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Anna Collyer

Chair

Australian Energy Market Commission

GPO Box 2603

Sydney NSW 2000

Via: https://www.aemc.gov.au/contact-us/lodge-submission, ERC0349

Dear Ms Collyer,

AEMC Concessional Finance for Transmission Network Service Providers: Consultation Paper

We welcome the opportunity to provide a submission to the AEMC's Concessional Finance for Transmission Network Service Providers (TNSP): Consultation Paper, covering the rule change proposal from the Honourable Chris Bowen MP that ensures that the benefits of concessional finance not only expedite the delivery of critical transmission infrastructure, but flow to consumers.

The Iberdrola group has become one of the leaders in the Australian renewable energy market after acquiring Infigen Energy in 2020. The company operates more than 800 MW of solar, wind and storage batteries in Australia and has a significant portfolio of projects, of which 453 MW are under construction and more than 1,000 are in various stages of development.

Iberdrola is also recognised globally by its experience building, operating and maintaining electricity lines, substations, transformation centres and other infrastructures to transfer electrical power from the production centres to the end user across relevant jurisdictions in Spain, UK, US and Brazil. Iberdrola currently operates one of the world's largest power distribution systems, comprising more than 1.2 million kilometres of distribution lines and more than 4,400 substations, which carry electricity to more than 34 million people around the planet. 40 % of the group's organic investment for the period 2020-2025 (more than €27 billion) will go to the Networks area. Iberdrola Australia is actively looking to roll-out these capabilities in country, demonstrating its full commitment to Australia's energy transition.

The transition to a low carbon power system will require significant investment, not least in the 10,000 km of new transmission to connect new firmed renewable generation to customers. This investment will be largely financed by Australians, and it is essential that where concessional finance is provided the benefits of that finance flow directly to consumers, rather than the TNSP or the entity delivering the new transmission should it not be the regulated monopoly TNSP.

We support this rule change that ensures the benefits of "concessional support" are received by consumers in a purposeful and proportionate approach. It is not just sufficient to rely on the benefit provided to consumers through the improved access to the wholesale market benefits that may accrue when a new transmission line is commissioned[1].

What is "concessional finance"?

Concessional finance from a Government Funding Body (GFB), either state or federal, should not be just limited to providing low-cost finance but should also provide capital support through public-private co-financing of new transmission lines. Further, while this rule specifically applies to the regulated monopoly TNSPs, it would be envisaged that the regulated monopoly Distribution Network Service Providers (DNSPs) will receive concessional support for power lines, as they have for DNSP-owned community batteries and in all cases where concessional support is received, the full benefits must directly flow to consumers, rather than to the regulated monopoly.

The federal government's Rewiring the Nation program, administered through the Clean Energy Finance Corporation, should be directed to delivering the new transmission infrastructure required at lowest cost and in a timely manner, which, recent work has shown[2], is likely to be through directing Rewiring the Nation support to competitive providers of transmission lines.

Interaction with Financeability Rule Change (ERC0348)

TNSPs should not be able to secure support via both the financeability mechanisms (AER uses discretion to determine if a variation to the cost recover profile is needed) and concessional GFB support, since the required the aim of the financeability rule change is to eliminate reliance on concessions finance.

The Rule Change – Regulated Monopolies

We agree with the AEMC that that it is the responsibility of the funding recipient to provide details of any concessional funding arrangements to the AER and that there should be a positive obligation on the TNSPs to provide the required details. The list of information required to be provided appears appropriate and we would add the additional considerations of:

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[1] As is contended in the ENA submission to the AEMC TPIR Stage 3 draft: https://www.aemc.gov.au/sites/default/files/2022-11/ena.pdf

[2] https://nexaadvisory.com.au/site/wp-content/uploads/2023/06/Nexa-Advisory_Transmission-Contestability-in-Australia-Research-Report-June-2023.pdf

- Whether the concessional funding is related to financing or is a capital contribution to the cost of the project
- Ensure that if the TNSP provides the funding to a sub-contractor, that this is captured by the Rule
- Whether the TNSP as already applied for and/or received financeability support via an assessment by the AER on varying the cost recovery profile for a project (ECR0348)

The AER should work with the GFB, be it a state government or the federal government, to determine the intent of the concessional finance with regards to consumers benefits. This assessment could be significantly streamlined or expediated if the contracts between a funding recipient and the GFB explicitly set out the intentions with regard to consumer benefits.

Any concessional support should result in a reduction to the TNSPs Regulated Asset Base (RAB), rather than via and AER adjustment to a proportion of the Maximum Allowed Revenue (MAR). An AER determination that adjusts the RAB for the receipt of concessional finance will be a simpler process as well as ensuring that the benefits of the concessional support accrue consumers in the long term.

Given the urgency for the delivery of new transmission, this rule change should come into force immediately on being made and any project that has not already signed a contract with a GFB should be subject to the rule change.

Rule Change – Contestable Providers

While the situation in Victoria is more complex, it does not need to be resolved as part of this rule change, since the AEMC has opted to discontinue work on contestable approaches to new transmission and as a result contestability has no place in the Rules[3]. Ensuring that benefits of competitive provision of transmission lines accrue to consumers is the responsibility of the jurisdictions.

However, in Victoria specifically, it is not appropriate to give the responsibility to AEMO for developing or assessing concessional finance for competitively provided projects. This is because AEMO has set up a commercial subsidiary (Transmission Company Victoria, TCV) to develop and then sell on transmission projects to the successful tenderer in a contestable process. AEMO therefore has a conflict of interest and should have no role in receiving or assessing concessional finance from a GFB. Any financing GFB arrangements for competitive providers of transmission should be overseen by VicGrid in Victoria, as they already have a strong role in ensuring beneficial transmission outcomes for Victorian stakeholders.

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[3] https://www.aemc.gov.au/news-centre/media-releases/contestability-workstream-paused-while-aemc-continues-broader-transmission-review

Compliance and Enforcement

Compliance and enforcement of the requirements on TNSPs in this rule change is essential and we suggest that the Electricity Ring-Fencing framework for Transmission, via information provision requirements is the appropriate approach. The Rules (6A.21.1) already require TNSPs to comply with the Ring-Fencing Guidelines and so the AER would need to update the Transmission Ring-Fencing Guideline to incorporate the information sharing requirements related to concessional finance.

We thank you for the opportunity to provide input into the AEMC's Concessional Finance for Transmission Network Service Providers (TNSP): Consultation Paper and look forward to continuing to engage with the AEMC as the rule change progresses.

Thank you for the opportunity to comment on this rule change. If you would like to discuss any of the issues raised in this submission, please contact Maheshini (Mesh) Weerackoon via email at Maheshini.Weerackoon@iberdrola.com.au.

Yours sincerely,

Ricardo Da Silva
Network Business Development Manager