does not require) TNSPs to apply to the AER during a regulatory control period to adjust the TNSPs network support payment allowance for the remaining regulatory years of that regulatory control period to incorporate new or changed expenditure for a proposed NNO project.
- allows (but does not require) TNSPs to seek a determination from the AER that a methodology for such a payment will be consistent with the operating expenditure (**opex**) objectives, criteria and factors and factors in clause 6A.7.2(i) relevant to a system security network support payment.

---

<sup>1</sup> NER, clause 11.183.2 - the AER is required to develop and publish the Network alternative support payment guidelines 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) which commenced on 13 March 2025.

- requires the AER to publish *Network alternative support payment guidelines* by 13 March 2026 that sets out the following matters in relation to an application 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
  - any other matter the AER considers relevant.<sup>2</sup>

An application submitted by a TNSP must comply with any relevant requirements in this Guideline.<sup>3</sup> A determination made by the AER must be consistent with this Guideline (as applicable).<sup>4</sup>

The primary aim of this Guideline is to set out how the AER will generally undertake these determinations. Specifically, this Guideline sets out the information to be included in a TNSPs application, the applicable eligibility criteria and thresholds, the process and timeframes for the AER to make its determination, other information the AER may consider in making its determination, and the relevant consultation processes.

## 1.2 Confidentiality

The AER's obligations regarding confidentiality and the disclosure of information provided to it by a TNSP is governed by the *Competition and Consumer Act 2010* (Cth), National Electricity Law and the NER.

This Guideline discusses information that may be commercial in confidence and / or confidential. When a TNSP provides us with information in an application for a determination or in subsequent information provided, it can claim confidentiality over any part of the information. To make a claim for confidentiality, we ask that the confidential information is clearly identified, and reasons are provided to support the confidentiality claim. Any such information must be of a genuinely confidential in nature and not otherwise publicly available. We encourage parties to limit confidentiality claims to the extent possible, so that the AER can conduct reviews as transparently as possible.

Further details on how TNSPs should make confidentiality claims over information submitted to us is provided in the [AER's Confidentiality Guideline](#). Further guidance on how the AER collects, uses and discloses confidential information is available in the [ACCC/AER Information Policy](#).

## 1.3 Structure of the guideline

The Guideline is structured as follows:

---

<sup>2</sup> NER, clause 6A.6.6A(e1).

<sup>3</sup> NER, clause 6A.6.6A(b).

<sup>4</sup> NER, clause 6A.6.6A(d)

- Chapter 2: Regulatory framework for NNO payment methodology determinations and NNO-related network support payment allowance adjustments.
- Chapter 3: Processes, timelines, eligibility criteria and thresholds, and information we must or may have regard to.
- Chapter 4: Information requirements to make an application for a NNO payment methodology review, or an adjustment of the network support payment allowance.

## **1.4 Process for revision**

The AER may amend this Guideline from time to time pursuant to clause 6A.6.6A(e1) of the NER.

## 2 Regulatory framework

This chapter outlines the regulatory framework established under clauses 6A.6.6A(a) and 6A.7.2A(a) of the NER 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.

### 2.1 Purpose of the determination

The purpose of clause 6A.6.6A of the NER is to enable TNSPs to seek a determination from the AER that a proposed payment methodology for an NNO project will be consistent with the operating expenditure 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 adjust the TNSPs network support payment allowance for the remaining regulatory years of that regulatory control period.

**Box 1** and **Box 2** list the relevant NER requirements under clauses 6A.6.6A and 6A.7.2A of the NER, including the NER criteria we must have regard to in making a determination on a proposed network support payment allowance adjustment or a methodology for network alternative support payments.

The AEMC stated that the aims of these determinations include:<sup>5</sup>

- 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.

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.

