Financing arrangements for transmission projects

Virtual public forum – 26 June 2023

Financeability

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Concessional finance

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AEMC

The AEMC acknowledges and shows respect for the traditional custodians of the many different lands across Australia on which we all live and work. We pay respect to all Elders past and present and the continuing connection of Aboriginal and Torres Strait Islander peoples to Country. The AEMC office is located on the land traditionally owned by the Gadigal people of the Eora nation.

AEMC

ACKNOWLEDGEMENT OF COUNTRY

Introductory remarks

AEMC

Charles Popple – Commissioner

Agenda

1.	**Acknowledgement of country and opening remarks**
2.	**Overview of the financeability rule change request** • Overview of the Commonwealth rule change request • Recent ENA rule change request • Q & A session
3.	**Overview of the concessional finance rule change request** • Overview of the Commonwealth rule change request • Q & A session
4.	**Next steps**

Purpose of today’s presentation

AEMC staff will provide an overview of the rule change requests on financeability and concessional finance

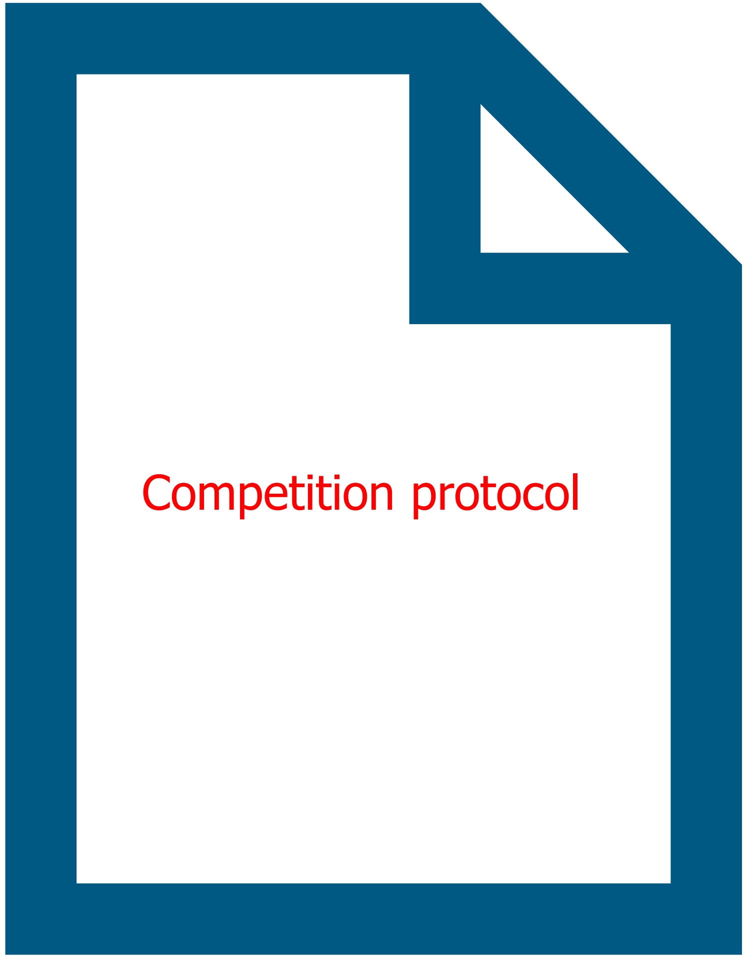
AEMC staff will provide an overview of the next steps to progress the rule change projects

Forum participants will be invited to ask questions in a dedicated Q& A session

Housekeeping

- All participants are currently in ‘listen-only’ mode
  - Moderators can switch your mic/video on if you are invited to speak.
- Asking questions
  - Use the Q&A button on the bottom of your screen
  - Questions will be answered at a dedicated Q&A session
  - We will try to answer all questions, but will prioritise questions with most ‘upvotes’ first
- Presentations from today will be posted on our website after the webinar

Before we start, an important notice: Compliance with Competition Law



Each entity must make an independent and unilateral decision about their commercial positions.

Financeability

Martina McCowan – Director

Accommodating financeability in the regulatory framework rule change

The AEMC's Transmission Planning and Investment Review (TPIR) Stage 2 final report recognised that financeability challenges may arise for actionable ISP projects. This may impact their timely and efficient delivery.

