



30 September 2021

Anna Collyer
Chair
Australian Energy Market Commission

Lodged online: www.aemc.gov.au

Dear Ms Collyer,

TRANSMISSION PLANNING AND INVESTMENT REVIEW AND RELATED RULE CHANGE – CONSULTATION PAPER

Origin Energy Limited (Origin) welcomes the opportunity to provide feedback to the AEMC on the consultation paper for the transmission planning and transmission review (EPR0087) and related rule change on material change in network infrastructure project costs (ERC0325).

Origin continues to support a holistic approach to ensure the evolution of the transmission framework meets the changing needs of the market. Extensive augmentation of the wider shared network will likely be required to accommodate the significant volume of VRE set to enter the market. As a result, Origin supports the AEMC undertaking a broad review of the transmission planning and investment framework to consider options to support the timely and efficient delivery of large transmission projects that are in the long-term interests of consumers.

In progressing priority issues, the AEMC should have regard to balancing the need for timely investment in transmission to support the transition, with a rigorous process to ensure that only the optimal solutions are progressed – including where appropriate, non-network solutions such as batteries. In addition, AEMC should consider expanding the scope of the review to consider the suitable apportioning of costs and risks of transmission build.

We provide detailed feedback in the attached submission. Our key points are:

- **Economic assessment of transmission projects:** We do not support streamlining options that erode the role of the regulatory investment test for transmission (RIT-T) or removes the checks and balances in place (such as the feedback loop, which requires transmission businesses to confirm their preferred augmentation option is consistent with the Integrated System Plan (ISP)). The review should focus on solutions that improve efficiency of the regulatory process without compromising on rigour or timeliness, including:
 - Addressing timing of the RIT-T to avoid situations where transmission businesses complete the RIT-T too early resulting in the analysis being out of date. This could be achieved by providing more rigour around how AEMO, in the ISP, sets the publication deadline of the draft RIT-T report. Addressing this issue should lead to a smoother economic assessment process without any delay to the overall progress of the project.
 - Seeking to improve other aspects of the economic assessment process, such as providing more rigour and transparency on the role of decision rules in the ISP and on how externally-funded projects are treated.
- **Treatment of benefits in transmission planning:** We do not support explicitly capturing external benefits in the RIT-T process as transmission augmentations (paid for by energy consumers) should be justified on their own merit – i.e. net benefits to the energy market.
- **Unequal treatment of non-network options:** Information asymmetry and incentives faced by network businesses mean that network options are prioritised in the regulatory process. Similarly, the ISP focuses on network solutions in the first instance. The review should examine options to level the playing field between network and non-network solutions, such as more active and effective consideration of non-network and hybrid options in the ISP.

- **Potential for contestability in transmission investment:** We support examining the potential for contestability and different financing models for major transmission projects. The AEMC should also explore facilitating non-regulated, private assets to be used under the regulated framework.
- **Early works:** We support providing clarity and transparency on the meaning and cost recovery arrangements for early works. To the extent early works apply to a specific option, the framework should ensure other options, including non-network solutions, are assessed fairly to avoid bias.
- **Material change in network infrastructure project costs rule change:**
 - We support requiring transmission businesses to use more rigorous cost estimates in the RIT-T (e.g. AACE 2 cost estimates). Embedding rigour around costs early in the RIT-T creates a smoother economic assessment process due to minimising the risks of subsequent updates once better cost information is known and should not delay overall project delivery timelines.
 - We support an independently-set (by AEMO or the AER) threshold for re-applying the RIT-T when circumstances substantially change once the RIT-T is complete, as a last resort mechanism which should be rarely needed.
 - We do not support requiring re-application of the final Project EnergyConnect RIT-T report given that it has already been approved by the AER, with construction imminent.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely



Steve Reid
Group Manager, Regulatory Policy

Attachment 1: Submission detail

1. Transmission planning and investment review

Origin is broadly supportive of the AEMC undertaking a review into the planning and investment framework for transmission. In addition to the issues discussed in Table 1 below, we understand the ESB has provided advice to Ministers on ‘who pays’ for transmission upgrades. Given the broad purview of this review, the AEMC should consider expanding the scope to progress this advice by examining the suitable apportioning of costs and risks of transmission build.

