

TRANSMISSION PLANNING AND INVESTMENT REVIEW

PUBLIC FORUM – STAGE 3 DRAFT REPORT
(LONGER-TERM REFORMS)

4 OCTOBER 2022

AEMC

Agenda

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1. Purpose of today's presentation
 2. Overview of the Review
 3. Stage 3 draft report - policy positions/recommendations (long-term reforms)
 4. Q&A
 5. Next steps
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ACKNOWLEDGEMENT OF COUNTRY

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INTRODUCTION AND WELCOME

Danielle Beinart— A/EGM Networks and Technical

Purpose of today's presentation



AEMC staff will provide an update on the delivery of the Review and its key stages



AEMC staff will provide an overview of the draft policy positions for stage 3 of the Review

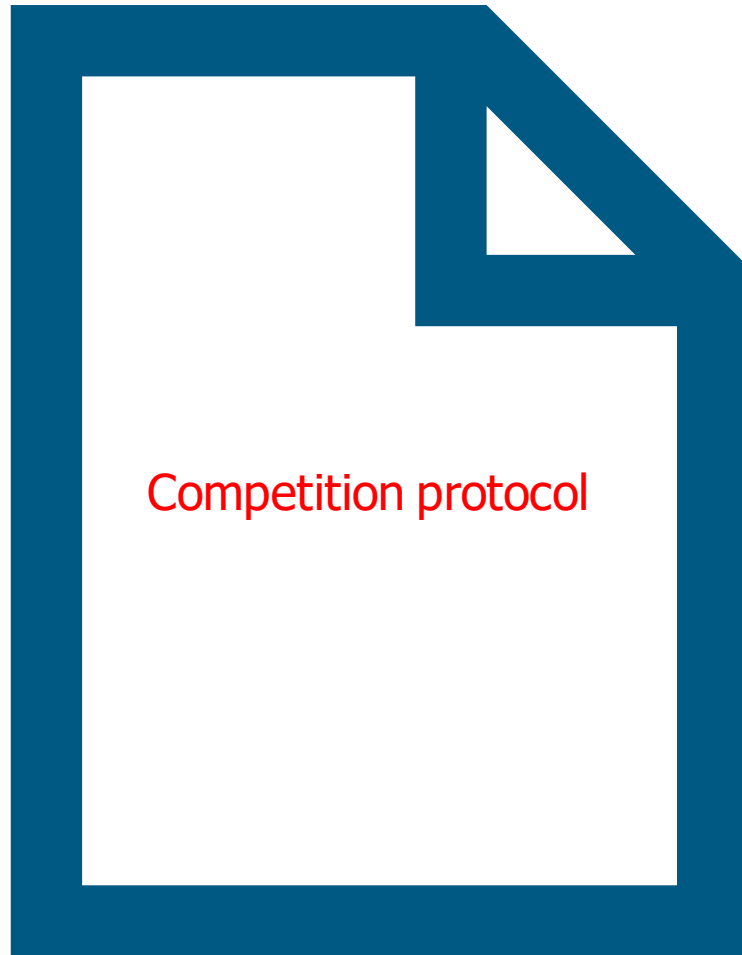


Forum participants will be invited to ask questions in a dedicated Q&A session

Housekeeping

- All participants are currently in 'listen-only' mode
 - Moderators can switch your mic/video on if you specifically request it.
- Asking questions
 - Use the Q&A button on the bottom of your screen
 - Questions will be answered at a dedicated Q&A session
 - We will try to answer all questions, but will prioritise questions with most 'upvotes' first
- Presentations from today will be posted on our website after the webinar, along with a recording of the forum

Before we start, an important notice: Compliance with Competition Law



Each entity must make an independent and unilateral decision about their commercial positions.

