

8 February 2023

Mr. Andrew Pirie  
Project Leader  
Australian Energy Market Commission  
Lodged electronically at: [AEMC online portal](#)

Dear Mr. Pirie,

**CEIG response to the AEMC's consultation on *Accommodating financeability in the regulatory framework***

The Clean Energy Investor Group (CEIG) warmly welcomes the opportunity to provide comments on the Australian Energy Market Commission (AEMC)'s draft Determination (the draft Determination) on *Accommodating financeability in the regulatory framework* published on 19 December 2023.

CEIG represents domestic and global renewable energy developers and investors, with more than 16GW of installed renewable energy capacity across more than 76 power stations and a combined portfolio value of around \$38 billion. CEIG members' project pipeline is estimated to be more than 46GW across Australia. CEIG strongly advocates for an efficient transition to clean energy with a focus on the stakeholders who can provide the long-term cost-effective capital required for this transition.

**Key Points**

- CEIG is pleased to see that, in line with its December 2020 submission, the AEMC is proposing a process to first assess whether a transmission project might create financeability issues for TNSPs, and only if so, to give the AER tools to address those issues.
  - CEIG notes that the process to assess potential financeability issues relies on the design of robust and fair Financeability Guidelines and encourages the AER to carefully consider their content.
- CEIG however notes concerns that the draft Determination will likely result in greater initial costs to consumers.

- Despite the AEMC arguing that contestability is not an appropriate alternative solution to financing actionable ISP projects, CEIG respectfully disagrees and reiterates its preference for contestability in transmission projects.
  - The benefits of contestability should be acknowledged given the evidence that contestability improves oversight and productivity.

## **General Comments**

### Background

The draft Determination seeks to ensure that a Transmission Network Service Provider's (TNSP) financial standing is not adversely impacted by their involvement in an Integrated System Plan (ISP) project. This assurance would be based on the evaluation by the Australian Energy Regulator (AER) of the TNSP's regulated activities, utilising the benchmark gearing ratio specified in the relevant Rate of Return Instrument. The draft Determination introduces enhanced adaptability within the National Electricity Rules revenue determination framework.

This is proposed to be achieved by permitting the AER to modify the depreciation timelines for assets associated with an actionable ISP project if it assesses that the TNSP may be negatively impacted. Altering the depreciation schedule would accelerate cash flows, thereby enhancing the TNSP's financial indicators. The draft Determination also considers a mechanism for moderating risks associated with plausible ratings migration resulting in financeability challenges.

### CEIG's assessment of the draft Determination

As noted in our December 2020 submission<sup>1</sup>, CEIG supports mechanisms that provide greater certainty around the development of long-timeframe assets such as the upgrades to the transmission network that are required to support the development of Renewable Energy Zones and, more broadly, to deliver the secure and reliable power system envisaged in the Australian Energy Market Operator (AEMO)'s ISP.

Timely investment and delivery of transmission network projects, particularly ISP Actionable projects, is critical to unlock new generation capacity in the National Electricity Market.

CEIG however also argued that support for amendments to the TNSPs' financial position should only be granted where the AEMC makes an assessment that there are significant risks that ISP projects cannot be built under the current regulatory framework (and therefore that consumer benefits as assessed through the Regulatory Investment Test for Transmission are at risk of not being realised).

CEIG is therefore pleased to see that, through the draft Determination, the AEMC is proposing a process to first assess whether a transmission project might create

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<sup>1</sup> AEMC, Dec-20, [CEIG submission - Participant derogation – financeability of ISP projects \(TransGrid\)](#)

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financeability issues, and only if so, to give the AER tools to address those issues.

CEIG notes that the process to assess potential financeability issues relies on the design of robust and fair Financeability Guidelines and encourages the AER to carefully consider their content.

#### Proposed rule pertaining to additional fiscal protections for TNSPs

CEIG notes that there will be limited visibility of the use of the mechanism enabled through the draft Determination. This lack of visibility may be in part, to ensure that TNSPs are not deleteriously impacted through such public visibility, essentially because of the commercially sensitive nature of such disclosures. Whilst this may be defensible, the AEMC and the AER should carefully consider whether they can introduce in the process as much transparency for consumers and market participants as possible.

