

18 August 2022

Ms Anna Collyer
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Collyer

RE Transmission Planning and Investment Review: Contestability Options Paper

TasNetworks welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) Contestability Options Paper (**Options Paper**) as part of the Transmission Planning and Investment Review.

TasNetworks is the Tasmanian Government owned Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider and Jurisdictional Planner in Tasmania. TasNetworks is also the proponent for Marinus Link, a new interconnector between Tasmania and Victoria. The focus in all of these roles is to deliver safe, secure and reliable electricity network services to Tasmanian and National Electricity Market (**NEM**) customers at the lowest sustainable prices. TasNetworks therefore welcomes consideration of whether contestability can deliver net benefits to our customers.

The AEMC's exploration of contestability is appropriate in light of the unprecedented level of transmission investment needed to progress the energy transition. However, TasNetworks suggests projects that have commenced planning and preparatory activities continue proceeding through the current regulatory framework to reduce uncertainty and potential delays to those projects.

In assessing the merits of introducing further contestability, TasNetworks suggests the AEMC closely assess if the preferred contestable model will address the risk of late or non-delivery of major transmission projects and will be in the long-term interests of electricity consumers compared to the current arrangements.

TasNetworks supports Energy Networks Australia's (**ENA's**) submission and provides the following comments for additional consideration.

Customer Benefits

The Options Paper does not sufficiently demonstrate that any of the contestability models will result in better outcomes for electricity customers. Alternatively, the Options Paper notes that contestability models being considered could create complexity and coordination challenges that could negatively impact total system costs and timely completion of large transmission projects.

Clear and identifiable evidence of long-term benefits for customers compared to the current regulatory framework and in consideration of issues being considered in other stages of the Transmission Planning and Investment Review must be provided before introducing any of the contestability models considered in the Options Paper.

Customer Prices

TNSPs already undertake competitive procurement during the development of major transmission projects. This includes for detailed design and construction, which are generally the most costly elements of transmission projects. Contestability during these stages of a project leads to downwards pressure on costs and consequently improved outcomes for customers.

Furthermore, in March 2021 the Australian Energy Regulator (**AER**) published its *Regulation of Actionable Integrated System Plan Projects Guidance Note (Guidance Note)* in which it outlines its expectations that TNSPs project management and procurement processes maximise competition and contestability. The Guidance Note builds upon learnings and considerations in recent Contingent Project Determinations where the AER has assessed if project management, risk management and procurement processes adequately promoted competition and resulted in the most efficient project costs.

Any benefits of introducing additional contestability into the project lifecycle should be assessed against the potential for additional procurement and coordination costs.

Accountability

Introducing further contestability, especially in relation to operation and maintenance, may lead to accountability issues. There would need to be clear separation of the contestable assets from the existing transmission network such that the responsibility for individual assets and the overall network are clear for customers.

Implications for network reliability and security must also be considered when assessing if contestability is in the long-term interests of consumers. If assets are owned by various parties, a lack of accountability for the overall transmission system may arise. Noting the Options Paper proposes 'control' of the power system will remain with AEMO and the relevant primary TNSP, more detail on how system security would be managed under each model must be investigated and clearly explained. System reliability must be a priority regardless of the party designing, constructing or operating the network.

Furthermore, split accountability for stakeholder engagement introduces a risk of poor social licence outcomes. Specifically, split accountability disrupts the continuity in consumer engagement between various project stages, potentially leading to mixed messages and lack of transparency for stakeholders. Maintaining transparency will likely require greater coordination between the parties responsible for project identification, planning, design, delivery and operation. This coordination could be costly and time consuming depending on

the size and number of parties involved in the project. Greater contestability risks impacting the community relationships that incumbent TNSPs have developed and maintained over many years. Given the increasing costs and difficulty in gaining social licence for major transmission projects, any changes to the regulatory framework should aim to support engagement with stakeholders.

Late or non-delivery of major transmission projects

Some stakeholders have expressed a view that the transition to net zero is at risk because TNSPs have an exclusive right, but no corresponding obligation, to invest in transmission infrastructure. TasNetworks does not agree with this assertion. There is no reason a TNSP would not proceed with a project if it is in the long-term interest of customers and is able to be financed. TNSPs are customer-oriented and commercial organisations, a decision not to proceed with a commercially viable project with net consumer benefits would indicate issues with the existing regulatory framework.

