



15 July 2022

Anna Collyer
Chair
Australian Energy Market Commission

Lodged online: www.aemc.gov.au

Dear Ms Collyer,

TRANSMISSION PLANNING AND INVESTMENT REVIEW – STAGE 2 DRAFT REPORT

Origin Energy Limited (Origin) welcomes the opportunity to provide feedback to the AEMC's stage 2 draft report of the transmission planning and transmission review.

As noted in previous submissions, Origin broadly supports the AEMC's review of the transmission planning and investment framework. Timely and efficient transmission augmentation is crucial in underpinning an orderly transition. To that end, Origin broadly supports the stage 2 draft recommendations, which once implemented, would provide incremental improvements to the transmission framework. We make the following comments which we expand on below:

- **Financeability:** Providing additional flexibility in adjusting depreciation profiles is appropriate to ensure timely transmission build but the AEMC should be satisfied the solution manages the risk of lumpy cost pass through to consumers.
- **Social licence:** The AEMC should monitor the jurisdictions' work on this aspect and re-assess the need for changes to national electricity rules based on outcomes of these programs.
- **Cost recovery for planning activities:** We support the draft recommendation to clarify the treatment of early works. This will remove uncertainty and ensure that projects can progress through the regulatory process in a timely manner.
- **Feedback loop:** We support using the latest available Integrated System Plan (ISP) when applying the feedback loop. For additional transparency, AEMO could be required to set out a regulatory investment test (RIT) timetable, including for the draft and final RIT reports, and the application of the loop, when recommending actionable projects in the ISP.

Financeability recommendations

Origin broadly supports the need to address financeability challenges should they arise – however, solutions should balance the need to ensure timely investment with appropriately protecting consumers from lumpy cost increases in the short term.

The stage 2 draft report proposes two options to address financeability challenges: either by adjusting return on capacity (i.e., rate of return) or by adjusting return of capital (i.e. depreciation). We broadly support the AEMC's preferred option of adjusting return of capital (depreciation) which allows for a more targeted response, particularly given the AER already has some discretion to do so at present.

We understand that the draft recommendation would be more prescriptive than existing arrangements in allowing the AER to vary depreciation profiles on a case-by-case basis. In designing this solution, the AEMC should be satisfied that the rules sufficiently mitigate consumer impacts, given that varying depreciation profiles could lead to higher and large upfront costs for customers. To that end, the rules should provide clear principles to ensure the adjustment is only triggered when necessary, e.g. when there are identified financeability issues which would lead to sub-optimal transmission delays and outcomes. The depreciation guidelines would then describe how the AER would assesses financeability concerns.

Social licence recommendations

Origin considers that social licence is crucial in ensuring timely transmission and generation build, including the need to further streamline engagement to minimise community fatigue and facilitate the development of renewable energy zones.

We agree, however, that existing regulatory obligations in the National Electricity Rules (NER) are largely appropriate and that opportunities to improve outcomes largely fall outside of the NER's remit. We suggest that the AEMC should be cognisant of the work being done in this space at the jurisdictional level and re-assess the need to change the rules once outcomes are known.

Cost recovery of planning activities recommendations

"Early works" or "preparatory activities" are necessary to ensure timely progression of transmission projects through the regulatory framework. We therefore support changes aimed at clarifying how they work including the draft recommendations to:

- amend the definition of 'preparatory activities' to clarify that their purpose is to inform the selection of a preferred option.
- remove the term 'early works' from AER and AEMO documentation and replacing it with consistent language (e.g. preparatory activities) instead to avoid confusion.

Workability of the feedback loop recommendations

The draft report proposes to improve the feedback loop by aligning its application with a draft or final Integrated System Plan (ISP). At present, it is unclear when the mechanism will apply, which creates some uncertainty around the timing of the regulatory process for progressing transmission projects.

Origin supports the intent of the recommendation – specifically, it is appropriate for the feedback loop to be aligned with the latest available ISP. We do not have a preferred view as to how this could be practically implemented in the rules. The proposal to use an "exclusion window" for the publication of the final regulatory investment test (RIT) report sounds sensible, but it could introduce some confusion for stakeholders in terms of timing of the regulatory process.

To address this, AEMO could be required to provide additional information on the timing of the RIT process, for example, by setting out an indicative RIT timeline (including for the draft report, final report and the feedback loop application) for actionable projects, based on when the upgrade is optimally needed in the ISP. This would build on AEMO's existing practice of setting out a timetable for the draft RIT report in the ISP. A timetable would provide better clarity for investors on when key milestones are reached and would enable stakeholders to assess the risk of delays.

If you wish to discuss any aspect of this submission further, Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or on 02 8345 5101.

Yours Sincerely,



Steve Reid
Group Manager, Regulatory Policy