



Stage 3 draft positions for the Transmission planning and investment review

The Australian Energy Market Commission (AEMC) has published its draft report for Stage 3 of the *Transmission planning and investment review*.

The Commission will hold a stakeholder forum on 04 October 2022 to provide an overview of this report. Stakeholders are invited to make submissions to the draft report by 03 November 2022.

Australia is undergoing a transformational shift to net zero. A key feature of this transformation is the replacement of centralised thermal generation with decentralised renewable generation.

There is broad consensus that transmission is a critical enabler for the transition to net zero, both in the national electricity market (NEM) and for the economy more broadly. This transition will require an unprecedented level of investment in, and build of, transmission infrastructure to deliver power from renewable generation and energy storage to consumers, and to deliver it quickly.

Stage 3 of the Review considers several areas in the framework where the regulatory treatment for major projects can be simplified, made more timely, and provide more certainty

A regulatory framework that is sufficiently clear and flexible to support the timely and efficient delivery of major transmission projects is crucial given the scale and significance of transmission investment required to facilitate the decarbonisation of the energy system.

The Commission has drawn on stakeholder feedback to prioritise the 5 key issues in Stage 3 detailed below.

We are considering a spectrum of alternative options to the existing current economic assessment process to identify if changes would support the timely delivery of strategically important projects

A streamlined economic assessment process could provide greater certainty through a simplified framework and allow for the timely delivery of ISP projects and their associated consumer benefits.

We are seeking feedback on three strawperson options, which set out a spectrum of alternatives to the current economic assessment process for ISP projects. We are seeking stakeholder feedback on whether any of these options should be taken forward for further development and assessment or if we should be considering any other options, including variations or hybrids of the three options presented.

Transmission planning considers the role of transmission in the transition to net zero

Recent significant changes indicate an increase in emissions abatement ambitions in Australia. Most notably, there has been a change in the federal government and the introduction of the Climate Change Act which seeks to legislate Australia's greenhouse gas emission reduction targets – a 43 per cent reduction from 2005 levels by 2030 and net zero by 2050. Although these targets are economy-wide commitments and therefore apply to all sectors, the electricity sector is one of Australia's largest emitters and it will also have a key role in facilitating Australia's decarbonisation through the electrification of other sectors. This role is reinforced by the recent agreement among Energy Ministers to fast-track an emissions objective into the national electricity objective (NEO).

In this context and in response to stakeholder requests, this report sets out how emissions abatement is currently factored into transmission planning. We will continue to monitor developments with respect to climate legislation and an emissions objective in the NEO to ensure that emissions abatement continues to be appropriately factored into transmission planning in the future. However, the Commission notes that determining whether the treatment of emissions abatement in transmission planning is appropriate would be assisted by clear policy direction regarding the expected contribution of the energy sector to Australia's decarbonisation.

Additional guidance is necessary to clarify how any benefits from concessional finance are treated in the framework

The Commission recognises the increasing potential to use concessional finance to support timely investment in transmission infrastructure, notably in the context of the announcement of the Federal Government's Rewiring the Nation fund. Given the existing National Electricity Rules (NER) do not explicitly recognise the treatment of concessional finance, additional guidance will be beneficial in clarifying its treatment in the regulatory framework and how the benefits can be allocated based on the intended purpose of the concessional finance.

We are seeking stakeholder feedback on the key questions we are exploring as we consider the appropriate regulatory treatment of benefits from concessional finance.

A new incentive mechanism may be a suitable response to manage delivery risk associated with TNSPs' exclusive right with no obligation to invest

The Commission sees value in a new incentive mechanism to manage delivery risk associated with TNSPs' exclusive right to invest but with no corresponding obligation to invest. A Timely Delivery Incentive (TDI) could provide a way to encourage a timely investment decision and project delivery to align TNSPs' interests with those of consumers.

We are seeking stakeholder feedback to inform whether a TDI is proportionate and/or necessary. Detailed design considerations will be put forward if a mechanism is deemed to be considered a proportionate response to the problem.

There are opportunities to build on existing processes to support TNSPs in managing increased cost risk and/or uncertainty associated with major projects

The Commission's draft position is that recent developments under the ISP Rules framework – namely ex-ante risk allowances and the staged contingent project application(CPA) process – allow TNSPs to appropriately manage risk and uncertainty around the costs of major projects and that these processes should be given the opportunity to mature.

However, the Commission is seeking stakeholder feedback on two specific areas of the regulatory framework that may warrant further consideration: (i) the potential merits of a separate, targeted ex-post review process by the AER that examines expenditure associated with specific ISP projects, and (ii) whether there are circumstances in which it is appropriate to allow the CPA process for a large transmission project to be split into more than two stages.

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