



Level 15, 459 Collins Street, Melbourne, 3000

Mr Benn Barr
CEO, Australian Energy Market Commission
Lodged on AEMC website

3 December 2020

Dear Mr Barr,

Response to Consultation Paper on *Participant derogation – financeability of ISP projects (ERC0320 and ERC0322)*

On 5 November 2020, the Australian Energy Market Commission (AEMC) published a Consultation Paper on the financeability of Integrated System Plan (ISP) projects in response to two rule change requests from TransGrid and ElectraNet. The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback on the AEMC's Consultation Paper.

CEIG represents domestic and global renewable energy developers and investors, with around 5GW of installed renewable energy capacity across 49 power stations and a combined portfolio value of over \$9 billion. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the low cost capital needed to achieve it.

CONSIDERATION OF APPROPRIATENESS OF REGULATORY SOLUTION TO SUPPORT THE DEVELOPMENT OF LONG-TIMEFRAME ASSETS

In its 2020 ISP, the Australian Energy Market Operator (AEMO) found that 26-50 GW of new utility-scale wind and solar capacity is needed in the National Electricity Market by 2040 for the optimal development of the power system at lowest cost to consumers. Despite the scale of investment required in new generation capacity, investment in new utility-scale wind and solar capacity is at a 3-year low, influenced in large part by grid-related issues.

In this context, and where the AEMC makes an assessment that there are significant risks that ISP projects cannot be built under the current regulatory framework (and therefore that consumer benefits as assessed through the Regulatory Investment Test for Transmission are at risk of not being realised), CEIG is of the opinion that a regulatory solution may be appropriate. The form of that regulatory solution should be defined by the AEMC, based on its own assessment of the risks and issues at play.

Generally, CEIG supports mechanisms that provide greater certainty around the development of long-timeframe assets such as the upgrades to the transmission network that are required to support the development of Renewable Energy Zones and, more broadly, to deliver the secure and reliable power system envisaged in the 2020 ISP.

COST OF CAPITAL AND INCREASED CONTESTABILITY

TransGrid's own assessment of the impacts of its proposed changes to the cost recovery framework raises questions around the relative competitiveness of the cost of capital accessed by Transmission Network Service Providers in Australia.

In its rule change request¹, TransGrid acknowledges that, despite the participant derogation it has sought for its ISP projects, its cost of capital would remain relatively high, requiring "prudent capital management":

"...even with the proposed changes, the Notional Project is unlikely to achieve the benchmark credit rating of BBB+ until quite late in its life. However, it could, with prudent capital management, nonetheless achieve an investment grade rating sufficiently early to overcome the barrier to securing the capital necessary to proceed with the project."

Considering the scale of future transmission infrastructure investment contemplated in the 2020 ISP (beyond the somewhat narrower scope of the two current rule change requests), CEIG supports the AEMC exploring other mechanisms to mitigate financeability issues that could lead to a lower cost of capital and deliver additional benefits to consumers.

This could involve further exploring the expansion of contestability frameworks for transmission infrastructure. CEIG notes the AEMC's response² to stakeholders who earlier raised the option of incorporating contestability of ISP projects, including the AEMC's recommendation for the need for clarity as to who:

- *"is ultimately responsible for the safety, reliability and security of the shared transmission network, including who is responsible for resolving any issues;*
- *to contact in the event that there is an issue identified with certain assets, including who AEMO should direct if it needs to do so to support power system security;*
- *is responsible for mitigating particular risks, for example, performance risks and any incentives or penalties that are applied through regulation or contracts."*

CEIG believes that there would be merit in considering amendments to contestability frameworks that would be cognisant of those concerns.

FURTHER ASSESSMENT OF CONSUMER IMPACTS

CEIG supports the AEMC conducting further assessments of consumer impacts to minimise any potential adverse effects, including the cost and benefits of bringing forward some revenue recovery.

¹ TransGrid, *National Electricity Rules change proposal - Making ISP projects financeable - Participant Derogation*, 30 September 2020.

² AEMC, *Coordination of generation and transmission investment, Final report*, December 2018, p.34.



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As part of this assessment, the AEMC should also carefully consider the potential costs for consumers of ISP projects being delayed or not built if financeability issues are not resolved, and the potential long-term implications for the optimal development of the power system.

CEIG thanks the AEMC for the opportunity to provide feedback on the proposed rule change requests put forward by TransGrid and ElectraNet. CEIG looks forward to continued engagement with the AEMC on this issue. Please contact us at secretariat@ceig.org.au if you would like to discuss any elements of this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read "S/Corbell", is positioned below the closing text.

Simon Corbell
Chairperson
Clean Energy Investor Group