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Dear Commissioners

Transmission Planning and Investment review — Stage 2 Draft Report— 2 June 2022

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity.

We support the Commission's current review of transmission frameworks, its sequential consideration of issues according to priority, and timeframes for implementation.

We agree with most of the Commission's draft findings and recommendations on stage two issues. In particular:

- **We support changes to the feedback loop timings** to ensure RIT-Ts are confirmed on the basis of the latest data and AEMO ISP modelling. Having a PACR 'blackout window' between draft and final ISPs seems a reasonable approach to give effect to this. There is a risk that a draft ISP may reflect some sort of deficiency that is only resolved by the final, however there is a greater risk of performing a feedback loop on ISP modelling that is up to 18 months old. The changes between the 2020 and 2022 ISPs are indicative of how quickly circumstances and scenarios change. Having a 6-month blackout window seems unlikely to create 'bunching' issues and it seems unlikely that TNSPs would 'cherry pick' draft or final ISPs given the long lead times in their own modelling exercises.

- The Commission appropriately identifies that **gaining social licence will be critical for the timely delivery of projects**. Our view is that these issues, and not the checks and balances in the current NER, should be the primary concern of those seeking to accelerate project delivery. The Commission's findings that existing NER provisions already enable cost recovery for appropriate preparatory and other activities around gaining social licence. There may be scope for the AER to publish **guidance on best practice engagement** for TNSPs in preparing RIT-Ts, similar to when NSPs engage customers in the preparation of regulatory proposals.[1] The Commission may wish to consider whether the AER can publish such a guideline under clause 6A.2.3(a)(2), noting that functions in relation to transmission planning and projects are outlined in NER chapters 4 and 5, which identify several AER guidelines with prescribed content (see clauses 5.14B.1, 5.15A.1, 5.16.2, 5.22.5, 4A.B.5).

- We **support the proposed amendments around cost recovery for preliminary works**, including clarification of concepts that feature in existing AER and AEMO publications.

We are less convinced of the Commission's recommendations to amend the NER's depreciation provisions. The Commission's findings are that there may be instances where financeability become an issue in the future, however our reading is that **the current rules do not prevent TNSPs from proposing particular profiles** to suit their own cash-flow requirements, or other preferences. The NER contains three relevant requirements around depreciation schedules in clause 6A.6.3(b):

- they must reflect the economic life of the assets
- they must result in the cost of assets being recovered once, and only once
- the profiles proposed and approved on a forecast basis must be maintained in the subsequent roll-forward of 'actual' asset values.

The effect of clause 6A.6.3(a)(2)(i) is that the AER must approve a TNSP's proposed depreciation profiles if they satisfy these three requirements. TNSPs therefore already seem to have a high degree of certainty, and discretion, regarding their ability to recover revenues on the basis of profiles of their choosing.

Clause 6A.6.3(c) requires a straight-line depreciation method however does not apply to large (e.g. Actionable) transmission projects, as they form part of transmission systems with many customers. The existence of this clause further illustrates the ability of TNSPs to depart from the straight-line method in other circumstances.

The AER frequently assesses and approves alternatives to the standard depreciation calculations embodied in its revenue and asset base models. If further clarity is required, the AER has existing powers to publish a guideline on this topic under clause 6A.2.3(a)(2). Mandating such a guideline, as well as making NER amendments, seems administratively wasteful and a low priority. Effort would be better spent on having the AER issue guidance or otherwise set stakeholder expectations around social licence issues, or in addressing other recognised investment barriers.

If you would like to discuss this submission, please contact me on 03 8628 1655 or Lawrence.irlam@energyaustralia.com.au.

Regards

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[1] https://www.aer.gov.au/system/files/Better%20Reset%20Handbook%20-%20December%202021.pdf