



Tilt Renewables
GPO Box 16080
Collins Street West
Melbourne
Victoria, 8007
Australia

Phone: +61 3 9654 3066

tiltrenewables.com

14 July 2022

Ms Anna Collyer
Chair
Australian Energy Market Commission

Lodged via AEMC website

Dear Ms Collyer,

PROJECT EPR0087: TRANSMISSION PLANNING AND INVESTMENT REVIEW – STAGE 2 PAPER

Tilt Renewables welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Draft Recommendations on the self-initiated Review of the existing regulatory frameworks, which aims to facilitate timely and efficient delivery of transmission services.

Tilt Renewables is committed to continue playing a lead role in accelerating Australia's transition to clean energy. Tilt is the largest owner and operator of wind and solar generation in Australia, with 1.3 GW of renewable generation capacity across nine wind and solar farms operating, or in the final stages of commissioning, and another 396MW wind farm (Rye Park in NSW) under construction. In addition, Tilt Renewables has a development pipeline of over 3.5GW including the 1.5GW Liverpool Wind Farm development project in NSW's CWO REZ.

We strongly support ensuring that regulatory frameworks are fit-for-purpose and enable the significant and rapid investment in transmission needed to decarbonise the National Electricity Market (NEM) --- whilst maintaining reliability and security of supply for consumers.

However, the AEMC's draft recommendations will not result in increased investment certainty for renewable generation developers and TNSPs nor will the draft recommendations expedite the delivery of the vitally important new transmission lines that the Australian Energy Market Operator (AEMO) Integrated System Plan (ISP) says will deliver \$28 billion of benefits to customers¹.

The staged Contingent Project Application (CPA) process, the feedback loop and the Material Change in Network Infrastructure Project Costs rule change (ERC0325) will all complicate and delay the delivery of new transmission. The ISP is subject to robust scrutiny by stakeholders including the Australian Energy Regulator (AER) and the Customer Panel. Any delay in the delivery of ISP-related transmission, even of just a single year, will result in significant increased electricity bills for households².

We are further disappointed that the AEMC does not consider that the Regulatory Investment Test – Transmission (RIT-T) is a major impediment to the rapid delivery of new transmission projects. The

¹ <https://aemo.com.au/-/media/files/major-publications/isp/2022/2022-documents/2022-integrated-system-plan-isp.pdf?la=en>

² https://nexaadvisory.com.au/site/wp-content/uploads/2022/06/Report-Modelling-Electricity-bill-impact-due-to-transmission-delay_2022-06-07.pdf



AEMC states on one hand the “framework was developed to support incremental growth of the grid, not the current level of step-change growth set out in the Australian Energy Market Operator’s Integrated System Plan³”, but then later states it “does not consider there to be any deficiency in the rules that materially impacts the timely and efficient delivery of major transmission projects⁴”.

It is difficult to see how a process designed to deliver incremental improvements can now be fit-for-purpose to deliver new large-scale nation-building transmission projects. The AEMC’s view that the RIT-T is fit-for-purpose is contrary to the view of the vast majority of industry⁵, and in order to expedite delivery of ISP projects, the RIT-T needs to be significantly modified or dropped altogether.

Financeability

We agree with the AEMC that financeability of the large ISP project is an issue for TNSPs, but we do not consider that providing the Australian Energy Regulator (AER) with additional flexibility to make decisions around depreciation profiles will provide the certainty TNSPs need to invest. Instead, we are of the view that the ISP projects identified as actionable through the rigorous consultation process by AEMO should be progressed outside of the RIT-T process through Rewiring the Nation Federal Government policy. This will ensure that these major projects commence asap and are constructed and operational within the critical timeframes required for an orderly transition.

Social licence

Gaining social licence is essential for all energy projects and the absence of social licence will present a significant barrier to the building of new transmission⁶. We do not believe that current cost recovery mechanisms for TNSPs will support genuine engagement and community support^{4,7}. The exclusion of ongoing compensation to landholders and communities, as is common for renewable generation projects, will further limit the ability to genuinely engage and deliver the outcomes communities expect. Subjecting any compensation to the whims of the AER will not deliver certainty to either the TNSP or communities that social licence is sufficiently valued in the regulatory frameworks.

Cost recovery

We are concerned that staging ISP projects, to allow some early recovery of costs, results in delays to delivering new transmission and is symptomatic of a regulatory framework that does not support timely investment in and delivery of large nation-building projects. We are optimistic that the “Rewiring the Nation” policy will support the speedy delivery of ISP projects, perhaps outside the regulatory framework, through a mix of private and government co-funding delivered via a federal corporation like the Clean Energy Finance Corporation.

