



APA submission

AEMC Transmission Planning and Investment – Contestability Options Paper

August 2022



Ms Anna Collyer
Chair
Australian Energy Market Commission

Lodged online

18 August 2022

RE: Transmission Planning and Investment – Contestability Options Paper

Dear Ms Collyer,

Thank you for the opportunity to comment on the AEMC's Transmission Planning and Investment – Contestability Options Paper (Options Paper). We appreciate the AEMC's ongoing engagement as part of its Transmission Planning and Investment Review.

To secure our energy future and meet the growing demand for electrification, the Australian Energy Market Operator's 2022 Integrated System Plan (ISP) makes clear that we need to efficiently install more than 10,000km of new transmission to help connect a nine-fold increase in low-cost variable renewable energy (VRE) and firming capacity.

This is a monumental task that will require careful planning and execution. Given the delays associated with actioning and delivering ISP projects, we fully support the adoption of contestability to help drive innovation, more timely service delivery, and better outcomes for customers.

Governments around Australia and the world are increasingly looking to contestability to drive the efficient delivery of transmission infrastructure. Where strong competition has driven the outcome of a transparent tender processes, governments and consumers can be confident that the resulting costs and revenues are prudent and efficient. APA fully supports increased contestability in all aspects of transmission provision, from the early planning stages through to operation and pricing.

For over 20 years, APA has been operating in competitive markets, developing large scale infrastructure across Australia. Leveraging this experience, our submission provides views on some of the issues raised in the Options Paper. If you wish to discuss our submission in further detail, please contact John Skinner at john.skinner2@apa.com.au.

Regards,



Peter Bolding
General Manager
Economic Regulation & Policy

1 Executive Summary

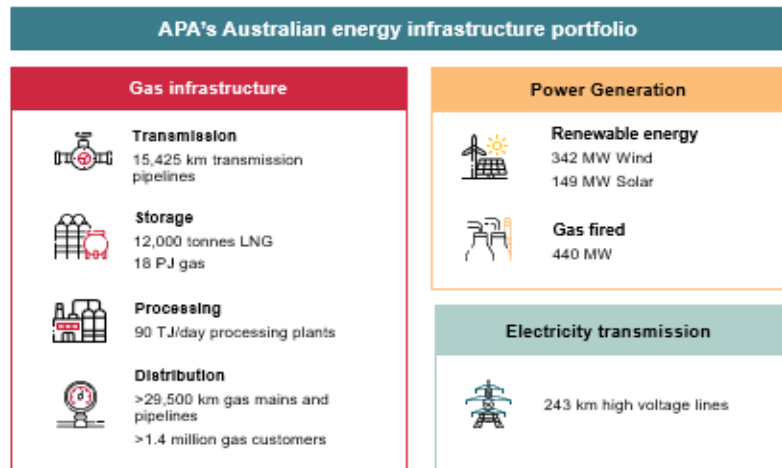
Key points

- APA has over 20 years' experience planning, constructing and operating linear infrastructure across Australia.
- APA operates in many contestable markets and frequently participates in competitive tender processes. As well as driving innovation and lower costs, competition can also drive more timely delivery of critical infrastructure.
- We fully support contestability in all aspects of transmission provision, from early in the planning stages through to operation and pricing.

APA is a leading Australian Securities Exchange (ASX) listed energy infrastructure business. Consistent with our purpose to strengthen communities through responsible energy, our diverse portfolio of energy infrastructure delivers energy to customers in every state and territory on mainland Australia.

Our 15,000 kilometres of natural gas pipelines connect sources of supply and markets across mainland Australia. We operate and maintain networks connecting 1.4 million Australian homes and businesses to the benefits of natural gas. And we own or have interests in gas storage facilities and gas-fired power stations.

Figure 1



Our investments include over \$750 million in renewable generation, making APA one of the largest renewables investors in Australia. Our high voltage electricity transmission connects Victoria with South Australia and New South Wales with Queensland.

We generally plan and deliver the assets we own and operate, and currently have an organic growth portfolio in excess of \$1.4 billion.

APA's current transmission development projects include:

- the Western Outer Ring Main project, a 51km long high pressure gas transmission pipeline in outer Melbourne that will provide improved energy reliability for Victoria; and

- a new 580 km long transmission pipeline in Western Australia, called Northern Goldfields Interconnect (NGI). The NGI will create new opportunities for the supply of natural gas to the mining industry in the WA Goldfields region.

