Australian Energy Markets Commission (AEMC)

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3 November 2022

Submission to AEMC EPR0087 Transmission Planning and Investment Review Stage 3 Draft Report

The Australian Energy Council welcomes the opportunity to make a submission to the AEMC EPR0087 Transmission Planning and Investment Review Stage 3 Draft Report (Draft).

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. 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.

The Draft (p. 83) sets out the other workstreams of this review ie, financeability, cost recovery and managing risk for TNSPs. These streams appear to be aimed at transferring risk from TNSPs to consumers and businesses while also increasing returns for TNSPs. Yet the introduction of contestability would be likely to at the very least partially address these issues. The AEC is disappointed that contestability is not being pursued as a priority. Because contestability could also potentially address some of the issues for consultation in this stage of the review. For example, it may reduce the 'need' for concessional finance through the participation of additional participants in the development of transmission infrastructure. As an organisation founded on the principles of sound economics, it is difficult to reconcile this with the AEMC's position on contestability.

Nevertheless, the AEC will continue to provide constructive feedback to the review and with respect to Stage 3, the AEC is primarily concerned with:

- maintaining the rigour of the current RIT-T process but acknowledging some minor streamlining could reduce timeframes; and
- the treatment of concessional financing to ensure the benefits accrue to consumers and businesses.

QUESTION 1: THE NEED FOR TIMELY DELIVERY OF MAJOR TRANSMISSION PROJECTS TO FACILITATE THE TRANSITION TO NET ZERO

The AEC supports improvements to the economic assessment process should focus on facilitating the timely delivery of major transmission projects, given their role in providing benefits to consumers and facilitating the energy transition. In stating this the AEC also wants to see no diminishing of the rigour that is currently applied when assessing the economic merit of transmission projects. The AEC believes this can be achieved through reductions in the overlaps within the current four stage process and increases in the efficiency of these processes.

With respect to a material reduction in time, at a minimum it should be six months. Consideration also needs to be given to the scale and complexity of changes required to achieve a reduction in time ie, for substantial changes a greater reduction in time would be necessary to justify the changes.

QUESTION 2: COUNTERFACTUAL ECONOMIC ASSESSMENT PROCESS

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The counterfactual appears to be a reasonable approximation of the economic assessment process.

Strawperson 1

Stawperson 1 maintains (and possibly enhances) the rigour of the current processes and potentially reduces the time required by 12 months. This is because TNSPs will be conducting their RIT-T while they are already undertaking early works. While undertaking the early works the TNSP is likely to increase its 'on the ground' knowledge of the proposed project which would be expected to better inform their RIT-T process. This approach also provides significantly more time to gain social license and consult with affected parties. The AEC supports taking forward Strawperson 1.

Strawperson 2

Strawperson 2 does not reduce the time required any more than Strawperson 1 and it also creates some risk in that a preferred option as determined by the TNSP is based on least cost only and not the RIT-T. Minimum cost as calculated by the TNSP does not necessarily translate to maximum net benefits. Nevertheless, the AEC believes that it is not unreasonable take Strawperson 2 forward for further consideration and look to addressing the discrepancies between least cost versus net benefits.

Stawperson 3

This removes the requirement for TNSPs to conduct the RIT-T process employing a market benefit test based on maximising net public benefits which has been in place since 1999.[1] The AEC disagrees with the Draft's claim that Strawperson 3 could be designed to have a "broadly neutral" impact on rigour relative to the counterfactual and other Strawpersons.

Under the current arrangements the RIT-T process is undertaken by TNSPs. This is logical because they have the greatest understanding of their region. TNSPs also have the highest degree of expertise and experienced personnel to conduct the RIT-T process. Strawperson 3 hands over a substitute for the RIT-T process to AEMO which does not have the expertise and experienced personnel. This would place an enormous burden on AEMO which currently takes two years to produce an ISP. Furthermore, it may take years for AEMO to build up the requisite expertise for this new task.

