AusNet

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

14 July 2023

Anna Collyer
Chair
Australian Energy Market Commission (AEMC)
Via electronic lodgement

Dear Ms Collyer

RE: Concessional Finance for Transmission Network Service Providers (ERC0349)

AusNet welcomes the opportunity to make this submission in response to the AEMC's consultation paper on Concessional Finance for Transmission Network Service Providers Rule (the Consultation Paper).

AusNet is the largest diversified energy network business in Victoria with over $11 billion of regulated and contracted assets. It owns and operates three core regulated networks: electricity distribution, gas distribution and the state-wide electricity transmission network, as well as a significant portfolio of contracted energy infrastructure.

We support a regulatory mechanism to allow customers receive their share of financial benefits from concessional financing (CF) provided to regulated network operators (NO), as agreed between the government funding body (GFB) and the NO. While timely transmission is key to bringing benefits of energy transition that will lower energy cost and decarbonise our economy, enacting government policies intended to defray cost of transition (in this case, new network infrastructure) for consumers is of equal importance.

AusNet supports the mechanism proposed, including that:

- TNSPs be responsible to notify AER of the existence of concessional financing and the GFB providing this;
- The AER be allowed to:
  - Establish some, or all, of the difference between NPVs for debt/equity at concessional rate and for debt/equity at benchmark efficient rate consistent with the AER's Rate of Return Instrument (RORI) as a CF benefit, and
  - Pass that CF benefit as a 'capital contribution' or 'Maximum Allowed Revenue' (MAR) as part of their regulatory determination or contingent project application processes; and
- A process exists to provide and verify relevant necessary information to enable the AER to make above determination.

We agree with the Consultation Paper's characterisation of benefits. That is, the proposal provides additional certainty for government and industry on outcomes from future concessional financing arrangements, that can support more timely infrastructure to deliver on energy transition.

Process to inform, confirm and apply concessional finance treatment by AER

In deciding appropriate process, we should recognise the final CF agreement is an outcome of a negotiation between GFB and relevant network, and that the regulatory framework will need to be flexible to accommodate different policy intents for concessional financing in the long-term. This includes reducing consumers' share of new infrastructure costs; resolving cost allocation; government 'contribution' to achieve other policy outcomes such as increasing innovation or facilitating more programs to achieve jurisdictional policy targets.

Given this, we recommend this process is best expedited by ensuring TNSP's notification to AER covers intent of concessional finance, quantum of, timing and method in which the CF benefit should be passed to consumers, along with proof of support by the GFB.

The notification should be the principal basis on which the AER can rely to make the appropriate regulatory determination, and therefore, it should provide sufficient information to make above points clear, backed by supporting evidence provided by TNSP. Where additional information is required by the AER to make the regulatory treatment, the TNSP is best placed to respond to the AER queries – so long as they demonstrate continuing GFB agreement (including documentation of same) to the AER.

The above approach seeks to simplify and establish 'fit-for-purpose' allocation of roles:

- The AER as decision-maker on TNSP revenue returns, and to adjust same in accordance with CF agreement between the GFB and TNSP, based on evidence provided
- One party to act as facilitator, to assist the AER in identifying requirement to apply regulatory treatment, and providing information, and evidence, in support of same – with a recommendation that the TNSP is best party to do so;
- Both the GFB and TNSP as negotiating parties to the CF agreement and CF intent, to ensure appropriate specification of the CF agreement and intent, and documentation of their support of same for the AER

On the mechanism, we recommend retaining optionality for both the 'capital contribution' and 'maximum allowed revenue' (MAR) adjustment approaches for use by the GFB and network. Capital contribution offers simplicity in calculation and application in charging, while the MAR adjustment offers flexibility in the timing of benefits.

Application in the Victorian regime

AusNet agrees with Consultation paper's characterisation of how concessional financing treatment should apply in Victoria (and how this translates to passing of benefits for consumers) for contestable and non-contestable procurement processes for Victorian transmission.

On non-contestable procurement for transmission, we recognise the importance of the contracting process between AEMO and AusNet ensuring that same CF arrangements with GFB are appropriately addressed and documented, so that this can be made available to the AER when considering regulatory treatment when AusNet applies to 'roll-over' such assets into our 'Regulated Asset Base' (RAB).

This 'roll-over' process is well-established and regulated, and we envisage that the additional CF information can be provided as part of this process.

Distribution network infrastructure

We would support a rule change with similar principles and process for distribution network infrastructure. The energy transition requires significant investment in both transmission and distribution infrastructure, and the same rule change benefits expressed in Consultation paper extend equally to governments and consumers having optionality of same regulatory treatment for concessional financing of distribution networks.

If you have any questions regarding this submission, you can reach me by email at jack.san@ausnetservices.com.au

Sincerely,

Jack San
Manager, Energy Policy
AusNet