OPENING REMARKS



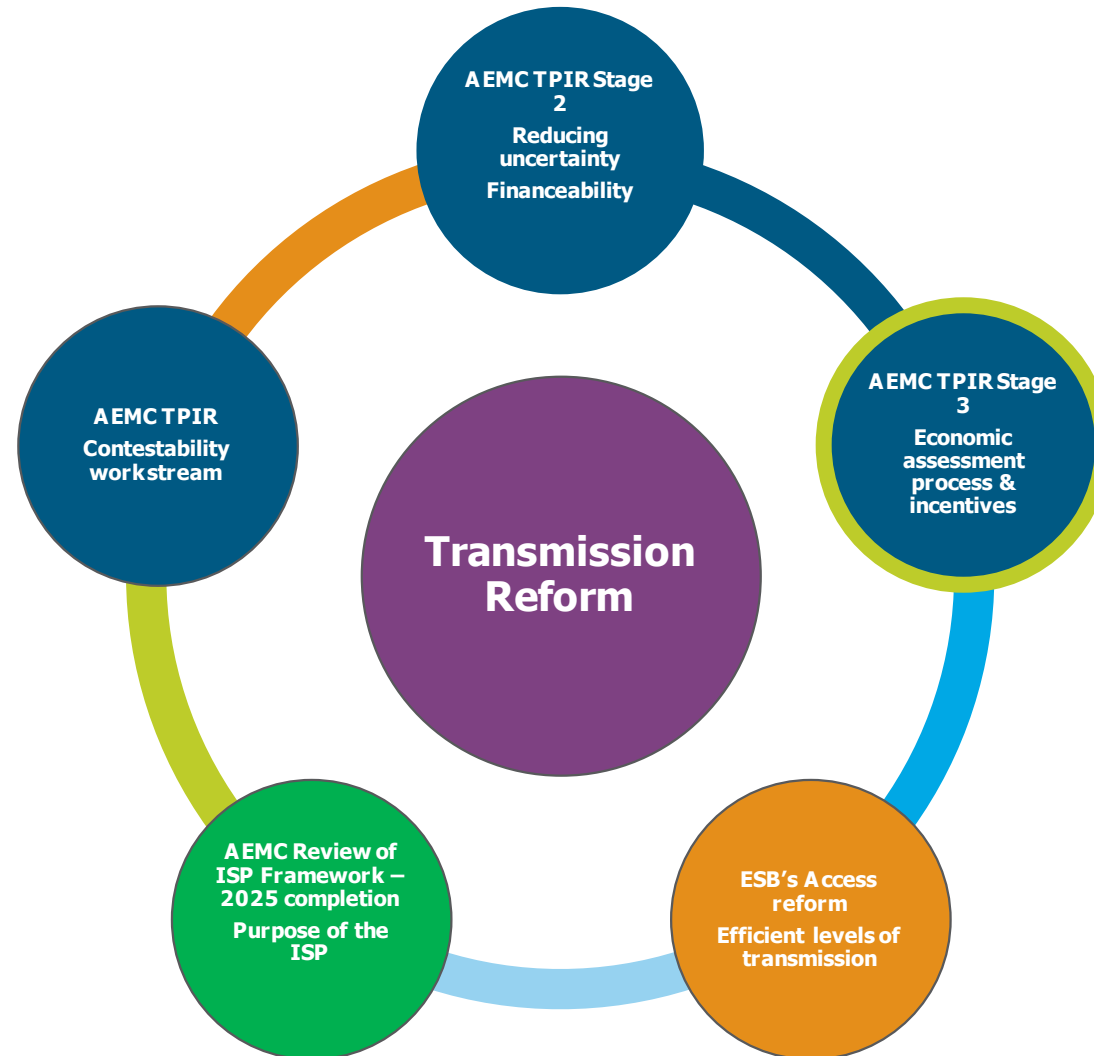
Charles Popple – Commissioner

OVERVIEW OF THE REVIEW

The background of the slide is a dark blue field filled with a complex, abstract network of lines and dots. The lines are primarily blue and orange, forming a web-like structure that is denser in the center and fades towards the edges. Scattered throughout the network are small, semi-transparent dots in red, white, and blue. The overall effect is one of a dynamic, interconnected system, possibly representing a network or a complex process.