The Commonwealth Minister for Climate Change and Energy submitted a rule change request on 11 April 2023. The Minister's proposal reflects our financeability conclusions from TPIR.

We published a consultation paper on 8 June and encourage stakeholders to make a submission.

We have received a separate financeability rule change request from ENA

On 9 June 2023, ENA submitted a separate rule change request to the AEMC, titled *Ensuring the Financeability of actionable ISP projects.*

The issue raised by ENA is within the scope of the broader financeability issue raised in the Minister's rule change request.

The Commission will decide whether to consolidate the financeability rule change or treat ENA's rule change request as a submission. We will update stakeholders when this decision has been made.

ENA's rule change request is available on the AEMC's website below:

https://www.aemc.gov.au/rule-changes/ensuring-financeability-actionable-isp-projects

Financeability

Andrew Pirie– Senior Adviser (Project lead)

The problem statement

In the context of TPIR and the rule change process, 'financeability' refers to the ability of TNSPs to efficiently raise capital to finance their activities.

Under the current arrangements, financeability challenges may arise for actionable ISP projects because:

- TNSPs may face challenges in raising capital to proceed with ISP projects
- The existing revenue framework is not sufficiently flexible to address financeability challenges that may arise in future.

Given that the order of magnitude of ISP costs that may need to be financed is material, there is a foreseeable risk that TNSPs may face financeability challenges.

This may delay decisions to invest in actionable ISP projects, which could affect investment in renewable energy and storage and delay the transition to net zero.

The Minister proposed the following solutions

1. Introduce greater flexibility in the revenue-setting framework in the National Electricity Rules (NER) to vary the depreciation profile of assets that form part of an actionable ISP project. This reflects our recommended solution in TPIR.

2. Allow TNSPs to recover depreciation of biodiversity offset costs on an as incurred basis. We did not raise this solution in TPIR.

3. Clarify the treatment of depreciation for asset classes, including biodiversity offsets. We did not raise this solution in TPIR.

Introduce greater flexibility in the revenue-setting framework in the NER to vary the depreciation profile of assets that form part of an actionable ISP project

The Minister’s proposed solution is outlined below.

- A TNSP may submit a request to the AER to vary the depreciation profile of an actionable ISP project
- The AER is provided with explicit discretion to vary the depreciation profile for actionable ISP projects.
- The AER should assess requests using principles in the Rules. However, the AEMC should consider whether to alternatively apply a prescriptive test.
- The assessment is at the TNSP RAB level, as opposed to the ISP project level.
- The AER may develop guidelines on the approach to vary depreciation for ISP projects.

Allow TNSPs to recover depreciation of biodiversity offset costs on an as incurred basis

The Minister suggests that TNSPs’ costs of meeting biodiversity conservation obligations for ISP projects may account for a material proportion of ISP project costs and materiality impact financeability of ISP projects.

The Minister suggests that TNSPs should have discretion to commence recovery of depreciation for biodiversity offset costs, on an as incurred basis, during construction of an ISP project.

We note that the existing NER is silent on recovery of depreciation as incurred for TNSPs.

A key question is whether allowing recovery of depreciation for biodiversity offsets, as incurred, is an appropriate financeability solution that is in the long-term interests of consumers.

Clarify the treatment of depreciation for asset classes, including biodiversity offsets

The Minister proposes that the AER should be required to explicitly outline how depreciation is expected to be applied for actionable ISP projects for different types of assets, including biodiversity offsets.

The proposal suggests that the AER should outline in guidelines how and when depreciation is expected to be applied to different asset classes, including biodiversity offsets.

We note that currently TNSP’s assets must be depreciated based on schedules that use a profile that reflects the nature or category of assets over their economic life. Assets are depreciated by class in the AER’s PTRM.

A question is whether the AER should be required to explicitly outline how depreciation would apply to all asset classes in actionable ISP projects, including biodiversity assets? If so, how?

Q&A

Andrew Pirie – Project leader

AEMC

Financeability rule change

Concessional finance

John Mackay – Director

Overview: Rule change on concessional finance for TNSPs

The Commonwealth Minister for Climate Change and Energy submitted a rule change request on 11 April 2023 proposing that the NER be changed to include an approach to determining how the financial benefits that arise from concessional financing of transmission infrastructure are shared between consumers and TNSPs.

