



Concessional Finance for Transmission Network Service Providers Information Sheet

Context

Australia is undergoing a transformational shift to net zero. A key feature of this transformation is the replacement of centralised thermal generation with decentralised renewable generation.

There is broad consensus that transmission is a critical enabler for the transition to net zero, both in the National Electricity Market (NEM) and the economy more broadly. This transition will require an unprecedented level of investment in, and build of, transmission infrastructure to deliver power from renewable generation and energy storage to consumers, and to deliver infrastructure quickly.

The scale of transmission investment required, coupled with the speed of the energy transition, presents unique opportunities and challenges for the existing regulatory framework. This framework was developed and has evolved over a period of incremental growth of the grid where the framework was weighted to minimise the risk of overbuilding, rather than the current required pace of step-change growth set out in the Australian Energy Market Operator's (AEMO) Integrated System Plan (ISP).

The Commonwealth Government's Rewiring the Nation Fund 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.

The Honourable Chris Bowen MP, Commonwealth Minister for Climate Change and Energy (the Minister), submitted a rule change request on 11 April 2023 proposing that the National Electricity Rules (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 Transmission Network Service Providers (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.

Overview of the rule change request

The rule change request proposes an enduring change to the NER, in order to facilitate the sharing of concessional finance benefits between TNSPs and 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 rule change request proposes that the rules explicitly recognise concessional finance, the intent of which will allow some or all of the benefit of concessional financing arrangements to be passed through to consumers.

The rule change request seeks to:

- Require TNSPs to inform the AER about the existence of a concessional financing arrangement.
- Require TNSPs to provide certain 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.

- 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.
- 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.

Next Steps

Stakeholders are invited to make submissions to the consultation paper. Written submissions responding to this consultation paper must be lodged with the Commission by **14 July 2023**.

To make a submission Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code ERC0349.

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