Alisa Toomey – Acting Director

The stage 3 draft report is part of a larger body of work to support the transition to net zero through the efficient use and delivery of transmission infrastructure



STAGE 3 DRAFT REPORT - POLICY POSITIONS/RECOMMENDATIONS

ECONOMIC ASSESSMENT PROCESS



Martina McCowan – Senior Adviser

The economic assessment process should facilitate the timely delivery of major transmission projects to support the energy transition

Need to deliver major transmission projects in a timely manner

- Delaying investment in transmission infrastructure would come at a cost to consumers as they would need to pay for more expensive capacity, i.e. face a significant increase in wholesale energy costs
- Given the importance of ISP projects to facilitate the energy transition and their benefits to consumers, improvements to the EAP should focus on facilitating the timely delivery of these projects, whilst maintaining an adequate level of rigour

Issues with the current economic assessment process

- The current EAP for ISP projects comprises four stages: the ISP, the RIT-T, the feedback loop and the CPA.
- There is a degree of overlap in the activities and decisions being made at each stage, affecting the timely delivery of projects
- All major ISP projects that have completed the EAP have progressed under transitional rules. This may have contributed to some of the concerns raised by stakeholders re overlap and duplication

Current framework and recently proposed reforms form a 'counterfactual EAP'

- Recent changes proposed in the Stage 2 draft report and the *Material change in circumstances* draft rule seek to support efficiency and robustness of the EAP. The existing EAP and the recent changes for a 'counterfactual' EAP
- We are considering further opportunities for improvement of this counterfactual EAP to support the timely delivery of major transmission projects

We have developed a spectrum of alternatives to the counterfactual EAP for ISP projects and are interested in feedback on the strawperson options we have outlined in the Stage 3 draft report

We have developed three strawperson options as alternatives to the counterfactual economic assessment process

1

Strawperson 1: Front-loading early works

- Existing processes remain largely in place, changes focus on bringing early works forward
- Following a project being identified as 'actionable' in the ISP, the TNSP would submit an early works CPA in order to undertake early works and the RIT-T concurrently (removing the early works RIT-T)
- Introduction of a longer period between the PADR and PACR to investigate social licence issues, route selection etc. and reflect these in the RIT-T preferred option selection
- Estimated time savings in the magnitude of 12 months (-50% to +50%)

2

Strawperson 2: AEMO is responsible for assessing net benefits through the ISP, RIT-T to focus on option development

- TNSPs would no longer be required to evaluate net benefits when developing the RIT-T
- AEMO undertaking a centralised benefits assessment in the ISP process allows TNSPs to focus on the costs of credible options and exploring these in greater detail with stakeholders during the RIT, incl. investigation of social licence issues and route selection
- Estimated time savings in the magnitude of 12 months (-50% to +50%)

3

Strawperson 3: AEMO undertakes centralised assessment of costs and benefits in the ISP, with inputs from TNSPs

- AEMO would identify credible options and select the preferred option through the ISP (as the RIT-T would be removed). Strengthened joint planning arrangements would improve TNSP input into the ISP analysis
- Feedback loop is no longer required, but more frequent publication of ISPs
- Estimated time savings in the magnitude of 2 years (-50% to +50%)

