

30 September 2021

Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2000

Dear Anna,

Re: Transmission planning and investment review – EPR0087

CitiPower, Powercor and United Energy commend the Australian Energy Market Commission (AEMC) for initiating the review of the transmission planning and investment regulatory framework. We consider this is a timely review in the context of the rapidly changing requirements for investment in electricity infrastructure to support the energy transition to a cleaner and greener future.

While the AEMC's review focuses on the regulatory framework for large transmission projects, many of the issues raised also impact the planning and investment at the distribution level of the National Electricity Market (NEM). We strongly encourage the AEMC to ensure that any recommendations for rule changes that are also relevant to distribution are appropriately scoped and included in the consultation.

Our submission makes the following recommendations:

- the market benefits included in the Regulatory Investment Test (RIT) should be explicitly expanded to include environmental and societal benefit for transmission and distribution level projects;
- a RIT should not be reapplied where the costs materially change, rather the RIT proponent should instead be required to justify why the preferred option remains preferable;
- greater clarity should be included on other aspects of the RIT. For example, government funding towards a project should not be excluded from the cost-benefit analysis to ensure that investment decisions are not unduly skewed and competitive neutrality compromised;
- we support the introduction of competition for large transmission projects, similar to the arrangements in Victoria, where any large augmentation that is valued over \$10m and separable is competitively tendered by the jurisdictional planner, which is the Australian Energy Market Operator (AEMO);
- formal joint planning obligations in the National Electricity Rules (NER) should be specified; and
- an obligation be placed on the Australian Energy Regulator (AER) to, as a priority, review its transmission ring-fencing guideline under the NER.

Each of these matters is discussed in turn below.

1 Social and environmental factors should be included in the RIT

For large electricity infrastructure projects to remain a viable investment, all associated costs and benefits should be considered. This is increasingly important as policies and attitudes continue to shift in the search for sustainable solutions and stay on target with global and local climate change strategies. Including both social and environmental costs and benefits will provide confidence in future investment testing, assuring both customers and stakeholders of a project's viability.

Taking such factors into account could improve the merit of the project. By including reasonable environmental factors in the RIT, a value will be provided for the sustainability of the proposal, attracting potential investors

and improving the investment's rating. Similarly, for social benefits, demonstrating a project has obtained support from customers, and has the social licence to proceed, will encourage funding and improve the project's viability.

Failure to include these factors in the RIT will be inconsistent with our community's expectations. Our customers expect we will invest in projects that contribute to a sustainable future, where decarbonisation is a shared responsibility.

The inclusion of social and environmental factors should be included in the RIT for both transmission (RIT-T) and distribution (RIT-D). The above discussion applies equally to investments in large transmission projects and distribution investments. If the AEMC intends to recommend a change to the NER, we request the change applies to all RIT projects.

2 Reapplication of the RIT would be a disproportionate response to a change in costs

We support the AEMC proposal for the AER to request a proponent to justify why a preferred solution remains preferable, rather than require a RIT to be reapplied. Our interest is in striking the balance between secure investment and efficient infrastructure roll-out.

The proposal to require a reapplication of the RIT, if the costs have increased by 10% for larger transmission and distribution projects and 15% for smaller transmission and distribution projects, will delay the roll-out of vital infrastructure. The AEMC acknowledge that such tests can be resource intensive, cannot account for potential increases in inputs during the re-application process and may not prevent project costs further increasing.

This lack of assurance leads us to support the AEMC suggestion of other constructive methods of determining the preferable solution. For example, requiring proponents to include in their Project Assessment Conclusion Report (PACR) or Final Project Assessment Report (FPAR) bespoke "decision rules", similar to those developed by AEMO for integrated system plan (ISP) projects.

3 Greater clarity on the other aspects of the RIT

There are other aspects of the RIT where we consider further clarity would be of benefit.

First, we seek guidance on whether government funding is excluded from the economic assessment, which may distort an investment decision and compromise competitive neutrality. The AER RIT application guidelines imply that government contributions are outside the scope of the cost-benefit analysis. To assemble like for like comparisons between options, this should not be the case.

Identifying the best option to address a need should be separate from the source of funding. Given the states have announced over \$1 billion of funding to upgrade infrastructure for renewable energy,¹ deducting government contribution from the cost of one credible option will skew the overall analysis in favour of a particular solution that attracts government funding despite it not otherwise generating the highest net economic benefit. This is especially in true in cases where the government funding is tied to the incumbent transmission network service provider.

Second, greater consideration should be made to the application of the weighted average cost of capital (WACC) to a RIT project. A lowering of the WACC between regulatory periods can impact the preferred outcome in any RIT. We are aware of a situation where a RIT was conducted that indicated an initial preference for a particular non-network solution. The analysis was updated, following the conclusion of a regulatory period where the WACC was lowered, and the preferred solution shifted to a capital solution. This is unhelpful for all parties.

