

20 June 2024

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Mr Tim Jordan
Ms Sally McMahon
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Australian Energy Market Commission
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Lodged electronically: www.aemc.gov.au (ERC0381)

Dear Commissioners



EnergyAustralia

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Managing ISP project uncertainty through targeted ex post reviews – draft rule determination – 9 May 2024

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We support the Minister's rule change proposal for capital expenditure on 'Actionable' transmission projects to be subjected to separate ex post reviews by the AER. The proposal is consistent with the Commission's findings and stakeholder support expressed in its Transmission Planning and Investment Review.

Reinforcing these elements of the rules will be important given large transmission projects are likely to experience significant cost over-runs relative to ex ante allowances. Ensuring appropriate AER oversight will therefore be critical in protecting customers from unnecessary price increases, and should also help gain local community support for necessary transmission investment.

We support the Commission's proposal that all Actionable projects, including Project Energy Connect, be subject to the amended rules. Developers of projects already under construction would have anticipated some form of ex post review of their capital expenditures. The amended rules simply clarify how this applies, and should provide more certainty and therefore clearer expenditure incentives.

The draft rules would require the AER to amend its Capital Expenditure Incentive Guidelines by August 2025. The Commission and the AER should confer and determine whether other guidelines, schemes or models are consequentially affected. For example, there could be a further need to prescribe information regarding cost allocation between Actionable and non-Actionable projects. Additional guidance in the AER's roll-forward model materials may be warranted, particularly where time-value adjustments for penalties or rewards over an 'ISP project review period' spans multiple regulatory control periods.

As we noted in the Commission's earlier Review¹, there is scope for some ex post monitoring of the out-turn benefits of Actionable projects, in addition to their costs. It would be infeasible to meaningfully compare realised project benefits, in terms of financial outcomes and power flows, with scenario projections in the ISP and RIT-Ts. However in certain instances, the timing of transmission project delivery is intended to coincide with other major market developments, such as the commissioning of Snowy 2.0 in the case of Humelink, and the closure of Victorian coal fired power stations for VNI West. The Commission previously flagged, but is not pursuing, the concept of a 'timely delivery' incentive, which was intended to ensure the benefits of projects were realised, particularly since there are no legal requirements to deliver them. We still consider there is some scope to examine the scope and timing of project delivery in line with key assumptions in the ISP and RIT-T that drive expected market benefits. This may ultimately inform the AER's ex post assessments e.g. where spending allowances are exceeded because the proponent chose to target a different delivery date, or otherwise adapted to changing circumstances that demonstrably enhanced project value. Understanding and communicating realised project benefits is also likely to enhance community and customer acceptance of projects, and hence assist in gaining social licence for continued significant transmission investment.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
Regulatory Affairs Lead

¹ [EnergyAustralia submission - Transmission Planning and Investment Review \(aemc.gov.au\) - 30 September 2021](#) – see pages 5 and 6.