Feedback loop

Alignment of the feedback loop with the development of the ISP and a PACR exclusion window, will not materially impact the delays caused by the feedback loop.

³ <https://www.aemc.gov.au/sites/default/files/2022-07/Transmission%20planning%20and%20investment%20review%20-%20Stage%20%20draft%20report.pdf>, point 3, page i.

⁴ Ibid, page 61

⁵ <https://nexaadvisory.com.au/site/wp-content/uploads/2022/04/Removing-transmission-roadblocks-discussion-paper-080422.pdf>

⁶ <https://www.aemc.gov.au/sites/default/files/documents/re-alliance.pdf>, page 1 & 3

⁷ https://assets.nationbuilder.com/vicwind/pages/2620/attachments/original/1637343712/RE-Alliance_July_21_Building_Trust_for_Transmission_compressed.pdf?1637343712, page 21



While recognising the need to transparently and rigorously ensure that ISP projects have net benefits for customers, the draft decision⁸ on the Material Change in Network Infrastructure Project Costs rule change (ERC0325) provides thresholds over which any given ISP project is required to reapply the RIT-T, and this will increase uncertainty and delivery times. The ISP is rigorously and transparently assessed through multiple approaches, including an assessment of the draft ISP by the AER, to ensure the planned investment is in the long-term interests of consumers.

Contestability

We note that contestability is now a separate workstream and we look forward to engaging with the AEMC in this work.

Other issues

We were surprised that the AEMC have determined that there are no material barriers to non-network options as an alternative to transmission towers and conductors and that no further work is required to ensure that non-network alternatives, such as storage, are considered appropriately by TNSPs. TNSPs have a clear financial incentive to build more expensive network infrastructure rather than less expensive non-network alternatives.

We were also disappointed that the significant delays caused by planning and environment requirements were deemed out of scope by the AEMC and a matter for the jurisdictions.

The AEMC draft recommendations do not address the significant obstacles that the current regulatory framework imposes on the delivery of ISP projects. Other critical matters, such as benefits that can be considered in the RIT-T and the RIT-T itself⁹, have been moved to Stage 3 of the review, which is not expected to report until early 2023. The staging approach will not result in timely and efficient delivery of ISP projects.

Further detail on the issues raised by the draft recommendations can be found in Attachment 1.

Thank you for the opportunity to provide a submission on this matter. If you would like to discuss any of the issues raised in this submission further, please contact the undersigned at Jonathan.Upson@tiltrenewables.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Jon Upson".

Jonathan Upson
Head of Policy & Regulatory Affairs

⁸ <https://www.aemc.gov.au/sites/default/files/2022-07/Material%20change%20in%20network%20infrastructure%20project%20costs%20draft%20determination.pdf>

⁹ <https://www.aemc.gov.au/sites/default/files/2022-07/Transmission%20planning%20and%20investment%20review%20-%20Stage%202%20draft%20report.pdf>, page 61

Attachment 1: Detailed submission

Delaying the delivery of the ISP increases customer bills

Many of the very critical issues, such as potential opportunities to improve the balance of timeliness and rigour in the economic assessment process (the RIT-T), that impact the ability to deliver new transmission expeditiously, have been delayed until Stage 3 of the Review that will not report until early 2023. This will not assist in delivering the 4 committed and anticipated ISP projects due in 2023¹⁰. Delays in delivering operational ISP projects, even of just a single year, will significantly increase consumer electricity bills¹¹.

The ISP is a whole of system assessment of benefits versus the RIT-T that is a project-specific assessment of benefits. It is not surprising that there are mismatches in the outcomes of these tests that result in complications and delays¹².

We are disappointed that the AEMC “does not consider there to be any deficiency in the rules that materially impacts the timely and efficient delivery of major transmission projects¹³”. The RIT-T is a major roadblock to the rapid delivery of new transmission projects⁹ and needs to be significantly modified or dropped.

Persisting with an approach that requires additional benefits tests, via the RIT-T on a project-by-project basis, prior to expenditure/investment approval from the AER, on top of the benefits tests in the ISP, risks new transmission being built piecemeal and not as envisaged the “whole-of-system” advancement laid out in the ISP. This may mean that ISP projects are delayed and/or delivered out of sync, potentially reducing the benefits that the ISP delivers to consumers.