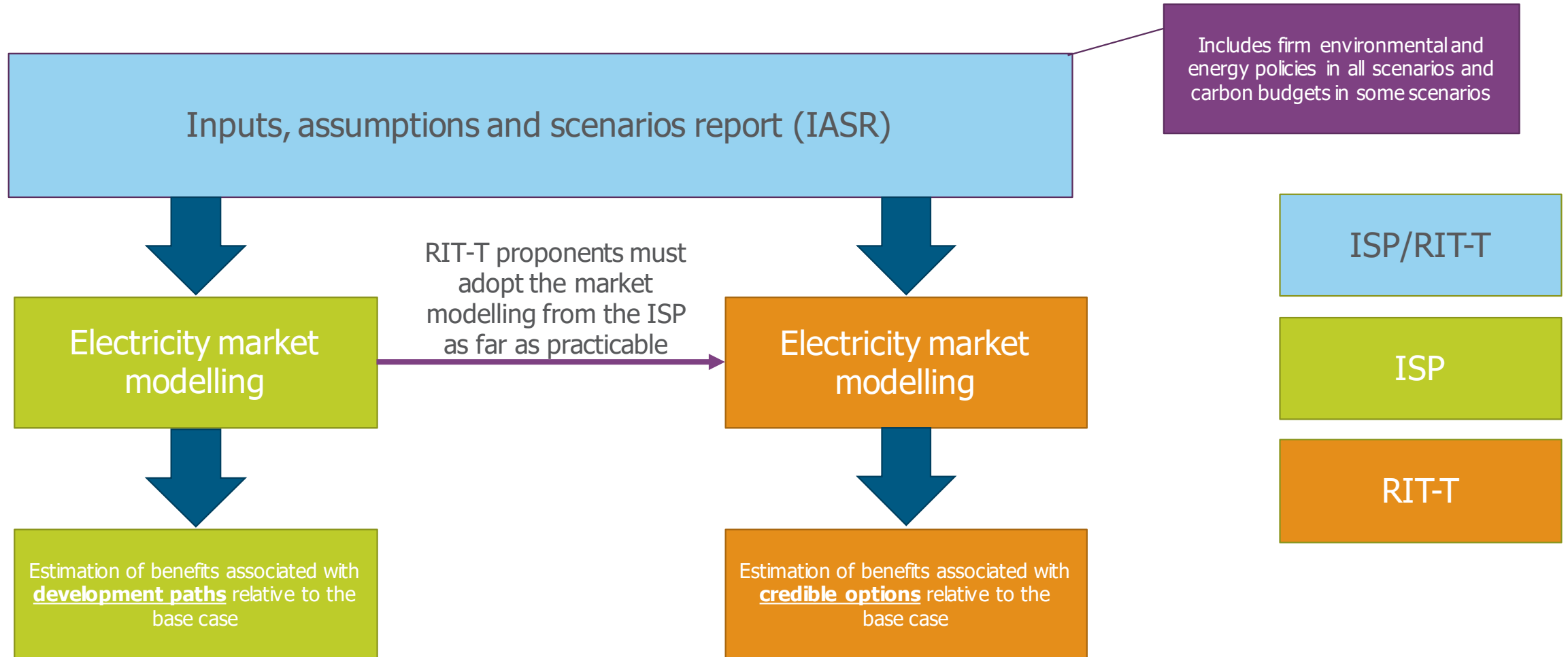
What are your views:

- Can any of these options facilitate the timely transition to net zero while maintaining an adequate level of rigour?
- Which option should we develop further?
- Should we consider any other options, including variations or hybrids of the three strawperson options?

EMISSIONS ABATEMENT

Dylan Frangos – Consultant

Emissions abatement is factored into AEMO's scenario planning approach, which flows through to the application of the RIT-T



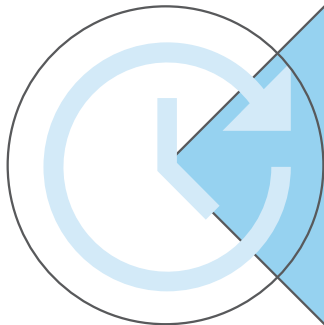
The Commission will continue to monitor the evolving policy landscape regarding emissions abatement to ensure it continues to be appropriately factored into transmission planning



Recent changes indicate an increase in emissions abatement ambitions and highlight the increasing role of the energy sector in realising these ambitions. These changes include the change in federal government, the introduction of the Climate Change Act 2022 and agreement for an emissions objective to be incorporated into the NEO



Many of these changes may warrant a new approach to factoring emissions abatement into transmission planning. For instance, depending on the form of the emissions objective in the NEO and how it is applied in practice, it may be appropriate for emissions abatement to be explicitly valued in the ISP/RIT-T – even if there is no legislative mechanism that sets a formal price on emissions



The Commission will consider further developments in the stage 3 final report, and will continue this work in the upcoming ISP review. This work considering the appropriate treatment of emissions abatement in transmission planning could be assisted by guidance on sectoral emissions reduction or abatement trajectories in the context of net zero


CONCESSIONAL FINANCING




Chirine Dada – Senior Adviser

Concessional finance can be used to support timely investment in transmission infrastructure

There is increasing potential to utilise concessional finance to facilitate timely investment in transmission infrastructure, notably in the context of the Federal Government's Rewiring the Nation. It is timely to consider the potential treatment of concessional financing in the NER.



