

3 November 2022

Ms Anna Collyer
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Collyer

RE Transmission Planning and Investment Review – Stage 3

TasNetworks welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC's**) Stage 3 Draft Report for its Transmission Planning and Investment Review.

TasNetworks is the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider and Jurisdictional Planner in Tasmania. TasNetworks and its subsidiary Marinus Link Pty Ltd, are also progressing Project Marinus – the actionable Integrated System Plan (**ISP**) project for a new 1,500 megawatt interconnector between Tasmania and Victoria and associated transmission network developments in Tasmania's North West.

The focus of TasNetworks in all of these roles is to deliver safe, secure and reliable electricity network services to Tasmanian and National Electricity Market customers at sustainable prices. TasNetworks is therefore supportive of regulatory change that supports the energy transition while ensuring the best outcome for our customers.

In particular, TasNetworks is supportive of regulatory reform that streamlines the economic assessment process without diminishing the appropriate level of rigour required for major transmission projects. Any changes to the regulatory framework for planning and investment must deliver timely investment in major transmission projects while ensuring that consumers are confident that the right projects are being invested in, at the right time and at an efficient cost.

TasNetworks supports Energy Networks Australia's (**ENA**) submission and provides the following comments for additional consideration.

The Economic Assessment Framework

TasNetworks agrees with the AEMC that any changes to the economic assessment process should balance the rigour and timeliness of major transmission projects. In particular, any attempt to expedite the regulatory process should not be at the expense of robust project planning, costing or stakeholder engagement.

For these reasons, TasNetworks considers that Strawperson 1 is the only proposed model that warrants further consideration. Bringing forward early works to the Regulatory Investment Test for Transmission (**RIT-T**) stage could result in time savings while maintaining the appropriate level of rigour. For specific projects, Strawperson 1 should expedite the economic assessment process by de-risking later stages of project development. Specifically, undertaking preliminary stakeholder engagement, route selection and easement acquisition during the RIT-T should reduce the chance of delays at a later stage. TasNetworks agrees with ENA that the counterfactual should be the default approach but TNSPs retain the option to bring forward early works if they deem it appropriate to a specific project.

Strawpeople 2 and 3 should not be considered further as they will likely split accountability between TNSPs and AEMO which will increase social licence risks as customer engagement is split across two bodies. This will likely result in community opposition and delays in project delivery. TasNetworks possesses significant local knowledge and is better placed than AEMO to engage on issues relevant to Tasmanian customers. In addition, the local TNSP is better able to estimate and engage on costs and benefits with sufficient rigour compared to AEMO. For these reasons, Strawpeople 2 and 3 are not practical models for improving the economic assessment process.

Concessional Finance

TasNetworks agrees with the AEMC that the regulatory framework should be amended to give effect to the intended purpose of concessional finance, as defined by the financier.

When the intent of concessional finance is to facilitate the timely delivery of transmission projects for the benefit of electricity consumers (as opposed to the benefit of TNSPs as implied in the Draft Report), no change to the current regulatory arrangements are required.

When the intent of concessional finance is to reduce customer bill impacts, TasNetworks agrees that clarification of the regulatory treatment is required. This is particularly relevant in light of the recently announced funding for major transmission projects through the Rewiring the Nation initiative.

TasNetworks preliminary position is that network pricing benefits are best passed through to customers through an adjustment to the allowed rate of return (or weighted average cost of capital) on the value of assets subject to the concessional finance. This could be achieved by having separate Regulatory Asset Bases (**RABs**) capturing the value of assets financed through concessional finance. The rate of return applied to the separate RAB would reflect the intent of the concessional finance, such as lower cost of debt or different gearing ratios. The separate RAB / rate of return would be reflected in the return on capital building block passing through the benefits of concessional finance to customers.

TasNetworks looks forward to further engaging with the AEMC and other stakeholders on how concessional financing intended to reduce customer bills should be treated. Considering the recent funding announcements, we suggest the AEMC place a high priority on this issue to provide certainty to stakeholders on treatment of Rewiring the Nation funding.

Delivery Risk

TasNetworks does not support the introduction of a Timely Delivery Incentive (**TDI**). Fundamentally, TasNetworks does not agree with the presumption that TNSPs lack incentives to deliver major transmission projects in a timely manner. TNSPs are already incentivised to efficiently deliver projects once it has passed final investment decision through the Capital Expenditure Sharing Scheme and the return of capital arrangements where regulatory depreciation is only received after commissioning of assets. Incorporating a mechanism that could penalise TNSPs for late delivery of projects is more likely to increase risks and delay final investment decisions rather than support timely delivery.

Furthermore, the draft report notes that New South Wales and Victoria have state-based powers to direct transmission investment in certain circumstances and state TNSP ownership in Queensland and Tasmania allow for more direct control of the investment decision making processes. It is therefore not clear that there is a NEM wide deliverability risk that needs to be resolved.

Another concern with the AEMC proposal is the linking of milestones to ISP project dates. Once again, this does not solve the issue it purports to solve, but also:

- Delays in ISP timings are often due to externalities outside TNSP's control (e.g. dates for Project Marinus were updated in the 2022 ISP to account for COVID delays and additional inter-network testing);
- ISP project dates are prepared in conjunction with TNSPs and are based on project delivery information;
- There are likely to be changes to optimal delivery dates in future ISPs (linked to coal plant closure announcements).

If the AEMC does further pursue an incentive mechanism, it will be important that it does not incentivise a TNSP to rush the economic assessment process nor punish them for delays outside of their control.

Cost Risk and Uncertainty

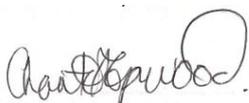
Recent changes to the regulatory framework, such as allowing a staged CPA process, have assisted in reducing cost risk and uncertainty for major transmission projects. Additional CPAs may allow for greater flexibility in responding to costs, but will also likely increase the regulatory burden by requiring separate trigger events and possible reapplication of the feedback loop. TasNetworks notes that additional CPA stages are already permissible under the current regulatory framework. Changes to the current arrangements are not required to reduce cost risk or uncertainty for major transmission projects.

TasNetworks notes that the AER already has the power to conduct a targeted ex-post review of a specific project, but agrees that there is benefit in clarifying this power in the Rules.

TasNetworks looks forward to continued collaboration with the AEMC as the Transmission Planning and Investment Review progresses.

Should you have any questions regarding this submission, please contact Chris Noye, Regulatory and Policy Specialist, at Chris.Noye@tasnetworks.com.au.

Yours sincerely



Chantal Hopwood
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