

3 November 2022

Ms Anna Collyer
Chair
Australian Energy Market Commission

Lodged via the AEMC website

Dear Ms Collyer,

Transmission Planning and Investment Review – Stage 3

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent over 1,000 of the leading businesses operating in renewable energy, energy storage and renewable hydrogen. We are committed to accelerating Australia's clean energy transformation.

The CEC welcomes the opportunity to comment on the Australian Energy Market Commission's (the Commission) Stage 3 draft report of the Transmission Planning and Investment Review (TPIR) of the existing regulatory frameworks, which aims to facilitate timely and efficient delivery of transmission services.

We support the Commission's objective of achieving timely delivery of major transmission projects, recognising that this is a critical enabler to transition the NEM to net zero. The CEC generally considers that simplification of regulatory frameworks will provide more certainty and transparency, and therefore more efficient investment.

Many elements of the regulatory frameworks for transmission, such as the Regulatory Investment Test for Transmission (RIT-T), can be lengthy and onerous and may not always deliver efficient investment when and where it is needed. There is a clear case for reform of these frameworks.

However, we consider that incremental reform is preferable to wholesale overhaul, on the basis that this reduces uncertainty which flows through to better investment by renewable generation and storage developers, ultimately reducing costs to customers.

Our submission makes further comment on four key areas:

- The 'straw-persons' for economic regulatory reform presented by the Commission
- Views on concessional finance and the role of the AER
- Reasoning against support for a timely delivery incentive (TDI)
- Considerations for the Commission relating to emissions reduction.

Economic Assessment process

We agree with the Commission that a streamlined economic assessment process would enable projects to be delivered in a more timely manner.

From the proposed strawperson options presented by the Commission, we see components of feasibility in each Strawperson. However, in their current form, it appears Strawperson 1 is the most

progressed and likely to deliver beneficial outcomes, while minimising the degree of regulatory complexity.

Bringing forward of early works would be of value. The CEC has consistently promoted and supported early engagement with communities as a critical component to successful project delivery. However there remains a risk that major decisions relating to transmission build, such as route selection, may be determined without adequate public consultation¹.

With unprecedented volumes of greenfield transmission projects in the ISP, it is inevitable that issues around social licence may create significant delay risk for project delivery - arguably, more so than economic factors. From this perspective, bringing forward certain activities such as facilitating community engagement, in conjunction with other early works activities, would be a valuable adjustment to the planning process.

In regards to the other strawperson models presented, the CEC recognises that increased centralisation of responsibility with AEMO could theoretically enhance the planning process, by harnessing the efficiencies associated with a single, centralised body.

However, questions remain as to the practicality of this approach. For example, it's questionable whether AEMO has the same capabilities as the current jurisdictional planning bodies / primary TNSPs, in terms of understanding the specifics of each transmission and distribution network across the NEM. Existing TNSPs have developed extensive working knowledge which is used when assessing options and undertaking benefits assessments – this experience and skill will be difficult to replicate within AEMO. While the joint planning processes obviously play a role here, its again questionable whether an AEMO/TNSP consultation process, no matter how detailed and thorough, will be sufficient to effectively capture the expertise and experience of the existing TNSPs.

We do however consider there is merit in the idea of more frequent review cycles within the ISP, as explored in strawperson three. Currently, preparation of the ISP is a long process that delivers a monolithic and potentially inflexible end product – this may not necessarily align with the rapidly changing nature of the power system. Increased frequency of ISP analysis and publication would enable faster engagement on assumptions and a more accurate representation of the rapidly changing power system.

Concessional Finance

The CEC supports greater transparency at all stages of the economic assessment process as long as it does not impose delays on project delivery. With an influx of concessional finance, notably the Federal Government Rewiring the Nation (RTN) fund, it would be prudent to ensure there is some structure and clarity provided in the National Electricity Rules (NER) to capture how it should be treated by regulators, in terms of how are benefits allocated.

