

**Network of Illawarra Consumers of Energy  
Submission in response to the Transmission  
Planning and Investment Review Stage 2  
Draft Report  
June 2022**

## Network of Illawarra Consumers of Energy

### Submission in response to the Transmission Planning and Investment Review Stage 2 Draft Report

#### Summary

This submission is made by the Network of Illawarra Consumers of Energy (NICE), a recently formed entity advocating for the energy transition to a net-zero carbon future to be managed with the interests of consumers at heart.

We appreciate the essential role that additional transmission investment must play as the geographic location of generation changes over the next two decades to places rich in solar and wind resources rather than coal resources. However, getting this investment to the Goldilocks zone of being neither too much nor too little but just right is complex and inherently involves significant financial risk.

In its Stage 2 report of its Transmission Planning and Investment Review, the Australian Energy Market Commission (AEMC) proposes that the National Electricity Rules be amended to address part of this risk. The identified risk is that the investment may not be ‘financeable’ under current rules. The proposal is that cashflow from the investment should be brought forward by changing the approach to depreciation.

In this submission, we outline why we think this proposal is misguided. Firstly, it is not necessary to change the Rules for the Australian Energy Regulator to adjust depreciation in the way suggested. However, we outline why this change to depreciation would only exacerbate an existing issue of intergenerational inequity.

We suggest that a preferable course of action is to identify ways that Government might invest in transmission projects. We note that it was a recommendation of the Finkel Review, accepted by the COAG Energy Council, that the AEMC would develop a framework to evaluate priority transmission projects and include guidance for governments on the circumstances that would warrant a government intervention to facilitate investments. We also note that the newly elected Albanese Government’s election policy included *Rewiring the Nation*, which outlined its plan to invest up to \$20 billion in facilitating new transmission construction.

We recommend the AEMC terminate the discussion of this recommendation and instead work with the AER to provide advice to the Commonwealth Government on how this investment can work with the economic regulatory framework and bring forward the necessary investment.

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## Glossary

AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ALP	Australian Labor Party
CDP	Candidate Development Path in the ISP
COAG	Council of Australian Governments – an entity that existed from the 1991 recession until the 2020 recession
CPI	Consumer Price Index (Australian measure of inflation)
EC	COAG Energy Council
ESB	Energy Security Board
Finkel Review	<i>Independent Review into the Future Security of the National Electricity Market: Blueprint for the future</i> , chaired by Alan Finkel, that reported to COAG leaders in 2017.
ISP	Integrated System Plan – a recommendation of the Finkel Review designed to be more than a transmission plan on steroids.
NGL	National Gas Law
NEL	National Electricity Law
NEM	The (misnamed) National Electricity Market. The term is used to refer to the bulk power market operated by AEMO and the integrated electricity system, including regulated networks and competitive retail markets.
NEO	National Electricity Objective
NICE	Network of Illawarra Consumers of Energy
NPV	Net Present Value
RAB	Regulatory Asset Base
REZ	Renewable Energy Zone – a concept introduced by the Finkel review, referred to in the ISP, not consistently defined across the NEM.
RoR	Rate of Return
RoRI	Rate of Return Instrument
TNSP	Transmission Network Service Provider
WACC	Weighted Average Cost of Capital

## Introduction

### NICE

The Network of Illawarra Consumers of Energy (NICE) is a recently formed informal network advocating for the energy transition to a net-zero carbon future to be managed with the interests of consumers at heart.<sup>1</sup> This necessary transition needs to occur at the least cost to consumers while maintaining reliability and security of energy services, appropriate consumer protections for essential services and a just transition for affected workforces.

We believe there is a role for regionally based advocacy within the context of nationally consistent energy policy. The choice and options for energy supply do differ by geographic region regarding different climatic conditions affecting demand and supply options and different risk factors impacting resilience planning. David Havyatt is the sole author of this submission.<sup>2</sup>

We appreciate the opportunity to comment on the Australian Energy Market Commission's (AEMC) *Transmission Planning and Investment Stage 2 Draft Report* (the Draft) of June 2022. This is a self-initiated review by the AEMC, the need for which the AEMC gleaned during consideration of the *Financeability of ISP projects* rule change. In that project, stakeholders raised significant issues about the timely and efficient delivery of major transmission projects identified in the Integrated System Plan (ISP). The AEMC has noted that Transmission Network Service Providers (TNSPs) have a monopoly right to build and own ISP transmission projects but no corresponding obligation.<sup>3</sup>

In this submission, NICE will only focus on the recommendation that the Australian Energy Regulator (AER) should have the explicit ability to vary the depreciation profile for actionable ISP projects to address financeability challenges. We oppose this proposal because there is no circumstance in which the proposed change to depreciation to address financeability would better meet the National Electricity Objective.

