AGL Energy Limited
T 02 9921 2999
F 02 9921 2552
agl.com.au
ABN: 74 115 061 375

Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065

Australian Energy Market Commission

8 February 2023

Accommodating financeability in the regulatory framework

AGL Energy (AGL) welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) Accommodating financeability in the regulatory framework draft determination.

About AGL

Proudly Australian for more than 185 years, AGL supplies around 4.3 million energy and telecommunications customer services. AGL is committed to providing our customers simple, fair and accessible essential services as they decarbonise and electrify the way they live, work and move.

AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emissions, affordable and smart energy future in line with the goals of our Climate Transition Action Plan.

The draft rule is not required due to the low risk regulated returns already available for network investment

AGL agrees that transmission is a critical enabler of the transition and that actionable Integrated System Plan (ISP) projects are likely to result in a large amount of investment for transmission network service providers (TNSPs) relative to their regulated asset base. Nevertheless, we do not agree that merely because investment may be required at a large scale that financeability challenges will exist, or that there is a need to address financeability of TNSPs to enable them to invest in actionable ISP projects, as network investment receives low risk regulated returns that would be attractive to both TNSPs and a broad variety of providers of finance. We therefore do not consider the proposed new rule is required.

AGL was disappointed that the AEMC decided not to pursue contestability in the development of actionable ISP projects. We consider that if a TNSP is unwilling to develop an ISP project there would be numerous other parties who would be willing to do so without improvements to existing financeability terms.

The draft rule will lead to a temporal misallocation of costs to consumers

The draft rule allows TNSPs to bring forward depreciation costs to improve TNSP cashflows. We consider this will lead to a temporal misallocation of costs to consumers so that network expenditure will be less likely to be allocated to those who benefit. We consider this an unacceptable consumer detriment, given the low likelihood that financeability issues would lead to a TNSP deciding not to proceed with an actionable ISP project or that an alternative provider could not be found.

If financeability accommodations are required a principles approach would be more equitable for consumers

If financeability accommodations must be implemented, we support the proposed design by which a financeability assessment:

- is by request only
- is subject to AER determination
- is only available under more limited circumstances if the TNSP has received concessional finance
- is not available for early works in respect of actionable ISP projects.

The draft rule proposes a prescriptive approach to financeability assessments to provide TNSPs and their investors with certainty and predictability and therefore confidence to invest in actionable ISP projects. We consider a principles based approach to financeability assessments (whereby the AER uses a case by case approach, adapts to changing circumstances, has flexibility on financial metrics, and can consider qualitative and quantitative factors) would better ensure that cashflow adjustments to support financeability would only be made when they are truly required to ensure an actionable ISP project can proceed, and would therefore also ensure that the new rule would limit the circumstances under which consumers must endure the inequity of temporally misallocated costs.

Under the prescriptive approach financeability assessments will result in cashflow adjustments if the financeability position of the TNSP either falls below the financeability threshold (currently a BBB+ credit rating), or if already below the threshold, falls further below the threshold. While we would prefer a principles based approach, we consider this ‘no worse off’ approach is at least preferable to the alternative proposal to require the AER to bring forward cashflows to support a financeability position that is equivalent to the benchmark credit rating in the applicable rate of return instrument (currently BBB+) with the ISP project.

If you have queries re this submission, please contact Anton King on (03) 8633 6102 or akingб@agl.com.au.

Yours sincerely,

Chris Streets
Senior Manager Wholesale Markets Regulation