



AGL Energy Limited

T 02 9921 2999

F 02 9921 2552

agl.com.au

ABN: 74 115 061 375

Level 24, 200 George St

Sydney NSW 2000

Locked Bag 1837

St Leonards NSW 2065

Rupert Doney
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

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Dear Rupert,

Transmission planning and investment review

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) Transmission planning and investment review consultation paper.

AGL is a leading integrated essential service provider, with a proud 184-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

AGL broadly supports the consultation paper and the need to examine the issues identified to ensure the significant transmission investment which is planned over the coming decade is subject to efficient, yet rigorous, assessment.

Major transmission project planning issues

Ex-ante regulation

AGL agrees with the AEMC's assessment that the size of transmission investments and pace of transition has increased the uncertainty of the costs and benefits of transmission projects relative to business as usual. While we consider the current ex-ante incentive-based approach is appropriate for incremental transmission investment, since it provides revenue certainty and encourages efficiency for TNSPs, we support the consideration of ex-post regulation or a hybrid approach (including application of the Material change in network infrastructure project costs rule) for major transmission projects such as a new interconnector. While ex-post regulation provides less certainty, it provides the opportunity for greater accuracy, and we therefore support further consideration of this option in the next stage of the review.

Streamlining assessments

AGL agrees with the AEMC's suggestion that considering opportunities to streamline the economic assessment of major transmission projects should be a priority issue for the second stage of this review as the current three step process of ISP, RIT-T, and AEMO feedback loop has unnecessary duplication which can lead to delays in necessary transmission investment. We consider the RIT-T should be the primary assessment mechanism for transmission projects, and any proposed streamlining should not reduce the rigour of the RIT-T. For this reason, we suggest opportunities



for streamlining should be focused on processes outside the RIT-T or aspects of the RIT-T that can be streamlined without weakening the test.

Benefits

AGL is strongly opposed to the inclusion of non-market benefits in the assessment of benefits for transmission projects. We do not consider that such an idea is worthy of further consideration in the second stage of this review since electricity consumers should pay for the benefit of the electricity they receive, not for indirect benefits which accrue to others. Non-market benefits such as emissions reduction, regional employment, or regional investment are all key aspects of the transition, however the costs of these benefits should only be borne by the communities that benefit or taxpayers more broadly.

The AEMC has suggested that the review should explore opportunities to better quantify hard to monetise market benefits such as competition benefits. AGL agrees this would be beneficial. For competition benefits, we suggest that existing or expected ineffective competition should be described first before a benefit can be claimed.

Non-network options

AGL considers that TNSPs have a conflict of interest in determining appropriate network investment when deciding between investment they will own and operate and investment by non-network parties. Given market based solutions will be subject to competition, and also place the investment risk with the investor rather than the consumer, we suggest they should be encouraged where possible and not disadvantaged through the RIT-T. We suggest this should also be a priority issue for the second stage of the review. We also suggest the review consider options for adjusting the regulatory framework so that the RIT-T does not bias CAPEX over OPEX since the bias may lead to unnecessary investment.

Transmission investment and delivery issues

Contestability

AGL strongly agrees that contestability should be considered for major transmission projects as it may drive more efficient outcomes. TransGrid and ElectraNet's recent questioning of the financeability of Project Energy Connect made it clear that TNSPs can have too powerful a veto right over whether to build major transmission projects. While an exclusive right is appropriate for incremental network build, where granting building rights to a third party may cause unnecessary integration problems, for major projects other parties should be able to compete to build the project. Contestability can improve outcomes by leading to the selection of a party who is able to deliver the project more efficiently than the TNSP or alternatively by providing competitive pressure on the TNSP.

Funding models

AGL agrees that flexibility in funding models and financing structures in other industries should be considered in the second stage of this review as there may be opportunities to reduce financing costs, and the time to procure finance, for new investments. We note however that the delay between when network expenditure is incurred and when revenue is received in the existing economic regulatory framework is an appropriate design. It is normal in most markets that revenue



does not flow until benefits are received, and it is necessary for network investment since it best ensures that those that pay for network expenditure are the same customers who receive the benefit of the expenditure. This is particularly important for network investments where more value is typically received later in the project life.

Project planning and delivery

AGL agrees that opportunities to improve clarity and processes in the treatment of preparatory activities and jurisdictional environmental and planning processes should be explored in the next stage of the review to minimise the risk of delays and cost increases in the early stages of new transmission investment which have become more challenging with the growing emphasis on social licence.

Material change in network infrastructure project costs

As a proponent of this rule change request, we support this rule and will submit jointly on this part with the other proponents.

If you have any queries about this submission, please contact Anton King on (03) 8633 6102 or aking6@agl.com.au.

Yours sincerely,

Chris Streets

Senior Manager Wholesale Markets Regulation