In making this objection, we further note that:

- it would not of itself provide certainty that the TNSP would invest in the project;
- it is inconsistent with the recommendations of the Finkel review, which provides the basis for the ISP, and;
- the election on 21 May 2022, and the incoming Government's policy has rendered it unnecessary.

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<sup>1</sup> The network has not yet started actively recruiting participants.

<sup>2</sup> Mr Havyatt was employed as Senior Economist at Energy Consumers Australia from October 2015 to August 2020. For the avoidance of doubt, nothing in this submission is the position of Energy Consumers Australia.

<sup>3</sup> See AEMC *Transmission planning and investment review: Terms of reference* at [https://www.aemc.gov.au/sites/default/files/documents/terms\\_of\\_reference\\_-\\_transmission\\_planning\\_and\\_investment\\_review\\_0.pdf](https://www.aemc.gov.au/sites/default/files/documents/terms_of_reference_-_transmission_planning_and_investment_review_0.pdf)

## Background

In response to concerns about the security and reliability of electricity supply following the system black even in South Australia in September 2016, the Commonwealth Government, with the subsequent agreement of the COAG Energy Council, commissioned a review by a committee chaired by Dr Alan Finkel.<sup>4</sup> The subsequent report, *The Independent Review into the Future Security of the National Electricity Market: Blueprint for the future*, was presented on 9 June 2017.<sup>5</sup>

On 31 August 2017, the Hon Josh Frydenberg, as Chair of the Energy Council, wrote to the Prime Minister with a *Report to the Council of Australian Governments of the Implementation Plan for the Independent Review into the Future Security of the National Electricity Market*.<sup>6</sup> That stated:

*The Council will ensure the implementation of the 49 agreed recommendations within the timeframes put forward by the Finkel Review.*

Famously, the fiftieth recommendation on which they weren't prepared to act was the recommendation on a clean energy target. The report also observed:

*The Report will be the first in a series of annual reports to COAG from the Council, and implements Recommendation 7.4 of the Finkel Review concerning reporting on priorities and progress. In light of the pace of change in Australia's energy markets, the Council will report annually to update leaders on emerging issues and strategic priorities.*

There is no evidence that Energy Council provided COAG leaders with these updates, and since neither still exists, it is unlikely that they will.

The development of the Integrated System Plan, which came to replace the National Transmission Network Development Plan, was recommendation 5.1 of the Finkel Review but should be read in conjunction with recommendation 5.2 about the use of the plan.

### *Improved system planning*

*5.1 By mid-2018, the Australian Energy Market Operator, supported by transmission network service providers and relevant stakeholders, should develop an integrated grid plan to facilitate the efficient development and connection of renewable energy zones across the National Electricity Market.*

*5.2 By mid-2019, the Australian Energy Market Operator, in consultation with transmission network service providers and consistent with the integrated grid plan, should develop a list of potential*

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<sup>4</sup> That the review was initiated on the false premise that the system black event had causes other than the impact of a well forecast storm on transmission and the imprudence of having the SA-Vic interconnectors operating at near full load before the storm is always worth remembering, but not important in the context of this submission.

<sup>5</sup> <https://www.energy.gov.au/government-priorities/energy-markets/independent-review-future-security-national-electricity-market>

<sup>6</sup> The report is only available on the National Library of Australia's webarchive <https://webarchive.nla.gov.au/awa/20190404150119/https://prod-energycouncil.energy.slicedtech.com.au/sites/prod.energycouncil/files/publications/documents/Report%20to%20Leaders%20signed.pdf>

*priority projects in each region that governments could support if the market is unable to deliver the investment required to enable the development of renewable energy zones.*

*The Australian Energy Market Commission should develop a rigorous framework to evaluate the priority projects, including guidance for governments on the combination of circumstances that would warrant a government intervention to facilitate specific transmission investments.*

The only direct reference to this recommendation in the Energy Council letter to COAG Leaders said, “Identify potential projects that governments could support if the market is unable to deliver investment in renewable energy zones.”