CEIG advocates for policies grounded in robust evidence, ensuring that any changes in regulations are justified, transparent, and aligned with the interests of clean energy investors and broader market stability. This approach not only supports investor confidence but also ensures that regulatory changes are beneficial and necessary for the evolving energy market.

#### Impacts on consumer bills

CEIG notes that when elements of the initial rule change proposal were previously considered (Reference ERC0322) in 2020, the broad consensus amongst respondents was in opposition of escalated depreciation recognition and adjusted inflation recognition; by and large due to the impacts to consumers.

Although CEIG notes the assurances provided by the AEMC that the draft Determination provides flexibility to alter the rate of depreciation to address cash flow issues without increasing the cost to customers over the life of the investment, CEIG notes that this is still likely to increase consumer bills in the short-term.

#### **Examining the role of contestability**

CEIG notes that the AEMC considers that contestability is not an appropriate alternative solution to financing actionable ISP projects. CEIG respectfully disagrees and reiterates its preference for contestability in transmission projects, especially where TNSPs face investment challenges. This approach is advocated to enhance competition and efficiency, leading to more innovative and economically viable solutions for transmission infrastructure development.

Furthermore, CEIG underscores the suggestion from multiple respondents to the 2020 'Financeability' rule consultation that (Reference ERC0322) that if TNSPs face investment challenges, transmission projects should be offered in a contestable manner. This approach is seen as a means to stimulate competition and efficiency in the sector, potentially leading to more innovative and cost-effective solutions for transmission infrastructure development.

CEIG notes that in a regulated market like the provision of transmission network services, contestability needs to be carefully balanced with the need for stable investment incentives. While competition is beneficial, balance ensures that TNSPs achieve sufficient returns on their substantial infrastructure investments. This balance is essential for long-term infrastructure development and reliability.

Contestability when implemented correctly ensures that the critical balance is achieved. In the context of the determination, the addition of contestability could bring benefits to innovation, efficiency, market function and deliverability of key infrastructure. The benefits of contestability are outlined in detail within NEXA Advisory's report titled '*Transmission contestability in Australia enabling the clean energy transition*'<sup>2</sup>, and CEIG recommends that credence is given to the report findings favouring contestability. Similar work in other jurisdictions evidences the benefits to consumers and grids<sup>3</sup>.

Contestability in the TNSP market can drive efficiency and innovation<sup>4</sup>. When multiple entities vie to provide transmission services, they are motivated to optimise their operations and adopt innovative technologies to stay competitive. This can lead to cost savings and improved service delivery, benefiting the entire electricity system and end consumers. With contestability, TNSPs are compelled to seek the most cost-effective solutions for infrastructure development and maintenance. This leads to better capital allocation and potentially lower costs for the energy market, which can be passed on to consumers in the form of lower electricity prices.

Competition often leads to improvements in the quality of service. TNSPs in a contestable market must not only focus on being cost-effective but also on maintaining high standards of reliability and service to retain their market position. A contestable market can encourage new entrants, bringing fresh perspectives and innovative approaches to the industry. This can accelerate the adoption of new technologies and practices, which is particularly important in the context of the transition to renewable energy and the need for modernised grid infrastructure.

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<sup>2</sup> <https://nexaadvisory.com.au/transmission-contestability-in-australia-enabling-the-clean-energy-transition>

<sup>3</sup> Rossi, J., 2022. Promoting Cost-Effective Grid Modernization. *Regulation*, 45, p.34.

<sup>4</sup> Bonetto, R. and Rossi, M., 2017. Smart grid for the smart city. *Designing, Developing, and Facilitating Smart Cities: Urban Design to IoT Solutions*, pp.241-263.

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CEIG thanks the AEMC for the opportunity to provide feedback on the draft Determination and looks forward to continued engagement on those issues. Our Policy Director can be contacted at [marilyne.crestias@ceig.org.au](mailto:marilyne.crestias@ceig.org.au) if you would like to further discuss any elements of this submission.

Yours sincerely,

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