APA is also supporting the transition to a lower carbon future and our ambition is to achieve net zero operations emissions by 2050. Through our Pathfinder Program, we are investing in hydrogen projects and other technologies, such as batteries and microgrids, which can support a lower carbon future.

AEMO's 2022 ISP outlines that we need to efficiently install more than 10,000km of new transmission to connect a nine-fold increase of low cost generation and firming, on a pathway that is low cost and low regrets. This is a significant undertaking that will require industry, governments and stakeholders to work together and find solutions that ensure the required infrastructure is built.

Contestability is being adopted by Governments around Australia and the world to help drive innovation, improved and more timely service delivery, and better outcomes for customers. APA has extensive, first-hand experience planning, constructing, and operating linear infrastructure. We fully support contestability in all aspects of transmission provision and are actively participating in competitive processes currently being undertaken across Australia.

Our submission below provides responses to the key issues raised in the Options Paper, including the aspects of planning and delivery that should be made contestable under the AEMC's proposed contestability framework.

2 Submission

2.1 APA is an experienced developer of linear infrastructure

Over the past 20 years, APA has become one of Australia’s leading energy companies, with a strong track record of delivering large linear infrastructure projects. We generally plan and deliver the assets we own and operate, and currently have an organic growth portfolio in excess of \$1.4 billion.

Our experienced, in house team has the following capabilities:

- Land access, easement corridor maintenance and environmental approvals
- Community and stakeholder engagement
- Cultural heritage and native title
- Local, state and federal government liaison

Importantly, we not only engage with landowners and the community in the development phase of projects, but continue to do so for the life of the asset.

Recent projects that have required us to leverage this expertise include the Northern Goldfields Interconnect pipeline in WA and the Western Outer Ring Main in Victoria. Figure 2 outlines the infrastructure assets we own and/or manage across Australia.

Figure 2



As well as being a leading developer of linear infrastructure, we have recent experience developing wind, solar and microgrid infrastructure. Our in-house teams have developed generation assets from concept to operation, and our business includes technical and construction personnel that have delivered APA's portfolio of renewable assets.

Importantly, we also operate and maintain two transmission interconnectors, Murraylink and Directlink, and understand the complexity of commissioning new connections to both gas and electricity transmission networks. We have well developed relationships with energy retailers, transmission network service providers (TNSPs), and State and Federal regulators and planning authorities.

2.2 Contestability driving efficient outcomes

APA operates in many contestable markets and frequently participates in competitive tender processes. As well as driving innovation and lower costs, competition can also help drive more timely delivery of critical infrastructure.

As the 2022 ISP points out, significant transmission investment is required to connect a nine-fold increase in VRE over the next two decades. APA welcomes the possibility of competition to help drive efficient outcomes for customers across the NEM. Businesses like APA wish to invest in long term energy projects that support the transition to net zero.

Contestability is the best way that governments can choose to promote the timely delivery of transmission infrastructure. Where strong competition has driven the outcome of a transparent tender processes, governments and consumers can be confident that resulting costs and revenues are prudent and efficient.

Governments around Australia and the world are increasingly looking to contestability to drive the efficient delivery of transmission infrastructure:

- Victoria introduced contestability arrangements in the 1990s for all projects valued at over \$10 million that pass the Regulatory Investment Test for Transmission (RIT-T). Victoria is currently reviewing its contestability arrangements as part of the design of its proposed Victorian Transmission Investment Framework.¹
- In December 2020, NSW implemented a new framework to help support the development of Renewable Energy Zones (REZs) across NSW. As outlined in Box 1 below, contestable processes for the role of network operator and generation projects in the first NSW REZ, Central-West Orana, are already demonstrating that there will be significant competitive tension as part of the bid process.²

¹ <https://engage.vic.gov.au/victorian-transmission-investment-framework>

² <https://www.energy.nsw.gov.au/government-and-regulation/electricity-infrastructure-roadmap/about-roadmap>

- The UK Government has recently proposed expanding its transmission contestability arrangements to onshore networks as part of its July 2022 Energy Security Bill.³ The UK Government expects that the creation of a new competitive market should “improve efficiency in investment, foster innovative solutions to network needs, including increasing the opportunities for smart and flexible solutions, and reduce costs to customers”. Onshore competition builds on the success of the existing offshore competition regime which has saved consumers over £800 million since its introduction in 2009.

