30 September 2021

Ms Anna Collyer
Chair
Australian Energy Market Commission

Lodged via the AEMC website

Dear Ms Collyer,

PROJECT EPR0087: TRANSMISSION PLANNING AND INVESTMENT REVIEW

The Clean Energy Council (**CEC**) is the peak body for the clean energy industry in Australia. We represent over 900 of the leading businesses operating in renewable energy, energy storage and renewable hydrogen. We are committed to accelerating Australia's clean energy transformation.

The CEC welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation Paper on the self-initiated Review of the existing regulatory frameworks, which aims to facilitate timely and efficient delivery of transmission services. The CEC strongly supports the AEMC in ensuring the regulatory frameworks are fit-for-purpose and enable the significant development of transmission needed to decarbonise the National Electricity Market (NEM).

Many elements of the regulatory frameworks for transmission, such as the Regulatory Investment Test for Transmission (RiT-T), can be lengthy and onerous processes, and may not always deliver efficient investment when and where it is needed. There is a clear case for reform of these frameworks. We consider that incremental reform, rather than wholesale overhaul, is a preferable approach. A key example of this kind of incremental improvement is to specify costs and benefits more effectively in the RiT-T, particularly those related to carbon.

The CEC also considers that improving the financability arrangements for projects is likely to support efficient investment in needed transmission infrastructure. We consider that some cost competitiveness for the delivery of transmission infrastructure is already achieved through existing processes for competitive tendering and is effectively regulated by the Australian Energy Regulator (AER) under current economic regulatory frameworks. While we acknowledge that, as a concept, increased contestability in delivery of transmission assets could deliver consumer benefits over the longer term, this must be weighed against the immediate and urgent need to deliver the transmission infrastructure investment necessary to support NEM decarbonisation. Any changes to the regulatory arrangements should therefore always be assessed in light of whether they will better enable the delivery of transmission projects as effectively and expeditiously as possible.

The reapplication of the RiT-T as proposed under the *material change in network infrastructure project costs* rule change should not be considered before reforms made under the Review are implemented.

Phone: +61 3 9929 4100
Fax: +61 3 9929 4101
info@cleanenergycouncil.org.au

Level 15, 222 Exhibition
Street, Melbourne, VIC
3000, Australia

cleanenergycouncil.org.au

ABN: 84 127 102 443

The remainder of our submission will provide further detail on the above and further commentary related to:

- specification of wider costs and benefits under the RiT-T;
- approaches to more effectively internalise the cost of carbon and climate change resilience / adaptation considerations into the current framework, as well as streamlining of social license and environmental considerations;
- the need for improved flexibility around the financability of projects; and
- further consideration of the costs and benefits of increased contestability.

Planning

Existing planning processes, particularly the RiT-T, may not support efficient transmission buildout. Successful reform of these processes will be necessary to deliver the investment in new transmission that is needed to deliver a reliable, secure, and lowest decarbonisation of the NEM. The CEC considers that this can be achieved through incremental change to the frameworks, rather than wholesale reform. Continuous and incremental improvement will efficiently streamline the assessment process and ensure this policy objective is met.

The assessment process must better capture the full suite of costs and benefits associated with investment in major transmission projects. To enable this, the CEC recommends a more comprehensive cost-benefit analysis to internalise the costs of carbon, while also more effectively streamlining existing planning processes to consider environmental and social impacts.

The CEC supports the AEMC's specific identification of carbon as an item to be explicitly considered through the review. We agree with the AEMC that in some ways, carbon is already accounted for through existing planning processes, such as through the consideration of state-based emissions reduction targets and renewable energy programs in the ISP.

However, this is a necessarily roundabout way of accounting for carbon, and only flows through those network projects that occur as an actionable ISP project. Currently, it is not clear that NSPs can give adequate consideration to the full suite of carbon reduction benefits when they assess an identified need and develop a preferred solution, outside of the ISP.

For this reason, the CEC is supportive of the AEMC giving consideration to how the RiT-T can be amended to explicitly internalise the cost of carbon. This can occur through various means. Below, we step through some high-level options that could be used to achieve this; we encourage the AEMC to consider whether other options might exist.

Firstly, the AEMC is correct to identify the increased degree of uncertainty associated with major transmission projects, and to question the assumption that this uncertainty significantly decreases over the timeframes of the planning process. A way to address this uncertainty is to develop an agreed set of assumptions to help define the nature of project benefits, as discussed on page 22 of the consultation paper. This would also be an effective starting point for internalising the cost of carbon into the regulatory frameworks.

Explicitly defining the nature of decarbonisation benefits would help reduce the degree of benefit uncertainty associated with new projects. In particular, these defined benefits should include a way to quantify carbon emission reductions associated with a major transmission project, such as by identifying the volume of fossil fuel MWh displaced by a transmission project and quantifying this by reference to defined carbon price metrics (such as ACCUs, or other international measures of carbon cost).