Table 1: Transmission planning and investment review – feedback

| Issues identified | Origin’s views |
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| A. Transmission planning issues | |
| Economic assessment of major transmission projects – Opportunities to streamline the RIT-T | <ul style="list-style-type: none"> • The recent Actioning the Integrated System Plan (ISP) rules have gone some way in streamlining the process around the economic assessment of large transmission projects. This includes removing the project specification consultation report (PSCR), requiring TNSPs to use ISP-consistent inputs and assumptions; and introducing the feedback loop which requires transmission businesses to confirm with AEMO that their preferred augmentation option is consistent with the optimal development path in the ISP.¹ • The regulatory investment test for transmission (RIT-T) plays an important role in safeguarding against overbuild by ensuring that individual projects provide net benefits. In our view this complements the broader whole of system focus of the ISP. Therefore, we do not support streamlining options that remove or erode the RIT-T as this would result in higher risk to those who fund transmission assets. • More broadly, we do not support “streamlining” for the sole purpose of speeding up the regulatory process. The review should not focus on options that remove rigour and checks and balances, such as the feedback loop. • In our view, an outstanding issue that should be addressed is the timing of the RIT-T to avoid situations where TNSPs complete the RIT-T too early, resulting in significant changes in key assumptions (such as costs) which ultimately undermines the analysis. <ul style="list-style-type: none"> ○ This could be addressed by the AER or the rules providing more guidance around when a project assessment draft report (PADR) is required for ISP projects. At present, AEMO requires TNSPs to complete the PADR for actionable ISP projects by a certain date – however, the process for choosing this deadline is not clear. More guidance would ensure RIT-Ts are not completely too early. ○ Completing the RIT-T at a more appropriate time reduces the likelihood of changes being required later in the process, such as updates to costs at the contingent project application stage. This should smooth, rather than lengthen, the regulatory process. ○ As an example, the VNI West PADR delay should not lead to “lost” net benefits. According to the 2020 ISP, VNI West is not required until 2027-28 and it is therefore appropriate to delay the PADR to |

¹ ESB, Actionable ISP final rule recommendation <https://energyministers.gov.au/publications/actionable-isp-final-rule-recommendation>

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| | <p>capture the latest inputs, assumptions and cost information. This is in the long-term interest of consumers.</p> <ul style="list-style-type: none"> • The review should also examine further improvements to the economic assessment process, including: <ul style="list-style-type: none"> ○ More rigour around AEMO’s “decision rules” in the ISP. It is unclear how these decision rules are set and if they are a pre-requisite for submitting a contingent project application once the RIT-T is complete. As an example, the Marinus Link RIT-T is now complete, but still subject to 2020 ISP decision rules. It is unclear if it can progress to the next stage of the regulatory process, or if the 2022 ISP may update these decision rules. More guidance and rigour (in the rules or AER guidelines) around ISP decision rules would be worthwhile for transparency and consistency purposes. We provide similar comments below around the treatment of early works. ○ The potential for more transparency on the treatment of projects which have external funding (e.g. government underwriting). We understand that the AER’s ISP cost-benefit analysis and RIT-T guidelines set out principles for how projects that are partially underwritten or funded externally are to be treated in the ISP and RIT-T. Given that external funding and underwriting are becoming more common for large transmission projects, the AEMC should examine if these principles remain appropriate. ○ Clarifying that TNSPs should use the latest set of inputs and assumptions, even if different from the latest ISP or from their draft RIT-T report. For example, TNSPs should be required to use the latest inputs, assumptions and scenarios report (IASR) developed by AEMO. ○ Improving rigour around cost estimates in the RIT-T process – see our comments in Table 2. |
| <p>Treatment of benefits in transmission planning</p> | <ul style="list-style-type: none"> • We do not support explicitly capturing external benefits in the RIT-T process, as transmission augmentations (paid for by energy consumers) should be justified on their own merit – i.e. net benefits to the energy market. The inclusion of other benefits would distort the RIT-T. • This would lead to inefficient investment decisions being made by private firms and would be inconsistent with the regulatory framework that seeks to recover efficient costs only from consumers. |
| <p>Unequal treatment of non-network options under the RIT-T</p> | <ul style="list-style-type: none"> • We generally agree that this is an issue. In our view, the barriers faced by non-network option (NNO) proponents are not “perceived” but are being experienced in practice and should be addressed as a matter of priority. • Transmission businesses have an incentive, given their core expertise, to facilitate network over non-network options. The asymmetry of information surrounding the non-network solution submission process, which is largely run by TNSPs, acts as a barrier to NNO. • The preference for network options is also reflected in the planning framework itself, with the ISP and subsequent RIT-T focusing on transmission build, with NNO being a secondary consideration. • Another area of unequal treatment under the planning framework is around the checks and balances. For example, the contingent project application process and feedback loop only check that the recommended solution (typically a network solution) is still valid. Where |