---

<sup>5</sup> AEMC, *Rule determination, National Electricity Amendment (Improving the cost recovery arrangements for transmission non-network options) Rule*, 13 March 2025, pp. 7–9

**Box 1: NER clause 6A.6.6A – AER power to make determinations with regard to future operating expenditure**

- (a) Subject to paragraph (a1), the AER may, on application by a Transmission Network Service Provider, make a determination that:
- ...
- (2) a methodology for a system security network support payment or network alternative support payment, specified in the determination, will be consistent with:
- (3) the operating expenditure objectives<sup>6</sup>;
- (4) the operating expenditure criteria<sup>7</sup>;
- (5) the operating expenditure factors<sup>8</sup>; and
- (6) the factors in clause 6A.7.2(i) relevant to a system security network support payment.
- (a1) A Transmission Network Service Provider may only make an application under paragraph (a) for a methodology for a network alternative support payment:
- (1) as part of a Revenue Proposal; or
- (2) under clause 6A.7.2A<sup>9</sup>
- (b) An application submitted by a Transmission Network Service Provider under paragraph (a) must comply with any relevant requirements in the system security network support payment guidelines or network alternative support payment guidelines (as applicable).
- (c) The AER may (but is not required to) consult in a manner it considers appropriate on the application submitted under paragraph (a) before making a determination.
- (d) A determination made by the AER under paragraph (a) must be consistent with the system security network support payment guidelines or network alternative support payment guidelines (as applicable).
- ...
- (e1) The AER must make and publish, and may amend, guidelines (network alternative support payment guidelines) that set out in respect of network alternative support payments:
- (1) the information to be included in an application submitted under paragraph (a) or clause 6A.7.2A(a);
- (2) any eligibility criteria or thresholds that will apply before the AER will accept an application under paragraph (a) or clause 6A.7.2A(a);
- (3) the process and timeframes for the AER to make its determination under paragraph (a) and clause 6A.7.2A(a);
- (4) the relevant factors the AER must consider in making its determination under paragraph (a) and clause 6A.7.2A(a); and
- (5) any other matters the AER considers relevant.

---

<sup>6</sup> As contained in clause 6A.6.6(a) of the NER.

<sup>7</sup> As contained in 6A.6.6(c) of the NER.

<sup>8</sup> As contained in 6A.6.6(e) of the NER.

<sup>9</sup> NER, clause 6A.7.2A relates to the making of a determination to set or adjust a methodology for a network alternative payment method.



### **Box 2: NER clause 6A.7.2A – Adjusting the network support payment allowance**

(a) The AER may, on application by a Transmission Network Service Provider during a regulatory control period, make a determination to:

- (1) adjust the network support payment allowance;
- (2) set a methodology for a network alternative support payment; or
- (3) adjust a methodology for a network alternative support payment previously determined under clause 6A.6.6A or this clause 6A.7.2A,

for that Transmission Network Service Provider in respect of any remaining regulatory year of that regulatory control period.

(b) An application submitted by a Transmission Network Service Provider under paragraph (a) must comply with:

- (1) the operating expenditure objectives;
- (2) the operating expenditure criteria;
- (3) the operating expenditure factors; and
- (4) any relevant requirements in the network alternative support payment guidelines.

(c) An application submitted by a Transmission Network Service Provider under paragraph (a) must comply with any relevant requirements in the network alternative support payment guidelines.

(d) The AER may (but is not required to) consult in a manner it considers appropriate on the application submitted under paragraph (a) before making a determination.

(e) A determination made by the AER under paragraph (a) must:

- (1) be consistent with the network alternative support payment guidelines; and
- (2) if applicable to an adjustment to the network support payment allowance, have regard to a methodology determined under clause 6A.6.6A or this clause 6A.7.2A.

## **2.2 Nature of the determination**

The opex objectives, criteria and factors under clauses 6A.6.6A(a)(3)-(6) and 6A.7.2A(b)(1)-(3) of the NER are the same criteria the AER is required to assess when deciding whether to accept a TNSP's proposed forecast opex in a revenue determination under clause 6A.6.6 of the NER. In the context of a revenue determination, we interpret these criteria together as requiring consideration of whether forecast opex can be reasonably considered to be 'prudent and efficient'.

### **Determination regarding future operating expenditure**

We will interpret the factors under clause 6A.6.6A(a)(3)-(6) of the NER together as meaning that the AER can, on application from a TNSP, make a determination on whether a payment methodology for an NNO project is likely to result in future expenditure which can reasonably be considered prudent and efficient.

