



Stage 2 final recommendations for the Transmission planning and investment review

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

Stage 2 final 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 final 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 drew on stakeholder feedback to prioritise four key issues we considered could be addressed in the near-term.

The Commission's final recommendations are set out below.

Introducing greater flexibility to mitigate the foreseeable risk that financeability concerns may arise for ISP projects

The Commission's final recommendation is that the Australian Energy Regulator (AER) be given the explicit ability to vary the depreciation profile for actionable ISP projects to address financeability challenges, where it considers this would better meet the National Electricity Objective. This represents no change between the draft and the final report.

The Commission has adjusted its approach regarding how the recommendation should be implemented in response to stakeholder feedback. In particular, the Commission recommends that the rules be amended to include principles that the AER should have regard to when considering requests to amend depreciation to address financeability concerns.

Providing greater clarity around social licence outcomes in the national framework

The Commission recommends additional guidance to be provided by the AER that will clarify the arrangements that support TNSPs in carrying out activities that build and maintain community acceptance of major transmission projects.

The Commission's final recommendations are:

- **Cost recovery** - that the AER provide additional guidance to stakeholders regarding how the costs associated with building and maintaining social licence for major transmission projects should be considered and assessed as part of the regulatory process.
- **Engagement** - that the AER provide additional guidance to stakeholders around its expectations on TNSPs regarding engagement and consultation with local communities and other stakeholders affected by major transmission projects at key stages in the planning process.

The Commission also recommends changes be made to the Rules to ensure that the expectations on TNSPs to engage and consult local communities and other affected stakeholders at key points in the planning process are consistent for all transmission projects identified through the ISP.

Improving certainty over the regulatory treatment of early works

Based on stakeholder feedback, the Commission has made changes to the draft recommendations, specifically to clarify the meaning of 'early works'. This will help provide certainty regarding what activities can be undertaken, and when and how costs are appropriately recovered.

The Commission recommends that the AER should describe early works in its guidance as: activities that are completed prior to the construction of the preferred option, to improve the accuracy of cost estimates, and/or to ensure that a project can be delivered within the time frames specified by the most recent ISP.

The Commission's final position is that the existing cost recovery arrangements to recover the costs of preparatory activities and early works are appropriate.

Improving workability of the feedback loop will enable it to work as a timely and effective consumer safeguard

The Commission recommends the following changes to improve the workability of the feedback loop:

- Align the timing of the feedback loop assessment with the publication of a draft or final ISP through changes to the AER's Cost Benefit Analysis Guidelines to provide AEMO with the discretion to establish the timeframe for when the feedback loop assessment is to occur
- Amend the NER to allow the contingent project application process and feedback loop assessment to proceed concurrently to manage potential bunching of the feedback loop assessments around the publication of a draft ISP.
- Amend the NER to require AEMO to complete the feedback loop assessment within 40 business days from the later of the date the request is submitted or additional information is received following an information request issued by AEMO, with a possible 60 business day extension if AEMO determines the assessment involves particular complexities or difficulties.

The recommendations in the Stage 2 final report should be implemented by rule changes and updated guidance from the AER

The Commission notes that the recommendations for financeability, social licence and the workability of the feedback loop are accompanied by proposed rules and could be progressed immediately if a rule change proponent submits a corresponding rule change request. Regarding the recommendation for early works, the proposed changes need to be given effect through the AER's guidelines and could therefore be progressed immediately following the publication of this report.

The Commission anticipates that the recommendations could be fully implemented by mid-to late-2023. The Commission has provided proposed rules to form a basis for the processes to follow. The Commission is strongly supportive of the expeditious implementation of these reforms.

For information contact:

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

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

Media enquiries: media@aemc.gov.au

27 October 2020