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John Mackay
Director
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000
(via online submission)

Concessional Finance for Transmission Network Service Providers - Consultation paper submission

The Clean Energy Finance Corporation (**CEFC**) welcomes the opportunity to make a submission to the Australian Energy Market Commissioner's (**AEMC's**) Concessional Finance for Transmission Network Service Providers Consultation paper.

The CEFC is a specialist investor with a deep sense of purpose: to invest as Australia's 'green bank' to help achieve our national goal of net zero emissions by 2050. With a strong investment track record, we have been working across the economy to capture the benefits of the net zero transition – from renewable energy generation and transmission to energy efficiency, cleantech innovation and beyond. We invest alongside private investors, innovators and industry leaders, drawing on our deep sector experience, investment expertise and portfolio strength to fill market gaps and maximise our impact.

The CEFC supports the development of a secure, reliable and affordable electricity system whilst lowering emissions through its investment activities and has done so historically and will continue to, through its core $10 billion fund.

The Federal Budget recently allocated an additional capital injection for the CEFC to help spearhead the necessary transformation of Australia's electricity grid infrastructure through the Australian Government's $20 billion Rewiring the Nation (**RTN**) program. The RTN will focus on investment in Australia's electricity grids and enable more energy storage and renewable energy zones (**REZ**)s, which will all be critical in the transition of Australia's energy system. The CEFC invest in a wide range of clean energy technologies and investments including electricity transmission, large scale batteries, renewable generation and enhancements to distribution networks. The additional capital provided by RTN and other measures will provide further opportunities to accelerate the energy transition. Therefore it would be beneficial for the rule change to apply to potential concessional finance investments in distribution or transmission networks.

Given the CEFC's role as the key delivery partner of the RTN program, which includes tools such as concessional finance, we bring a perspective that reflects our practical experience in investing to facilitate the timely and efficient delivery of major energy infrastructure projects. Prior to the formation of the RTN policy, the CEFC has invested in large transmission projects – namely Project EnergyConnect in NSW (with Transgrid), the Southern Downs REZ in Queensland (with Powerlink) and Snowy 2.0 grid infrastructure (with Transgrid Services / Lumea).

We estimate that for the NEM, in the order of $120 billion of capital expenditure will be needed to fund new utility scale solar, wind, transmission, storage and ancillary services over the coming decade.[1] This cost will be materially larger if we include upgrades that may be needed to the distribution network to accommodate greater levels of Consumer Energy Resources (**CER**). AEMO's current assumptions show significant forecast growth for coordinated and distributed behind the meter storage. Currently AEMO anticipate 0.8GW of capacity in FY23 and under the 2022 ISP step change scenario this number is forecast to grow to ~9GW by 2030, and ~45GW by 2050. The cost of capital will be a key determinant of end-consumer charges, given the high fixed cost/ low operating cost nature of the investments to be made. Concessional financing, facilitated by this concessional financing rule change, can play a countervailing role in reducing the cost of capital of these energy projects to thus facilitate lower end cost to consumers.

Overarchingly, the CEFC agrees that the Rules should recognise concessional finance to allow the sharing of concessional benefits with consumers given the intent of the Commonwealth's RTN funds and the crucial role RTN will play in modernising Australia's electricity networks - whether through the application of CEFC's core funds or that of the RTN. In relation to network investment, concessional finance could be applied to benefit either a Network Service Providers (**NSP**), consumers or both. The allocation and beneficiary will vary based on the particular circumstances of each investment.

Whilst the consultation paper focuses on TNSPs, the CEFC sees merit in extending the rule change to include DNSPs, as forementioned. There are likely to be opportunities where concessional finance could be used to unlock value in the distribution network, for example, where a REZ project extends to both the transmission and distribution networks. We believe that this should also be considered in the context of supporting the growth of coordinated and behind the meter storage outlined in AEMO's ISP. Distribution level investment can also support the acceleration of uptake of CER including electric vehicles and / or passing concessional benefit onto consumers through distribution scale providers / projects. Application of concessional finance in these contexts would have clear benefits for consumers through lower costs and increased reliability whilst also supporting decarbonisation of the system in line with the Government's 82% renewables target by 2030. We note that the recent AEMC review 'Extending the regulatory frameworks to hydrogen and renewable gases' allowed for concessional finance to be applied to both gas transmission and distribution pipelines. We believe it would be appropriate to align this concessional financing rule change to apply to both categories of electricity infrastructure.

