

3 November 2022

Anna Collyer
Chair
Australian Energy Market Commission

Lodged online: www.aemc.gov.au

Dear Ms Collyer,

TRANSMISSION PLANNING AND INVESTMENT REVIEW – STAGE 3 DRAFT REPORT

Origin Energy Limited (Origin) welcomes the opportunity to provide feedback to the AEMC's stage 3 draft report of the transmission planning and transmission review. We outline our key points below and detail them in Attachment 1.

- **Economic assessment process**

- **Strawperson 1:** This option has the potential to balance improved timeliness and rigour and should be explored further, with consideration given as to how the framework can ensure the options assessment remains unbiased if early works are undertaken in parallel.
- **Strawperson 2:** This option should be explored further with consideration given as to how the potential discrepancy in outcomes between cost minimisation in the regulatory investment test for transmission (RIT-T) and net benefits assessment in the Integrated System Plan (ISP) can be addressed to ensure only optimal build. This could include exploring changes with respect to how AEMO models benefits; how the identified need is defined and considered to be met; and how options are selected in the ISP.
- **Strawperson 3:** Moving the net benefits assessment to the ISP, which currently takes two years to complete, would likely introduce complexity and lengthen AEMO's processes. It is not clear that significant time savings could be made. It is also not clear that AEMO would be best placed to assess individual transmission options given it does not have the necessary regional expertise – this could lead to loss of rigour. This option should not be developed further.
- **Other options:** The AEMC could consider if the NSW approach would be appropriate for the national framework. It should also consider including 'no regrets' changes such as front loading of early works, social licence building and route selection in any of the options that it progresses. These changes would support timely delivery of projects.

- **Concessional financing approach:** In principle, the regulatory framework should allow the AER to quantify the benefits of concessional financing and allow these gains to be shared with electricity consumers through lower transmission use of system charges.

- **Timely delivery incentive:** Origin supports timely delivery of transmission projects, but we do not consider that an additional incentive is necessary to support this. To better incentivise TNSPs to deliver projects on time, we support examining competitive procurement models, benefit sharing schemes, and options to address social licence issues early.

- **Additional contingent project application stages during project delivery:** We do not support additional contingent project application (CPA) stages. The existing framework appropriately manages risk, while additional stages would create uncertainty for investors and delay projects.

If you wish to discuss any aspect of this submission further, Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or on 02 8345 5101.

Yours Sincerely,



Steve Reid
General Manager, Regulatory Policy

Economic assessment process

Origin continues to support options to streamline the economic assessment process aimed at improving timeliness while maintaining an adequate level of rigour. Timely project delivery is critical to the transition, while robustness remains important to ensure that energy consumers only pay for efficient and necessary investment that supports decarbonisation. Our initial assessment of the options is detailed in Table 1 below.

Table 1: Assessment of options

Options	Origin Energy comments
Strawperson 1: front loading early works	<p>This option has the potential to balance rigour and timeliness appropriately and should be refined for further assessment, noting the following:</p> <ul style="list-style-type: none"> • Early works can help to accelerate project delivery and we generally support facilitating this process. However, front loading of early works is only appropriate to the extent that it does not compromise the options assessment process that the transmission network service provider (TNSP) would undertake in the regulatory investment test for transmission (RIT-T). The framework should ensure the options assessment retains rigour. • Bringing forward investigation of social licence issues is also appropriate given how critical overcoming these are to timely project delivery.
Strawperson 2: RIT-T focuses on option development, AEMO responsible for net benefit assessment through Integrated System Plan (ISP)	<p>Under this option, the TNSP would only be required to focus on cost minimisation, route selection and social licence in the RIT-T, which the Commission considers would yield time savings while maintaining rigour. Bringing route selection and social licence building forward are appropriate changes. Early route selection promotes confidence and certainty for investors, while social licence is critical, as noted above.</p> <p>However, we consider further work is needed to ensure optimal outcomes under this strawperson with respect to the cost minimisation proposal:</p> <ul style="list-style-type: none"> • It is not clear that the lowest cost option is always the most beneficial. As an example, the least cost option may unlock a certain amount of capacity to alleviate some congestion, but a more expensive alternative may provide proportionately higher benefits to consumers in terms of decarbonisation objectives and ultimately, lower future prices. This is particularly important as the AEMC considers how it will integrate emissions abatement into the transmission planning framework. The AEMC should consider how the discrepancy between cost minimisation and net benefits can be addressed. This could include exploring changes with respect to how AEMO models benefits, which benefits are incorporated, how the identified need is defined and considered to be met, and how options are selected in the ISP. • As noted in the report, variations on augmentation options as the details are developed in the RIT-T could also lead to discrepancy between the ISP and TNSP's assessment. To manage options variation in the RIT-T, AEMO could include clear cost guidance in the ISP, e.g., upper bounds beyond which TNSPs may request a feedback loop check from AEMO to ensure the variation retains net benefits. We note, however, that this would erode some of the time saving benefits.
Strawperson 3: ISP undertakes centralised assessment of costs and benefits, with input from TNSPs	<p>This option would require AEMO to model the net benefits of all augmentation options. It is not clear that this option would work in practice given:</p> <ul style="list-style-type: none"> • The current ISP process is already resource intensive and takes two years to complete. Introducing further complexity would likely lengthen the ISP process. • Moving the RIT-T to a centralised body may not be practical since AEMO may not have the necessary expertise in regional-specific network requirements. This option, in effect, moves responsibility for the RIT-T from the TNSP, to AEMO which will need to obtain information from the TNSP to complete the assessment. This appears to be less efficient and may not be as rigorous. <p>As a result, it is not clear that this strawperson would lead to two years of time savings and maintain rigour.</p>

