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03 August 2023

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

Dear Ms Collyer

RE: Accommodating financeability in the regulatory framework (ERC0348)

AusNet welcomes the opportunity to make this submission in response to the AEMC's consultation paper on 'accommodating financeability in the regulatory framework' (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 the Consultation paper's proposal to provide the AER with the flexibility to vary the depreciation profile for actionable ISP projects to mitigate delay risk in raising capital by regulated transmission network service providers (TNSPs). Energy transition relies on substantive investment in transmission, and we agree that rapid substantive transmission investment may impact on the ability or willingness of a regulated TNSP to efficiently raise capital.

Approach to assessing financeability

The Minister's proposed 'principles-based' approach by AER on financeability assessment provides an acceptable starting point for a regulatory solution to address the above. We support the principles identified, and the release of AER guidance in line with those principles. If done in timely fashion and in consultation with TNSPs, particularly on the range of measures and process to be used, this can provide certainty on outcomes for consumers and proponents.

While there is a need to minimise risk of delays to transmission build, affordability for customers is of equal importance, especially given current cost-of-living pressures. Therefore, we support recognition that large transmission projects have material impacts to customer prices in the guidelines.

On the alternative of AER being required to use a highly 'prescriptive' approach, we do not see this as necessary and offer the following observations:

- Any approach should ensure that only the minimum necessary bring-forward of customer charges are allowed. The regulatory framework gives TNSPs the freedom to choose their capital structure (and credit rating) – and to vary as required to absorb changing capital requirements over time. Importantly, this arrangement is intended to incentivise TNSP financial outperformance against allowed rate of return for a 'benchmarked efficient entity'.

  Given this, we consider it important for this rule change to consider the circumstance of the TNSP in the way that financeability is assessed in the exercise of AER's new power. This includes accounting for the extent to which financing decisions by the TNSP has contributed to a 'financeability' concern; and consideration of existing capacity and actions taken by the TSNP to moderate the impact on customers, including the consideration of options to adjust their capital structure in line with the 'benchmark efficient entity' framework.

  As these factors may be material to the increase in customer bills earlier than otherwise, we consider it is reasonable and efficient in the interests of customers to consider these questions when designing a regulatory solution.

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- AusNet accepts a 'network-level' assessment of financeability is reasonable, given that TNSPs manage their capital structure on a holistic basis. As long as concerns are primarily driven by rapid substantive capital requirements from Integrated System Plan (ISP) projects, this enables a fair assessment of the requirement to adjust customer charges. In addition, a 'network-level' assessment enables the AER to ensure that customer's do not bear any additional impacts associated with a TNSP's choice around their capital structure.
- Customers ultimately bear the risk from the design chosen to address this concern – whether this means potential benefit foregone from delays due to declared investor 'uncertainty' or lack of willingness to invest; or introduction of unnecessary bring-forward of customer charges. We see flexibility for the AER, with guidance, to provide a workable approach in balancing these competing risks and range of potential factors that may drive these risks.
- AusNet operates under Victoria's contestable regime where financing forms a key pillar of competition for large transmission and where the willingness to invest is tested in a competitive environment. Care should be taken to ensure proposed rule maintains consistency in customer outcomes across jurisdictions, and that customers in non-contestable jurisdictions are not made worse off by locking in an unfavourable price path through a prescriptive approach set in the rules.

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

Sincerely,

Mark Ellul
Chief Financial Officer
AusNet