The ISP undergoes a great deal of scrutiny during development and delivery. Over 1,500 stakeholders were engaged¹⁴, the Delphi Panel assessed the appropriate scenarios to take forward, and the Customer Panel provided a review of the Draft ISP, as did the AER. The consultation on the Draft ISP allowed over 70 stakeholders to provide feedback. This ensures that the final ISP is in the long-term interests of consumers. To further subject ISP projects to the RIT-T and a feedback loop creates unnecessary delays that will result in increased costs to consumers⁷.

Jurisdictional planning and environmental assessment requirements are critically important steps for any large infrastructure project, but they can be a significant brake on getting new transmission built⁹. It is disappointing that the AEMC did not explore this issue in detail or make suggestions on how the planning and environmental processes for ISP projects might be expedited.

There is clear urgency in delivering the ISP to resolve capacity issues, market issues and to meet carbon emission and renewable generation targets. The interaction between the ISP and the RIT-T either needs to be fully and rapidly examined to minimise delays or the RIT-T needs to be abandoned for ISP projects in favour of a non-NER approach, delivered via the Rewiring the Nation policy.

¹⁰ <https://aemo.com.au/-/media/files/major-publications/isp/2022/2022-documents/2022-integrated-system-plan-isp.pdf?la=en>, page 13

¹¹ https://nexaadvisory.com.au/site/wp-content/uploads/2022/06/Report-Modelling-Electricity-bill-impact-due-to-transmission-delay_2022-06-07.pdf

¹² <https://nexaadvisory.com.au/site/wp-content/uploads/2022/04/Removing-transmission-roadblocks-discussion-paper-080422.pdf>

¹³ <https://www.aemc.gov.au/sites/default/files/2022-07/Transmission%20planning%20and%20investment%20review%20-%20Stage%20%20draft%20report.pdf>, page 61

¹⁴ <https://aemo.com.au/-/media/files/major-publications/isp/2022/2022-documents/2022-isp-infographic.pdf?la=en>



Financeability

We support the AEMC's view that financing the ISP projects is challenging for TNSPs under the current regulatory framework. We do not agree that providing the AER with additional flexibility and discretion to accept alternative depreciation profiles will offer clarity or certainty to TNSPs proposing to build an ISP project. This is because the AER did not support revised depreciation profiles for Project Energy Connect and the related Financeability of ISP Projects rule change (ECR0320) and there is no reason to think that the AER will take a different view today, given the generational shift in consumers funding a different depreciation profile remains an unresolved issue¹⁵.

Given Transgrid were only able to progress their investment in Project Energy Connect with support from the Clean Energy Finance Corporation¹⁶, it is likely that the only way to deliver the transmission needed to decarbonise the NEM, and to meet stated net zero and renewable generation targets, will be through similar public-private co-funding arrangements.

Additionally, many of the ISP projects have only been able to progress with federal and state government funding to support preparatory works. This again indicates a serious problem with the regulatory frameworks related to financing large transmission projects.

Rewiring the Nation offers both the opportunity to resolve the delays caused by the regulatory approvals framework and the issues related to finance and will hopefully ensure that the ISP is delivered as a whole to ensure the \$28 billion of benefits to consumers are achieved.

Social Licence

Through our own generation projects, we support the critical role early and genuine engagement with landholders and communities has on delivering successful generation projects. Social licence is essential for all large-scale energy projects---including new transmission lines.

We do not agree with the draft recommendation that implies the current regulatory framework supports securing social licence. There is no need to require TNSPs to undertake engagement in the NER as this may create further delays and impediments to delivering projects. But if a TNSP is to maintain a social licence for a project, it must have certainty in what it can offer during genuine negotiations with communities and landholders that will result in positive outcomes for local and NEM stakeholders and the TNSP. The current regulatory framework does not facilitate adequate certainty in one-off and on-going community and landholder benefits, since the AER can just say no.

While the AER did support some costs for Project Energy Connect, these were reduced in the final decision^{17,18} and there is no capacity in the current framework to support ongoing community and/or landholder compensation or benefit sharing of the sort regularly offered to communities by renewable generator developers.