¹ The Victorian Government has committed \$540m (refer <https://www.energy.vic.gov.au/renewable-energy/renewable-energy-zones>), the New South Wales Government has announced \$380m (<https://www.environment.nsw.gov.au/news/record-renewables-funding-for-roadmap-rollout>) and the Queensland Government \$145m (<https://yoursayhpw.engagementhq.com/understand-qrez>)

We also concerned the WACC used in the RIT may provide incorrect signals to the market. We understand that AEMO requires a central discount rate of 5.5% be adopted, which is much higher than the regulated WACC applied to transmission network service providers. As such, RIT-Ts may overstate the annual deferral payment available to a credible non-network solution, and therefore increase the cost for customers if a non-network solution is assessed to be the option with the highest net economic benefit under a RIT-T.

Finally, we would appreciate clarity on how the regulatory framework caters for non-network solutions located on the distribution network that may resolve issues on the transmission network. In Victoria, distributors have responsibility for planning transmission connection assets. If a non-network solution located on the distribution network, is the option that delivers the highest net benefit to customers to remedy an identified need at a terminal station, then it is not clear whether it is the transmission network service provider or distributor that should fund that solution.² If it is the distributor, there needs to be clarification of the mechanisms to recover such costs.

4 Support contestability of transmission projects

Effort should be made to open investment opportunities on the transmission network to a wider variety of stakeholders.

We agree with the AEMC that the uncertainty of transmission network service providers delivering projects is creating an environment of uncertainty. Large-scale transmission requires high upfront investment, likely to be significantly more than projects that will follow. These 'new investments' under the ISP, represent a new frontier in investment opportunities on the transmission network. New investors should not be discouraged from providing alternative solutions and funding models that may maximise the benefit to end use customers. In Victoria, competition for transmission connection services has resulted in accelerated innovation, product and service differentiation and lower prices for generators and ultimately customers.

We remain concerned that the transmission and planning arrangements outside of Victoria do not foster contestability. While there may be contestability in detailed design, construction and ownership of particular assets (namely 'identified user shared assets' or 'designated network assets'), the high-level design and operation and maintenance of the asset remain the responsibility of the incumbent transmission network service provider. Therefore, the arrangements:

- do not allow contestable transmission network service providers to manage their own assets' performance, and without full accountability for it, it is unlikely to be viable for an alternate service provider to invest;
- increase incumbent transmission network service providers risk exposure if they are accountable for the performance of the contestability acquired asset, but have had no role in the design and construction of the asset.

We encourage the AEMC to annually review competition in provision of transmission infrastructure across the NEM (outside of Victoria where competition is already permitted) to assist in determining whether the regulatory framework is adequately supporting competition.

5 Specification of formal joint planning arrangements

As more planning bodies and competitive transmission network service providers enter the market, there is a need to specify the frequency, scope and attendees, at these meetings in the NER. Formal joint planning arrangements would assist in ensuring the best outcome for electricity customers.

² The AER rejected our step change to deliver a non-network solution on the distribution network in response to a transmission constraint, on the basis the costs should be funded by AusNet Transmission. Refer AER, United Energy Distribution Determination 2021 to 2026, draft decision, September 2020, p 6-49. The AEMC has previously rejected a specific pass through for transmission network service providers to recover these costs. Refer: <https://www.aemc.gov.au/rule-changes/recovery-of-network-support-payments>

We are aware of situations where replacement of existing transmission assets has been proposed in project assessment draft reports (PADR) without consultation with either distributors or the jurisdictional planner to inform development of the RIT-T options or assessment. Separately we are aware of another occurrence where a RIT-T proponent chose not to consider replacement of an existing transmission asset with a new asset at a nearby terminal station because it was owned by a competitive transmission network service provider.

There is a need for each RIT to ensure all credible options are identified, and formalising joint planning arrangements would assist in delivering this requirement.

Furthermore, we recommend the NER includes a requirement for the creation of a register of interested parties who must be notified by a RIT-T proponent of the publication of a PADR or PACR. This could operate in a similar manner to the demand side engagement register for distributors.

6 Specify ring-fencing requirements in the NER

We seek the AEMC to include a requirement for the AER to review the transmission ring-fencing guideline as a matter of urgency under the NER. The AER's current transmission ring-fencing guideline was published in 2002. The electricity industry has fundamentally changed in the past 19 years, and it is surprising that the AER has not prioritised a review.

The AER has reviewed the distribution ring-fencing guideline three times in five years. It was first published in 2016, updated in 2017, and is now being reviewed to insert provisions relating to energy storage and stand-alone power systems (SAPS). In the recent draft determination, the AER estimated that Powercor would receive a mere \$1,767 per annum from a SAPS site, with up to 10 potential sites identified.³ This is all whilst only minor administrative non-compliances have been found in five years across the entire distribution sector.

In contrast, there is over \$1 billion of funding being provided by state governments to upgrade infrastructure for renewable energy. Competition for this funding will be fierce, and the existence of a sufficiently robust ring-fencing guideline would support a more level-playing field.

Should you have any queries about this submission please do not hesitate to contact Elizabeth Carlile on 0419 878 852 or ecarlile@powercor.com.au.

Yours sincerely,



Renate Vogt
General Manager Regulation
CitiPower, Powercor and United Energy

³ AER, Draft electricity distribution Ring-fencing Guideline, Explanatory statement, Draft Guideline – Version 3, May 2021, p. 80