The consultation paper seeks explicit feedback on the mechanism of application of concessional finance via either a revenue adjustment mechanism or a capital contribution. Our understanding of the current framing of the rule change request is that the concessional finance provider (or Government Funding Body '**GFB**') would determine which adjustment mechanism is most appropriate to apply in a given circumstance, through bilateral negotiations with the NSP - a position that the CEFC supports. The GFB requires this ability to apply the appropriate mechanism to address the specific issue. The CEFC's view is that in the majority of cases, a revenue adjustment mechanism is likely most appropriate but there are circumstances where a capital contribution mechanism may be preferred. These may vary depending on various commercial reasons and / or desired timing of the benefits pass through. We also note that both are net present value (NPV) neutral from a consumer perspective, supporting the case for having the flexibility of both mechanisms.

[1] Based on CEFC analysis of AEMO's 2022 Integrated System Plan, noting that since then the cost of capital (through interest rates) and the costs of completion have risen making this a conservative estimate

If the GFB utilises the revenue adjustment mechanism there also needs to be the ability to profile or target particular periods which may improve the effectiveness of concessionality to consumers and / or financeability for NSPs. The CEFC therefore sees merit in having the ability to apply the appropriate mechanism depending on the circumstance where concessional financing is being applied.

The CEFC agrees with the AEMC's proposed approach that the NSP should be obligated to notify the AER about the existence of a concessional finance arrangement. The CEFC note that it is fundamental that the party determining the amount of concessionality and any concessional benefit to be passed through to consumers is the responsibility of the GFB in its commercial negotiations with the counterparty. The GFB is to determine what 'concessional finance benefit' (if any) are appropriate in exercising its duties under its applicable governance arrangements and in an independent manner.

The CEFC broadly agrees with the types of information that should be provided to the AER in relation to the concessional financing arrangement. The information that in the CEFC's view ought to be provided by the NSP includes:

- Name of the GFB;
- The basis on which the concessionality will apply (capital or revenue adjustment); and
- Quantum and timing profile of any adjustment amounts.

The CEFC agree that the NSP and GFB should confirm the amount of concessional finance and any amount that needs to be passed onto consumers. The AER would then be able to give effect to this amount through the regulatory framework to ensure that this benefit is passed on to consumers.

Any confirmation of information with the NSP by the AER should be done so in a manner and timeframe that does not impact the financing process.

The CEFC's view is where an NSP receives concessional finance the AER should seek verification from the GFB of the nature (i.e. revenue adjustment or capital contribution mechanism), quantum and timing of that concessional finance provided.

The CEFC notes that the treatment of concessional finance as a capital contribution may have implications in default scenarios where the financing and concessional finance will no longer be provided on the basis that was envisaged at financial close. Adjustment mechanisms may be required in such circumstances. In principle, concessional financing should only apply to the extent that funding arrangements remain in place and the counterparty has not triggered an event of default or other contractual triggers within the financing arrangements that would restrict the ability to pass on concessionality to consumers.

Further, consideration should be given to the intersection between the concessional finance and financeability rule changes. If an NSP has received concessional finance from a GFB to address financeability, their ability to seek financeability support (e.g. through adjusted depreciation profiles) for a particular project should be restricted to avoid consumers bearing the impact of changes to cash flow profiles if concessional financing has already been applied to address financeability.

The AEMC in section 3.5 addresses how concessional finance could apply in the Victorian context. The CEFC's position is that the application of concessional finance in Victoria should follow the same principles as in the wider NEM. The arrangements for the delivery of concessional finance benefits in Victoria's contestable process should be determined by the Victorian transmission planner and GFB.

In terms of timing for implementation, the CEFC see that implementation by early – mid 2024 is appropriate, in line with the current timing anticipated for the financeability rule change. If the timing for completing this rule change is extended to early – mid 2024, the CEFC do not envisage that this will impact the CEFC's investment activities and its ability to pass through concessional benefits to consumers. From a compliance and enforcement perspective, the GFB will likely have contractual protections within its financing arrangements but consider it may also be appropriate to have compliance requirements under the rules.

The AEMC also raises a question in the consultation paper regarding decarbonisation under the proposed assessment framework. Concessionality and application of RTN is intended to enable the timely delivery of infrastructure that is critical to enabling additional renewable capacity.

The CEFC also believes it may be worth considering how concessional financing interacts with the planning and / or economic assessment framework.

We very much value the opportunity that the AEMC has provided to enable the CEFC to provide input into this process. We look forward to the opportunity to engage further with the AEMC. Should you wish to discuss this submission further, please contact Allina Fawcett, Manager Strategic Research Programs, allina.fawcett@cefc.com.au.

Yours sincerely,

Ian Learmonth

Chief Executive Officer