3 December 2020

Merryn York
Acting Chair
Australian Energy Market Commission

Lodged online: www.aemc.gov.au

Dear Ms York,

AEMC: PARTICIPANT DEROGATION – FINANCEABILITY OF ISP PROJECTS – CONSULTATION PAPER

Origin Energy Limited (Origin) welcomes the opportunity to provide comments to the AEMC on the participant derogations from TransGrid and ElectraNet regarding the financeability of Integrated System Plan (ISP) projects.

Based on the evidence provided by the proponents, the issues raised appear to be commercial, rather than regulatory in nature. The proposed solution would create an uneven playing field between the proponents and other participants, including other transmission businesses and non-network solution providers. In addition, consumers would bear higher costs before receiving any benefit from the augmentation and would also face the risk of non-delivery.

We consider that TransGrid and ElectraNet should instead:

- Attempt to address the issues internally, e.g. by reducing their company-wide gearing and working with credit agencies.
- Explore alternative funding models if they are unable to obtain financing in the usual way. This could include private or government sources of funding (if a market failure exists).

We are not convinced there are regulatory barriers to the efficient recovery of costs

Based on the evidence provided by TransGrid and ElectraNet in their respective derogation requests, it is not clear that there are regulatory barriers to recovering costs for a benchmark efficient firm.

The cost recovery framework for transmission is based on benchmark regulation which aims to provide a guide for the appropriate rate of return for a benchmark firm – it is not meant to give an ideal return profile for individual projects. There is an expectation within the benchmark that some projects may offer better profiles than others, with variances from year to year.

It appears the root cause of the issues relates to the proponents' inability to obtain appropriate financing without a downgrade to their credit ratings which would be unacceptable from a business point of view. In our view, this is a commercial, not a regulatory issue.

The proposal would create an uneven playing field across the transmission framework

The proposal would create double standards between the proponents and other participants, including other transmission businesses and non-network solution providers:

- Other transmission businesses across the NEM would continue to recover costs using the existing process. The AER would, in effect, be using dual standards to assess if project costs are prudent and efficient.

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- Non-network proponents would also not have the ability to recover costs earlier – this would create an uneven playing field when assessing whether non-network solutions could provide better value for consumers.

The proposed solution would also create different frameworks for ISP and non-ISP projects. It is also not clear from the evidence provided in the rule change requests why the issue of financeability only arises for ISP projects.

The proposal would impose inefficient costs on consumers

While TransGrid notes that the proposal would be net present value (NPV) neutral, it also means current consumers would face higher electricity bills before receiving any benefits from the transmission upgrades.

Those less likely to benefit (existing consumers) would pay more than those who would benefit the most (future consumers). Existing consumers would also face the risk of non-delivery until the project is completed. It is therefore not clear that it would be efficient to recover costs early.

These additional burdens on consumers are particularly pertinent for large projects such as Project EnergyConnect, where the net benefits are already marginal and where costs are higher than expected. The AEMC should aim to minimise the cost impact of the proposal on existing energy consumers in the context of these large projects when assessing this rule change.

TransGrid and ElectraNet should explore alternative options further

Given the above, TransGrid and ElectraNet should assess potential solutions outside of the regulatory framework. For example, they could reduce their company-wide gearing to improve their overall rating and continue to work with credit agencies on options to do so.

In addition, the regulatory transmission framework does not require businesses to invest in projects, especially if they are not financeable for commercial reasons. If TransGrid and ElectraNet are unable to finance ISP projects due to credit downgrades or for any other commercial reason, alternative funding options could be explored.

For example, TransGrid and ElectraNet could assess private investor appetite in funding (or partly funding) the projects. Alternatively, if deemed to be a market failure, governments may choose to assist. As an example, TransGrid Services was recently provided with debt financing from the Clean Energy Finance Corporation (CEFC) for Snowy 2.0 related transmission upgrades.

In its rule change request, TransGrid notes that some external funding sources may not be a long-term solution due to its agreement with the NSW Government. We note that this appears to be a contractual barrier, rather than a regulatory one.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely

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