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Dear Commissioners

Sharing concessional finance benefits with consumers — Draft rule determination — 14 December 2023

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 5,000MW of generation capacity.

We appreciate the opportunity to comment on the Commission's draft determination. We support the draft rules as they should ensure that the benefits of concessional financing for network projects flow through to customers in terms of direct price relief, where this is the explicit intent of the relevant government funding body (GFB). The requirement to reach and disclose an agreement between the network service provider and the GFB should preserve the transparency and integrity of these funding arrangements.

We agree that providing clarity on the treatment of concessional finance generally should improve investor confidence and facilitate the timely delivery of network infrastructure that supports the transition.[1] It will be important to understand the extent to which taxpayers and customers share the cost of projects, and the respective benefits they will receive by doing so. As highlighted by the Commission, there is merit in ensuring clarity in how concessional finance affects network cost benefit assessments, as well as their financeability. These project-specific effects will influence broader investment in the National Electricity Market, with ramifications for customers over the longer term.

To this end, we support the proposed requirements for the AER's guidelines to contain worked examples of cost benefit assessments in the presence of concessional financing. We also support the separate rule changes regarding the application of financeability tests, namely that the GFB must explicitly indicate if and how regulated cash-flows are to be modelled such that financeability issues are addressed.

[1] AEMC, *Sharing concessional finance benefits with consumers - Draft rule determination*, 14 December 2023, p. 3.

We have some observations on the significance of concessional financing and implementation of these changes, in the context of accelerating the transition and impacts for customers.

The main source of prospective concessional finance for network projects is the Commonwealth Government's Rewiring the Nation (RTN) fund. The impact of $20 billion of concessional financing on the timing and mix of actionable transmission projects could potentially be significant. The least cost candidate development pathway in AEMO's draft 2024 Integrated System Plan (ISP) has a weighted net market benefit of $17.45 billion. The values of the following five highest ranked development paths are within $100 million of this.[2] The impact of RTN funding could potentially be in the order of several hundred million dollars, such that the rank ordering of candidate development paths would change, meaning one or several projects would or would not proceed, or proceed with materially altered timing.

Funding allocations under RTN for many Actionable projects have already been announced[3] however are not mentioned in the recent draft ISP. This is something we will also raise with AEMO, however it may inform the Commission's consideration of how 'expected' concessional financing should be accommodated under the regulatory framework. If this is not adequately addressed, we would be concerned at the need for any ISP updates or reopening of RIT-Ts in light of material changes in circumstances, which would be administratively costly and potentially contribute to project delays.

Some public information is available on concessional financing where RIT-T assessments have already been completed, namely for VNI West and Humelink.

The proponents of VNI West mentioned the $750 million RTN concessional loan for this project was intended to accelerate its delivery from the timelines outlined in the 2022 ISP (i.e. by 2028, rather than July 2031).[4] The more recent draft 2024 ISP identifies the optimal delivery date under AEMO's Step Change scenario as July 2029, and July 2034 under its Progressive Change scenario.[5] The Commission should give further consideration to how such changes to investment timings affects customers. That is, accelerated investment brought on by concessional financing could result in customers paying for projects sooner than their prudent or efficient timing. Arguably electricity customers should not pay for this, and the policy or other objectives of the GFB should be made explicit. For example, investment ahead of the timing in AEMO's least cost assessments might be preferred by a GFB in order to mitigate certain risks in a way that goes beyond AEMO's recommendations as the system planner. The direct impact of concessional financing on an individual project may be easy to demonstrate (including via worked examples in AER guidelines) however the timing decisions for any one large Actionable project sets a path-dependency for future development, leading to indirect impacts for customers over the longer term. That is, changes to one project can materially alter future energy flows across the National Electricity Market, and hence the cost-benefit assessments of other large regulated investments.

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[2] AEMO, *Draft 2024 Integrated System Plan*, Appendix 6, p. 39.
[3] Rewiring the Nation - DCCEEW; Landmark Rewiring The Nation deal to fast-track Clean Energy jobs and security In NSW | Prime Minister of Australia (pm.gov.au)
[4] vni-west-pacr-volume-1.pdf (aemo.com.au)
[5] AEMO, *Draft 2024 Integrated System Plan*, Appendix 5, p. 36.