TNSPs have only had to deliver incremental improvements to their existing assets, but projects of the scale now required have not been delivered for many decades and TNSPs are playing catch up in their

¹⁵ https://www.aemc.gov.au/sites/default/files/documents/rule_change_submission_-_erc0320_-_australian_energy_regulator_-_20201203.pdf, page 3

¹⁶ <https://www.cefc.com.au/media/media-release/historic-cefc-investment-to-kickstart-nation-building-project-energyconnect/>

¹⁷ <https://www.aer.gov.au/system/files/AER%20-%20Final%20Decision%20-%20TransGrid%20-%20Project%20EnergyConnect%20Contingent%20Project%20-%20May%202021.pdf>

¹⁸ <https://nexaadvisory.com.au/site/wp-content/uploads/2022/04/Removing-transmission-roadblocks-discussion-paper-080422.pdf>

community engagement practices for projects that are urgently needed. Good engagement takes time and if not done well could result in projects never being built. Genuine engagements must be underpinned by a regulatory framework that allow TNSPs to engage in genuine negotiations with communities that will have certain benefit outcomes that will not be subsequently overturned by the Regulator.

A lack of social licence will result in significant delays to the selection of a route, construction and delivery¹⁹ --- or worse result in the new transmission not being built. Ensuring that the regulatory framework allows TNSPs to have genuine and honest engagement with communities and landholders is urgently required to prevent further delays in the full delivery of the ISP.

Cost Recovery

The need to stage an ISP project suggests that the current regulatory framework is not fit-for-purpose and several ISP projects have taken the staged contingent project application approach for preparatory and “early works” indicating that this is not a one-off issue.

The need for federal and state government grants to progress preparatory “early works” for a number of ISP projects further suggests that the frameworks around financeability are not practical for the extremely large ISP projects.

It is unusual for the investors in large infrastructure projects to expect costs to be recovered prior to the operational delivery of that infrastructure. Normally, cost recovery doesn’t commence until all works are complete and for that reason, we do not support cost-recovery before an ISP project is delivered.

We also do not support a staged approach to the development and planning for an ISP project because staging will introduce delays to the delivery of the project.

Financing of ISP projects needs to be resolved quickly to ensure ISP-related transmission is delivered in time and the Rewiring the Nation policy, which is likely to operate outside the NER potentially avoiding the RIT-T, offers the best approach to ensuring the critical ISP projects are delivered rapidly.

RIT-T is not Fit-for-Purpose

It is difficult to see how the AEMC’s view that it “does not consider there to be any deficiency in the rules that materially impacts the timely and efficient delivery of major transmission projects²⁰” regarding the application of the RIT-T to ISP projects, is consistent with its statement that the “framework was developed to support incremental growth of the grid, not the current level of step-change growth set out in the Australian Energy Market Operator’s Integrated System Plan²¹”.

Fundamentally, the evidence from the attempts of Transgrid and ElectraNet to secure regulatory approval for Project Energy Connect demonstrates that the regulatory framework, including the RIT-T, does not facilitate the timely delivery of the large-scale ISP projects. This is even though the RIT-T Guidelines were updated in 2019 to make the ISP “actionable”. The need for funding support from the CEFC, the staged CPA process, the feedback loop, the current Material Change in Network Infrastructure Project Costs rule change (ERC0325) and the time taken for Project Energy Connect to

¹⁹ <https://www.aemc.gov.au/sites/default/files/documents/re-alliance.pdf>

²⁰ <https://www.aemc.gov.au/sites/default/files/2022-07/Transmission%20planning%20and%20investment%20review%20-%20Stage%202%20draft%20report.pdf>, page 61

²¹ *Ibid*, point 3, page i.



navigate the regulatory process²² all clearly show that the RIT-T is not fit-for-purpose and should either be significantly modified or dropped entirely for ISP-related transmission projects.

Feedback loop/Rule change ERC0325

We recognise that the early ISP projects have increased in costs during development, planning and design. But these are the first new large-scale transmission lines built in Australia in many decades and the long delays in the RIT-T process increases the risk of costs rising. TNSPs and contractors will “learn by doing” and we anticipate that the accuracy of cost estimates should improve.

The feedback loop and the Material Change in Network Infrastructure Project Costs rule change (ERC0325) draft decision²³ are unnecessary complications that further delay transmission projects. The ISP is rigorously assessed during early development, through the stakeholder consultation on the draft ISP, and the reviews of both the Customer Panel and the AER, ensuring that the ISP delivers significant net benefits to consumers.

Repeated assessments of the benefits of individual projects under the RIT-T feedback loop are unlikely to result in cost reductions or increased certainty around costs and will only result in delays in building much needed transmission---and likely further cost increases. It is critical that Australia gets on with delivering the ISP as soon as possible.

²² <https://nexaadvisory.com.au/site/wp-content/uploads/2022/04/Removing-transmission-roadblocks-discussion-paper-080422.pdf>

²³ <https://www.aemc.gov.au/sites/default/files/2022-07/Material%20change%20in%20network%20infrastructure%20project%20costs%20draft%20determination.pdf>