The Energy Security Board (ESB) provided in Volume 1 of its *The Health of the National Electricity Market 2020 Report* (as Appendix A) a table detailing the implementation status of all 50 recommendations.<sup>7</sup> This table shows action on five recommendations as being ‘Under consideration/Hold’, including Recommendation 3.2, which wasn’t initially accepted.

A further fifteen recommendations are recorded as being ‘on track’, including Recommendation 5.2.<sup>8</sup> It is unfortunate that the ESB also chose to paraphrase recommendation 5.2, following the EC letter, as “Identify potential projects that governments could support if the market is unable to deliver investment in renewable energy zones.” However, the recommendation is clear that the investments are transmission investments identified in the ISP, not investments in renewable energy zones.

We have included this analysis of the Finkel Review and Energy Council response to note that there is an outstanding task for the AEMC to **provide guidance to governments on the combination of circumstances that would warrant a government intervention to facilitate specific transmission investments**. The Transmission Planning and Investment Review seems to be the vehicle whereby the AEMC could undertake this task, and it is our view that it should be a core feature of the review.

## Restatement of the Problem

The problem that the AEMC has identified is simply that Transmission Network Service Providers (TNSPs) have a monopoly right to build and own ISP transmission projects but no corresponding obligation. Given that the regulatory framework guarantees a network provider the opportunity to recover their efficient costs and the commentary by TNSPs, the AEMC is addressing the ability of the TNSP to raise the necessary finance for that investment.

The AEMC has, we believe correctly, identified that the only way to ensure that TNSPs do invest is to change the arrangements for the recovery of capital, that is, the return on capital and of capital. However, in doing so, the AEMC has not considered alternatives to those rearrangements that include reducing the amount of finance they are required to find or providing alternative sources of that finance. Both of these are activities available to

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<sup>7</sup> <https://esb-post2025-market-design.aemc.gov.au/32572/1608714620-the-health-of-the-national-electricity-market-volume-1-the-esb-health-of-the-nem-report.pdf>

<sup>8</sup> The structure of recommendation 5.2 makes it unclear whether the timing of ‘by mid 2019’ was meant to apply to both paragraphs. We contend that it did, and to claim this is ‘on track’ was erroneous.

Government. Given the Energy Council's commitment to implement Finkel recommendation 5.2, the AEMC should include them in its analysis.

Fundamentally this is a discussion about risk. A financier would not provide additional debt finance to a TNSP based on their assessment that the risk inherent in the investment exceeds the rate of return they would achieve on their investment.

One of the central tenets of modern public policy is that risk should be assigned to the party best able to manage that risk. This was one of the principles governments used in developing privatisation policies in the 1980s and 90s. It was perceived that in many circumstances, private sector incentives were better placed to manage risk. Risk management involves identifying risks and then mitigating risks by reducing their likelihood or the severity of their impact. However, there is always some residual risk that has to be borne.

The risk confronting new transmission investment is primarily that the investment is unnecessary. For the TNSP and the financiers, this becomes a risk that the commitment to 'capital maintenance' is broken as the cost to consumers of an unused asset becomes unsustainable. In brief, the financiers and TNSPs require a premium to be prepared to bear this risk.



## Analysis of the AEMC's Proposal

### The proposal

The AEMC rightly observes that the problem only needs solving now because this is the first time since market reform that the need for new transmission investment is sizeable in comparison to the existing Regulatory Asset Base. However, it, unfortunately, jumps immediately to assuming this needs to be addressed with cash flow adjustments. It then, confusingly, suggests that cash flows could be changed by adjusting the return on capital (the allowed rate of return) or adjusting the timing of the return of capital provided by depreciation allowances.

The first of these would adjust cash flow but would also violate the 'NPV=0' principle<sup>9</sup> if the adjustment to the return on capital was artificially high to induce investment.<sup>10</sup> It is also not within the scope of the AEMC to implement, as the changes to the National Electricity Law (NEL) and the National Gas Law (NGL) removed the AEMC's Rules. We note, however, that the AEMC is wrong (in Box 1 of the Draft) to claim the AER sets the allowed rate of return for a 'benchmark efficient entity.' That was part of the Rules repealed with the Law changes.

If the AER has the power to make an instrument that varies depending on the recency of capital investment, the AER already has that power. However, we should note that if a TNSP does raise all the capital for a new project, they will increase their debt to equity ratio and reduce their cost of capital below the allowed rate.

