

8 February 2024

Ms Anna Collyer
Chair
Australian Energy Market AEMC
Sydney South NSW 1235

By online submission

Dear Ms. Collyer,

Sharing concessional finance benefits with consumers (ERC0349)

The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the AEMC's proposed rule change on Sharing concessional finance benefits with consumers.

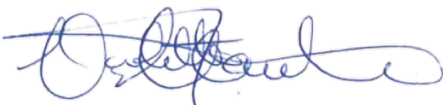
For non-Victorian projects, AEMO considers that the information included in the draft determination is appropriate. Careful consideration of the Victorian arrangements are needed in order to ensure that in all instances the intent of any concessional finance agreements can be successfully achieved. As an example, the timeframes proposed in the rule change may need to be adjusted to reflect the Victorian arrangements.

We also note and support the approach that the consumer benefits of concessional finance should be considered as part of the economic assessment process once there is sufficient certainty that the funding will be secured.

We have provided further perspectives on the questions asked in Appendix 1, along with an explainer of AEMO's role in Victoria in Appendix 2.

If you would like to discuss anything further, please contact Kevin Ly, AEMO Group Manager – Reform Development & Insights (kevin.ly@aemo.com.au).

Yours sincerely,



Violette Mouchaileh
Executive General Manager – Reform Delivery

APPENDIX 1: AEMO'S VIEWS AND INSIGHTS ON THE CONSULTATION PAPER

This section discusses AEMO's views and insights related to specific questions posed or where views are sought throughout the draft determination.

Question 1: Is the required information to be included in the concessional finance agreement appropriate?

For non-Victorian projects, AEMO considers that the information included in the draft determination is appropriate.

For Victorian contestable projects, AEMO understands that the intention is for the concessional finance agreement to be between the Declared Transmission System Operator (DTSO) and the Government Funding Body (GFB). AEMO will not be a party to the agreements. The benefits of the agreement will result in a lower tender price to AEMO which we will be able to pass onto transmission customers as lower costs.

For Victorian non-contestable projects AEMO considers that the rules should clarify the obligations of an incumbent DTSO to reflect the intent of the GFB's benefit sharing with customers in the charges under the initial service agreement prior to roll in, as AEMO does not have the powers to adjust these charges (unlike the AER). Alternatively, the AER could be given the ability to make an additional adjustment to the incumbent's continuing MAR at roll in to reflect any shortfall in benefit sharing with customers prior to the roll in taking effect.

The AEMC will need to put in place different arrangements that deal with DTSOs who have an AER revenue allowance and those who do not.

- DTSOs who have an AER revenue allowance, in line with the contractual arrangements, roll in the depreciated value of those assets into their RAB at the subsequent revenue reset. The AER reviews the proposed amount to ensure it is in keeping with the contracts in place with AEMO. Where a DTSO has a RAB the AER will need to be able to adjust the revenue allowance to ensure that any agreement in place between the DTSO and the GFB are passed through to consumers and that all information associated with the agreement is provided.
- For DTSOs who do not have an AER Revenue allowance, the rules will need to allow AEMO to pass on the benefits to customers via the contractual arrangements.

The timeframes proposed in the rule change may need to be adjusted to reflect the Victorian arrangements.

Question 2: Do the draft rules and our draft determination provide certainty about how concessional finance is to be treated in the economic assessment of project options?

AEMO does not believe the draft determination provides appropriate certainty about how concessional finance is to be treated in the economic assessment process. We note that page iv states that "Where concessional finance is used to support a project option at the economic assessment stage, it is important that AEMO (at the ISP stage) and the AER (for the RIT stage) are **certain** that financing will eventuate." In contrast, page 17 states that "At least for ISP projects, we consider that there should be a **reasonably high prospect** that the financing will eventuate before it can be relied on in the

economic assessment process". These two statements provide a level of uncertainty for stakeholders, and particularly for the AER when considering how to provide guidance in the Cost Benefit Analysis Guidelines. We would request that the AEMC be more specific in the Final Determination to assist in this process which aligns with discussion between key stakeholders prior to the publication of the Draft Determination.

In practice, it is likely that concessional finance terms will either be agreed to during the RIT-T, or subsequent to this. As such, AEMO does not expect the ISP to include details or assumptions regarding concessional finance. AEMO might use these terms in the ISP Feedback Loop, depending on the level of certainty at that point in time.

AEMO looks forward to engaging with the AER in their upcoming CBA guidelines review in order to clarify the level of certainty required before concessional financing can be used to support a project option in the economic assessment process.

Question 3: Are the transitional rules appropriate?

AEMO considers that the transitional rules are appropriate.

APPENDIX 2: AEMO'S ROLE IN VICTORIA

AEMO performs many roles across Australia's energy market. One of those roles is the managing the Victorian transmission network, known in the National Electricity Rules (NER) as the Declared Transmission System (DTS)¹. In this role AEMO:

- **Plans** how the Declared Shared Network (DSN) will develop over time by:
 - Annually developing a document called the Victorian Annual Planning Report (VAPR) setting out, at a high level, how the transmission network should evolve over the next 10 years.
 - Determining which projects should proceed to a detailed cost-benefit process known as the Regulatory Investment Test for Transmission (RIT-T) and undertaking this assessment.
 - Working with the distribution businesses on joint planning opportunities between the transmission and distribution network.
 - Liaising with TNSPs in other states to ensure that all cross-border network opportunities are explored
 - Reviews the replacement plans of DTSOs
- Runs a **competitive tender** process to identify which asset owner, known in the NER as Declared Transmission System Operators (DTSOs), should be responsible for building, owning, and operating the projects identified in the RIT-T analysis. Projects subject to the competitive tender process must exceed \$10 million and be considered separable, that is they can be built safely by a third party without disassembling existing network assets. Projects which do not meet these criteria are negotiated with the incumbent DTSO.
- **Connects** new generation and loads to the DSN including managing:
 - connection enquiries – the process which provides a connection applicant high level information about their proposed connection location.
 - connection applications – the process which provides a connection applicant detailed technical information about their proposed connection location.
 - contracting – letting of contracts to ensure the safe and secure operation of the network including who will build, own and operate the connection and shared assets.
 - commissioning phases – ensuring that the assets are harmonised with the DTSN safely and securely.
- Sets **Transmission Prices** for the Victorian network via the transmission use of system arrangements. This includes aggregating all the contractual pricing from DTSOs and any revenue allowances set by the Australian Energy Regulator (AER) for DTSOs.

AEMO is not an asset owner and is not subject to AER Revenue Regulation, as per Chapter 6A, of the NER. However, it is required to develop a negotiating framework and a pricing framework.

The Victorian Government is establishing VicGrid, which will have a key role in planning and developing electricity transmission infrastructure in Victoria. As such, there will be changes to the Victorian arrangements, including AEMO's role. It is important that these forthcoming changes should be considered in this rule change.

¹ References to AEMO's role in Victoria can be found in Sections 50C to J of the National Electricity Law and Chapter 5, Part B, Clause Network Connection and Access, 5.1A.1(e).