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Ms Anna Collyer  
Chair Australian Energy Market Commission  
GPO Box 2603  
Sydney NSW 2001

Submitted online: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Ms Collyer

### **AEMC consultation paper on concessional finance for TNSPs**

Transgrid welcomes the opportunity to respond to the Australian Energy Market Commission (**AEMC**) consultation paper on concessional finance for transmission network service providers (**TNSP**). The consultation paper commences the AEMC's consideration of the rule change request submitted by the Commonwealth Minister for Climate Change and Energy, Chris Bowen.

Transgrid recognises the pivotal role that the Federal Government's Rewiring the Nation policy will play in supporting the delivery of the transmission infrastructure required in the National Electricity Market (**NEM**). As such we support changes to the National Electricity Rules (**NER** or **Rules**) which enable the benefits of lower cost finance provided by a Government Funding Body (**GFB**) to be passed on to consumers in accordance with the intentions of that finance provider. This would be in the long-term interest of consumers.

We support the intention of the proposed rule change. We consider that establishing a streamlined and transparent process for agreeing concessional finance arrangements, and approving the benefits sharing arising from these arrangements, is in the long-term interests of both investors and energy consumers. A transparent and streamlined process will facilitate more efficient decision-making and provide greater certainty for all parties.

In light of this, we support the following three step process, which sets out the respective roles that the GFB, TNSP and AER would have for determining how the financial benefits arising from concessional financing are shared between consumers and TNSPs:

- **Step One** - The TNSP and the GFB would jointly determine the portion of the concessional financing benefits to be passed through to consumers and the adjustment mechanism that will give effect to the sharing arrangements. These arrangements would then be reflected in the concessional finance agreement between the TNSP and the GFB.
- **Step Two** - For an actionable Integrated System Plan (ISP) project, the TNSP would provide to the AER in its Contingent Project Application (**CPA**), certain information only on concessional finance agreements if such arrangements are in place for that project. This information should be limited to the following two matters, based on the agreement between the TNSP and the GFB:

- (i) the allocation of concessional finance benefits between TNSPs and consumers, and
  - (ii) the proposed adjustment mechanism to give effect to the sharing arrangements.
- **Step Three** – The AER would assess, as part of its CPA Determination process, any information provided by the TNSP in its CPA on concessional finance agreements. Where a TNSP has proposed a positive benefit sharing with consumers, the AER would make the necessary revenue adjustment as part of its CPA Determination consistent with the terms of agreement between the TNSP and the GFB.

We note that the AEMC is yet to publish the definition of concessional finance. We welcome the opportunity to review the drafting once available to ensure that it provides the necessary investment certainty for all parties.

The remainder of this letter sets out our views on key aspects of the proposed rule change.

### **Recognising concessional finance in the Rules**

The NER, as currently drafted, does not allow any of the benefits of concessional finance to be shared with consumers. The rule change proposal is seeking to amend the NER to recognise the sharing of concessional finance benefits between TNSPs and consumers. In particular, it proposes to set out the approach to determining how the financial benefits arising from concessional financing of transmission infrastructure are shared between consumers and TNSPs.

We support the timely and effective delivery of the Federal Government's Rewiring the Nation policy, including concessional loans for transmission investment. We also support the sharing of concessional finance benefits with customers, through lower network charges, as intended and agreed between the TNSP and GFB.

We understand that the AEMC will undertake further work to draft the new Rules. We welcome the opportunity to actively input into this process. We consider that new Rules should:

- clarify that concessional financing should only be viewed as 'concessional' where it is explicitly stated and contracted on that basis. In all other cases, the current arrangements in the NER should apply, and
- carefully define the meaning of 'concessional financing' to avoid any unintended consequences, which could give rise to investment uncertainty.

### **Choice of adjustment mechanism**

The proposed NER change will provide two mechanisms for sharing the benefits of concessional finance with consumers:

- a capital contribution (i.e., a reduction in the regulatory asset base (**RAB**)) or
- a reduction to the maximum allowed revenue (**MAR**).

As noted in our proposed three-step process outlined above, we consider that the TNSP and GFB should jointly determine which of these mechanisms apply (i.e., **step one**). Key considerations that will inform this decision include the price impact on consumers and the project specific characteristics such as the total project cost and the magnitude of the consumer benefit from the concessional finance. For example, the TNSP and GFB may conclude that the revenue profile under one approach may be more desirable in terms of the resulting revenue and price path.

As per our proposed **step two**, the TNSP would advise the AER about the choice of the adjustment mechanisms as part of its CPA, and **step three**, would involve the AER giving effect to any benefits sharing in its CPA Determination.

We note that the value of the concessional benefit may be subject to uncertainty if, for example, it depends on the allowed rate of return in future years, which can only be estimated. To date, this is not a matter that appears to have been considered in the rule change request or the consultation paper. We encourage the AEMC in its draft determination to provide details of how this issue will be addressed, including worked examples.

### **Provision of information**

We note the proposed Rule contemplates a broader role for the AER in the negotiations between the TNSP and GFB at the outset when the concessional financing arrangements are being established.

We recognise the important role the AER plays in ensuring that energy consumers are better off, both now and in the future. As per our proposed **step two**, we consider that providing the AER with certain information only on concessional finance agreements (where such arrangements are in place) will provide the AER with the necessary information in the most cost-effective way. This information should be limited to the following two matters, as described in the agreement between the TNSP and the GFB:

- (i) the allocation of concessional finance benefits between the TNSP and consumers, and
- (ii) the proposed adjustment mechanism to give effect to the sharing arrangements.

We therefore encourage the AEMC to specify this in the new Rule provisions to provide certainty and transparency to all parties.

### **Closing**

We look forward to continuing to work with the AEMC to address the matters set out in this letter to arrive at an outcome in the long-term interests of investors and consumers. If you require any further information or clarification on this submission, please contact Zainab Dirani at [Zainab.Dirani@transgrid.com.au](mailto:Zainab.Dirani@transgrid.com.au)

Yours faithfully

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