We note that we do not approve a specific forecast amount of expenditure as part of a determination on a payment methodology. Rather, we assess if the proposed payment methodology is likely to result in a prudent and efficient amount of expenditure. The AER

may, at its discretion, comment on any component of the project that it considers is relevant to its overall assessment of prudence and efficiency.

### **Determining network support payment allowance adjustments**

We will interpret the factors under clause 6A.7.2A(b)(1)-(3) of the NER as meaning that the AER can, on application from a TNSP, make a determination on whether proposed expenditure for an NNO project can be reasonably considered to be 'prudent and efficient', and therefore whether that TNSP's network support payment allowance should be adjusted for any year of the current regulatory period.

## **2.3 Operationalising clauses 6A.6.6A and 6A.7.2A**

Chapter 3 sets out the general approach we will take in making a determination under clause 6A.6.6A and clause 6A.7.2A of the NER, including:

- the processes and timeframes for the AER to make its determinations<sup>10</sup>
- eligibility criteria and thresholds that will apply before the AER accepts an application for a determination<sup>11</sup>
- the relevant factors the AER must consider and information we may have regard to in making a determination on the prudence and efficiency of a proposed network support payment allowance adjustment or payment methodology<sup>12</sup>
- other matters the AER considers relevant to these processes and determinations.<sup>13</sup>

Chapter 4 sets out in more detail the information to be included in an application submitted by a TNSP to the AER for an adjustment of its network support payment allowance or determination of a methodology for a network alternative support payment.<sup>14</sup>

---

<sup>10</sup> As required under rule 6A.6.6A(e1)(3) of the NER.

<sup>11</sup> As required under rule 6A.6.6A(e1)(2) of the NER.

<sup>12</sup> As required under rule 6A.6.6A(e1)(4) of the NER.

<sup>13</sup> As permitted by rule 6A.6.6A(e1)(5) of the NER.

<sup>14</sup> As required under rule 6A.6.6A(e1)(1) of the NER.

# **3 Processes, timelines, thresholds, information and factors for our determinations**

The AER's assessment and determination may be based on various factors. This chapter outlines the general process, timelines, eligibility criteria and materiality thresholds that apply when a TNSP seeks a determination from the AER.

This chapter also sets out the factors we must consider, and other types of information and matters we may generally have regard to when making a determination on a methodology for a network alternative support payment, or approving an application to adjust a TNSP's network support payment allowance.

The AER will make a decision on each application for a determination on a case-by-case basis, having regard to the matters in this guideline, and the particular facts and circumstances relevant to the particular application.

## **3.1 Pre-application**

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 to 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.

## **3.2 Lodging an application – timing**

An application for a determination should be submitted well in advance of any implementation or compliance dates. The AER is not able to guarantee the assessment and finalisation of a determination before any relevant compliance or proposed implementation dates.

Applications to the AER for approval of a network support payment allowance adjustment, or a determination on a methodology for a network alternative support payment, should be made after the regulatory investment test for transmission (RIT-T)<sup>15</sup> and any 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.

### 3.3 Lodging an application – eligibility & thresholds

Consistent with clauses 6A.6.6A(b) and 6A.7.2A(b) of the NER, an application submitted by a TNSP must comply with all relevant requirements in this Guideline, including any eligibility criteria or materiality thresholds that apply before the AER will accept an application under clause 6A.6.6A(e1)(2).

**Box 3** lists the eligibility criteria and materiality threshold that the AER will apply under clause 6A.6.6A(e1)(2) of the NER before we will accept an application for a determination.

The eligibility criteria and materiality threshold will ensure that the AER has all relevant information needed to undertake a timely assessment of an eligible application, and that applications relate to financially significant NNO projects as intended by the ICRA Rule.

Chapter 4 outlines the type of information and supporting documentation TNSPs must include in an application to demonstrate an adjustment to the network support payment allowance or methodology for a network alternative support payment meets the eligibility criteria and the threshold set out in **Box 3**.

#### **Box 3: Eligibility criteria and materiality threshold to make an application**

##### Eligibility criteria

- 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 this Guideline.

---

<sup>15</sup> Where required.

#### Materiality threshold

- 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.<sup>16</sup>
- 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.<sup>17</sup> There should also be a material benefit in having the projects determined by the AER as a group.<sup>18</sup>

### **3.4 Consultation on an application**

Clauses 6A.6.6A(c) and 6A.7.2A(d) of the NER state that the AER may, but is not required to, consult on an application in a manner it considers appropriate before making a determination.

