



Transmission planning and investment review - Contestability Directions paper released

The AEMC has published a Directions Paper for the contestability workstream of the *Transmission planning and investment review*. The Commission will place the contestability workstream on hold while it progresses the Stages 2 and 3 reforms and closely monitors developments within jurisdictions.

The Commission would like to acknowledge and thank stakeholders for their input and feedback to date.

It is important that any contestability regime in the National Electricity Rules (NER) be implemented on a national basis to achieve material benefits for customers. The initiatives recently announced in some jurisdictions suggest that it is unlikely that it would be possible to implement an agreed consistent approach to contestability across the NEM in the near future. Given this, the Commission considers it is not prudent to commit the significant industry time and resources that would be necessary to develop an agreed national model of contestability at this point in time.

In the meantime the Commission considers that it is more appropriate to focus on completing Stage 3 of the Review, and progressing Stage 2 and 3 reforms via any rule changes received. These recommendations represent a proportionate response to many of the key issues identified by stakeholders in respect of the frameworks for planning, funding and delivery of major transmission projects, including many of the same issues that contestability could address.

The Commission will continue to monitor developments in the implementation of contestability regimes, to understand and capture useful insights and information. The Commission will also continue its close engagement with the jurisdictional governments to understand their appetite to adopt, or adapt to, a national transmission contestability model in the NER.

To ensure the AEMC is in a strong position to recommence this work in the future if appropriate, the Commission has undertaken a high-level analysis of the four contestability strawperson models presented in the contestability options paper and has identified a candidate model. In the event this workstream recommences, this candidate model could form a starting point for more detailed work that would be necessary to agree a preferred model and determine its benefits, including carrying out a full cost-benefit assessment. The Commission would also incorporate insights and information from jurisdictional contestability regimes within Australia and overseas into this further and more detailed investigation.

The value of a national contestability framework is likely to be limited due to the various jurisdictional regimes in place or being developed

Several stakeholders noted the importance of any approach to contestability being implemented on a nationally consistent basis for it to provide benefits to consumers, with some stakeholders questioning whether achieving national consistency was realistic and whether a new contestability model in the NER would apply to many, if any, major transmission projects in practice, given existing or recently proposed alternative jurisdictional arrangements.

The Commission notes that several states have recently implemented or announced jurisdictional mechanisms. The existence of these jurisdictional arrangements means that a transmission contestability regime contained in the NER may not apply to many major

transmission projects in practice.

The benefits resulting from implementation of a national contestability regime are only likely to be realised where national consistency is largely achieved – that is, where multiple jurisdictions utilise the national regime as the primary mechanism to delivery major transmission projects in their jurisdictions, as an alternative to their current or proposed state-based models for planning and investment in Renewable Energy Zones and other major transmission projects.

The Commission will focus on progressing the Stage 2 and 3 reforms

The contestability workstream is part of a larger program of work to make sure the national regulatory framework is flexible enough to support the transformational shift in the energy market.

The other Stages in the Review are:

- **Stage 2 – near-term reforms:** This stage focused on both reducing uncertainty and near-term solutions, including recommendations to address any foreseeable financeability issues which may arise.
- **Stage 3 – longer-term reforms:** This stage focuses on issues that are of considerable complexity and/or are longer-term reforms. The key area of focus for Stage 3 is whether there are potential opportunities.

The Commission intends to focus on completing Stage 3 of the Review and progressing the Stage 2 and 3 recommendations via rule changes (assuming rule change requests are received), as the priority for this Review.

Stakeholders preferred a model of contestability based on option 2

The Commission has undertaken a high-level analysis of the four contestability strawperson models presented in the contestability options paper based on feedback from stakeholders to the options paper. This analysis identifies a variant of option 2 as the model of contestability that is most aligned with the feedback from stakeholders. This candidate model shares many of the features of the model of contestability that is currently being implemented in New South Wales, and some key elements of the proposed Victorian Transmission Investment Framework model and role of VicGrid in Victoria.

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