INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

30 September 2021

SUBMISSION TO AEMC TRANSMISSION PLANNING AND INVESTMENT REVIEW

Infrastructure Partnerships Australia welcomes the opportunity to provide this submission to the Australian Energy Market Commission's (AEMC) *Transmission Planning and Investment Review Consultation Paper*, released in August 2021.

Infrastructure Partnerships Australia is an independent think tank and an executive member network, providing research focused on excellence in social and economic infrastructure. We exist to shape public debate and drive reform for the national interest. As the national voice for infrastructure in Australia, our membership reflects a diverse range of public and private sector entities, including infrastructure owners, operators, financiers, advisers, technology providers and policy makers.

Infrastructure Partnerships Australia is not an energy market participant, but has long been an advocate for energy market reforms, as well as measures to improve efficiency, transparency and value-for-money of investments in Australian infrastructure. This submission reflects this role and background, and responds broadly to the Terms of Reference and questions in the Consultation Paper.

Australian energy consumers have been well-served by reforms over recent years

Australia's energy system is inarguably undergoing the most dramatic transformation in its history. Over the past decade, reforms of the settings underpinning the market, and guiding the energy transition, have been hard won but have helped to prepare for the scale of change required. The energy system, participants in the National Electricity Market and – most importantly – energy consumers have and will continue to benefit from these reforms, driven by the AEMC and other energy market bodies.

There is also little question that reforms will need to be ongoing, as the dynamics of the market, its consumers and the infrastructure required to best meet their needs continue to evolve. As the Consultation Paper acknowledges, the scale and nature of transmission projects has changed considerably over recent years. This has necessitated reforms to transmission planning and investment, as well as a greater role for centralised planning through the Australian Energy Market Operator's (AEMO) *Integrated Systems Plan* (ISP). Further initiatives around Renewable Energy Zones (REZs) at state and territory level have further bolstered planning and governance of the infrastructure, reflecting a need to adopt new ways of coordinating investment through the energy transition.

Further reviews risk adding to uncertainty in the market and undermining progress underway

Given the scale of change to come, further reforms to transmission policies and regulations are an inevitability. However, with the most recent round of transmission reforms having only come into effect in July 2020, and having been only applied to one project in full, there is little case for initiating further wide-reaching reforms at this stage. While lessons can be learnt by various stakeholders through the experience of that project – Project EnergyConnect – these can be applied without the need for further review of the full planning and investment framework.

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For now at least, the top priority for Australia's energy bodies and market participants must be getting on with the energy transition. Introducing further major transmission reforms now – when the market has already adapted to the vision laid out in the previous ISP and numerous other major plans and strategies by the energy market bodies – risks further delays and disruption at a time when Australia can least afford it.

Now is not the time to explore further fundamental overhaul of regulatory frameworks or market principles

To propose and seek views on – as the Consultation Paper does – whether it may be necessary to challenge TNSPs' exclusive right to build and own transmission projects through the introduction of new contestable arrangements is not constructive at this time. This form of broad theoretical rumination serves only to add to uncertainty and concern in the market among the proponents and investors that Australian energy users are relying on to get on with the job of delivering the infrastructure they need.

Beyond the immediate legal ramifications for existing licences and contracts, such a change would have wide-reaching financial and economic impacts, many of which may take years to resolve if implemented, causing further delays and adding to costs. If there was or is to be a time for questioning such a fundamental tenet of the transmission investment, it is not now, when the urgency of investing in new transmission has never been greater.

Infrastructure markets are stretched, and more policy and regulatory uncertainty could drive investors away

In considering any potential changes, or whether to proceed with the second stage of this Review, the AEMC should consider the potential risks and costs this process – and any potential major changes flowing from it.

The AEMC should also consider the scale of broader reforms being proposed through the Energy Ministers and National Cabinet, following the recommendations of the Energy Security Board. Notwithstanding any positive outcomes this process unlocks, the task of understanding, anticipating and preparing for the implementation of these reforms is in itself a major challenge for market participants and stakeholders. This review by the AEMC, and any further stages will contribute to an additional burden and compliance costs for TNSPs, investors and other stakeholders.