The AEMC then turns its attention to depreciation schedules and proposes that the AER not be required to apply straight line depreciation to these assets. While we will explain why this proposal from the AEMC is misguided, it would be unnecessary if not misguided. The relevant Rule 6A.6.3(c) reads in full:

- (c) To the extent that:
  - (1) an asset (or group of assets) the value of which forms part of the regulatory asset base for a *transmission system* is dedicated to one *Transmission Network User* (not being a *Distribution Network Service Provider*) or a small group of *Transmission Network Users*; and
  - (2) the value of the assets (or group of assets), as included in the value of that regulatory asset base as at the beginning of the first *regulatory year* of the current *regulatory control period*, exceeds the *indexed amount*, as at the commencement of that *regulatory control period*, of \$20 million,

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<sup>9</sup> The NPV=0 criterion is that the net present value at the date of the investment of the lifetime cash flows from the asset equal the value of the investment.

<sup>10</sup> Consumer advocates, including the AER's current Consumer Reference Group (CRG) engaging on the 2021 Rate of Return Instrument (RoRI), argue that the allowed rates of return have already been biased towards inducing investment.

that asset (or group of assets) must be depreciated on a straight line basis over the life at which that asset (or group of assets) was first included in the regulatory asset base for that *transmission system*.

It is clear that the big investments being considered do not meet the first criterion of the conjunction; they are not assets dedicated to one network user or a small group of transmission network users. Hence the AER is not constrained to using straight-line depreciation for the transmission investments required under the ISP.

## The current approach to the return on and of capital

Despite it not being a requirement under the Rules, the AER does favour a (real) straight line depreciation approach. This is achieved by the RAB revaluation approach, which is offset by a reduction in allowed depreciation equal to the amount of the RAB revaluation. It is not difficult to show that this is an NPV=0 approach (assuming a constant rate of return).

The consequence of this approach is that consumers return the same real amount of capital to the Network Service Provider in each year of operation. But it doesn't mean that consumers make an equal payment to the network provider for each year of the asset's life for the return of and on capital, as the revenue allowance for return on capital (RAB \* RoR) is much higher in the first years of the asset. At the same time, utilisation of the asset is lower in the early years of the asset.

This distortion was not much of a concern when the amount of new capital added each year is a relatively constant stream. As all the major existing transmission assets were constructed during government ownership, the impact of large individual investments has not thus far been seen. The AEMC analysis has been inspired by the submissions about funding Project EnergyConnect. This project is a single large addition to the RABs of ElectraNet and Transgrid. However, the total forecast transmission investment in the ISP is much greater. The combined RAB of the TNSPs in 2020 was \$21.214 Billion. Our estimate of the additional transmission investment identified in the Draft 2022 ISP is \$14.813 billion to 2030 and a further \$15.382 billion between 2030 and 2040.

To see the combined effects of straight-line depreciation and growing utilisation on prices paid by consumers, we start by calculating the payment for the return on and of capital for an investment. We have used a nominal WACC of 6%, CPI of 3%, an asset life of 50 years and an investment of \$1.53 billion. As shown in Figure 1, the annual payment starts at over \$70 million and declines to just over \$30 million. As the depreciation allowance stays the same, the effective return on capital (i.e. net of the asset revaluation) steadily declines. If the asset was used to transfer the same amount of energy each year, consumers in the first year pay twice as much in real terms as consumers in the last year. That seems to violate the goal of intergenerational equity.

