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CONSULTATION ON TRANSMISSION PLANNING AND INVESTMENT REVIEW

Dear Sir/Madam,

Macquarie Group (Macquarie) and its offshore wind business Corio Generation welcome the Australian Energy Market Commission's (AEMC) consultation launched on Transmission Planning and Investment Review, and are grateful for the opportunity to make a submission in respect to the draft positions in the Stage 3 report.

OVERVIEW

This review of the transmission investment decision making process is both timely and welcome.

Corio Generation supports an amendment to the National Electricity Objective (NEO) to include a new term related to the enabling and promotion of efficient investment in zero carbon technologies to support the achievement of net zero by 2050. We believe transmission developments and associated decision-making processes must be designed to support that new part of the NEO.

Of the options presented, Corio Generation supports Strawperson 3 as the most likely to deliver timely transmission network augmentations. We suggest that AEMO is best positioned to determine the optimal development path (ODP) for the interconnected network. As such, AEMO should determine the economic benefits for each project in the ODP on a common basis and ideally AEMO should have the power to direct Transmission Network Service Providers (TNSP's) to invest in projects that form part of the ODP.

In the absence of a power to direct, formalising a process for AEMO to request State's to direct investment by TNSP's would add strength to the existing planning processes

CHALLENGES FOR GENERATION DEVELOPERS

Uncertainty about timely decision making and delivery of transmission augmentations is one of the most significant risks faced by developers of renewable generation, the risk of generation curtailment due to network congestion is a significant barrier to investment.

Transmission projects typically have longer development periods than most generation projects, therefore transmission planning needs to lead generator development and rather than responding to generation proposals.

Achieving a balance of renewable generation technologies is critical in supporting Australia's transition to a lower carbon economy. Solar projects naturally have a shorter development and construction period when compared

with wind generation, especially large-scale offshore wind. A rigorous process to appropriately allocate transmission capacity between technologies is therefore essential.

To increase revenue certainty for generation developers, we would also suggest that a wholesale review of the current transmission access arrangements is required. We welcome state sponsored Renewable Energy Zone (REZ) proposals as they create shared transmission facilities for adjacent projects which are essential to managing social licence impacts as well as creating efficiencies more broadly. However, uncertainty for generators remains an issue because the approach to both the implementation and coordination of REZs which have declared shared network developments is unclear.

Currently, even if renewable developers can contract for firm connection to a REZ, all renewable projects within that REZ will face ongoing uncertainty in terms of curtailment, Marginal Loss Factors ("MLF") and other key transmission regulatory determinants, as the state sponsored REZ still needs to interact with the shared network. This can only be resolved by reform of the access arrangements in the NER.

NEED FOR CHANGE

Significant investment in the interconnected transmission network is a critical part of the transition to renewables. Transmission investment decisions need to be made quickly and efficiently in order to support decarbonisation targets so as to best support the required pace of generation developments.

As Australia transitions to renewable energy generation the historical process of relying upon TNSP's to identify and develop individual projects that meet a particular need, which has been appropriate over the last thirty years given the relative stability in the electricity sector, will need to evolve.

Individual state-based policies related to decarbonisation have historically focused on adding renewable generation and setting renewable percentage energy targets. While they have provided significant signals for generators and catalysed significant generation investment, to date there hasn't been a corresponding and coordinated enabling transmission build out (partly due to the current regulatory framework not allowing the States to so dictate), in some cases renewable generators have been left with limited access to the market due to transmission constraints and significant financial losses. The Victorian government's most recent announcement of further support for offshore wind development (Offshore Wind Implementation Statement 1) is welcome and encouraging.

As noted by the commission, timeliness of delivery overrides economic perfection, shortening and reducing uncertainty in the decision-making path is a strong driver for any changes to the transmission planning and decision-making framework. The most effective way to achieve this would be to give enable a central planning body (i.e. AEMO) to determine the ODP and to direct TNSPs to invest.

SUPPORT FOR STRAW-PERSON 3

It is agreed that elimination of the RIT-T and feedback loop processes and selection of the preferred option under the ISP process should shorten decision making cycles and reduce decision churn. Undertaking economic assessment of potential projects on a common basis using common cost data and aligned assumptions should reduce the potential for challenge of investment decisions.

It is agreed that more frequent updates to the ISP should lead to more stability in the ODP. Cost assumptions for comparing options should be based on standard assumptions and basis of costs - once a project is identified in the ODP, there must be an obligation on the TNSP to progress the project in the most efficient way with a focus on optimising benefits through refining specifications and mature procurement processes.

