



Stage 2 draft recommendations for the Transmission planning and investment review

The Australian Energy Market Commission (AEMC) has published its draft report for Stage 2 of the *Transmission planning and investment review*.

Stakeholders are invited to make submissions to the draft report by 14 July 2022.

Australia is undergoing a transformational shift to net zero. A grid that is underpinned by centralised thermal generation is moving to one that is dominated by decentralised renewable generation. There is broad consensus that transmission is a critical enabler for the transition of both the NEM and the broader economy to net zero and an unprecedented level of investment is required.

It is vital that we get the right balance between timeliness to meet the needs of the transition and rigour to ensure customers are not paying for more than they should. The speed and scale of decarbonisation of the NEM require substantial investment in and build of transmission infrastructure to bring power from renewable generation and storage to consumers. The Transmission planning and investment review is considering whether the current regulatory framework is sufficiently flexible to support this step-change build of transmission.

Stage 2 draft recommendations are designed to help manage uncertainty in the near-term

The Commission's Review looks at multiple issues relating to the planning and delivery of transmission infrastructure. Many of these issues are complex and interlinked, but all go to the overarching objective of obtaining the right balance between time and efficiency to support the transition to net zero.

The draft recommendations in Stage 2 are designed to help manage uncertainty in the near-term to support the timely and efficient delivery of major transmission projects. The Commission has drawn on stakeholder feedback to prioritise four key issues we consider can be addressed in the near-term.

The Commission's draft recommendations are as follows:

Introducing greater flexibility to mitigate the foreseeable risk that financeability concerns may arise in the future

The Commission's draft position is that the revenue setting framework would benefit from more flexibility to address the risk of financeability challenges that may arise in the future. This flexibility should provide more confidence for investors while providing protections for consumers.

To enable this flexibility, the Commission's draft proposal is for the Australian Energy Regulator (AER) to be given the explicit ability to vary the depreciation profile for actionable ISP projects where it considers it would better meet the National Electricity Objective. This will enable cash flows to be tailored on a case-by-case basis if needed for particular projects.

Providing greater clarity around social licence outcomes in the national framework

The Commission recognises that building social licence is a significant issue and that obtaining community acceptance of major transmission projects is critical for their timely and efficient delivery. The Commission agrees with stakeholder submissions to the consultation paper that social licence considerations should be a priority area for this

Review.

The Commission's draft position is that:

- Transmission network service providers (TNSPs) should continue to invest in social licence activities, recognising it is vitally important to enabling the energy transformation by ensuring the needs and perspectives of stakeholders, communities and landowners are appropriately factored into decision making. Existing work in this area by jurisdictional governments and the Australian Energy Infrastructure Commissioner in identifying key issues and promoting best practice actions remains critical to supporting the timely and efficient delivery of major transmission projects.
- Existing cost recovery mechanisms are largely appropriate and allow TNSPs to recover efficient costs associated with key activities to build and maintain social licence.
- Existing obligations for TNSPs to build and maintain social licence are largely appropriate. The Commission seeks stakeholder views on whether there are any barriers to stakeholder engagement taking place earlier in the regulatory investment test for transmission (RIT-T) process.

Providing greater clarity on the cost recovery of different types of planning activities

The Commission considers that planning activities should be more clearly distinguished in the regulatory framework to provide greater certainty around cost recovery.

The Commission's draft recommendation is to make changes to distinguish between planning activities for actionable ISP projects based on whether they relate to the *selection* or *delivery* of a preferred option to meet an identified need.

This would be given effect through amending the definition of 'preparatory activities' in the NER, as well as removing the term 'early works' from AER and AEMO documentation and replacing it with consistent language that characterises activities as either preparatory or not, based on their purpose.

Improving the workability of the feedback loop

The Commission's draft position is that the workability of the feedback loop could be improved by better aligning it with the publication of a draft or final ISP.

Under the recommended changes, a feedback loop and Project Assessment Conclusions Report exclusion window would be established between AEMO's final Inputs, assumptions and scenarios report (IASR) and a draft ISP. This would ensure that the assessment uses the latest IASR information to determine if the preferred option remains aligned with the latest ISP or draft ISP.

The Stage 2 draft report is part of a larger body of work to support the efficient use of transmission infrastructure and the timely and efficient delivery of major transmission projects

The Review is part of a larger program of work to make sure the national regulatory framework is flexible enough to support the transformational shift in the energy market. The program of work seeks to create a national regulatory framework for transmission that is fit-for-purpose and ensures major projects in the medium-to long-term are delivered in the most timely possible way with robust consumer protections in place.

A different approach has been taken to this Review with work being delivered in stages. This recognises that some issues can be addressed more quickly, while others will require significant work due to their inherent complexity. These stages are:

- **Stage 2 – near-term reforms:** This stage focuses on both reducing uncertainty and near-term solutions, including recommendations to address any foreseeable financeability issues which may arise.
- **Stage 3 – longer-term reforms:** This stage focuses on issues that are of considerable complexity and/or are longer-term reforms. The key area of focus for Stage 3 is whether there are potential opportunities to improve the balance of timeliness and rigour in the economic assessment process.
- **Contestability workstream:** This workstream focuses on examining whether contestability in the provision of transmission services could be a proportionate approach to the existing

regulation of transmission projects.

Next Steps

The Commission will hold a stakeholder forum on 23 June 2022 to provide an overview of this report.

The Commission intends to publish the Stage 2 Final report in October 2022.

Other key publication dates under the Review are:

- an options paper for the contestability workstream on 7 July 2022
- the Stage 3 draft report in mid-September 2022.

For information contact:

Rupert Doney, **Senior Adviser** 02 8296 0668

Alisa Toomey, **Acting Director** 02 8296 0663

Media enquiries: media@aemc.gov.au

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