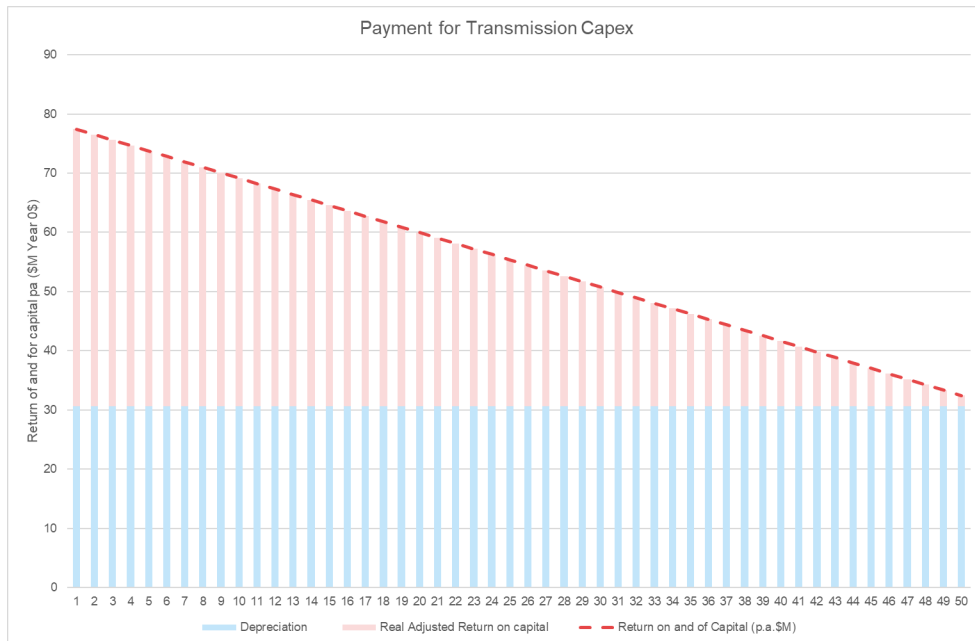


Figure 1: Payments each year for the return of and on capital

We then consider the likely utilisation of a major transmission asset. AEMO published a set of workbooks titled *Draft 2022 ISP Generation Outlook*<sup>11</sup> with the Draft ISP, which included draft results workbooks for each scenario. Each of these workbooks contains a range of outputs; the user can choose which CDP and NEM region to model. These include expected import and export flow for each region. If we use the aggregate of the export and import flows for a region at one end of an interconnector and assume that only that interconnector connects the region to other regions, we can develop a notional load expectation for the interconnector.

Doing that for the South Australian forecasts,<sup>12</sup> we get a total transfer forecast to 2050-51, which is shown in Figure 2.

<sup>11</sup> <https://aemo.com.au/-/media/files/major-publications/isp/2022/draft-2022-isp-generation-outlook.zip?la=en>

<sup>12</sup> Using the Step Change (considered most likely) scenario and CDP 12 (which is consistent with the assumptions in the Optimal Development Path)

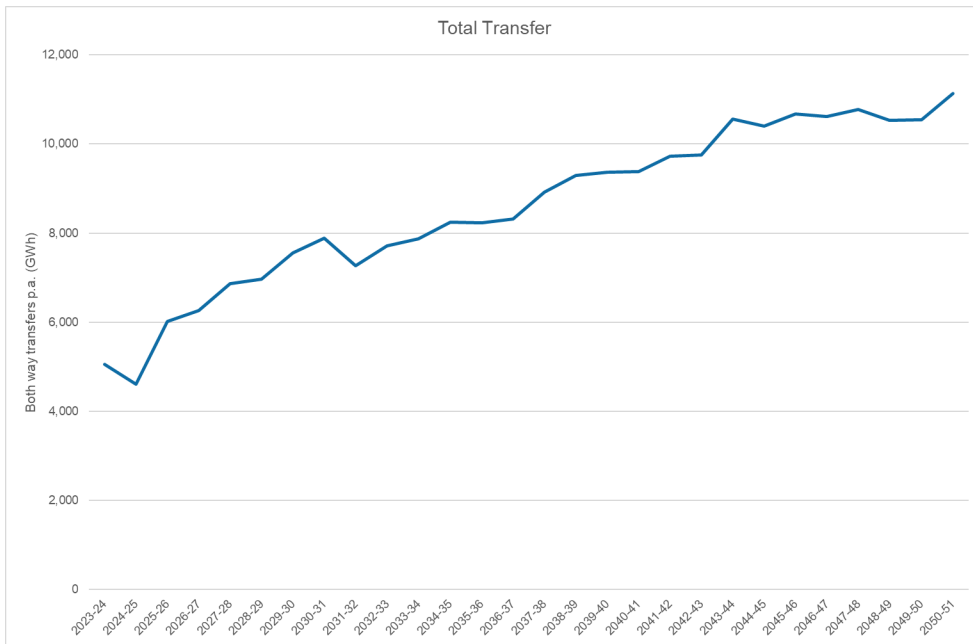


Figure 2: Forecast expected total transfers to and from SA

If we assumed that the transmission link we modelled total payments for was used only to service all of these transfers, we could calculate the cents per kWh consumers pay for these transfers. We assume the transfers remain the same each year beyond the ISP forecast period. The result is shown in Figure 3.

