Explanatory statement

Network alternative support payment guideline

March 2026

AUSTRALIAN ENERGY REGULATOR

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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 published its draft Guideline on 12 December 2025 and called for submissions on the Guideline. The AER received 3 submissions, which are available on the AER's website. The key issues raised in submissions, our responses and changes made between the draft and this final version of the Guideline are summarised in this explanatory statement. This Explanatory Statement can be found on the AER's website.

[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.

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 'prudency 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.

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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 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.[4] A determination made by the AER must be consistent with the Guideline (as applicable).[5]

[4] NER, clause 6A.6.6A(b).

[5] NER, clause 6A.6.6A(d)

3 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 prudency and efficiency of the network expenditure. Providing an application that meets the eligibility criteria and materiality thresholds is the responsibility of the applicant.

TNSPs may engage with us before seeking 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.

Submissions on section 3.1.2

Issue: *The AER should include content on how the ex-ante determination process would operate within a revenue determination process where an application is made as part of a revenue proposal.*

Transgrid and Energy Networks Australia (ENA) considered that the Guideline should specify:

- the timeframe in which the AER will aim to make a determination where an application is made as part of a revenue proposal
- whether the eligibility criteria and materiality threshold will apply to an application made as part of a revenue proposal.

Our response

We will assess any application made as part of a TNSP's revenue proposal in accordance with the Guideline. That is, any determination on a NNO payment methodology or adjustment to the network support payment allowance for the current regulatory period will be made in accordance with the process and timeline specified in our Guideline, with all relevant thresholds and eligibility criteria applying to the application. We note for clarity that we are not able to make determinations under rule 6A.7.2A on applications to adjust a TNSP's network support payment allowance for a future regulatory period.

Where an application under clause 6A.6.6A(a) is made in conjunction with a revenue proposal, and the AER makes an ex-ante determination on a methodology for a network alternative support payment, the AER will take that determination into account in assessing forecast network support costs expected to be incurred under that contract for the next regulatory period.

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~~ should 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~~ should include the relevant information outlined in section 4.1 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;[6] and
- NNO projects submitted together in a portfolio must meet the same identified need ~~and be substantially identical in regard to their proposed payments or payment methodologies~~.[7]

[6] Or 1% of forecast revenues for intending (newly regulated) TNSPs.

[7] This may be demonstrated through an independent review and assessment of the draft contracts in the portfolio or an associated RIT-T. ~~.~~

We expect that the materiality thresholds and eligibility criteria will all be met for an application to be accepted by the AER.

Submissions on section 3.1.3

Issue: *The 1% materiality threshold is not appropriate and should be removed.*

Transgrid and ENA have noted their view that the 1% materiality threshold set in the draft Guideline, while being in line with the transitional arrangements set by the AEMC, is not appropriate and should be removed. Transgrid further submitted that the current network support cost pass through arrangements do not apply a materiality threshold, and that a materiality threshold would potentially:

- increase transaction cost due to smaller projects being delayed to avoid regulatory risk
- distort market behaviour as proponents are incentivised to raise prices of NNO services to meet the 1% MAR threshold.

Additionally, Transgrid noted that it didn't consider that there would be a large volume of smaller projects undertaken over the next decade, and that the contractual arrangements would likely remain similar over time, allowing for an efficient review process and limiting burden on the AER. ENA additionally noted its consideration that the administrative burden associated with preparing an ex-ante application for a network support allowance adjustment already acts as a limiting factor in the number of applications that the AER will receive.

Our response

We consider that the 1% materiality threshold set out in the Guideline is appropriate. The network support cost pass through arrangement is designed to allow for a true-up of actual expenditure on network support arrangements. It is therefore appropriate that the network support cost pass through mechanism, which intends to prevent any over or under-recovery of network support costs, does not apply a materiality threshold. In contrast, the determinations specified in this Guideline are intended to increase the certainty that a TNSP will be able to recover costs for NNO projects undertaken, particularly large projects which carry a higher cost recovery risk owing to their size.

We do not agree that the materiality threshold applied to applications for determinations on NNO payment methodologies or adjustments to a TNSP's network support payment allowance would result in smaller projects being avoided or delayed as smaller projects inherently carry a lesser level of regulatory or financial risk. We also do not agree that a materiality threshold would result in distortions of market behaviour where NNO service proponents face competition against each other or against more traditional network solutions to meet network needs ('poles and wires'). We note that TNSPs would still be able to recover efficient costs related to smaller NNO projects which don't meet this materiality threshold through the network support cost pass through true-up mechanism and forecast network support payment allowances.