It is noted that many of these issues are being considered as part of the Transmission Planning and Investment Review. Financeability is being considered as part of Stage 2 of the Review while Stage 3 of the Review will be exploring the potential for a power to direct or an incentive mechanism to address the risk that major transmission projects are not delivered. If non-delivery is deemed a significant future issue, further consideration should be given to whether contestability is the most appropriate mechanism for addressing this risk.

Noticeably, introducing further contestability could actually have the opposite effect of causing delays in the delivery of major transmission projects. As acknowledged in the Options Paper, the additional complexity, coordination and procurement processes could ultimately increase the time to deliver projects.

For these reasons, further consideration is required to determine if contestability will result in more timely delivery of major transmission projects compared to the existing regulatory framework.

Model specific comments

TasNetworks considers that the four strawperson models broadly capture the spectrum of options the AEMC should consider. However, further detail is needed on the benefits of each model over the entire life of a contestable transmission asset. TasNetworks initial assessment of the models is based on the information provided in the Options Paper.

Model One

Model one limits contestability to functions that are already competitively procured by TNSPs reducing any potential benefit to consumers. It primarily involves shifting the decision-making process for the construction and financing stages of the project life cycle away from the primary TNSP onto a tenderer. Furthermore, given primary TNSPs retain responsibility for maintaining and operating transmission assets, tenderers are incentivised to reduce upfront construction costs at the expense of ongoing maintenance costs. To mitigate this risk, TasNetworks suggests any further analysis of model one should treat the operation and maintenance of the asset as a negotiated service instead of a prescribed service.

Model Two

TasNetworks considers that model two is most likely to deliver net benefits to consumers and should proceed through to the AEMC's high level assessment. However the merits of establishing a separate jurisdictional body to undertake planning and engagement activities is unclear. Establishing a new body to run tenders will likely increase costs for customers as well as have lengthy implementation timeframes. It will also require increased coordination between parties potentially resulting in greater operational risk. The benefits are even less clear in jurisdictions with state-owned jurisdictional planners such as Tasmania.

We note however, that strawperson two is based on models that are still in their infancy, TasNetworks supports further analysis of the long-term customer benefits of this model compared to the current framework, noting the importance of jurisdictional opt-in arrangements.

Model Three

This model would introduce the Victorian arrangements across the NEM on an opt-in basis. All jurisdictions already have the option to adopt the Victorian arrangements as an AEMO 'adoptive jurisdiction' under section 50C of the National Electricity Rules (**NER**). Given no other jurisdiction has adopted this framework, model three does not appear to merit further investigation.

Model Four

This model would require significant changes to the current regulatory framework and adoption by all NEM regions. Specifically, introducing 'early competition' as proposed in the model would require significant amendments to the planning and connection process sections of the NER. These amendments would likely be highly complex to maintain accountability for operation of the network. The time taken to design, consult on and implement these changes significantly reduces the merits of this model. Furthermore, given the current use of jurisdictional models outside the NER to progress major project development, model four does not seem feasible at least in the short-term.

Assessment Framework

TasNetworks supports the proposed assessment framework but acknowledges some limitations for identifying the preferred model. Noticeably, the benefits of each model seem to be largely dependent on them achieving the preferred outcomes. For example, a listed advantage of each model is that contestability will result in more timely delivery of projects. However, a listed disadvantage is that contestability may cause delays. If the AEMC proceed with these assessment criteria for the contestability workstream, it may be appropriate to develop some quantitative metrics. TasNetworks also notes that under each of the models there appear to be a greater number of disadvantages than advantages.

Project identification

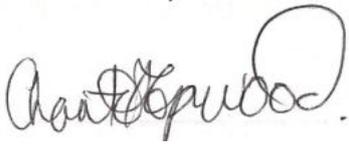
TasNetworks agrees with the AEMC that, regardless of the model, some projects are not suitable for contestable delivery. The prescriptive or hybrid approach outlined in the paper is likely the preferable approach, however will ultimately depend on the principles / criteria used for identifying the contestable projects. At a minimum, TasNetworks considers that the process for identifying projects suitable for contestable delivery should not be onerous. TasNetworks broadly supports the AEMC's proposed criteria, especially the requirement to

include evidence of consumer benefit outweighing costs of running the tender, likelihood of attracting genuine bids and limiting the model to new, separable and high value projects.

TasNetworks looks forward to continued collaboration with the AEMC as the Transmission Planning and Investment Review progresses.

Should you have any questions regarding this submission, please contact Chris Noye, Policy and Regulatory Specialist, at Chris.Noye@tasnetworks.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chantal Hopwood', with a large, stylized loop at the end of the name.

Chantal Hopwood

Leader Regulation