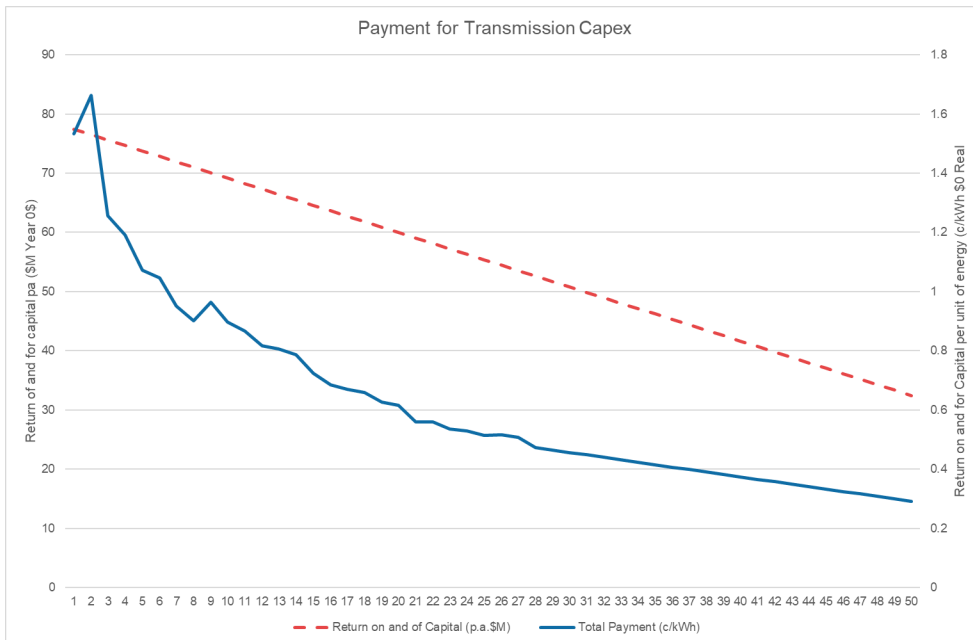


Figure 3: Payment by consumers for interconnection

We see that consumers pay 1.6 c/kWh for the transmission of interconnector delivered energy soon after the asset is built, while future consumers pay as little as 0.3 c/kWh.

To tilt depreciation in such a way that the network got increased compensation in the earlier years would make intergenerational bias worse.

## Alternative to the AEMC's proposal

### History of Government Investment in Electricity Transmission

The dominant narrative on economic reform that Australia's electricity supply was provided by vertically integrated state enterprises until reformed following the Hilmer report masks important characteristics in the history of the electricity supply industry. This dominant narrative masks important differences over the history of the industry and motivations for government involvement.<sup>13</sup>

In common with all developed countries, electricity supply began as a municipal scale business. In Australia, the development of electricity supply (apart from its use in traction for public transport) was almost universally to provide public street lighting. Street lighting is a public good (non-excludable, non-rivalrous – i.e. a product that one individual can consume without reducing its availability to others and from which no one is excluded.) Consequently, electricity supply was procured by municipal governments (local councils). Four different models are identifiable; a council investment and operation (e.g. Sydney Council's Electricity Undertaking), contracting a private company (e.g. Balmain Power Company)<sup>14</sup>, contracting an existing council or private company to extend into the council, or buying bulk supply from another company but running council's own distribution services.

That there was a greater proportion of direct Government (albeit local) investment in these endeavours reflected a difference between Australia and other countries such as the UK or USA. John Quiggin identifies three factors that create this difference: our origins as a penal colony where the Government delivered the whole of society's needs; our development of democratic Government without revolution or force, so the Government is not a power to be feared; and, the geographic consequence of a vast, thinly populated land where only the Government could raise the requisite finance for many projects.<sup>15</sup>

The development of State government owned enterprises (the State Electricity Commissions) occurs at different times in the various states and with different final operating models. The motivations also varied. In Tasmania, the motivation was electricity for economic development especially metallurgical industries. In South Australia and Victoria, intervention was motivated by concerns about the security of supply as both suffered disruptions in black coal supply from New South Wales. The development of brown coal resources necessitated generators being built where the coal was (remote from load). There was a scale issue in this investment and a need to coordinate investment in generation and transmission.<sup>16</sup>

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<sup>13</sup> The discussion that follows is drawn from Havyatt, D 2022, 'History of Electricity Reform in Australia', in G Roger (ed.), *On the Grid: Australian Electricity in Transition*, Monash University Publishing, Melbourne

<sup>14</sup> Most of the private companies were listed on the London Stock Exchange due to the inability to raise sufficient capital in Australia. Note that the Australia economy has a net capital importer for much of its post-colonial existence.