Infrastructure Partnerships Australia conducts annual research of sentiment policy and regulatory issues, with the most recent edition – the *2021 Australian Infrastructure Investment Report* [1]– released in August 2021. This found 73 per cent of investors agree that policy and regulatory uncertainty limits their willingness to invest. While perceptions of the relative attractiveness of the Australian energy market has improved over recent years among investors, this can be easily undone. Competition for capital – particularly among projects with strong ESG credentials – has never been stronger, driven by rapidly expanding pipelines in the EU and the US. The message from investors was clear – capital is a coward and will go where it is treated well. So the AEMC should be cautious not to drive investors away or raise capital costs by introducing additional uncertainty.

Some degree of pricing uncertainty is unavoidable in infrastructure planning and delivery

In relation to the issue of pricing uncertainty, Infrastructure Partnerships Australia is well-placed to comment as the architect and operator of the Australia & New Zealand Infrastructure Pipeline (ANZIP). Covering more than

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[1] Available here: https://infrastructure.org.au/investment-report21/

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400 major projects, contracts and transactions across all forms of infrastructure, ANZIP closely tracks data on construction costs through each phase of project development and delivery.

Whether projects are in transport, energy or any other asset class, whether they are funded by the public or private sectors, cost variations are common. This reflects the changing certainty of cost estimation through project lifecycles, as well as allowing for the materialisation of changes in project scope, delivery timeframe or other factors outside proponents' control. The final cost of a project is only known after financial close is reached, and the same is true for all forms of infrastructure. There is no reason transmission infrastructure could or should be held to a different standard than other forms of infrastructure.

Some level of cost variability on transmission projects is to be expected, particularly where the RIT-T process necessitates such delay between project initiation and investment decision. It is also important to consider current market settings – with record investment in infrastructure nationally and across most jurisdictions individually. The scale of projects and of the pipeline in aggregate – not just in energy but other forms of infrastructure and civil construction – have grown considerably and are stretching some parts of the market.

For this reason, the proposed rule change on cost increases in network projects would be counterproductive – we need acceleration of investment, not further delay. At face value, this proposed rule change appears to be motivated purely by the self-interest of its proponents, at the expense of the long-term interests of the majority of energy consumers. Rather than entertaining the possibility of adding to the duration of regulatory investment approvals, the AEMC and other energy market bodies should be looking for ways to streamline these processes and deliver the projects the energy system needs sooner.

The AEMC should look for 'low-hanging fruit' in further transmission planning and investment reforms

While now is not the time for further major reviews of transmission investment and planning, there may still be opportunities to strengthen system security, accelerate investment in critical infrastructure, or safeguard the long-term interests of energy consumers. Many could be implemented without significantly adding further cost or uncertainty to the market. If this review continues, Infrastructure Partnerships Australia recommends these are the focus of the AEMC's attention.

For example, the coordination of REZs among jurisdictions proposed by the Energy Ministers would be a sensible, low-cost and timely reform. Beyond providing greater transparency around long-term planning for potential network augmentations, a coordinated approach would reduce barriers to entry into and between Australian jurisdictions for investors, constructors and service providers.

Further, the Consultation Paper seeks views on whether the existing level of economic assessment appropriately balances rigour and expediency, and if some elements of existing assessment processes could be 'streamlined'. Given the urgency of investment required in energy networks, any measures to accelerate assessments while retaining rigour of analysis – to ensure energy consumers' long-terms interests are safeguarded – should be explored.

Another issue raised in the Consultation Paper is whether there is adequate consideration of non-network options through economic assessments. Strengthening the options assessment components of the RIT-T process seems sensible given the pace of change and development of technologies across the energy system. Safeguarding consumers' long-term interests means exploring options to maximise the value of existing infrastructure and ensure non-build solutions are investigated for their capacity to augment or defer capital investments. However, any changes to this component of assessment should retain a suitable focus on the system-wide challenges we face – as laid out in the ISP and various other strategies over recent years. We know we need more transmission and urgently, so any additional investigation of options should work towards this objective, rather than add further to delay or uncertainty.

Further information

We would be happy to provide further evidence in support of our submission. Should you require further information, please contact Director of Policy and Research, Jon Frazer on 0422 688 430 or jon.frazer@infrastructure.org.au.

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