Materials for Transgrid's contingent project applications for Humelink and VNI West and indicate concessional funding will be used to address financeability issues:

> We stand ready to proceed with the delivery of Humelink for the benefit of consumers and to advance Australia's emission reduction targets. However, financeability of Humelink remains a key challenge. We have been working with the Clean Energy Finance Corporation (CEFC) to develop a concessional financing package via the Rewiring the Nation program and are pleased to confirm that we have some initial terms that will greatly assist Transgrid to make the significant financial commitment required to deliver this multi-billion-dollar nation-critical project. Given the current economic conditions however, the Rewiring the Nation fund is limited in its ability to provide a complete resolution to the financeability issue, as such we appreciate the AER's consideration of limited further support to enable the Humelink project to be financed.[6]
>
> …financeability of VNI West remains a key challenge. We have been working with the Clean Energy Finance Corporation (CEFC) to develop a concessional financing package via the Rewiring the Nation program. The Federal and Victorian governments announced that the CEFC will provide a concessional loan of $750m. This will assist Transgrid to make the significant financial commitment required to deliver this multi-billion-dollar nation-critical project. However, given the current economic conditions, the Rewiring the Nation fund is limited in its ability to provide a complete resolution to the financeability issue, as such we appreciate the AER's consideration of limited further support to enable the VNI West project to be financed.[7]

The situation for Transgrid appears to be dealt with under the Commission's separate rule amendments for project financeability. That is, a proponent may be receiving concessional finance however this is deemed to be insufficient to address financeability issues. We support the proposed requirements for a GFB in this situation to be explicit in how financeability adjustments (if any) need to be made in addition to the assistance provided via concessional financing. We note that the Commission's proposed approach would explicitly allow for network businesses to seek cash-flow adjustments to correct for any financing issues where they genuinely arise. This raises the question whether any concessional financing is necessary, as the underlying issue can be resolved within the regulatory framework. We also note that Commission and the AER (albeit in 2021) found that there were no barriers to Transgrid's ability to finance its share of current Actionable projects.[8] Ultimately the offering of concessional finance is a policy matter for the GFB and taxpayers. The Commission's set of rule amendments should ensure transparency of the reasons for relevant policy and regulatory decisions.

Proponents expressing an unwillingness to progress with projects because of financing or other concerns were considered by the Commission in stage 3 of its Transmission Investment and Planning Review. As it relates to the current rule change proposal, there may be a presumption that allowing network business to 'retain the benefit' of concessional finance represents a form of compensation or incentive for timely project delivery. We recommend the Commission contemplate whether timing obligations or incentives may, or should be, contained in concessional financing agreements with the GFB. If so, they should be disclosed to the AER and other stakeholders as it may influence the calibration of various regulatory incentives.

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[6] a-1_humelink-draft-cpa-2_principal-application_8_december_2023-public.pdf (transgrid.com.au)
[7] Transgrid - VNI West CPA stage 1 - A.1 Principal Application - 31 January 2024 - Public.pdf (aer.gov.au)
[8] AEMC, *Participant derogation - financeability of ISP projects (TransGrid) - Rule determination*, 8 April 2021. Also see the AER's submission: https://www.aemc.gov.au/sites/default/files/documents/rule_change_submission_-_erc0320_erc0322_-_aer_-_20210305.pdf

A final implementation issue arises in how the proponent's rule changes on concessional financing (and financeability) will deliver their intended benefits, as some jurisdictions have elected to move away from the NER's regulation of transmission investment. For example, four of the seven Actionable Projects[9] identified in the draft 2024 ISP, and many more 'future ISP projects', will be progressed under bespoke NSW[10] and QLD[11] regulatory arrangements. Jurisdictional regulations are beyond the Commission's powers, however it may factor them into timing or transitional rule provisions given how it affects different projects progressing in the near term. The AER or jurisdictions may also need to take corresponding action alongside amendments to the National Electricity Rules.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
Regulatory Affairs Lead

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[9] Sydney Ring, New England REZ transmission link, Gladstone Grid Reinforcement, QLD SuperGrid South.
[10] See Part 5 of the NSW Electricity Infrastructure Investment Act 2020.
[11] As per the QLD Energy (Renewable Transformation and Jobs) Bill 2023.