

9 June 2023

Ms Anna Collyer
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Collyer

Ensuring financeability of ISP projects rule change

Energy Networks Australia (ENA) is pleased to submit a rule change proposal to ensure the financeability of Integrated System Plan projects to the Australian Energy Market Commission (AEMC).

ENA represents Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

This proposal, and the concerns expressed in this cover letter, are not supported by AusNet, one of our members. AusNet owns and operates the primary electricity transmission system in Victoria as well as an electricity distribution network and gas distribution network.

The Australian Energy Market Operator's Integrated System Plan (ISP) explains that major new transmission projects are urgently required to support Australia's transition to renewable energy and the achievement of Australia's international net zero commitments. More importantly, these projects are needed to facilitate consumer benefits from increased competition in the wholesale electricity and frequency control markets and through increased resilience throughout the transition.

ENA supports the AEMC's work in its Transmission Planning and Investment Review to support the prudent and efficient, including timely, delivery of the ISP projects in the interests of consumers. Importantly, the AEMC's Review has also sought to ensure that the regulatory framework supports the financeability of ISP projects.

This rule change proposal is intended to complement and further progress the AEMC's findings, and the financeability rule change proposal submitted by Chris Bowen, Commonwealth Minister for Climate Change and Energy on 11 April 2023. The ENA proposal presents several alternative solutions that we consider could better facilitate timely investment in ISP projects.

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Globally, equity investors expect the regulatory framework to:

- allow transmission networks to maintain a strong investment grade credit rating to ensure that the quantum of borrowing required to support the business and major projects can be accessed efficiently from the global debt markets; and
- allow each form of capital (debt and equity) to earn its respective market return – which essentially means that equity (as the highest risk form of capital) can earn an “appropriate” return on the significant capital required to deliver actionable ISP projects.

Having regard to these requirements, ENA is concerned that the current arrangements and the AEMC’s recommendations do not provide investors with sufficient confidence to commit to actionable ISP projects in a timely manner. Specifically, investors would struggle to commit to ISP projects financially and reputationally at the early works phase of a project without sufficient confidence that financeability risks will be identified and resolved satisfactorily under the regulatory framework when the more significant revenue arrangements are set through second contingent project application.

If the regulatory framework does not provide investors with sufficient confidence before making an investment, an actionable ISP project will be delayed either until a financeability solution is found through the regulatory framework or until Government support is provided such that the project can proceed.

To address these concerns, our rule change proposes a transparent and objectively replicable mechanism specified in the rules so that investors can understand, in advance of committing to actionable ISP projects, how future financeability problems will be identified and addressed. Further details are set out in our attached rule change proposal.

We look forward to continuing to work with the AEMC and other key stakeholders as the AEMC progresses this rule change request to promote the long-term interests of electricity consumers and support the decarbonisation objectives of the Australian Government.

Should you have any queries on this response please feel free to contact Dominic Adams, Dadams@energynetworks.com.au.

Yours sincerely,

Dom Van Den Berg
Dom Van Den Berg (Jun 9, 2023 09:35 GMT+10)

Dominique van den Berg
Chief Executive
Energy Networks Australia