While we acknowledge Transgrid and ENA's comments relating to the administrative burden on the AER being limited due to current expectations of few anticipated small NNO projects or that applications will reflect similar contractual arrangements, we consider that the number of NNO projects considered by all TNSPs' collectively will likely increase over time. The AER would still face a degree of burden in making determinations related to immaterial NNO

projects, regardless of the structure of the contractual arrangements to be assessed, which we do not consider to be an efficient use of resources.

We also consider there to be benefits in applying a consistent approach in assessing the materiality of network support contracts for NNOs as we already do for network support contracts for system security.

Issue: *The AER should commence with a 12-month trial with no materiality threshold in place if it is minded to retain a materiality threshold in this Guideline.*

Transgrid submitted that the AER should consider a trial period in which no materiality threshold applies to applications for determinations specified in this Guideline.

Our response

We do not consider a 12-month trial with no materiality threshold applied to applications to be beneficial. We instead consider it favourable and equitable to maintain a consistent application of this Guideline to all applications, whether they occur within the next year, or at a later point in time. While we consider the number of applications relating to NNO projects likely to be low within the next 12-months, we anticipate that the number of NNO projects and payment methodologies to be assessed may increase in the future. As such, the volume of applications received, and the administrative burden on the AER, over the 'trial period' would not be representative.

Issue: *The AER should develop a standardised template for TNSPs to use when submitting the required information.*

Transgrid recommended the AER develop a standardised template to be submitted with any applications for determinations under this Guideline, in order to support consistency and minimise assessment delays.

Our response

We agree with Transgrid that a standardised template may assist networks in preparing higher quality applications, would likely reduce the amount of time taken by the AER in assessing applications, and may reduce the likelihood of further information requests to TNSPs. However, given that the AER has not received any applications for determinations under the transitional arrangements, we consider it appropriate to develop a template after we have had the opportunity to assess a small number of applications. The AER may consider formulating a standardised template to assist TNSPs in the future.

Issue: *Payment structures and methodologies for NNO projects submitted in a portfolio.*

Transgrid and ENA noted their concerns that the draft Guideline's requirement that NNO projects submitted in a portfolio must have substantially identical payment structures does not reflect the intent of the AEMC's final rule.

Further, Transgrid noted that some network needs will be met by a portfolio of NNOs such as generators and demand response which may legitimately require different payment structures.

ENA additionally recommended that the requirement to demonstrate material benefit in having projects reviewed as a portfolio should be removed, given that a portfolio of projects would have been identified as a preferred option under a RIT-T.

Our response

We agree with Transgrid and ENA's concerns regarding the draft Guideline's requirement that projects considered together in a portfolio require substantially identical payment structures and methodologies. We have removed this eligibility requirement from our final Guideline and this Explanatory Statement, reflecting the overarching point that where a combination of different technologies is to be used in meeting network needs, different payment structures and methodologies are to be expected. We have maintained the requirement that a portfolio of projects must still address a common identified need, such that a collection of NNO projects intended to meet disparate needs cannot be combined into a portfolio for the purpose of meeting the materiality threshold.

We agree with ENA's recommendation that the requirement for a TNSP to demonstrate material benefit in having projects reviewed as a portfolio should be removed from the final Guideline, given that the portfolio would have been identified as a preferred option under a RIT-T.

Issue: *It is unclear whether all or some eligibility criteria must be met for an application to be considered.*

Our response

We have clarified in the Guideline and Explanatory Statement that all thresholds and eligibility criteria should be met for an application for a determination to be accepted by the AER.

3.2 Reviewing an application – Consultation, assessment of prudency 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 NER[8]. 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;

[8] NER, clause 6A.7.3(i).

- 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;
- publishing a summary of the determination with appropriate redactions for confidential and commercial-in-confidence information, including our reasoning for decisions on the prudency and efficiency of the payment methodologies assessed.

Submissions on section 3.2.1

Issue: *The Guideline should refer to an alternative NER clause regarding consultation.*

ENA submitted that clause 6A.7.2(j) should be cited in place of 6A.7.3(i) regarding consultation on any applications covered by this guideline, given that this alternative clause specifically relates to network support payments.

Beyond this drafting recommendation, the ENA voiced broad support for the Guideline's approach to consultation on any applications.

Our response

We have made an amendment to the relevant footnote in the final Guideline.

3.2.2 Assessment of prudency 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 prudency and efficiency of expenditure for network alternative support services, or a payment methodology for these services. Prudency and efficiency are defined in Table 1.