The AEC does not support taking forward Strawperson 3.

QUESTION 6: ASSESSMENT OF STRAWPERSON MODELS

The AEC does not agree with the initial assessment of Stawperson 3 as the AEMC has underweighted the potential loss of rigour in the process.

Treatment of concessional financing

In the first instance, a definition of what concessional financing is needs to be established. The Draft fails to explore this fully. Whereas one and a half pages are devoted to discussing what the objectives of concessional financiers are. In establishing a definition, the AEC proposes the following as a starting point:

> *Concessional financing is any financing that departs from the terms that are available in the market and also includes anything else as determined by the AER that reduces the cost of finance for the beneficiary when compared with the cost and risk outcomes provided under the non-concessional approach.*

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[1] https://www.aer.gov.au/system/files/The%20regulatory%20test%20-%2015%20December%201999.pdf

The AEC believes the treatment of concessional financing to be critical. It also considers it a relatively complex issue that requires significant stakeholder engagement and further, more detailed consultation.

As it currently stands, the rules NER Chapter 6A.6.2 sets out the calculation of the return on capital as based on a stand-alone TNSP that exposed to both equity and commercial debt financing. The latter is determined based on the assumed credit rating of the TNSP. Therefore, under the rules concessional financing would be treated as if the TNSP had to go to market for its funding. The AEC considers it to be unlikely that the provider (ie, the government) of the concessional financing would be seeking this outcome. The AEC is strongly supportive of 100 per cent of the benefits being passed through to consumers.

As the Draft states there are many ways that concessional financing can be treated to ensure the benefits flow to consumers. One possible approach for the treatment of concessional financing is set out below.

- If a government finances by providing equity, then it should earn the commercial return as currently determined by the AER. This is already the case for the Queensland and Tasmanian TNSPs.
- If a government finances through concessional debt, then the rate the government is charging the TNSP should be what is applied up to the assumption of a 60 per cent geared RAB. If the concessional financing exceeds this, then the gearing assumption for that asset should be increased in line with the level of debt.

Under this approach it would be interesting to see how enthusiastic TNSPs are for concessional finance when if for example, the federal government provides concessional debt for 80 per cent of a project. The TNSP would earn the AER determined return on equity for 20 per cent of the asset's value and effectively no return above the concessional debt rate on the remaining 80 per cent. Under the current arrangements, it is our understanding that TNSPs generally outperform on the AER's debt allowance.[2]

The AEC believes another approach (noted in Draft) where the concessionally financed portion of the asset is treated as a capital contribution, is worth further consideration. Under this approach the actual cost of the financing for this asset would be provided to the TNSP through its MAR.

QUESTION 7: NOTIFYING THE AER

The TNSP should notify the AER and this should be in the rules with civil penalties for non-compliance.

QUESTION 8: INFORMATION REQUIREMENTS

The AEC supports the four bullet points in the Draft (p. 77).

QUESTION 9: FINANCIER'S INTENT

The financier should be explicitly required to provide its intent for any split between consumers and the TNSPs.

[2] Likely because regulators have to err on the side of caution to ensure they do not cause the financial failure of the entities they regulate.

QUESTION 10: REGULATORY TREATMENT OF CONCESSIONAL FINANCE

If the financier does not provide its intent for the split between consumers and TNSPs, then the default should be 100 per cent for consumers.

The Commission is seeking feedback on whether introducing a timely delivery incentive (TDI) is a proportionate and effective way to encourage timely investment decisions.

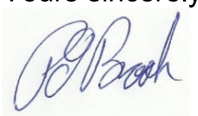
There is no need for a TDI and if there actually is a problem, the AEC believes contestability is the appropriate approach.

MANAGING INCREASED COST RISK AND/OR UNCERTAINTY ASSOCIATED WITH MAJOR PROJECTS THROUGH RISK ALLOWANCES AND STAGING

The AEC sees no need for additional staging of CPAs is necessary.

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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