Guidance in the NER could provide greater clarity on the purpose of concessional finance and enable the largest possible range of regulatory mechanisms to see value delivered to consumers. Importantly,

¹ 2021. Building Trust for Transmission Earning the social licence needed to plug in Australia's Renewable Energy Zones, RE-Alliance, p.6

clear obligations and roles should be imposed on NSPs, financiers and the AER in regards to the treatment of concessional finance and associated benefits.

Ideally, the AER's role should be limited to an oversight function. The AER should have the ability to confirm the intended beneficiaries of concessional financing. This could be enabled by allowing the AER to be privy to relevant sections of contracts entered into between NSPs and financiers, where the purpose and benefit of the concessional finance are described. The AER's role would be limited to confirming the nature of this benefit allocation.

It must also be the responsibility of financiers and NSPs when reaching agreements where concessional finance is included, to clearly state the purpose and final intended beneficiary of the finance in their negotiated agreements. If this is unclear to the AER after reviewing relevant documentation, the AER should be able to request additional information.

However, the AER should not be required to make assessments as to the end 'beneficiary' of any project where concessional finance is provided.

To ensure concern over potential impacts on changes to concessional finance through this review, we would also urge the Commission to provide guidance that existing projects, such as Marinus Link, will not be delayed or negatively impacted as a result of potential changes.

Ultimately, concessional finance enables projects to progress in a timelier manner and therefore should be supported throughout the regulatory structures.

Timely Delivery Incentive

The CEC understands the Commission's identified issue whereby TNSPs have an exclusive right to build transmission assets, but no corresponding obligation to do so. However, the materiality of this issue has not yet been identified and measured. This is important before considering the introduction of a mechanism such as a Timely Delivery Incentive (TDI).

As such, it's currently hard to see justification for the introduction of such a mechanism. Reinforcing the existing rigorous economic assessment processes should enable timely delivery, without introducing additional mechanisms which could inadvertently cause poor practice or increase costs (e.g., reduced safety considerations or community consultation to speed up the process).

Prudent and efficient costing and project management are encouraged through the economic regulation framework administered by the AER, with the added benefit that any resultant efficiencies obtained by individual TNSPs then flow through into revised capital expenditure allowances in the next regulatory determination period.

We do not foresee that this mechanism alone would drive increased delivery of projects, as it is already in the best interest of TNSPs to deliver projects on time.

Australia is currently experiencing extensive skills shortages and supply chain delays. A TDI with economic impact for delay could see increased pressure on industries that are already under stress. Similarly, any delay in a project caused by these external factors could impact on TNSP revenues, which in turn creates unpredictable and potentially counterproductive incentives.

Emissions inclusion

The CEC has consistently argued that planning and economic regulatory frameworks should capture the full suite of costs and benefits associated with investment in major transmission projects, including emissions abatement. To enable this, the CEC has consistently advocated for internalising the costs of carbon into cost-benefit analysis.

We acknowledge the Commission's comments that it "notes that determining whether the treatment of emissions abatement in transmission planning is appropriate could be assisted by guidance on sectoral emissions reduction or abatement trajectories in the context of net zero."

The CEC looks forward to seeing further detail and guidance from governments regarding the proposed inclusion of emissions reduction in the NEO. Undoubtedly this will make the AEMC's key role of rule making easier.

However, the fact this detail has not yet been explicitly provided should not preclude the AEMC from taking immediate action to better account for carbon emissions as it redesigns the NEM regulatory frameworks. The Commission already gives some limited consideration to emissions through the lenses of mitigation and adaptation risk, however there is now room to move beyond these narrow interpretations. The Commission should adopt a more aggressive stance in terms of how it makes rules and decisions, to more accurately reflect the urgent reality of preventing climate collapse. It can begin this process right now, with reforms to the transmission planning and investment frameworks

On this basis, we look forward to seeing more detail from the AEMC as to what exactly it considers would form the next steps of 'sectoral emissions reduction or abatement trajectories' for the NEM. The AEMC has led on this previously - there is room for the organisation to reclaim its role in leading thought in this area.

If you would like to discuss any of the issues raised in this submission, please contact Morgan Rossiter, mrossiter@cleanenergycouncil.org.au.

Kind regards,

Christiaan Zuur
Policy Director – Energy Transformation