



**AGL Energy Limited**

**T** 02 9921 2999

**F** 02 9921 2552

**agl.com.au**

ABN: 74 115 061 375

Level 24, 200 George St

Sydney NSW 2000

Locked Bag 1837

St Leonards NSW 2065

Rupert Doney  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

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Dear Rupert,

### **Transmission planning and investment review Stage 3**

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) Transmission planning and investment review Stage 3 consultation paper.

AGL is a leading integrated essential service provider, with a proud 184-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

AGL supports the AEMC's efforts to ensure the significant transmission investment which is planned over the coming decade is subject to efficient, yet rigorous, assessment. Our responses to the questions from the consultation paper are attached.

If you have any queries about this submission, please contact Anton King on (03) 8633 6102 or [aking6@agl.com.au](mailto:aking6@agl.com.au).

Yours sincerely,

**Liz Gharghori**

Senior Manager Wholesale Markets Regulation



### QUESTION 1: THE NEED FOR TIMELY DELIVERY OF MAJOR TRANSMISSION PROJECTS TO FACILITATE THE TRANSITION TO NET ZERO

a. Do you agree with the Commission's view that improvements to the economic assessment process should focus on facilitating the timely delivery of major transmission projects, given their role in providing benefits to consumers and facilitating the energy transition?

The AEMC has suggested delivery of major transmission projects should be timelier and that the rigour of the process in estimating cost and benefits should be maintained. AGL suggest that the review focus on improvements in timeliness and rigour as there are opportunities to improve both. Enhanced rigour will not require more time where it is achieved by minimising conflicts of interest and implementing appropriate incentives (or deterrents) to encourage accuracy. The *Material change in network infrastructure project costs* is an example of a rule change which has the potential to improve rigour without impacting timeliness. Elimination of duplication is a key example of how timeliness can be improved without impacting rigour.

b. What do you think would be a material reduction in time for undertaking the economic assessment process?

Given the pace of the transition and the interconnected nature of the NEM even a three month improvement in timeliness could be significant. However small changes which save a few weeks and do not reduce rigour should also be considered as in aggregate they could greatly impact timeliness.

### QUESTION 2: COUNTERFACTUAL ECONOMIC ASSESSMENT PROCESS

Do you agree that this is an accurate characterisation of how the counterfactual economic assessment process can be expected to operate in future? If not, what changes would make the counterfactual more accurate?

We have no suggested changes to the AEMC's description of the current economic assessment process and recent proposed reforms.

### QUESTION 3: STRAWPERSON 1

a. Do you agree with our assessment of the time savings of this strawperson option 1 regarding the delivery of ISP projects, relative to the counterfactual?

The AEMC has assessed that option 1 (i.e. the counterfactual plus TNSPs undertaking early works prior to completion of the initial RIT-T) may lead to potential time savings of 12 months (+/- 50%). Given the scope of potential early works a TNSP may engage in it is difficult to know if this is an accurate assessment.

b. Do you have any suggestions on how this option 1 could be specified differently, to facilitate the timely delivery of major transmission projects while maintaining an appropriate level of rigour?

It's possible that a subset of the example various early works identified may be able to be undertaken prior to the RIT-T without diminishing rigour. Particularly those that are low cost or for which there may be a common consensus on the appropriate cost.

c. Do you think that this option 1 should be taken forward?



While this option may be relatively easy to implement and will reduce the burden on AEMO, when its functions as the market operator are increasing in complexity and scope due to the transition, AGL suggests that early works should remain subject to the RIT-T to ensure this investment is subject to appropriate rigour. While the undertaking of early works prior to the RIT-T may provide clarity on early aspects of transmission infrastructure investment which will inform the RIT-T assessment, we suggest that if option 1 is adopted the rules should clarify that the successful undertaking of early works should not imply that a project is economic or should proceed.

#### QUESTION 4: STRAWPERSON 2

a. Do you agree with our assessment of the time savings of this strawperson option 2 regarding the delivery of ISP projects, relative to the counterfactual?

We agree that the timesaving for option 2 (i.e. the RIT-T focusses on option development and costs and AEMO is responsible for net benefit assessment through the ISP) may be 12 months (+/- 50%) as the AEMC has suggested.

b. Do you have any suggestions on how this option 2 could be specified differently, to facilitate the timely delivery of major transmission projects while maintaining an appropriate level of rigour?