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| | <p>costs have increased, there is no re-assessment of the value of a NNO over a network one.</p> <ul style="list-style-type: none"> • The submission of a NNO is therefore effectively a “single shot” process as part of the economic assessment evaluation but no further optimisation of NNO is generally taken into consideration as is the case for network solutions. • As non-network technology, such as storage, becomes more competitive, the AEMC should focus on ensuring the planning framework facilitates opportunities for efficiencies across the wholesale energy market and network solutions. For example, the review could examine options for AEMO to more actively and effectively consider NNO, including hybrid network and non-network solutions, through the ISP process. |
| B. Investment, financing and delivery issues | |
| TNSPs’ exclusive right to build and own transmission – Potential for contestability in transmission investment | <ul style="list-style-type: none"> • We support exploring contestability and different funding models. In contemplating this issue, consideration will also need to be given to any practical or technical challenges in having a party other than an incumbent TNSP charged with building network infrastructure. • The AEMC should also promote more efficient use of existing non-regulated assets, i.e. by allowing them to be used under the regulated framework in some form. For example, there could be a clear rules-based process (including through a RIT-T) to allow partial or complete capacity of a private dedicated network asset to be turned into a regulated asset, where it is efficient to do so. |
| Early works and external planning risks | <ul style="list-style-type: none"> • We support further clarity and transparency around the meaning and cost recovery arrangements for early works. Similar to our comments above on decision rules, the concept should be clearly defined, with rigour provided in guidelines or the rules to underpin AEMO’s recommendations of early works in the ISP. • In terms of cost recovery, the review should consider if early works should be treated as opex should a project not proceed given that there would be no asset built for capital expenditure purposes. • The review should also explore how early works that are funded by external bodies (such as governments) are treated in the regulatory process, with transparency being a key focus. • To the extent early works for a particular option are undertaken prior to the RIT-T confirming the preferred option, the framework should ensure other options, including NNO, are not disadvantaged and the assessment process remains unbiased. |

2. Material change in network infrastructure project costs

Origin considers that the substantial increases in costs during and after the economic assessment of major transmission projects is complete should be addressed to promote confidence in the transmission planning framework and ensure that only projects with net benefits are progressed.

TNSP should be required to use more rigorous cost estimates (e.g. AACE 2 estimates) during the RIT-T process to minimise the risk of cost increases once the economic assessment phase is complete. While this may create additional work upfront in the RIT-T, embedding rigour and discipline early on will reduce the likelihood of delay later on, e.g. at the contingent project stage if costs rise substantially to the point the chosen option may no longer be appropriate. This should lead to a smoother, rather than longer, process.

Given the size and scope of current transmission projects, we also support the ongoing need for an effective last resort mechanism to re-apply the RIT-T if circumstances materially change. Origin agrees that the current re-application provisions² are not appropriate. We therefore support requiring AEMO (e.g. on a bespoke basis through the ISP) or the AER (e.g. through a set of principles in the RIT-T guidelines) to set the threshold for re-application. We do not support TNSPs setting their own threshold.

Table 2 sets out our feedback on key aspects of the rule change request. Our comments relate to large transmission projects, but we support the AEMC exploring whether similar solutions should be implemented for distribution or other transmission projects.

Table 2: Material change in network infrastructure project costs – feedback

| Issue | Origin's views |
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| Rigour of cost estimates | <ul style="list-style-type: none"> We understand that TNSPs currently use high-level cost estimates during the RIT-T process. Like many other infrastructure projects, once detailed design work is undertaken, these estimates tend to be revised upwards, calling into question whether the project is still viable in some instances. To avoid substantial cost escalations later on in the regulatory process, we support the AER's RIT-T guidelines specifying that TNSPs should use more detailed/rigorous cost estimates (such as AACE 2 estimates) for their RIT-Ts. Using more detailed estimates would reduce the likelihood of the RIT-T needing to be re-applied and would improve the robustness of the net benefits test and efficiency of the process. |
| <u>Cost threshold</u> | <ul style="list-style-type: none"> An appropriate independently-set threshold would balance rigour against ensuring the regulatory process remains timely and efficient. We do not support TNSPs setting their own threshold – this should be done by either AEMO (e.g. on a bespoke basis through the ISP) or the AER (e.g. through a set of principles through the RIT-T guidelines or on a more bespoke basis). We support the AEMC exploring the potential for a broader threshold than just changes in the costs of the preferred option, as discussed in the consultation paper (i.e. through a broader “decision rules”-type framework). An efficient threshold for re-application should ultimately reflect consumer impacts and ensure that only the optimal solution is progressed. |
| <u>Scope of re-application of the RIT</u> | <ul style="list-style-type: none"> We support a more targeted re-application of the RIT-T to balance the need for expedient transmission build while ensuring the process is of sufficient rigour, noting that the re-application mechanism should be a last resort, and infrequently applied. If the RIT-T is re-applied, the proponent should be required to re-examine other options, including NNO, and to consult on its updated analysis. We agree that there should be a limit on the number of times the RIT-T could be re-applied under this framework. For example, it would not be appropriate to apply the RIT-T if construction is already under way or about to commence. Instead of specifying a limit in the rules, there could be a role for the AER to provide an exemption. |

² NER clauses 5.16.4(z3) and 5.16A.4(n)(2)(i).

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| <u>Treatment of existing projects</u> | <ul style="list-style-type: none">• We do not support requiring TNSPs to re-apply the final RIT-T report to Project EnergyConnect as the AER has already approved the project with construction about to begin. Re-applying the final RIT-T report at this point will create too much uncertainty for the market.• The AEMC should however consider transitional rules for projects that are under way at the time the final rule is made. For example, the final rule may require projects that have completed the RIT-T but have yet to be approved by the AER to update their final RIT-T report (including using more rigorous cost estimates). Projects that are still at an earlier stage of the RIT-T could be fully subject to the new rules. |
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