	<p>It is unclear that the rigour of the modelling process can be maintained if the centralised options and net benefits assessment is to lead to time savings. In addition, even if TNSPs are required to provide information to AEMO on transmission options, it is unlikely that the assessment will be as comprehensive and efficient. As a result, we do not consider that the AEMC should continue to develop this strawperson.</p>
Other options	<ul style="list-style-type: none"> • The AEMC could consider if the NSW approach, or a subset of its design features, would be appropriate for the national framework, incorporating any learnings from the current implementation process for the Central-West Orana renewable energy zone (REZ). • Regardless of the option chosen, the AEMC should include 'no regrets' changes such as early route selection and social licence building and front-loading of early works in its recommendations.

Concessional financing approach

We understand that concessional financing typically refers to preferential financial arrangements provided by governments, such as access to low-interest loans, external to the transmission planning and investment framework. Origin considers that the intent of concessional financing should not only be to support the timely delivery of major projects, but also to ensure the benefits of this preferential treatment are shared with electricity consumers.

In making changes to the regulatory framework to incorporate concessional financing, the AEMC should take a principles-based approach where the benefits of the concessional financing are quantified and shared with electricity consumers through lower transmission use of system charges (TUOS). Specifically:

- TNSPs should notify the AER about the existence of a concessional financing arrangement, ideally through the usual revenue determination or contingent project application process.
- TNSPs should be required to provide enough information to enable the AER to quantify the benefits (i.e., compared to the counterfactual of obtaining financing through the market or non-preferential treatment) of the arrangement and determine intent, such as a statement as to whether the financier intended some or all the concessional finance to benefit consumers.
- In principle, the entirety of the concessional financing benefit should flow through to consumers, except where otherwise transparently and publicly stated by the financier. Origin does not have a view as to which methodology (e.g., discounted cash flows, rate of returns etc.) should be used to quantify the benefits and this could be left to the AER to decide through guidelines. We consider, however, that the savings should be passed on through lower TUOS, as noted.

We also note that the Commonwealth, Victorian and Tasmanian Governments have recently announced that they will contribute equally to 20% of project equity for the Marinus Link interconnector. In addition to concessional financing, the AEMC should examine and clarify how external equity arrangements are treated in the regulatory framework.

Timely delivery incentive

It remains unclear to Origin that TNSPs' exclusive right to build transmission with no corresponding obligation to invest is a significant risk, particularly under the current environment whereby there are clear, strong incentives to decarbonise including through transmission augmentation. To the extent that TNSPs choose to not progress with strategic projects that have net benefits, this would suggest there are commercial issues within these organisations. We therefore do not consider that an additional incentive is necessary.

Origin does support timely delivery of transmission projects. To better incentivise TNSPs to deliver projects on time and on budget, we support the AEMC's examination of contestable procurement models that support the competitive pressures necessary to drive better outcomes for consumers. In addition, one of the key barriers to timely transmission project delivery relates to difficulties associated with easement acquisition from private landowners and broader social licence issues. As noted above, we support addressing social licence early in the regulatory process. The AEMC could also assess the

appropriateness and potential advantages of introducing a NSW-style benefit sharing scheme¹ within the national framework to address this issue.

Additional contingent project application stages during project delivery

Origin agrees with the Commission's draft recommendation that the existing ex-ante incentive-based regulation framework generally remains appropriate to promote timely and efficient investment in major transmission projects.

We do not consider that it is necessary for the commission to further examine the need for additional contingent project application stages. The existing framework appropriately manages risk and uncertainty around project costs. Introducing additional contingent project application stages further into the delivery of projects will likely create uncertainty for investors and could delay projects and the transition without any clear net benefits.

¹ Under the NSW's Strategic Benefit Payments Scheme, private landowners hosting transmission lines will receive annual payments for a period of 20 years.