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Rupert Doney
Australian Energy Market Commission
PO Box A2449
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Dear Rupert,

Transmission planning & investment review – Contestability

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission Transmission Planning & Investment Review contestability options paper.

About AGL

AGL is a leading integrated essential service provider, with a proud 184-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

Options paper

The options paper seeks to determine whether contestability should be explored in detail and which broad model of contestability is preferred, with the AEMC proposing to wait until mid-2023 to commence a rule change under which the proposed model will be further assessed and designed in detail over a period of 12-24 months. The AEMC also recently released a paper asking whether it should commence a rule change request for an inertia market.

The rule change process permits the AEMC to create a rule, create an alternate rule, or to decide a rule change is not necessary. It is therefore not necessary to spend 6-12 months going through a pre-rule change process of determining whether or not a rule change should be considered. Given the abundant stakeholder support for both contestability and an inertia market we consider the delay of both these rule changes, to determine whether or not they should be considered, to be unnecessary.

We therefore suggest the AEMC commence the formal rule change process for contestability in the provision of major transmission projects by end 2022, instead of creating the draft and then (later in 2023) final report on whether or not it should commence a rule change.

Under the current proposed timeline, the AEMC has accepted that it must forego the potential benefits of contestability for most of the large scale transmission investments identified in AEMO's 2022 ISP. Given the magnitude of these projects and the enormous cost that will be passed to consumers we suggest an accelerated rule change process for the introduction of contestability in the provision of major transmission investments is warranted. We also suggest the timing of the consultation should be designed to bring the benefits of contestability to as many of the currently proposed ISP projects as possible.

Contestability

AGL strongly supports increased contestability in the provision of major transmission projects in the NEM. The AEMC's review is being conducted to ensure that the regulatory framework effectively manages the increased uncertainty associated with major transmission projects, and facilitates their timely and efficient



delivery for the benefit of consumers. AGL is confident that amending the regulatory framework to permit increased contestability will achieve such outcomes for the NEM.

Given the strong stakeholder support for contestability, the adoption of contestability for some transmission projects in certain NEM regions and foreign markets, and due to Transmission Network Service Provider (TNSP) concern that they may not be able to complete needed transmission investments, it is clear that arrangements to support increased contestability in the provision of major transmission projects in the NEM warrants detailed consideration and review under a formal rule change process.

Contestability has the potential to enhance the efficiency of transmission investments by providing competitive pressure on TNSPs in their development of transmission infrastructure, and by providing an alternative option to TNSP investment. It mitigates the risk of a TNSP deciding not to invest in needed transmission infrastructure, reduces the risk of delays due to a reliance on only one provider, and provides an alternative if legitimate financeability issues occur for TNSPs. It also provides flexibility in transmission investment during the energy transition, when significant investment and rapid technology advancement is occurring.

Contestability strawperson models

Strawperson 1, contestability in the construction, finance, and ownership of major transmission projects, offers limited potential benefit, and should not be further considered by the AEMC, since it only relates to functions that are already contestably procured by TNSPs in practice.

Strawperson 2, contestability for the delivery of solutions identified through the ISP or RIT-T process (construction, finance, ownership, operation, and maintenance), plus a jurisdictional body having increased responsibility for planning, warrants high-level assessment and should be progressed to a formal rule change immediately. This is especially the case since this option shares many elements with the NSW and Victorian REZ models. While we support more expansive contestability, allowing players other than the primary TNSP to build and run their own transmission infrastructure, as allowed under this option, appears to be a natural option which permits contestability in key areas that should not be too difficult to implement.

Strawperson 3, contestability for the delivery of solutions identified through the ISP or RIT-T process, with AEMO having a significant role in the planning process through a declared network function, also warrants high-level assessment and should be progressed to a formal rule change immediately. Like strawperson 2 it is based on existing rules (here the Victorian transmission contestability arrangements), and also appears to be a natural option which permits contestability in key areas that should not be too difficult to implement.

Strawperson 4, contestability for the development and delivery of solutions to meet a need identified in the ISP process, has the greatest scope for increased efficiency. Relying on the many minds of market participants, rather than a central planner alone to design the best solution, has the potential to greatly enhance transmission planning in the NEM. Market driven solutions could be particularly advantageous in the current period of rapid technological change when it is possible the central planner may not be aware of all the technologies and other options which exist to develop a network. Given this option requires significant changes to the current ISP and RIT-T arrangements in the NEM, we accept that this option will need to be considered over a longer timeframe and will only be able to impact future ISP investment proposals.

Assessment criteria

We broadly accept the AEMC's proposed assessment criteria but note that efficiency, including the efficiency of costs ultimately recovered from consumers, is key to this reform. The timing, flexibility, accountability, transparency, and implementation of any arrangements to enhance contestability in the NEM are relevant in their own right, but more so to the extent they will impact efficiency.



Efficiency is driven through competition, which is precisely what enabling contestability in major transmission projects would provide to the NEM. Competition increases efficiency by preventing a firm from giving less or charging more than what they may get away with in the absence of competition. We highlight competition and efficiency as main factors to examine with respect to this reform, along with enabling decarbonisation, which we also strongly support.

Identifying projects suitable for contestable delivery

We support a hybrid approach to identifying projects suitable for competitive delivery with assessment largely based on prescriptive criteria, but with transparently applied discretion available to AEMO in appropriate circumstances. We accept that investments that are unlikely to bring significant efficiency benefits due to their low value, or because they do not outweigh the interface issues they may cause with the TNSP, will not be suitable for contestability.

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

Yours sincerely,

Liz Gharghori

A/g Senior Manager Wholesale Markets Regulation