Given the existing National Electricity Rules (NER) do not explicitly recognise the treatment of concessional finance, additional guidance will be beneficial in clarifying its treatment in the regulatory framework and how the benefits can be allocated based on the intended purpose of the concessional finance.



In particular, additional guidance is necessary to provide the AER, AEMO, TNSPs, investors and financiers with clarity on how consumer benefits (and benefits that do not accrue to consumers) from concessional finance are treated in the regulatory framework. In turn, this would improve investor confidence and assist in the timely delivery of transmission infrastructure. .

The NER does not currently set out how concessional finance is to be treated.

We're seeking your feedback on the appropriate regulatory treatment of benefits from concessional finance, notably in the context of the announcement of the Federal Government's Rewiring the Nation fund, including:

1. How the regulatory framework could be amended to provide additional guidance on processes and information required to facilitate the treatment of concessional finance in the NER, and:
2. How to recognise these benefits in the economic assessments which inform the ISP as well as the RIT-T.

Question 1

- Who should notify the AER about the existence of a concessional finance arrangement?

Question 2

- What types of information about the concessional finance arrangement should be provided to the AER and by whom?

Question 3

- How should the AER determine the financier's intent?

Question 4

- How should the AER determine the amount of the concessional finance to be treated as a benefit to consumers and/or TNSPs? How should this amount be treated in the revenue determination process?

The Commission is considering how concessional financing provided by governments and agencies, such as the Clean Energy Finance Corporation (CEFC), should be treated for regulatory purposes when some of the benefits may be intended to flow to consumers.

EXCLUSIVE RIGHT AND INCENTIVES



Rupert Doney – Senior Adviser

A new incentive mechanism may be a suitable response to manage delivery risk associated with a TNSP's exclusive right with no obligation to invest



The Commission sees value in exploring a new incentive mechanism to manage delivery risk associated with TNSP's exclusive right to invest but with no corresponding obligation to invest.



A Timely Delivery Incentive (TDI) could provide a way to encourage a timely investment decision and project delivery to align TNSP's interests with those of consumers.



We are seeking stakeholder feedback to inform whether a TDI is proportionate and/or necessary. Detailed design considerations will be put forward if a mechanism is deemed to be considered a proportionate response to the problem.

There are currently no alternatives to ensure delivery of major transmission projects if TNSPs decide not to deliver projects and there are also no regulatory consequences for the TNSP should it choose to delay or not invest in a major transmission project.

UNCERTAINTY IN THE EX-ANTE FRAMEWORK

Rupert Doney – Senior Adviser

We're seeking your feedback on the potential to tailor the ex-post review for ISP projects and if there is merit in having additional CPA stages during project delivery



Major transmission projects present increased cost risk and uncertainty relative to business-as-usual investments

- Sources of cost risk are typically associated with route selection and supply chain issues.
- Source of cost uncertainty relate to a lack of comparable projects.
- The existing regulatory framework provides a range of mechanisms to promote efficient management of cost risk and uncertainty that should be allowed to mature (including recently adopted approaches of providing risk allowances and staging CPAs).



There are a number of options for incremental improvements to the existing framework that we are considering