Box 1

Central-West Orana REZ – competition working for NSW customers

Development of the first NSW REZ, Centra-West Orana, is already demonstrating signs of strong competition, both for the role of network operator and REZ generation projects:

- **Network operator role** – the NSW Department of Planning and Environment advised that it received nine expressions of interest for the CWO network operator role. The consortia that lodged expressions of interest included both domestic and international infrastructure providers, demonstrating that there will be strong competitive tension as part of the network operator tender process.
- **Generation projects** – when it first called for expressions of interest, the NSW Government received 113 registrations of interest for 27GW of generation in the CWO REZ. This was almost 9 times the amount required to deliver the REZ. While this was a registration of interest process, there is expected to be vigorous competition when tenders for Long Term Energy Service Agreements (LTESAs) take place later in 2022 and 2023.

Source: NSW Government, <https://www.energy.nsw.gov.au/renewables/renewable-energy-zones>

2.3 Breadth of contestability arrangements

The Options Paper is seeking feedback on four contestability models for the provision of transmission infrastructure. The options are drawn from a range of domestic and overseas jurisdictions and have different levels of contestability.

APA has a strong track record of delivering large linear infrastructure projects in working, competitive markets. Our in-house team has more than 20 years’ experience managing land access and stakeholder engagement in the development of linear infrastructure. Once projects are complete, we generally continue to operate those assets, and we now own or operate a \$21 billion portfolio of assets consisting of:

- gas transmission pipelines
- electricity transmission lines

³ <https://www.gov.uk/government/publications/energy-security-bill-factsheets/energy-security-bill-factsheet-competition-in-onshore-electricity-networks>

- gas powered generation
- wind and solar farms
- hybrid microgrids
- gas storage facilities

It is this depth of experience which means APA supports competition in all aspects of transmission provision, from early in the planning stage through to operation and pricing. This broadly aligns with Strawman 3 and Strawman 4 in the Options Paper.⁴

This support for competition stems from our participation in competitive tender processes where we have seen the benefits of strong competition. Innovation and technological development means that we are often competing not just against other transmission providers, but against other technology types and fuel sources (such as batteries, renewables, diesel and natural gas).

2.3.1 **Competition in the planning stages**

Competition in the early stages of a project will leverage the expertise that exists within proponents like APA to undertake preparatory activities, including consumer engagement. Early involvement of the project proponent will ensure that there is continuity between the consideration of possible transmission corridors and the ultimate delivery of projects. It will also allow the proponent to gain valuable early insights into the views of impacted communities prior to commencing formal delivery of the project.

From previous experience with transmission corridor planning and engagement, APA sees other benefits arising from proponent involvement early in the process:

- **Approvals scoping** – identifying stakeholder values as early as possible will allow these values to be incorporated in environmental and other approvals. This will result in approval applications better aligning with community expectations and less likelihood of a polarising ‘for and against’ framing of a project
- **Land access** – the development of land access protocols will ensure a consistent and fair approach to land access agreements
- **Complaints** – the proponent will be able to establish complaint protocols early in the process

We recognise that some jurisdictional governments are taking responsibility for planning and preparatory activities. In these instances, we recommend that project proponents become ‘partners’ with the jurisdictional planning body as early as possible. The project proponent would be able to leverage this relationship in conversations with local stakeholders.