We propose to adopt a similar consultation approach as used for pass through applications under the NER<sup>19</sup>. 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 services 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
- 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.

### **3.5 Assessing prudence and efficiency**

This section describes the relevant factors the AER must consider in making a determination, and other types of matters we may generally consider when making a determination to adjust a network support payment allowance or that a methodology for a network alternative

---

<sup>16</sup> Or 1% of forecast revenues for intending (newly regulated) TNSPs.

<sup>17</sup> This may be demonstrated through an independent review and assessment of the draft contracts in the portfolio.

<sup>18</sup> The AER will accept an application that includes a portfolio of contracts at its discretion and subject to resourcing.

<sup>19</sup> NER, clause 6A.7.3(i).

support payment is likely to result in future expenditure that can be reasonably considered to be prudent and efficient.

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 1 Factors the AER must consider**

| Factors |  | Key considerations  |
|---------|--|---|
| 1.      | <b>Prudence</b><br><br>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"> <li>• a ‘preferred option’ through the RIT-T process, or an amendment to the process; or</li> <li>• 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).</li> </ul> |
| 2.      | <b>Efficiency</b><br><br>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"> <li>• efficient costs; or</li> <li>• the least cost that a TNSP could reasonably achieve in the circumstances.</li> </ul>   |

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 2 Other factors and information the AER may have regard to**

| Factors |   | Key considerations   |
|---------|---|--|
| 1.      | <p>The extent to which the forecast payments or methodology:</p> <ul style="list-style-type: none"> <li>• is the outcome of a competitive approach to market; or</li> <li>• 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.</li> </ul> | <p>Whether there is sufficient information and evidence to satisfy the AER. This may include evidence of:</p> <ul style="list-style-type: none"> <li>• a competitive tender taking place for the NNO service considered; or</li> <li>• a comparison of costs across comparable NNO services to determine reasonable cost, where a competitive process was not possible.</li> </ul>   |
| 2       | <p>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"> <li>• the mix of cost components and structure of payment methodologies;</li> <li>• risks or triggers that result in unnecessary or unreasonable cost components;</li> <li>• any terms that may be unreasonable, unnecessary or overly ambiguous; or</li> <li>• any conditions that may be unreasonable, unnecessary or overly ambiguous.</li> </ul>  |
| 3.      | <p>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"> <li>• 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;</li> <li>• the costs of realistic alternatives for obtaining the same service or otherwise meeting the identified need, including network and non-network alternatives;</li> <li>• the level of compensation needed to recover all reasonable costs incurred, net of alternative revenue sources, in developing the NNO service; and</li> <li>• payments or payment methodologies for similar services in similar circumstances, including other NNO services reviewed by the AER or in other publicly available information.</li> </ul> |

| 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. |

Chapter 4 outlines the type of information and supporting documentation TNSPs must include in an application to demonstrate that forecast expenditure for NNO services, or a methodology for a network alternative support payment is prudent and efficient.

## 3.6 Timeframe for decision

We propose to adopt a similar timeframe for a decision as set out by the NER for assessing cost pass through applications<sup>20</sup>, 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 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 or network support allowance adjustment can be made 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.

---

<sup>20</sup> This timeframe is consistent with the timeframe for a cost pass through determination under NER clause 6A.7.3(e)



## 4 Information requirements to make an application

Consistent with clause 6A.6.6A(e1)(1) of the NER, this section sets out the information to be included in an application submitted by a TNSP to the AER for an adjustment of its network support payment allowance or a determination of a methodology for a network alternative support payment:

- to demonstrate the project meets the eligibility criteria and threshold set out in section 3.3
- to demonstrate expenditure for a proposed network support payment allowance adjustment or methodology for a network alternative support payment is prudent and efficient as set out in section 3.