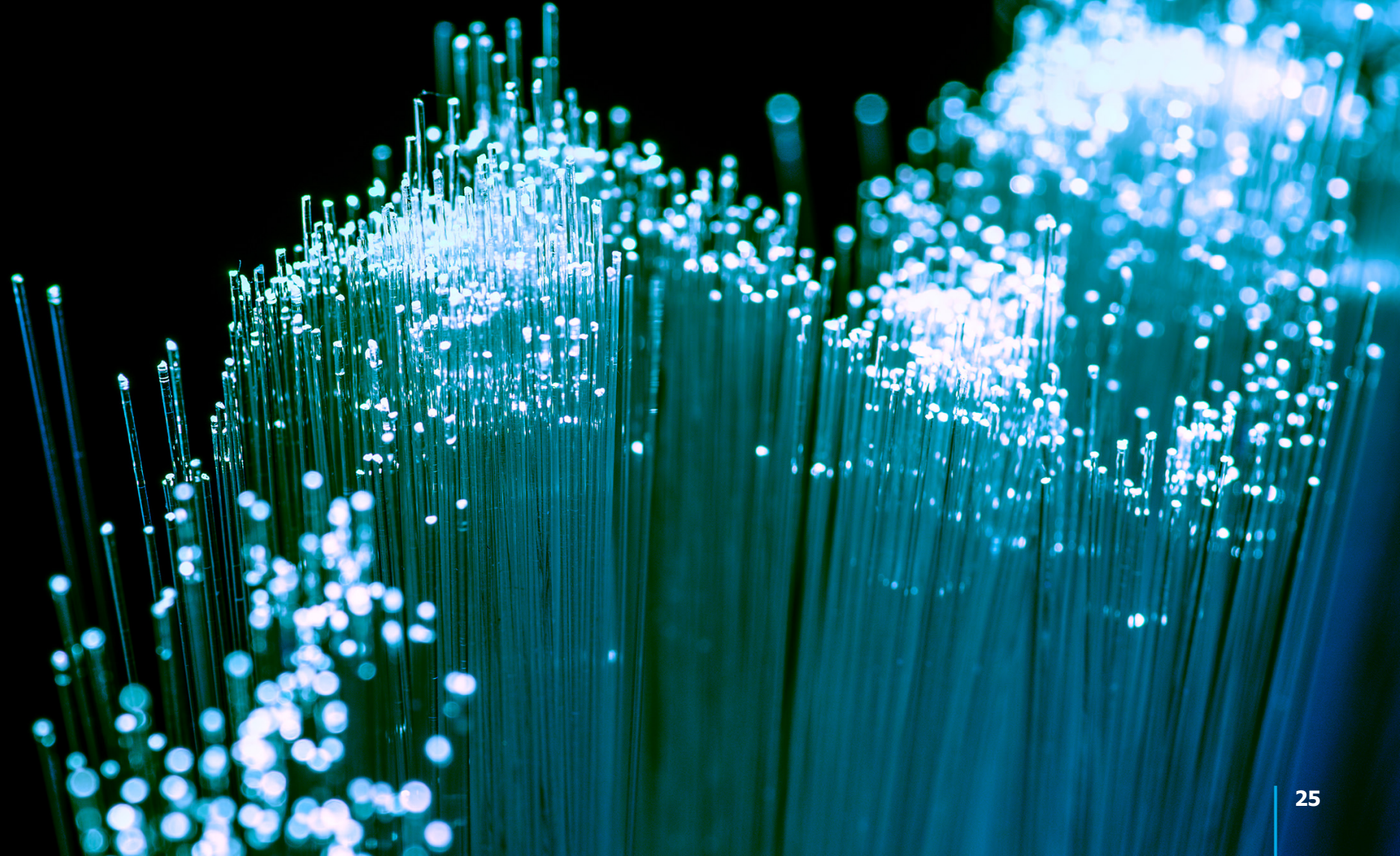
These are:

- enabling a targeted ex-post review process by the AER that examines specific ISP projects, and
- whether there may be circumstances associated with a specific major transmission project that warrant allowing additional stages in the CPA process.

We are also seeking stakeholder views on: (i) the potential merits of a separate, targeted ex-post review process by the AER that examines expenditure associated with specific ISP projects (ii) if there are circumstances in which it is appropriate to warrant additional stages in the CPA process.

QUESTIONS?