Table 1 Factors the AER must consider

	Factors	Key considerations
1.	**Prudency** 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:

	Factors	Key considerations
		• 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: • 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 2 Factors and information the AER may have regard to

	Factors	Key considerations
1.	The extent to which the forecast payments or methodology: • 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.	Whether there is sufficient information and evidence to satisfy the AER. This may include evidence of: • 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.
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.	Whether there is sufficient information and evidence to satisfy the AER. This may include information regarding: • the mix of cost components and structure of payment methodologies; • risks or triggers that result in unnecessary or unreasonable cost components;

	Factors	Key considerations
		• any terms that may be unreasonable, unnecessary or overly ambiguous; or • any conditions that may be unreasonable, unnecessary or overly ambiguous.
3.	Whether a proposed contract for a NNO service or payment methodology is not unreasonable in the circumstances.	Whether there is sufficient information and evidence to satisfy the AER. This may include evidence and information relating to: • 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.
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.

Submissions on section 3.2.2

Issue: *Demonstration of prudency*

ENA recommended that the wording in section 4.2 of the Guideline be amended to reflect that the evidence provided by a TNSP does not need to unequivocally demonstrate prudency, but rather should support the TNSP's view that the expenditure is prudent.

Our response

We agree with the ENA's recommendation regarding the wording in section 4.2 of the Guideline and have made a slight drafting change to reflect that any evidence provided by a TNSP support the TNSP's view that a NNO project, or associated payment methodology is prudent, and does not need to provide positive demonstration of prudency.

Issue: *The AER's assessment of prudency and efficiency is too narrow.*

An anonymous submission noted the concern that the AER's assessment of prudency and efficiency as outlined in the Guideline is too narrow and should be broader, including by

considering whole-of-system reliability, system cost impacts, and alignment with 'engineering first principles'.

Our response

We consider the recommendation made by this submission to fall outside of the scope of this guideline and is instead more relevant in consultation on a RIT-T, AEMO's Integrated System Plan or the AEMC's rule changes.

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,[9] 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 issued to the TNSP.

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.

Submissions on section 3.2.3

Issue: *Information requests that 'reset the clock' on the AER's timeframe for a decision.*

Transgrid and ENA both submitted that the trigger for a 'reset the clock' event should be limited to information requests issued to the TNSP that has lodged an application for a determination, and not those issued to third parties which may have no incentive to provide a timely response.

Transgrid and ENA further recommended that any extension of the timeframe be limited to the minimum time necessary, and that the AER clarify how many times it may extend the assessment period, noting the time sensitive nature of contract negotiations with NNO service providers.

Our response

We agree with Transgrid and ENA's recommendation that the 40-business day timeframe for the AER to make a determination should be limited to the later of the time the AER receives

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

an application that meets the eligibility criteria and materiality threshold, or the date it receives any additional information sought by the AER in a subsequent information requests issued to the TNSP applicant. The Guideline and Explanatory Statement have been amended to reflect that the later of the dates is not intended to extend to information requests issued to third parties. Notwithstanding this change to the final Guideline, the AER will retain the discretion to extend the timeframe to make a determination by up to an additional 60 business days under exceptional circumstances.

Reflecting the time sensitive nature of contract negotiations between TNSPs and NNO service providers, the AER will seek to minimise extensions of the timeframe when assessing the prudency and efficiency of NNO payment methodologies or allowances.

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.

Submissions on section 4

Issue: *Future consolidation of guidelines*

ENA voiced support for the potential future consolidation of Guidelines which act in similar matter or focus on similar issues. Further, Transgrid and ENA broadly supported the close alignment between this guideline and the structure and content of the System Security Network Support Payment Guideline.

Issue: *Treatment of administrative and preparation costs associated with NNO contracts.*

Both Transgrid and ENA queried the AER regarding its position on the inclusion of administrative and preparation costs which arise solely as a consequence of delivering NNO projects, and supported inclusion of these costs within an ex-ante determination.

Our response

We will apply a consistent treatment of administrative and preparation costs included in applications for ex-ante determinations as we do in ex-post network support pass throughs. Our approach to the treatment of these costs is outlined in the Guideline for network support pass throughs.[10]

For the avoidance of doubt, the AER will consider costs other than the network support payments themselves on a case-by-case basis and where those costs directly relate to the NNO service. For example, these costs may include contract preparation and management expenses which directly relate to a NNO project or portfolio. Costs that would not be included are those relating generally to undertaking RIT-Ts, network planning or regulatory management activities. We consider these to be ongoing business as usual costs for TNSPs, without a direct nexus to specific NNO contracts, which we consider already compensated for through its general opex allowance.

[10] AER, *Procedural guideline for preparing a transmission network support pass through application*, sections 3.2–3.3.

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