### 4.1 Demonstrating eligibility and thresholds

The AER considers that TNSPs should provide the following information to demonstrate that the application meets the **eligibility criteria** for an ex-ante determination:

- all relevant details for the project and related contract, including the NNO services being engaged, the service provider(s), the proposed payments and payment methodologies, and details of any other costs, costs components and triggers for all other potential expenditures involved
- a statement with supporting documentary evidence demonstrating that:
  - the TNSP has completed all relevant regulatory processes (including RIT-T disputes and any ‘material change in circumstances’) and that the relevant contract(s) have not yet been executed
  - the NNO project has been identified by the TNSP as a ‘preferred option’ under the completed RIT-T process, or ‘secondary option’ approved by AER as a lower cost option than the RIT-T preferred option due to a ‘material change in circumstances’
  - all required information outlined in Chapter 4 of this Guideline has been provided.

Where an application includes a portfolio of projects, a TNSP should demonstrate that:

- all projects in a portfolio meet the same need and are substantially identical in regard to their proposed payments or payment methodologies
- clearly document in summary form how the payments or payment methodologies for the projects are substantially identical, and the nature and reasons for any variations in an individual project’s payment or payment methodology
- there is a material benefit in having the projects reviewed as a portfolio.

To determine that an individual project, or portfolio of projects, meets the threshold, the TNSP must provide the AER with details of all assumptions and calculations used to show that the expected average annual payments for the project, or portfolio of projects, is forecast to exceed 1% of the TNSP’s AER approved unsmoothed revenues in a regulatory year for the current regulatory period. This information should be presented in a spreadsheet that

shows how the expected average annual NNO payment was calculated, the basis of the AER approved unsmoothed revenues, and include the application of CPI, and estimates of the time cost of money. The spreadsheet should show all formulas and input data.

## 4.2 Demonstrating prudence and efficiency

In addition to the information provided in section 4.1, the AER considers that the TNSPs must provide the following information to demonstrate a methodology is **prudent**:

- an explanation with supporting documentary evidence outlining why the TNSP believes contracting the NNO project is prudent (necessary). This can include:
  - a statement with supporting documentary evidence showing that any network support payment or methodology for a network alternative support payment is for an NNO project that:
    - has been identified by the TNSP as being required to meet a network need, and
    - has been identified by the TNSP as a ‘preferred option’ through the RIT-T process, or an amendment to the process, or a ‘secondary option’ approved by the AER on the basis it is a lower cost option than the RIT-T preferred options.

The TNSP must also provide an explanation and supporting documentary evidence to demonstrate the prudence of the structure of the components of the payment methodologies, and the conditions for triggering a payment or component of a payment in the draft contract. For example, unnecessarily large cost components, or unnecessary cost components may be considered not prudent. Likewise, triggers for costs that could be considered unnecessary, or overly ambiguous and likely to result in unnecessary costs being incurred may be considered not prudent.

The AER considers that the TNSPs must provide the following information to demonstrate a methodology is **efficient**:

- an explanation with supporting documentary evidence outlining why the TNSP believes the methodology is efficient. This can include:
  - a description of a competitive tender or procurement process used to establish the payment or payment methodology, including the type of approach(es) used, the offer(s) received, any subsequent negotiations or actions taken to achieve a competitive methodology;
  - where a competitive process was not available, a description of why a competitive process was not possible, the approach(es) to supplier(s) used in place of a competitive process, the offer(s) received, what steps the TNSP took to achieve the least cost offer, including any subsequent negotiations or actions to achieve the best available offer in the circumstances; and
  - an explanation of why the methodology is efficient and does not result in unreasonable costs, or an unreasonable risk of unnecessary costs.

Where a TNSP seeks a determination on a project that is part of a portfolio of projects, the TNSP should consider what / if any information from the other projects in the portfolio (which may or may not be eligible for a determination) may be relevant to enable the AER to assess the prudence and efficiency of the methodology for a network alternative support payment in a draft contract(s) or costs being reviewed.

# Glossary

| Term  | Definition                                  |
|-------|---|
| AEMC  | Australian Energy Market Commission         |
| AEMO  | Australian Energy Market Operator           |
| AER   | Australian Energy Regulator                 |
| NEM   | National Electricity Market                 |
| NER   | National Electricity Rules                  |
| NNO   | Non-Network Option                          |
| NSP   | Network Service Provider                    |
| RIT-T | Regulatory Investment Test for Transmission |
| TNSP  | Transmission Network Service Provider       |