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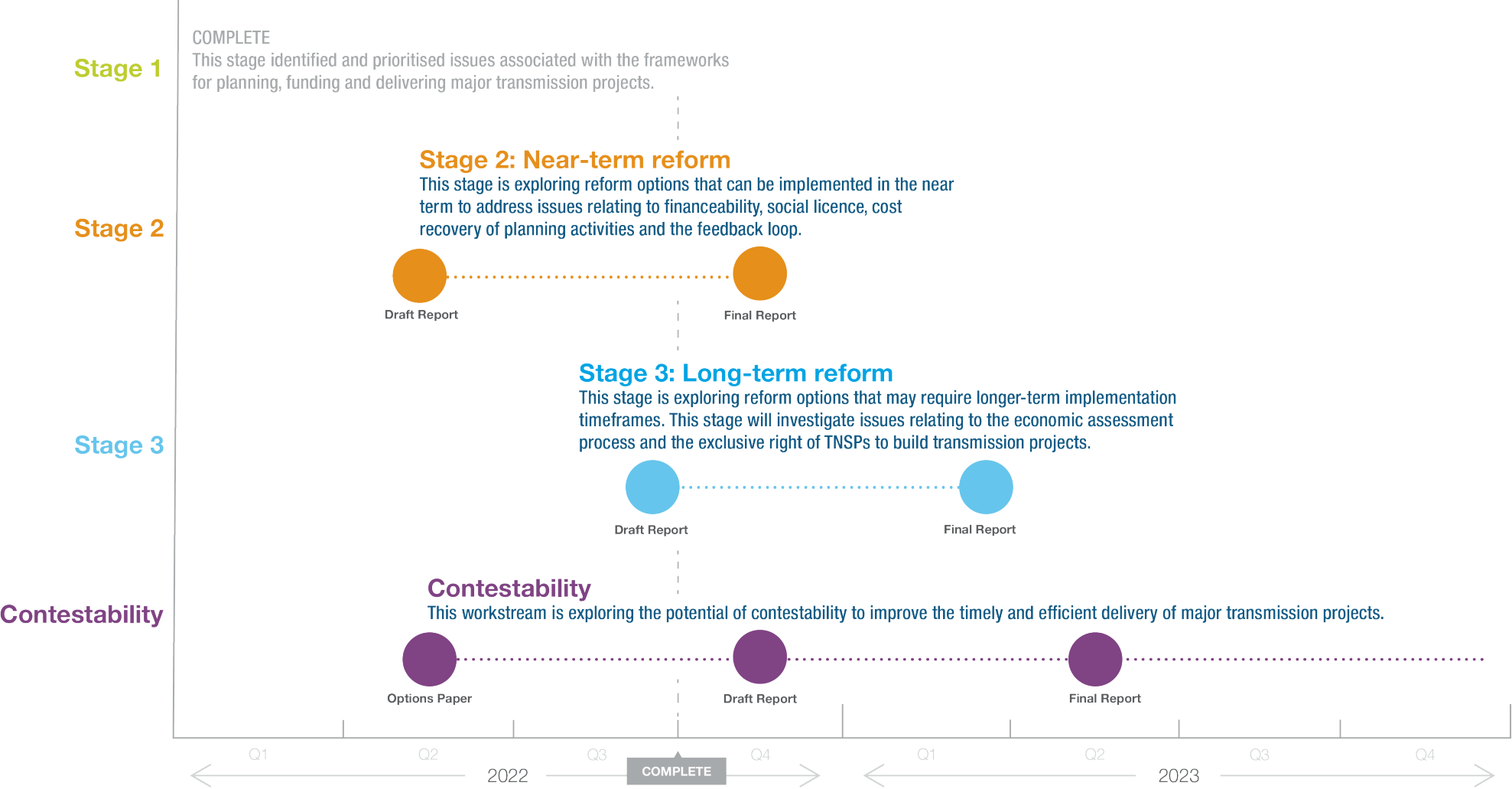


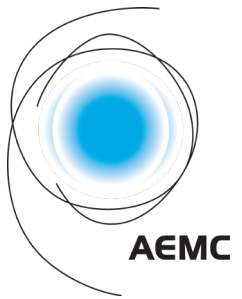
CLOSE AND NEXT STEPS

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Next steps

Timeline to progress the Review





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