Where competition benefits are claimed in a RIT-T, or in the ISP (if option 2 is adopted), we suggest that the rules should state that they can only be claimed where they relate to a market (which may be the whole NEM, a region, or as otherwise defined) which has been found to have ineffective competition by the AER or the ACCC in at least one of their regular reports on competition in the NEM. Claims of competition benefits without evidence of ineffective competition, even if evidence of market power exists, should not be used as justification for transmission investment. We suggest that including this in any new rule would improve both timeliness and rigour.

c. Do you think that this option 2 should be taken forward?

AGL considers this to be the most suitable option for improving the timeliness and rigour of the delivery of major transmission projects in the NEM. The benefits of transmission investment are harder to estimate than the costs as they occur in a much longer timeframe than the costs which are incurred prior to the benefits. In addition, while the costs relate to the transmission lines and surrounds, the benefits can be felt across the whole NEM. Therefore, as a more long-term, less easily predicted factor that influences the whole NEM it is appropriate that the assessment of benefits be the responsibility of AEMO through the ISP.

#### QUESTION 5: STRAWPERSON 3

a. Do you agree with our assessment of the time savings of this strawperson option 3 regarding the delivery of ISP projects, relative to the counterfactual?

The AEMC has suggested that the timesaving for option 3 (i.e. where the ISP undertakes centralised assessment of costs and benefits, with input from TNSPs) would be 2 years (+/- 50%). Given how significant a departure this is from the current economic assessment process we are unsure if this assessment is accurate.

b. Do you have any suggestions on how this option 3 could be specified differently, to facilitate the timely delivery of major transmission projects while maintaining an appropriate



level of rigour?

No.

c. Do you think that this option 3 should be taken forward?

We do not support option 3 as it is too great a departure from the current economic assessment process and would shift too much responsibility to AEMO when its functions as the market operator have already increased in complexity and scope due to the transition. TNSPs are more able to assess the costs of transmission investment as it is closer to their core function than the market operator and something in which they already have experience. TNSPs may also have more knowledge of the region in which they operate and how this may impact costs than the market operator.

#### QUESTION 6: ASSESSMENT OF STRAWPERSON MODELS

a. Do you agree with our initial assessment of the options based on the assessment criteria?

No. The assessment of option 1 does not include the likely impact on rigour of excluding early works from the RIT-T.

b. Do you think there are alternative strawperson options that should be considered in this Review? This may include alternative specifications and/or combinations of the options presented in this report. If so, how would your proposed alternative better contribute to timeliness and rigour in the delivery of major transmission projects?

None that we're aware of. We consider the RIT-T should be the primary assessment mechanism for transmission projects, and any proposed streamlining should not reduce the rigour of the RIT-T.

c. Do you think there is potential for staging of the strawperson options, e.g. implement one option in the short term and another option in the long term?

Potentially. However, we do not consider option 3 to be feasible.

d. Do you think the counterfactual is the option that best achieves an appropriate balance between timeliness and rigour? If so, why?

No. We support option 2.

#### QUESTION 7: NOTIFYING THE AER

Who should notify the AER about the existence of a concessional finance arrangement?

Ideally both parties to the concessional finance arrangement should notify the AER because the AER will not have a relationship with the financiers.

#### QUESTION 8: INFORMATION REQUIREMENTS

What types of information about the concessional finance arrangement should be provided to the AER and by whom?

The AER should not be limited in its access to information on a concessional finance arrangement when assessing transmission infrastructure development and should therefore be empowered to seek any required information on the arrangement from either party to the arrangement.



#### QUESTION 9: FINANCIER'S INTENT

How should the AER determine the financier's intent?

In consultation with the financier.

#### QUESTION 10: REGULATORY TREATMENT OF CONCESSIONAL FINANCE

How should the AER determine the amount of the concessional finance to be treated as a benefit to consumers and/or TNSPs? How should this amount be treated in the revenue determination process?

Any reduction in costs or improvement in benefits to transmission infrastructure developments should flow to consumers.

#### TIMELY DELIVERY INCENTIVE

AGL does not support providing TNSPs with a timely delivery incentive to encourage investment as a remedy to the concern that TNSPs have the right but not the obligation to invest. We consider that the regulated rate of return effectively eliminates the risk of transmission investment and should provide an adequate incentive. We suggest that contestability in transmission investment would both drive more efficient transmission investment outcomes and would also eliminate any concerns regarding TNSP delivery apathy and should be enacted as a priority change to the current transmission infrastructure investment framework. While the AEMC has determined that contestability should be considered as a long-term change to the framework, we suggest that in the short-term a superior mechanism than the timely delivery incentive to remedy TNSP delivery apathy may be that it triggers contestability for that investment.