<sup>15</sup> Quiggin, J 1996, *Great expectations: microeconomic reform and Australia*, Allen & Unwin.

<sup>16</sup> This need for coordination is best understood through the lens of New Institutional Economics (also known as Transaction Cost Economics)

New South Wales and Queensland came later in their development of State Electricity Commissions. Both were motivated by the requirement to provide electricity for economic development, and both had an emphasis on the importance of doing so for development outside the cities. However, in the case of New South Wales, distribution always remained separate from the Commission.

When the State Commission model resulted in massive over-investment in generation, the Commonwealth Government moved to increase the capacity for interstate trade in electricity. The Commonwealth's model was based on operating a single National Grid, and the States and Territories agreed to form a National Grid Management Council to deliver it. However, it was soon clear that the NGMC could not achieve this aim. Rodd Sims (then a Deputy Secretary in the Department of Prime Minister and Cabinet) observed that the NGMC was 'a cooperative venture in an industry accustomed to barriers to entry and the monopoly rents associated with them.'<sup>17</sup> Nevertheless, the reform process did result in the creation of the wholesale electricity market and structurally separated transmission.

The question of privatisation of transmission is a different story. It was privatised early in Victoria and South Australia. Both state governments had precarious finances after the property price collapse in the early 1990s. In Victoria, especially, electricity privatisation was a fiscal more than a philosophical position. New South Wales has only much more recently privatised its transmission company. In Queensland and Tasmania it is still Government owned.

## The Economics of Government Investment

We have noted above two rationales for government investment in transmission. The first is the transaction cost economics rationale. Imagine structurally separated transmission providers only delivering that electricity transmission. What is the motivation for the provider to build new infrastructure that supports new generation? The transmission operator needs to decide based on forward orders (or requests) for transmission by generators, or the transmission operator could build transmission based on its assessment of where there are good resources to exploit.

In both these cases, the transmission operator is at risk of 'hold-up' whereby the generation investors could demand that the transmission provider sell transmission at a lower price to connect them.<sup>17</sup> So the transaction cost economics conclusion is that the generator should be vertically integrated with the transmission operator. The size of this combined investment in transmission and generation led to the government investment in the State Electricity Commissions.<sup>18</sup>

The alternative is that the transmission investment is made by someone who can bear the risk of hold-up (or delays in utilisation in general). The party that is best able to bear this risk is Government. This is because (a) they have the power of taxation and (b) within limits, they can legislate to improve the position. Therefore, to the extent that the private sector thinks the new

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<sup>17</sup> We note that technically in the NEM the transmission charge is passed to the consumer side, but in physical goods wholesale markets, the producer pays to get their goods to the market.

<sup>18</sup> See Butlin, N, Barnard, A & Pincus, J 1982, *Government and Capitalism: Public and Private Choice in Twentieth Century Australia*, Allen and Unwin, Sydney. P. 254

investment involves risks that are too great to bear, including lenders who don't find the post investment cash flows palatable, Government should invest in large scale new transmission infrastructure. Government investment should be predicated on the assumption that over the long term, it will be recouped (though not necessarily exited from). The cash flows for return of and on capital, however, need to be profiled to match the actual utilisation profile of the asset.

The public good characteristics of electricity supply haven't entirely disappeared. These can be expressed as the externalities that arise in energy markets. For example, it is well understood now that effective heating and cooling have significant health impacts. Like many health issues, these health impacts are not able to be captured in the purchasing decisions of individual consumers. Similarly, just as at the start of the last century in Tasmania or in the middle of that century in New South Wales and Queensland, an inexpensive and plentiful electricity supply is a crucial element in investment decisions in manufacturing and other industries' productive activities, including agriculture.

Whether current consumers should bear the investment risk through electricity prices or future citizens (potentially) through taxation is not only an intertemporal question, it is also an equity question. Electricity (or energy until full electrification) prices are heavily regressive, as electricity can take up to 10% of household budgets. Taxation is, at least partially, progressive.



