

ABN 70 250 995 390
180 Thomas Street, Sydney
PO Box A1000 Sydney South
NSW 1235 Australia
T (02) 9284 3000
F (02) 9284 3456
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Ms Anna Collyer
Chair
Australian Energy Market Commission

Lodged online: www.aemc.gov.au

Dear Ms Collyer

AEMC draft rule determination on managing ISP project uncertainty through targeted ex post reviews

Transgrid welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft rule determination on managing ISP project uncertainty through targeted ex post reviews. The draft rule determination is in response to a rule change request from the Commonwealth Minister for Climate Change and Energy, the Hon Chris Bowen MP. Transgrid notes the rule change followed an AEMC recommendation in its Transmission Planning and Investment Review Stage 3 report published in May 2023.

Transgrid operates and manages the high voltage electricity transmission network in NSW and the ACT, connecting generators, distributors and major end users. Our transmission network is at the heart of the National Electricity Market and is vital to achieving NSW Government net-zero emissions targets, by connecting geographically and technologically diverse, low-cost renewable generation to customers.

Transgrid understands the AEMC's draft rule determination would:

- Establish separate, targeted ex post reviews for capital expenditure for individual Integrated System Plan (ISP) projects.
- Enable the AER to review the total capital expenditure for each ISP project, if it exceeds the AER's allowance, after the project is commissioned and energised. Currently, the Australian Energy Regulator (AER) can only review capital expenditure incurred over a five-year review period.

In conducting the ex post review, the current ex post review mechanism would remain unchanged. In particular:

- The AER must only prevent capital expenditure for an ISP project from entering the regulated asset base (RAB) where that capital expenditure is above the allowance for the project and that expenditure is found not to be prudent and efficient.
- In determining whether to prevent capital expenditure for an ISP project from entering the RAB, the AER must only take into account information and analysis that the Transmission Network Service Provider (TNSP) could reasonably be expected to have considered or undertaken at the time that it undertook the relevant capital expenditure.¹

¹ National Electricity Rule S6A2.2A(h)(2).

Transgrid supports the AEMC's draft rule determination to separate ISP project capital expenditure from non-ISP capital expenditure for the purpose of the ex post review provisions in the National Electricity Rules. Under the current arrangements, an overspend on an ISP project could trigger an ex post review of the whole capital expenditure program which could create additional uncertainty for a TNSP around the way in which to manage the underlying capital program.

Transgrid is concerned, however, that there may be an intent in the draft rule determination for there to be an ex post review for each and every ISP project where there is an overspend, regardless of its quantum.

In this context, it is important to recognise the combined effect of the potential for an ex post review with ex ante measures such as the Capital Expenditure Sharing Scheme (CESS). In our view, it is important to tailor the combination of capital expenditure incentives and impacts for each ISP project, so that an appropriate balance is struck between providing ex ante incentives to best manage capital expenditure and ex post reviews. Even without a specific ex ante measure, given the cost of delay and the associated financing impacts of overspend on large scale projects, there is significant incentive to deliver large scale ISP projects on time at the lowest cost possible.

TNSPs compete in a fiercely competitive global market to attract international equity capital and in this environment, investors are particularly conscious of the additional risks that are inherent in large-scale 'greenfield' transmission projects. Transgrid notes that electricity consumers will be the ultimate beneficiaries of a regulatory environment that promotes efficient investment in the urgently needed ISP projects. It is important, therefore, that the two-step process within the current AER guidance regarding the application of an ex post review remains.

We also think there is benefit in providing clarity that the new rules do not affect the roll in of actual capex into the RAB for an actionable ISP project at the regulatory determination date. Where an ex-post review does occur at a regulatory determination and there is a disallowance in respect of an actionable ISP project, we understand that the disallowance will effectively be set off against the amount of capex rolled into the RAB at that determination.

As noted above, Transgrid welcomes the opportunity to respond to the AEMC's draft rule determination. Transgrid has also contributed to Energy Networks Australia's submission which raises some important operational issues with the AEMC's draft rule, in particular the potential for unhelpful delays to any ex post review under the AEMC's proposed approach, in part driven by the need to wait for interconnector network testing to be completed. We now look forward to working with the AEMC as it finalises the rule in the coming months. If you have any queries regarding this submission, please contact Neil Howes in the first instance by email at neil.howes@transgrid.com.au.

Yours faithfully



Monika Moutos
General Manager Regulation and Policy