

14 July 2023

Ms Anna Collyer
Chair
Australian Energy Market AEMC
Sydney South NSW 1235

By online submission

Dear Ms. Collyer,

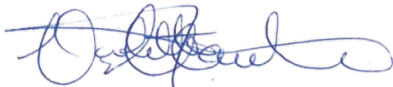
Concessional finance for Transmission Network Service Providers (ERC0349)

The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the Commonwealth Minister for Climate Change and Energy's proposed rule change on concessional finance for Transmission Network Service Providers. The objective of the rule change is to ensure that the National Electricity Rules appropriately recognises the treatment of concessional finance, and ensures that the intent of who benefits from concessional finance is met in practice.

We have provided some perspectives on the questions asked in Appendix 1 below. We look forward to working with the AEMC through the Rule Change process.

If you would like to discuss anything further, please contact Kevin Ly, AEMO Group Manager – Reform Development & Insights (kevin.ly@aemo.com.au).

Yours sincerely,



Violette Mouchaileh
Executive General Manager – Reform Delivery

ATTACHMENT 1: AEMO'S VIEWS AND INSIGHTS ON THE CONSULTATION PAPER

This section discusses AEMO's views and insights related to specific questions posed or where views are sought throughout the Consultation Paper.

1. The regulatory treatment of concessional finance

Do you agree that the Rules need to recognise concessional finance to share benefits with consumers?

We agree it would provide the necessary clarity if the Rules were explicit in acknowledging the potential for concessional finance arrangements to be adopted. Theoretically, concessional finance could be provided for a variety of reasons, such as:

- to support financeability and cash flow
- to support early works or acceleration
- where a financier has a particular mandate (such as the CEFC)

It is paramount that the regulatory framework allows the benefits of this concessional funding to be passed onto consumers, where intended.

2. Responsibility to inform the AER about the existence of a concessional financing arrangement

Do you agree that the TNSP should notify the AER about the existence of a concessional finance arrangement?

We are comfortable with the proposed process for the treatment of concessional finance benefits highlighted in Figure 3.1, which requires the AER being notified by the TNSP about the existence of a concessional finance arrangement.

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

Do you agree with the types of information that should be provided to the AER, as detailed in the rule change request, and that the TNSP be required to provide the information?

AEMO agrees with the suggested information to be provided to the AER regarding the concessional finance arrangement in the Consultation paper. In the event that the arrangement does not have the sufficient clarity to provide all of the information, then either the TNSP or the AER should be required to seek clarity from the Government Funded Body (GFB).

We also agree that the TNSP would likely be best placed to provide the required information.

4. How the AER confirms the intent of the concessional finance and the method(s) through which the AER can treat the concessional finance benefits

4.1. Do you agree that the AER should confirm the amount to be treated as a benefit to consumers and/or TNSPs with the TNSP and the GFB?

With respect to the treatment of the benefits from concessional finance, the regulatory framework should require the AER to seek submissions from the GFB to determine whether the intention was for consumers and/or the TNSP to benefit from the concessional finance, and the proportion of the concessional finance intended to benefit each party. This requirement should be used as a cross check to ensure alignment with the initial information provided by the TNSP.

4.2. *Do you agree that this amount should be treated as either a capital contribution and deducted from the RAB or as a MAR adjustment? Do you prefer one method over another? Why?*

For contingent project applications and revenue determinations, we are of the view that either of the two options could be appropriate.

When undertaking economic assessment for planning studies, the net impact of the concessional finance (and the reduced impact on consumers) should also be considered (both in the ISP and RIT-T). This could be in the form of a reduction in the capital amount, or as a reduction in the weighted average cost of capital (WACC). We would recommend flexibility be given in the Guidelines as to how the value of concessional finance should be determined.

4.3. *Do you see any issues with treating some or all the benefits as either a capital contribution or as a revenue adjustment?*

We do not foresee any issues with this.

4.4. *Do you agree the AER should be required to seek submissions from the government funding body:*

- *to ensure benefits are passed on to customers and/or TNSPs as intended, and*
- *to determine whether they intended that some or all of the benefit of the concessional finance be treated as a capital contribution or a MAR adjustment, if required?*
- *If not, how should the AER confirm intent and treatment of consumer benefits?*

We agree with the proposed approach in the consultation paper.

5. Proposed solution

5.1. *Do you think the proposed solution is the most appropriate way to share benefits of concessional finance with consumers, or is there another more effective solution that could be implemented (including non-rules based solutions)?*

The proposed solution suggested, namely to explicitly recognise the offering of concessional finance, sharing of benefits, specifying responsibility for informing the AER of any arrangements and the provision of information pertaining to it, and specifying how the AER confirms the intent and method of sharing benefits, is an appropriate solution.

5.2. *Do you think the proposed solution:*

- a) *is targeted, fit for purpose and proportionate to the issues it is intended to address?*
- b) *considers the broader direction of reforms in transmission infrastructure?*
- c) *provides for simplicity and transparency in regulatory arrangements?*

The proposed solution is appropriate, proportionate, and provides the appropriate flexibility for ongoing transmission investments, as well as transparency for stakeholders.

6. Costs and benefits of the proposed solution

What do you think the direct and indirect costs and benefits of the proposed solution are likely to be? Are the costs likely to be proportionate to the problem they are intended to address?

We agree with the purported costs and benefits outlined in the consultation paper. In addition to lower costs for consumers, the additional transparency and certainty of how the solution is implemented is a benefit in itself for consumers.

7. Implementation considerations

7.1. Do you have any suggestions regarding the commencement timeframe?

We would like the rule change to occur as soon as practical, given the significant amount of concessional finance arrangements either already announced, or currently being considered. This would ensure the necessary clarity can be provided as soon as possible.

7.2. Are there additional measures that should be considered that would support the effective implementation of the desired solution?

With regards to the proposed approach to the Victorian framework outlined in the consultation paper, we are comfortable with the proposed approach for contestable arrangements. For non-contestable arrangements, given the regulatory framework differs from the rest of the NEM, careful consideration must be given as to how the AER will apply this in practice. Specifically, as noted in the rule change: *“the service provider, under the proposed arrangements, will be required to notify the AER whether they have received concessional finance as part of their revenue determination. The AER in response can use their proposed powers to vary the MAR allowance or reduce the RAB of the relevant service provider.”*

We are happy to continue to work with the AEMC to discuss how this could work in practice.

8. Compliance and enforcement

Do you have any feedback on the compliance and enforcement role proposed for the AER?

The compliance and enforcement role suggested is appropriate. It is possible that there could be lack of clarity as to the proportion of benefit to be shared with customers, potentially due to a lack of clarity in the agreement which leads to a different view between the TNSP and the GFB on the appropriate split of benefits that flow to consumers. Given this, ensuring that the AER is advised to consult with both parties will hopefully clarify any uncertainty as efficiently as possible.

9. Are there alternative solutions that would be preferable?

Can you share any alternative solutions that you think would be preferable and more aligned with the long-term interests of consumers?

We are not aware of a solution that would be more preferable compared with the one proposed.

10. Assessment framework

Do you agree with the proposed assessment framework?

We agree with the proposed assessment framework, assuming that consideration of the national electricity objective will also consider the upcoming amendments to include an emissions component (this is not in the consultation given the bill has not yet been passed). Whilst decarbonisation is noted as being considered as part of the assessment framework, it is worth noting that the relative importance of this component should be equivalent to other elements of the assessment framework that stem from the existing limbs of the NEO.