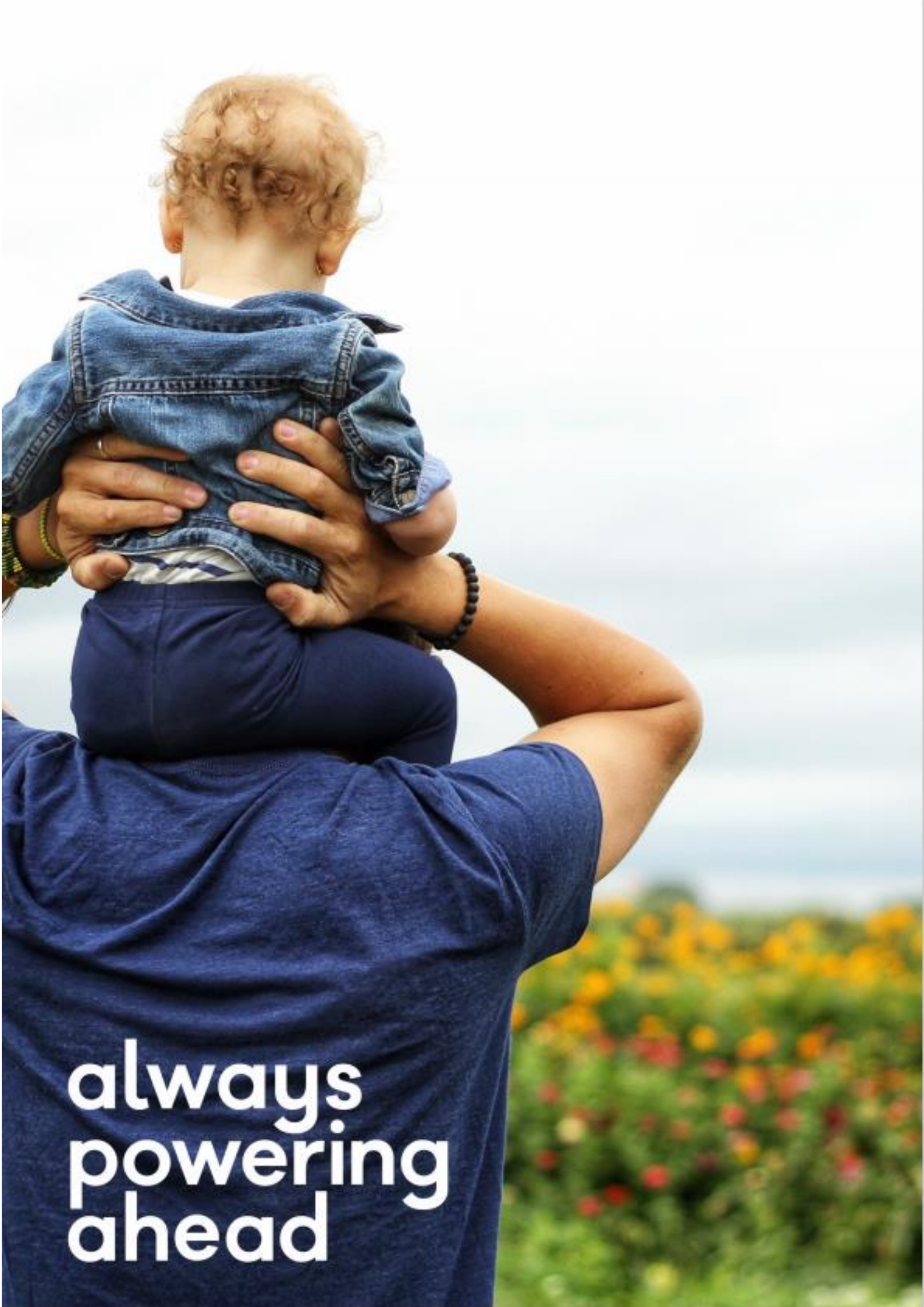
⁴ AEMC, *Contestability Workstream Options Paper*, July 2022, p13

2.3.2 Competition in operation, maintenance and pricing

APA has over 20 years' experience owning, operating and maintaining energy infrastructure. We operate in many contestable markets, which helps drive innovation and greater efficiency in the way assets are monitored, operated and maintained.

One of the issues considered in the Options Paper is the way revenues and prices are set under the different contestability options. Where a clear, transparent and highly competitive procurement process has been undertaken and there is strong competition from qualified, experienced and financially capable bidders, all stakeholders should be satisfied that the outcome of the competitive process is prudent, efficient and reasonable. In these circumstances, we do not see the need for a regulator to have a role in regulating the contestable provider's costs and revenues. The successful bidder would recover its costs under an agreement with the party running the tender process.

If policy makers consider that a regulator should have a role in approving revenues when a contestable process has been undertaken, we consider that the regulator should be required to accept those costs as being prudent and efficient by virtue of having been identified through a highly competitive process. In those circumstances, the regulator's role should be limited to ensuring the process is competitive and that revenues put forward by the network operator are consistent with those put forward in the successful bid.



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