## The Task for the Market Bodies

### New Government Policy

The preceding section has made a case for government investment in new transmission infrastructure. We contend that this was a task that the Finkel Review recommended be undertaken by the AEMC under recommendation 5.2, a recommendation that was endorsed by the Energy Council like all but one recommendation.

On 21 May 2022, the Australian Labor Party (ALP) secured 77 seats in the election for the House of Representatives. On 1 June, the First Albanese Ministry was sworn in.<sup>19</sup> In his remarks to the first Caucus meeting on 31 May, Prime Minister Albanese stressed to his colleagues that his focus in the first term was delivering on his commitments to lay the platform for a second term.

The ALP took to the election its energy policy, *Powering Australia*.<sup>20</sup> Part of that policy is the proposal labelled *Rewiring the Nation*. This part of the policy says:

#### ***Rewiring the Nation – more jobs, lower power prices***

*An Albanese Labor Government will upgrade our energy grid through our plan to Rewire the Nation. It will drive down power prices, increase reliability, give the economy a boost and create thousands of new jobs.*

*Australia's electricity network was designed for a different century. This \$20 billion investment to modernise and rebuild Australia's ailing grid is in line with a blueprint already completed by the Australian Energy Market Operator and signed off by all governments.*

*The grid's neglect by the Morrison-Joyce Government is putting a handbrake on affordability and reliability.*

*Rewiring the Nation will partner with industry and provide low-cost finance for the upgrade. The end result will be cheaper electricity prices for homes and businesses.*

*Rewiring the Nation will cover its real costs, not deliver a commercial return to Government. This will lower the cost of the upgrade, helping to ensure consumers get the lowest possible price, by shielding them from the risk of gold plating in the necessary upgrade of transmission projects.*

*By establishing Rewiring the Nation and keeping it in public hands as a government owned entity, Labor will ensure reliability and low prices into the future.*

Energy market bodies should now proceed on the assumption that this election commitment will be fulfilled. While the institutional form of Rewiring the Nation will be a matter for Government, on the advice of its Department of Climate Change, Energy, the Environment and

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<sup>19</sup> <https://www.pmc.gov.au/resource-centre/government/ministry-list>

<sup>20</sup> <https://keystone-alp.s3-ap-southeast-2.amazonaws.com/prod/61a9693a3f3c53001f975017-PoweringAustralia.pdf>

Water,<sup>21</sup> the mechanism by which Government should make its investments and how they interact with the function of economic regulation by the Australian Energy Regulator interacts with the Rules.

## The Task for Market Bodies

Market bodies should not wait for advice on the changed policies nor requests for specific work to start reflecting this changed reality in their work.

It is unfortunate for the AEMC that it chose to publish its Draft the day after the swearing in of the First Albanese Ministry, the formalisation of the ALP's election victory. But that reality makes redundant the AEMC's consideration of the financeability of new transmission investment exclusively by the private sector.

We further note that the Administrative Arrangement Orders also state that responsibility for the Australian Energy Regulator will be moved from the Treasury portfolio to the Climate Change, Energy, the Environment and Water portfolio. We would expect that the AER will be directly consulted by the Department on the inter-relationship between government financing and economic regulation. However, the Rules will still be the responsibility of the AEMC.

Ideally, the AEMC would post a note on its website to indicate that events have overtaken this recommendation and save other stakeholders from the need to respond to it. The AEMC, in partnership with the AER, should commence a short review of ways the Government's planned investments would work with the economic regulatory framework.

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<sup>21</sup> See the Administrative Arrangements Orders of 1 June 2022  
<https://www.pmc.gov.au/sites/default/files/publications/administrative-arrangements-order-2022-06-01.pdf>

## Conclusion

This submission only addresses the first recommendation of the Draft. We conclude that:

1. The proposed rule change is unnecessary as the identified rule requiring straight line depreciation does not apply to the large ISP projects;
2. The suggestion that the AER should adjust depreciation schedules to increase near term cash flow is poor policy as it only exacerbates an existing problem of intergenerational inequity;
3. The AEMC would have been better served by addressing Finkel recommendation 5.2 to “develop a rigorous framework to evaluate the priority projects, including guidance for governments on the combination of circumstances that would warrant a government intervention to facilitate specific transmission investments;” and
4. The election of the Albanese Government includes the commitment by Government to invest in priority transmission projects.

Consequently, the AEMC should terminate consideration of this recommendation in the Draft. The AEMC, together with the AER, should conduct a review on ways the Government’s planned investments would work with the economic regulation framework.