The rule change request notes that under the current rules concessional finance is not prohibited but, if it is provided, the benefits derived from the concession flow to TNSPs, not to consumers.

The Commission is considering the request and the consultation paper is the first stage in the public consultation process.

The Minister's rule change request is in the context of the Commonwealth Government's Rewiring the Nation Fund, which commits $20 billion in concessional finance for the upgrade and expansion of Australia's electricity grids. This finance is intended to facilitate lower costs and delivery of critical transmission infrastructure.

Concessional finance

Chirine Dada– Senior Adviser (Project lead)

The problem statement

The rule change request notes that under the current rules concessional finance is not prohibited but, if it is provided, the benefits derived from the concession flow to TNSPs, not to consumers.

The current framework does not facilitate sharing some or all of the benefits of concessional financing with consumers.

The current framework should help consumers benefit indirectly, through the delivery of specific assets that may not otherwise be built in a timely manner.

However, in some cases, the financier may want some or all of the benefits of their concessional financing to flow directly to consumers through lower current or future network charges, and the framework is unable to facilitate this.

This presents an issue in the current context of the NEM and the associated build-out of transmission infrastructure.

The Commonwealth Government has committed to providing low-cost finance through the Rewiring the Nation Policy, with the intention of reducing the bill impact of the associated significant transmission infrastructure investment.

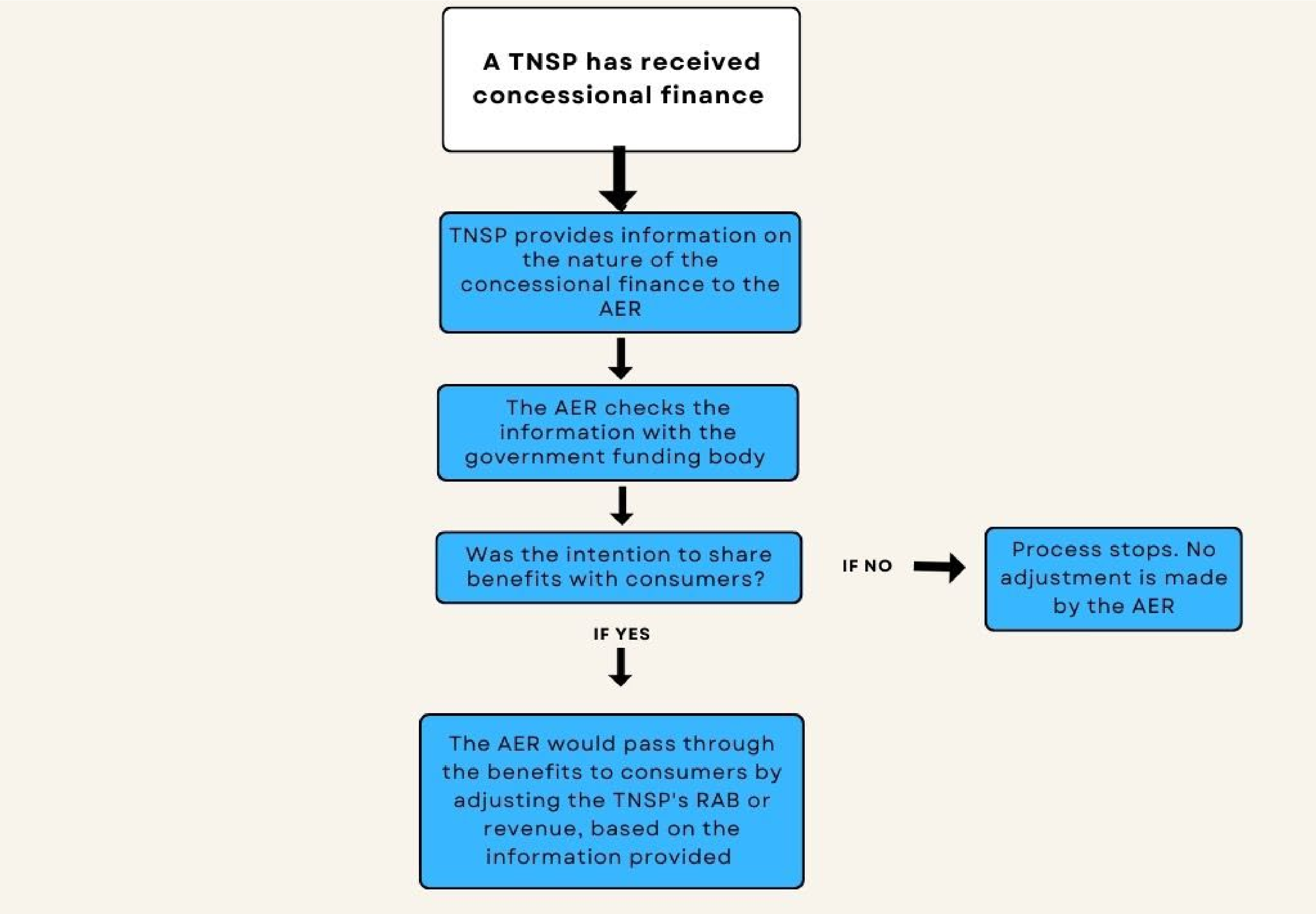
In order to be able to achieve this, the rules would need to be amended so that some or all of the benefits of concessional finance can be shared with consumers.

