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(via online submission)

### **Options to address gaps in transmission ring-fencing framework – Consultation paper submission**

The Clean Energy Finance Corporation (**CEFC**) welcomes the opportunity to make a submission to the Australian Energy Regulator's (**AER's**) Options to address gaps in transmission ring-fencing framework – Consultation paper.

The CEFC is a specialist investor with a deep sense of purpose: to invest as Australia's 'green bank' to help achieve our national goal of net zero emissions by 2050. With a strong investment track record, we're working across the economy to capture the benefits of the net zero transition – from renewable energy generation and transmission to energy efficiency, cleantech innovation and beyond. We invest alongside private investors, innovators and industry leaders, drawing on our deep sector experience, investment expertise and portfolio strength to fill market gaps and maximise our impact. In investing on behalf of the Australian Government, we have a strong commitment to deliver a positive return across our portfolio.

The CEFC supports the development of a secure, reliable and affordable electricity system whilst lowering emissions through its investment activities, including large-scale renewable energy, energy storage and other initiatives in accordance with the 'grid firming' focus of our Investment Mandate.

We also note that the Federal Budget has recently allocated an additional capital injection for the CEFC, including \$19 billion to help spearhead the necessary transformation of Australia's electricity grid infrastructure through the Rewiring the Nation (RTN) program. The ambition of this policy is to expand and modernise Australia's electricity grids at lowest cost. The RTN will focus on investment in transmission and distribution network assets, energy storage and renewable energy zones, which will all be critical in the transition of Australia's energy system. One focus of the CEFC in assisting the government to administer the RTN will be to understand and work with relevant stakeholders to facilitate opportunities for efficiencies in distribution, transmission and generation which will then lower costs for energy consumers. This relies on a well-functioning competitive market, which can be aided by the development of robust ring-fencing guidelines.

Given the CEFC's unique role in the Australian energy market, perhaps the most valuable perspective we can bring to policy makers is as an investor who invests in the public interest, with both commercial considerations in mind and a specific policy objective to facilitate a low-carbon transition. The views and approach of the financial investment community are critical to Australia's ability to cost-effectively fund our energy transition.

We estimate that for the NEM, in the order of \$120 billion of capital expenditure will be needed to fund new solar, wind, transmission, storage and ancillary services over the coming



decade.<sup>1</sup> The cost of capital will be a key determinant of end-consumer charges, given the high fixed cost/low operating cost nature of the investments to be made.

The CEFC has a strong focus on investing in large scale solar, wind, battery and grid projects as part of Australia's important renewable energy transition. As at 30 June 2022, the CEFC had committed over \$2.65 billion of financing to wind and solar projects, including 42 large-scale projects that generated c.3.6GW of new capacity, and has committed to several other major projects since then. Increasingly, we are also investing in grid-scale batteries, as demonstrated by our investments in the Hornsdale and Victorian big batteries (\$210 million committed), noting that this market is in its early stages due to high capital costs and emergent acceptance of grid capabilities.

Our submission focuses on issues that are most relevant to our role and experience as a clean energy investor, and notably, our experience as an investor in large scale solar and wind projects, contestable and regulated grid projects as well as batteries.

### **Grid connections**

As an investor in large-scale renewables and grid infrastructure, our view is that it is important for connection costs, much like all project costs, to be priced efficiently to avoid unnecessarily impacting project economics, and the investment needed to deliver Australia's transition to net zero emissions in a manner that reduces costs to consumers.

From the CEFC's experience very few renewable generation projects have opted to engage a competitor to the local incumbent transmission services provider to perform contestable grid services.

In our observations, grid connection costs have increased in absolute terms in recent years, with grid annuities forming a significant part of the operating expenditure (and therefore the levelised cost of energy) of a generation project, with significant bank guarantees required to support these annuities. For example, grid costs for a large solar farm could contribute ~20% of the total project levelised cost of energy. Negotiated and contestable transmission services now often comprise a significant portion of the overall grid spend. This combination of factors can lead to directly increased costs of renewable energy generation and may also reduce the capital efficiency of projects.

The CEFC is supportive of the AER taking measures to enable greater transparency and competition in these services to create downward pressure on costs.

As such, we support the AER strengthening the ring-fencing guideline or enacting other measures if it in turn allows generator proponents to more easily consider multiple providers for contestable connection services and seeks to reduce costs via greater competition. To this end, we support the AER proposal that a change to the National Electricity Rules to expand ring-fencing powers should be considered, as proposed in option 2.

Option 1 would likely contribute to greater transparency, which would be welcome, however Option 2 appears likely to be more effective by providing greater flexibility to respond to changes in the market for connection services over time. Option 2 provides a broader set of tools beyond reporting and compliance measures, even if the full extent of potential obligations under ring-fencing provisions do not need to be implemented in the near term.

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<sup>1</sup> Based on CEFC analysis of AEMO's 2022 Integrated System Plan.



We also see Option 2 as having an important advantage in being able to be applied equally across NEM jurisdictions, including Victoria.

In relation to improving transparency, as noted in our previous submission on the draft guideline we would support measures to:

- Enable data on the number of contestable services provided by incumbents and non-incumbents in each respective jurisdiction be collated, reported and reviewed
- Enhance non-discrimination provisions
- Improve compliance reporting and audit arrangements.

We have some concern that it may be some time before enhanced transparency requirements come into place through this process and we encourage the AER (and other regulatory bodies) to consider ways to provide timely access to further information. We also note that ring-fencing requirements alone may not be sufficient to promote competitive and cost-effective delivery of contestable connection services and that regulators will also need to consider other elements of the connection process and connection regulation.

It is important to increase transparency, confidence and predictability for stakeholders in order to efficiently facilitate the connection of the more than 33 GW of large-scale wind, solar and storage needed by 2030 under AEMO's 2022 Integrated System Plan. Transmission and connection costs will be an important part of the overall cost equation for consumers.

We very much value the opportunity that the AER has provided to enable the CEFC to provide input into this process. We look forward to the opportunity to engage further with the AER. Should you wish to discuss this submission further, please contact Owen Pascoe (Director – Research).

Yours sincerely



**Ian Learmonth**  
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