There will always be challenges in accurately identifying the scope of work, schedule and costs for transmission projects in the planning stage and it must be accepted that determining the optimal solution will never be a precise science. The Commission notes that Straw-person 3 relies upon improved joint planning processes and that AEMO may need to more prescriptively specify the information required from TNSP's. This carries a risk of delay due to the inability of TNSP's to provide the required data. It is suggested that high level decisions to proceed with an option need to be made on the minimum of information, as discussed above, an imperfect

decision being generally better than significant delay. AEMO should also avail itself as much as possible of timely and updated information from renewable industry groups and leading investors in the sector, leveraging international experience and data points from other markets that are referable.

Overall, Straw-person 3 offers the most opportunity to accelerate and streamline decision making processes and progress transmission augmentations along the ODP in a timely way. Rigour in the allocation of costs can be preserved through more involvement of AER in the procurement and execution phases. Corio Generation therefore supports the further development and adoption of Straw-person 3.

TREATMENT OF CONCESSIONAL FINANCE

The discussion in the consultation paper on this topic is noted. Concessional financing arrangements such as "Re-wiring the Nation" are an essential element of enabling the energy transition.

The simple solution to the treatment of concessional finance in setting the revenue for affected projects is to apply the concessional finance rate to the weighted average cost of capital used to calculate the maximum allowable revenue. It is suggested that this matter be left for AER to determine as part of their assessment of contingent project applications.

NATIONAL CONTESTABILITY NOT SUPPORTED

Contestability adds time, cost and uncertainty to the network development process, it is considered more optimum to encourage incumbent TNSPs to "get on" with it subject to transparent procurement processes. Experience in Victoria is that very few transmission upgrades have been delivered by other than the incumbent TNSP. While no data is available, it seems possible that the additional administration and delays resulting from contestability processes may result in higher costs to the consumer compared to entrusting the incumbent TNSP (under the oversight of AER) to progress the necessary works. In order to run a contestable process for transmission projects, multiple competing developer consortiums may need to identify routes and consult with potentially affected communities, thereby is likely to exacerbate social licence challenges in terms of increased anxiety, stakeholder engagement fatigue, etc. Moreover, as demonstrated by the Victorian Western Renewables Project, having early project planning done by one party (AEMO) for handover to a contestably selected developer, may create issues of misalignment of objectives, discontinuity of engagement, and the potential for extensive commercial challenges.

The Commission's rejection of the broadening of contestability arrangements is supported.

DELIVERY INCENTIVES TENTATIVELY SUPPORTED

The Commission's proposal to incentivise TNSP's for on time delivery of projects has merit but would need to be implemented with caution. New transmission lines typically take from 7 to 10 years from concept to commissioning. Most of this time is in the development phase, generating the economic case, determining the technical solution, consulting on routing options, studying the environmental impacts, seeking consents and securing property rights. Conducting these activities well contributes to the development of social licence. t. This phase is full of timing uncertainty and applying hard dates to delivery milestones is challenging. TNSP's may be encouraged to fast-track critical elements to achieve incentive payments, with potential impacts on social licence and consequential impact on later activities.

COST ESTIMATING CHALLENGES

Cost estimate accuracy is a major challenge particularly in the current economic environment and due to the global increasing demand for transmission equipment and limited pool of suitably qualified contractors in Australia and globally. Investment decisions therefore need to assume generous contingencies. Costs are likely to increase at each step of the project development process, however costs for alternative solutions will also be

increasing and repeated reconsideration of options adds delay and uncertainty. Increasing costs in general is likely to mean the benefits increase also.

In the discussion on Straw-person 2 it is suggested that binding bids are obtained earlier in the process – we believe this has significant challenges. Noting the cost increase challenges above which bidders will be exposed to, bidders may either not want to commit time and effort to formulate a binding bid for a project that may not subsequently proceed, and/or the price offered may include significant risk premium versus other tendering methodologies.

The current requirement for re-running of RIT-T's for already commenced projects adds uncertainty and risk for proponents, reducing incentives for TNSP's to invest. Cost uncertainty is increasing in the current economic environment which is likely to lead to more re-running of RIT-T processes with associated delay and uncertainty.

An alternative to repeated review of RIT-Ts could be more oversight from the AER of tender processes and project execution by TNSP's including throughout the delivery process (i.e. AER could have an ongoing role to monitor TNSP performance and to determine costs ex-post). This would lead to projects and their proponents having more certainty and consumers should be satisfied that the final cost has been efficiently incurred.

We appreciate the work the government has done to date in preparing this industry and would like to thank you for the opportunity to engage on the draft positions in the Stage 3 report.

If we can be of further assistance, please contact me on: Anthony.Lamb@coriogeneration.com

Yours sincerely,

Anthony Lamb

APAC Regional Head – Corio Generation