The proposed solution

The rule change request details an approach to how the NER can be amended to allow sharing of concessional finance benefits with consumers. The rule change request seeks to:

1. Require TNSPs to inform the AER about the existence of a concessional financing arrangement.
2. Require TNSPs to provide the necessary information to the AER about the value of the benefit that the TNSP and the Government Funding Body (GFB) have agreed should be passed onto consumers.
3. Require the AER to seek and consider submissions from the GFB on whether it intended that some or all of the benefit of the concessional finance be passed through to consumers.
4. Enable the AER to allow an agreed-upon quantum or proportion of benefit to pass to consumers; and, to enable the AER to treat the consumer benefits of the concessional finance as a capital contribution by adjusting the regulatory asset base (RAB), or through a MAR adjustment, determined through negotiation by the TNSP and GFB.

The proposed process for the treatment of concessional finance benefits



Application of the rule change request in Victoria

The rule change request outlines how concessional finance benefits would be shared with consumers in Victoria's Declared Shared Network for transmission assets procured through contestable and non-contestable processes

In Victoria, the functions undertaken by TNSPs elsewhere are split between AEMO and declared transmission system operators (DTSOs).
AEMO is accountable for the provision of the shared network, procuring services from DTSOs (such as AusNet Services), who own and operate the shared network assets.

Contestable projects

The rule change request proposes that arrangements for the delivery of concessional finance benefits in Victoria's contestable process will be determined by the GFB (the CEFC) and AEMO (as transmission planner).

Non-contestable projects

In Victoria, non-contestable projects are permitted to be rolled into the NSP's RAB.

This rule change request proposes to apply to non-contestable augmentations. The TNSP, under the proposed arrangements, will be required to notify the AER whether they have received concessional finance as part of their revenue determination.

Previous AEMC engagement on concessional finance in TPIR

Stakeholders agreed that clarification is required on the regulatory treatment of CF in the NER and were supportive of the AEMC developing additional guidance on the treatment of benefits from CF.

- Further guidance is needed on the regulatory treatment of CF to ensure customers can benefit from CF through lower charges.
- Stakeholders recognised and agreed that the objective of the CF is to support the timely delivery of major projects and to benefit consumers.
- Most stakeholders considered that the TNSP is best placed to provide the necessary information to the AER on the CF agreement.
- Stakeholders agreed that additional guidance is required on how the AER should treat the CF benefits in the revenue determination process.
- Stakeholders commented on the need to consider the treatment of CF in the context of the Victorian transmission arrangements.

Q&A

Chirine Dada – Project leader

AEMC

Concessional finance rule change

Next steps

Andrew Pirie and Chirine Dada

Next steps – timeline to progress the rule change projects

Milestone	Concessional finance	Financeability
Consultation paper published	**8 June 2023**	**8 June 2023**
Public webinar	26 June 2023	26 June 2023
Stakeholder submissions due	14 July 2023	TBC*
Draft determination published	**21 September 2023**	**TBC**
Close second round of submissions	3 November 2023	TBC
Final determination published	**14 December 2023**	**TBC**

*The Commission will extend the consultation period on the financeability consultation paper to provide stakeholders with the opportunity to consider ENA's RCR when preparing their submission.

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