The AER could provide clarity around the nature of these decarbonisation benefits through development of guidelines, in accordance with principles in the NER.

Secondly, broader consideration of the full range of benefits associated with transmission investment provides another way to account for the value of decarbonisation. For example, explicitly accounting for the flow on benefits in terms of local employment associated with build out of new transmission infrastructure and the renewable generation and storage that connects to it.

Thirdly, the broader range of benefits associated with a major transmission project could include enhancement of the resilience of the power system to the effects of climate change – a mitigation benefit. Most models of climate change predict that severe weather will become more prevalent. Actions to harden the power system will help to maintain supply reliability for customers in these circumstances and should be explicitly accounted for as a benefit. Similarly, investment in large transmission infrastructure projects enhance flow path redundancy in the NEM, which goes a long way to improving resilience to climate change effects. These kinds of benefits can be relatively easily accounted for in the RiT-T, in terms of a greater probability that reliability standards will continue to be met in the face of the likely impacts of climate change.

The importance of incorporating these considerations into the RiT-T and ISP has been identified by the Electricity Sector Climate Information (ESCI) project[1]. Project partners, including AEMO identified the key challenge is justifying the increased capital expenditure associated with future resilience, given increasing price impacts to consumers today. This Review should consider this trade off.

Generally, we consider there is legitimate economic value derived from the benefits of carbon reduction resulting from the buildout of transmission within jurisdictions that would otherwise need to seek abatement in other sectors to meet emissions targets. Direct assessment of these benefits should occur in the RiT-T assessment process. Recognising this value allows projects improved financability as benefits can be recovered via revenues over the project life, therefore increasing overall benefit.

The AEMC should also give consideration to coordination of existing environmental and social license planning processes with the RiT-T. TNSPs can face significant delays and increased costs due to misalignment between the RiT-T, environmental and jurisdictional planning processes. The national planning and assessment framework must therefore be streamlined to avoid these adverse consequences. This could be achieved through shifting towards parallel, rather than sequential, assessment processes.

Finally, the RiT-T must allow equal consideration of non-network solutions. There must be increased clarity around the monetisation of benefits and allocation of costs of these options within the RiT-T and ISP. We consider that the AER should take the lead here and develop better guidance and compliance processes to ensure that NSPs are giving adequate consideration to both network and non-network solutions when assessing the need for a new project.

The AEMC and AER should initially outline the current treatment of the costs and benefits and identify the existing biases. Clarity around this will support reforms, which may include supplementary RiT-T guidelines to specify the potential benefits provided by these solutions and better integrate them into the assessment process. Additionally, further reforms may be warranted to mitigate unequal barriers to entry currently faced by non-network solution providers. This would

[1] For more information please see: https://www.energy.gov.au/government-priorities/energy-security/electricity-sector-climate-information-esci-project

ensure technology neutrality and a fair assessment of the lowest cost solution and encourage innovation and timely delivery of buildout.

Investment and delivery

The CEC recognises the importance of efficient and prudent costings of transmission projects and the implications this has for energy consumers. For this reason, the Review should consider improvements to current financability settings, in order to achieve timely and efficient delivery of transmission investment.

The CEC also appreciates the arguments for contestability. Competition can be a powerful tool, and when used correctly can deliver material benefits for consumers. The function of the NEM energy only market is a case in point, and the CEC is generally supportive of open and competitive markets where this is practical. We therefore consider there is benefit in giving further consideration to the consumer benefits that may be achieved by contestability, over the longer term.

However, contestability and competition must be applied only where it is the most appropriate and effective tool. Careful consideration of the full context is required to ensure this is in fact the case. Facilitating effective competition requires careful market design to ensure that administration and transaction costs do not outweigh the benefits of competition. Similarly, adequate consideration must be given to underlying structural elements of the supply and demand side.

In the case of transmission investment, the CEC acknowledges that competition could theoretically deliver better outcomes for consumers. However, there are a number of structural and administrative cost issues that must be considered, such as the limited number of competitors in any 'market' for building major transmission projects, and the significant additional administrative costs associated with running tenders. These costs must be weighed against the benefits of competition.

More generally, the potential benefits of competition must be assessed in the broader context of NEM decarbonisation. Any delay to decarbonisation caused by contestability would be detrimental to the long-term interests of consumers and must be avoided.

The AEMC's assessment of contestability must be pragmatic and weigh all of these issues carefully. It must therefore include a transparent quantification of any potential competition benefits, weighed against the increased administrative costs and other issues associated with contestability. While contestability should be encouraged in principle, it should not be delivered at the expense of timely delivery of large transmission projects.

The CEC also understands the issue identified by the AEMC, whereby TNSPs have an exclusive right to build transmission assets, but no corresponding obligation to do so. However, the extent of this as an issue has not yet been quantified, in terms of a justification for the introduction of further contestability reforms.

