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Australian Energy Market Commission
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3 December 2020

Dear Alex

Participant derogation – financeability of ISP projects (TransGrid & ElectraNet)

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) financeability of ISP projects consultation paper.

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator, and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.6 million customers in New South Wales, Victoria, Queensland, Western Australia, and South Australia.

The proposed rule changes seek to alter when TransGrid and ElectraNet will receive billions of dollars of revenue under the economic regulatory framework and will therefore have a very significant impact on electricity consumers in the NEM. We therefore appreciate the AEMC's decision not to progress this rule change request on an urgent basis and suggest that an accelerated timeframe is also inappropriate. We consider the suggested rule changes to be too significant to be suitable as participant derogations, and question why, if the rules are necessary, they should not apply to all network investment, rather than just actionable ISP TransGrid and ElectraNet projects. We also do not consider it possible to fully consider the impact of these targeted exemptions without a proper review and consideration of the impact on the entire RIT-T framework.

While the existing economic regulatory framework does include a delay between when network expenditure is incurred and when revenue is received, this is by design. It is normal in most markets that revenue does not flow until benefits are received, and it is necessary for network investment since it best ensures that those that pay for network expenditure are the same customers who receive the benefit of the expenditure. This is particularly important for network investments where more value is typically received later in the project life. The requested rule changes are likely to lead to a temporal misallocation of costs to consumers and will therefore lead to inequitable outcomes for consumers.

TransGrid and ElectraNet have indicated that the benefit of these rule changes is future network investment, thereby implying that without the rule changes the investment will not proceed. The key network investment example given is Project EnergyConnect (PEC). Given the AER has approved the RIT-T for PEC, determining that it is the most credible option that maximises the net economic benefit in the NEM to the benefit of electricity customers, and also determined that the business case for PEC is robust, we question whether the financeability of this project is in doubt. If the deferred nature of revenue for PEC was not part of the RIT-T determination, we would consider this to be a significant oversight. We therefore do not see the link between the proposed rule change and the consumer benefit claimed.

TransGrid has stated that without the rule change it would require equity funding in excess of the 40% provided for in the revenue allowance, or 60% debt funding on a sub-investment grade basis, resulting in debt funding costs substantially in excess of those compensated for in the revenue allowance. We do not consider that this should significantly limit TransGrid's ability to obtain finance, since they remain free to determine what level of leverage to adopt and may in fact opt for a higher level of debt. We consider that the low risk regulated returns available for network investment would be considered attractive to both TNSPs and providers of finance, particular given current low interest rates.

For the above reasons, AGL therefore suggests that the requested rule changes should not be enacted.

If you have any queries about this submission, please contact Anton King on (03) 8633 6102 or aking6@agl.com.au.

Yours sincerely,

Chris Streets

Senior Manager Wholesale Markets Regulation