

19 August 2022



Mr Rupert Doney
Senior Advisor
Australian Energy Market Commission
Submitted electronically via webform and email;
rupert.doney@aemc.gov.au

24-28 Campbell St
Sydney NSW 2000
All mail to
GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
ausgrid.com.au

Project reference code: EPR0087

Dear Rupert

Ausgrid's submission to the AEMC's Options Paper on Transmission Planning and Investment – Contestability

Ausgrid is pleased to provide this submission to the Australian Energy Market Commission (**AEMC**) in response to its Options Paper on the contestability workstream of its transmission planning and investment review.

Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter.

We strongly support contestability for major transmission projects if it can be shown to benefit electricity customers. Improved cost performance and the timely delivery of major transmission projects are two potential benefits of contestability.

Ausgrid has confined this submission to the:

- The preferred proposed 'strawperson' contestability models;
- Importance of a stable and well-defined investment framework; and
- AEMC's assessment framework for the contestability workstream.

The preferred proposed 'strawperson' contestability models

The counterfactual and four strawperson models of contestability outlined in the AEMC's Options Paper provide a useful overview of potential alternative framework models of competition in relation to major transmission projects.

AEMC intends to select one or two of these models for a more detailed evaluation in Part 2 of the AEMC's contestability workstream. Ausgrid's view is that Model 2 is more likely to be viable than the other options, including for the following reasons:

- **Model 1:** Primary TNSPs already incorporate contestability in the selection of parties to deliver design and construction of major projects, likely achieving a degree of cost competitiveness. The possible additional benefits of further contestability in the ownership, financing, design and construction elements contemplated under Model 1, need to be carefully balanced against economies of scope achieved via a single party undertaking these functions (particularly for operation and maintenance, and design and construction).

Connecting communities,
empowering lives

- **Model 2:** Extends the scope of contestability and provides a role for a jurisdictional body to contract with the successful tenderer to design, own, operate and maintain the project, as well as undertaking some stakeholder engagement activities during planning stage. Further, a jurisdictional body (separate to AEMO) may have greater scope to address—in conjunction with the tenderer—local impediments that may arise in each jurisdiction, such as planning issues or community opposition. In our view, this model has the potential to appropriately balance the benefits of increased competition and the costs of reform.
- **Model 3:** Involves a significant transfer of the primary TNSPs' existing responsibilities to AEMO, including decision-making and execution of contestable processes, which would add to AEMO's existing Integrated System Planning (**ISP**) function. It is not clear how this expanded role could deliver lower cost outcomes relative to an independent jurisdictional body performing these functions (as per Model 2). Further, we understand the expanded role of AEMO in Option 3 would necessitate agreements with Energy Ministers, which may in practice create challenges from an implementation perspective.
- **Model 4:** Provides for bidders responding to an identified need that is described at a high level, rather than a reasonably detailed specification of a selected solution to that identified need. While this model has potential to encourage competition and facilitate innovative solutions earlier in the planning process, the extent of these benefits, and whether they would outweigh the high complexity of implementation and potential for delays, are unclear.

Ausgrid therefore broadly supports the AEMC considering Model 2 further if it proceeds to Part 2 of the contestability workstream. We further recommend that Model 2, if adopted, be flexible to specific jurisdictional circumstances.

We note that strawperson Model 2 is based on key features of the NSW model for contestable renewable energy zones (**REZs**) and that this model is under development, with much detail still to be worked through. We encourage the AEMC to engage with the NSW Office of Energy and Climate Change (**OECC**) and closely review the framework currently being developed under the *NSW Electricity Infrastructure Investment Act 2020*.

Importance of a stable and well-defined investment framework

Effective competition will depend on securing investor confidence in the new framework. It will be essential that prospective service providers have confidence that:

- The roles and responsibilities of each party are fully defined so that all risks are properly understood and allocated to the party best able to manage them;
- The jurisdictional planner will apply a well-defined set of criteria to determine whether a project should be contestable;
- Decisions to appoint a service provider in relation to a major transmission project are made fairly and in accordance with a transparent tender evaluation process; and
- If a project is deemed to be contestable, it will be awarded according to the results of the tender and will not be provided on a regulated basis.

In relation to the latter point, if investors believe that a tender process may ultimately result in the Primary TNSP providing the service on a regulated basis (as suggested in the Options Paper), it is likely that some bidders will be discouraged from participating in the tender process (if they consider the regulatory process would deliver a return below their minimum requirements). Equally, it will be important that Primary TNSPs are able to compete with third party bidders on equal terms, so that contracts are awarded to the proponent with the best proposal, which may be the Primary TNSP.

A stable, well-defined investment framework is likely to involve significant establishment costs. It will be important to ensure that these costs are factored into the AEMC's assessment of the case for contestability.

AEMC's proposed assessment framework for the contestability workstream

At a high level, Ausgrid supports the AEMC's proposed assessment criteria. We also support the AEMC's proposal to assess whether potential changes to the regulatory framework supporting the planning and delivery of major transmission projects in the National Electricity Market promote the National Electricity Objective (**NEO**). We would encourage AEMC to consider drawing clear links, where relevant, from the proposed assessment criteria to relevant parts of the NEO, in addition to—and as part of—the weighting that may be applied to assessment criteria elements.

In anticipation of the introduction of an environmental objective to the NEO, we recommend the AEMC place appropriate emphasis on, and linkage to, its 'decarbonisation' and 'timeliness' assessment criterion, which we consider would support this objective (if it is introduced).

We would welcome further discussions with the AEMC on these issues. If the AEMC has any questions in relation to this submission, please contact Naomi Wynn, Manager Regulatory Policy, in the first instance on naomi.wynn@ausgrid.com.au.

Regards,



Rob Amphlett Lewis
Chief Customer Officer