Australian Energy Markets Commission

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ERC0348 – Accommodating financeability

The Australian Energy Council (AEC) welcomes the opportunity to respond to the consultation paper – Accommodating Financeability.

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035 and is part of the Australian Climate Roundtable promoting climate ambition.

Identifying the problem.

We remain sceptical as to whether regulated network service providers ability to raise capital is impacted in a manner that requires a regulatory response. In assessing the suitability of the regulatory framework the AER's approach should remain that financeability must be principally managed by the regulated firms. The financing challenges TNSPs face on large investments is not unique to them; any capital intensive long-lived asset enterprise will face comparable challenges in the current market and regulated firms can vary their capital structures to meet need.

Any change to the regulatory model is not required.

Assessing financeability applications

The AEC does not consider that the financeability challenges are likely to arise. In our view, the regulatory framework already adequately supports investment and there is insufficient evidence to conclude otherwise. However, given that the AEMC has concluded that financeability issues may arise in the future the AEC suggests the AER satisfy both themselves and the paying consumer that discretion is at least required.

As noted throughout the consultations, financeability is substantially impacted by the practices and choices made by the TNSPs themselves, including their individual financing and capital structure. A prudent regulator will therefore require proof that the TNSP cannot obtain financing before considering any regulatory proposal. This should be required in the form of:

- Evidence they cannot efficiently raise capital.
- Evidence their capital structures are sufficiently constrained to make regulatory investments unfinanceable.
- Evidence they have been unable to manage their capital structure and cash flows to maintain investment grade credit ratings.
- Evidence they are unable to raise capital in the current risk-free rate environment.

Where warranted, changes to estimating depreciation may be made in order to address financeability issues. The AEC supports varying depreciation if a solution is required.

Level 14, 50 Market Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au

ABN 98 052 416 083

Biodiversity offset costs.

Land purchased specifically for the purpose of meeting biodiversity offset obligations should not be depreciable. As a principle, land should not be depreciable because land has an unlimited useful life. Other costs of meeting biodiversity offset obligations could potentially be depreciable, such as buildings and equipment. However, biodiversity services would, like land potentially have an unlimited useful life.

Biodiversity offsets are by their very nature different from other assets that comprise a specific actionable ISP project. There are various alternative tax treatments that may apply to biodiversity offset costs that are beyond the scope of this submission.

Please contact the undersigned at David.Markham@energycouncil.com.au should you wish to discuss.

Yours sincerely,

David Markham
Australian Energy Council