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Australian Energy Markets Commission (AEMC)

Submitted online: https://www.aemc.gov.au/contact-us/lodge-submission

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Submission to AEMC EPR0087 Transmission Planning and Investment Review Draft Report Stage 2

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the AEMC EPR0087 Transmission Planning and Investment (TPI) Review Draft Report Stage 2 (Draft report).

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

Financeability

The AEC remains sceptical of there being financeablity challenges for TNSPs when it comes to funding actionable ISP projects and we have previously stated this in submissions to both the AEMC and the AER.[1] The Draft report does not provide any evidence to change this view. The TransGrid funds from operations to net debt chart and discussion provides no evidence of financeability challenges and the AER was also unconvinced by these arguments in 2020.[2]

Furthermore, the fact that TNSPs (and DNSPs) have historically all sold on multiples of RAB indicates that all other things being equal the regulated return on equity and debt provided to TNSPs is adequate to attract investors. The sales of long-term leases for AusGrid and TransGrid had multiples of 1.4. This is above 1.3 which is the upper bound that Darryl Biggar suggests is the range that should not cause concern.[3] While this is a crude metric and there are many other factors at play, it is reasonable to infer that the regulated rate of return is not too low and raising finance to fund purchases on this scale is achievable.

AER discretion to accelerate the depreciation schedule

The AEC believes it is unnecessary to provide the AER with discretion to alter an actionable ISP project's depreciation profile (ie, accelerating) because the case for financeability challenges has not been proven. Furthermore, as noted by the AEMC accelerating depreciation would have a material intergenerational price impact on transmission users.[4]

The AEC concurs with the AEMC's view that benefits to TNSPs will accrue if the current trailing average approach to the return on debt is replaced by a weighted trailing average approach.[5] The AEC strongly agrees with the AEMC's position that the rate of return should not be changed.[6]

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[1] https://www.energycouncil.com.au/media/xvvkavt1/20201203-aec-financeability.pdf
https://www.energycouncil.com.au/media/gbahcv0b/20210702-aec-rate-of-return-and-cash-flows-in-a-low-interest-environment.pdf

[2] Draft report, p16.
https://www.aemc.gov.au/sites/default/files/documents/rule_change_submission_-_erc0320_-_australian_energy_regulator_-_20201203_0.pdf

[3] https://www.aer.gov.au/system/files/AER%20presentation%20on%20RAB%20multiples.pdf

[4] Draft report, pp18-19.

[5] Draft report, p15.

[6] Draft report, p16.

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While not part of Stage 2 of the Review, contestability may offer a solution to the financeability concerns of incumbent TNSPs. Contestability would create a market for the large actionable ISP projects and if designed correctly should reveal the true efficient costs of these projects. While TNSPS have the option and not the obligation to undertake these large investments, the fact that the projects are contestable may reduce the pressure on them to undertake these projects when they have concerns over their ability to finance them. This is because they will be able to leave it to other parties to build the projects.

Nevertheless, if the AEMC is set on introducing a measure where the AER has discretion to alter a project's depreciation profile, this is preferable to any other approach (eg, changing the rate of return). However, before this is introduced the contestability stream of the Review should have concluded as it may demonstrate further that there is no validity to challenging financeability claims.

Market Benefits Test and hard to monetise benefits

As noted in its submission to the Consultation paper, the AEC believes market benefits remaining the primary metric for the economic assessment process.[7] The purpose of the analysis of these projects is to determine how they will contribute to the functioning of the NEM and attempting to incorporate other 'benefits' would significantly reduce the integrity of the assessment process. The AEC supports the AEMC's decision not to review the "net market benefits" test in the RIT-T further.

The AEC also supports the AEMC's decision to not consider hard to monetise benefits any further.

Unequal treatment of non-network options under the RIT-T

The AEC is disappointed that the review will not prioritise non-network options as a stand-alone issue. The AEMC states that this issue will be considered "through the broader reform options examined under the Review" and the AEC hopes this eventuates.[8]

Conclusion

The AEC notes that the Draft report contained no mention of the AEC's submission to the Transmission Planning and Investment Review Consultation Paper yet referred to many other submissions. In light of this, it is hoped that the AEMC will give due consideration to this submission.

Any questions about our submission should be addressed to Peter Brook, by email to peter.brook@energycouncil.com.au by telephone on (03) 9205 3103.

Yours sincerely,

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[7]https://www.energycouncil.com.au/media/gyelyh4q/20210930-aec-sub-aemc-trans-review.pdf

[8] Draft report, p69.

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