We consider it is likely that the accuracy of cost estimates for large transmission investments, such as actionable ISP projects are likely to increase, as TNSPs learn from experience across the NEM. There are also a high proportion of costs which are independent of contestability settings; costs associated with environmental obligations (e.g., offsets) and jurisdictional planning are both uncertain until the later stages of detailed planning work. These are unlikely to be reduced under a contestable framework.

The AEMC should also consider the extent to which competition and contestability benefits are already captured under the existing framework. For example, TNSPs already take some scope to

advantage of cost reductions associated with competition, through the competitive tendering processes already administered by each NSP when they look at multiple tenders for the construction of assets. The AEMC should therefore consider the extent of any additional benefits that might be achieved through further contestability between NSPs in the longer term.

Prudent and efficient costing encouraged through the economic regulation framework administered by the AER, where any such efficiencies obtained from competitive tendering run by individual NSPs then flow through into revised capital expenditure allowances in the next regulatory determination period.

We consider that in addition to contestability, the AEMC should spend equal time considering how to improve financability settings faced by TNSPs. While the AER's Rate of Return Instrument and current economic regulation framework ensure cost prudency and efficiency (which are subject to their own review), financability should be achieved with greater flexibility in order to encourage investment and financing opportunities. For example, project revenue (or costs and benefits) should be recognised over the appropriate time period of the project in order to achieve optimal financing terms.

Additionally, should carbon be internalised into transmission projects, further benefits may be recognised over the project life and support the receipt of additional revenue to support improved financability settings.

The CEC recognises the AEMC's rejection of the recent *Financability of ISP Projects* rule change requests which found no barriers to financing their share of ISP projects. However, financability arrangements should continue being improved to minimise hurdles to the funding of major transmission projects. Any such hurdles would delay the transition and threaten to increase costs to consumers. Alternatively, this could result in increased reliance on public funding such as through the Clean Energy Finance Corporation (CEFC). All of these possibilities should therefore be explored in the Review.

Reapplication of the RiT-T

The CEC understands this rule change request seeks to reapply the RiT-T when a cost increase may result in the project no longer being preferred option. We appreciate the focus of maintaining the least cost to consumers. However other actions, such streamlining of the RiT-T as outlined in this Review, or better definition of the benefits associated with a major transmission project, is a better approach to ensuring efficiency of major transmission projects. This should be implemented prior to any reapplication triggered by cost increases.

It is worth noting that the cost increases which have been seen in recent projects have occurred in part due to the lack of experience of TNSPs in building large projects as first identified in the 2018 ISP. Both TNSPs and AEMO will learn from experience as these projects are built and this should result in more accurate costings from TNSPs and within the ISP. Further, project costs are dependent on jurisdictional and environmental planning obligations, which are both subject to change until the final stages of detailed project planning. These are also likely to benefit from more accurate estimates as governments gain experience in these large developments.

The CEC considers the economic regulation of the AER already exists as a safeguard against inefficient costings, further reducing the need for reapplication. This requires TNSPs to justify any material changes to the AER.

Additionally, the more stringent cost estimate levels outlined in the rule change will likely result in higher cost imposed on proponents. This is due to the requirement of implementing more detailed scenario modelling at the early stages of planning, to account for the many different variables (such

as significant changes to route planning etc.) which may occur as the project is developed. As with all modelling, the current environment of general uncertainty means there is a risk a lot of time and money is spent assessing a huge range of futures early in the process, only to have reality deliver outcomes that were not captured in any modelling run.

The CEC suggests the AEMC further consider if this more detailed modelling and analysis are a prudent use of funds and whether they will add practical benefit to the process.

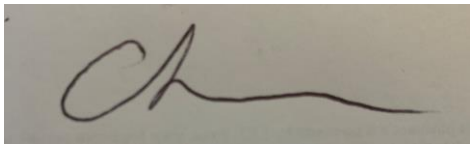
Finally, the recent changes to the current framework have not been granted the opportunity to be fully seen through; further changes should not be made before the implication of these are better understood. This includes the updated application guidelines of the RiT-T made in August 2020. The policy effectiveness of these changes should be understood before further changes are considered. As such, existing projects would face additional uncertainty should they be subject to reapplication.

Further considerations

There is a strong appreciation that consumers should not carry excessive risk in relation to network augmentations. Ensuring the delivery of network projects creates value to consumers is vital in the buildout. Prudent and efficient costing must remain a key outcome of transmission investment. However, it is critical that the full suite of benefits of major transmission projects can actually be captured through the existing frameworks – this is central to delivering value for consumers.

Thank you for the opportunity to comment on the Review. If you would like to discuss any of the issues raised in this submission, please contact Jordan Ferrari, Policy Officer, jferrari@cleanenergycouncil.org.au or myself, as outlined below.

Kind regards,



Christiaan Zuur
Policy Director – Energy Transformation