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Attention: Australian Energy Market Commission

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ERC0349 | Concessional Finance for Transmission Network Service Providers

INTENDED FOR PUBLICATION

To whom it may concern

NATIONAL ELECTRICITY AMENDMENT (CONCESSIONAL FINANCE FOR TRANSMISSION NETWORK SERVICE PROVIDERS) RULE

1. EXECUTIVE SUMMARY

Woodside Energy Group Ltd (Woodside) welcomes the opportunity to provide comment on the Australian Energy Market Commission (AEMC) request for a rule change submitted by the Hon Chris Bowen, MP, Minister for Climate Change and Energy.

Woodside is currently considering new energy projects across Australia (refer to topic 2 below). These opportunities will either rely on self-supplied industrial loads or where generation cannot be co-located with demand, they may rely on transmission networks to deliver power to where it is required. Woodside notes that network charges (including transmission and distribution) represent a material proportion of a consumer's bill. A lower transmission charge would therefore improve the business case for the customer and Woodside, thereby improving the competitiveness of the projects and enabling the energy transition.

In lodging this submission, Woodside acknowledges the efforts of the Western Australian Government to support the development of renewable energy projects through reforms in the South West and Pilbara regions of the state. For example, the Pilbara interconnected electricity system is currently transitioning to a fit-for-purpose regulatory framework to facilitate competition and drive a more integrated electricity grid, through open access of the network. Like other locations, a reduction in access charges and a more equitable contribution policy for subsequent users of recently developed infrastructure in the Pilbara would play a significant role in facilitating new projects and transmission investment.

Woodside therefore supports Minister Bowen's proposal that the National Electricity Rules (NERs) 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). Woodside further proposes that consideration be given to how this could be incorporated into the conditions of receiving concessional finance, noting the TNSP should maintain the relative position they would have been in without the concessional finance.

Woodside sees 'shared benefits' as a key enabler towards the Commonwealth Government's Rewiring the Nation Fund, noting the Fund is intended to facilitate lower costs and delivery of critical transmission infrastructure, supported by A\$20 billion in concessional finance for the upgrade and expansion of Australia's electricity grids.

2. ABOUT WOODSIDE

On 1 June 2022 Woodside and BHP Petroleum merged to create a global energy company.

The merger has increased the scale and diversification of our global portfolio, which includes oil and gas assets and interests in Australia¹, the Gulf of Mexico, the Caribbean, Senegal and Timor-Leste. We also have a focused exploration program. In operations, our focus remains on safety, reliability, efficiency and environmental performance, leveraging more than 35 years of operating experience. We have growth opportunities across gas, oil and new energy with several projects currently in execution phase. In Australia, the Scarborough and Pluto Train 2 projects achieved a positive final investment decision (FID) in November 2021 and are targeting first LNG in 2026. Our headquarters are on Whadjuk Noongar country in Perth, Western Australia.

¹ Woodside's Australian portfolio consists of operated and non-operated oil and gas projects across Australia. On completion of the merger with BHP's petroleum business, Woodside doubled its interest in the North West Shelf Project and acquired interests in Bass Strait, Pyrenees and Macedon.

Woodside provides energy that the world needs to heat and cool homes, keep lights on and support industry and we aim to thrive through the energy transition by building a low-cost, lower-carbon, profitable, resilient and diversified portfolio. Our climate strategy is an integral part of our company strategy. It has two key elements: reducing our net equity Scope 1 and 2 greenhouse gas emissions and investing in the products and services that our customers need as they reduce their emissions.²

Woodside established a new energy and lower-carbon services business in 2018. In 2021, we announced an investment target of US\$5 billion by 2030 to support the development of new energy products and lower-carbon services that our customers need as they reduce their emissions³. We are targeting locations that have advantaged access to renewables, enabling infrastructure or access to market. Our current Australian-based new energy priorities are outlined below.

Woodside Solar

Woodside is proposing to develop a Woodside solar facility, approximately 15 km southwest of Karratha, Western Australia. This would generate electricity from a large-scale solar farm, complemented by energy storage infrastructure (the proposal). The proposal could supply the Woodside-operated Pluto LNG facility (potentially reducing Woodside's Scope 1 emissions) as well as other customers located near Karratha that are connected to the North West Interconnected System.

Woodside intends to implement the proposal in a phased approach, expanding the development as customer demand arises. Initially, it is expected that the proposal will consist of the following key elements allowing for the supply of up to 100 megawatts (MW) of renewable energy to industrial customers, through the installation of one or more of the following key infrastructure elements:

- Solar farm: capable of generating up to 100 mega-watt alternating current (MWAC)⁴ (instantaneous)
- Battery storage: capable of storing up to 400 megawatt hours (MWh)⁵.

As additional customer demand is realised and associated project approvals and commercial arrangements are secured, the proposal may be expanded in one or more phases. The maximum expansion of the proposal is expected to be capable of generating up to 500 MW of electricity from following key infrastructure elements:

- Solar farm: capable of generating up to 500 MWAC (instantaneous)
- Battery storage: battery storage capacity is estimated to be a maximum of 200 MWh for each 50 MWAC of solar generation capacity.

The proposed Woodside solar facility is expected to operate for up to 70 years.⁶

H2Perth

H2Perth is a proposed hydrogen and ammonia production facility to be located in Perth, Western Australia. Phase 1 of the project is targeting up to 2,700 tpd of ammonia produced through gas reforming and electrolysis. It is targeting supply to local industry and international users. Subsequent phases have the potential to expand to 8,900 tpd by increasing the electrolysis component. Pre-front-end engineering design commenced in May 2022.

Hydrogen Refueller @H2Perth

In 2022, Woodside announced plans for a proposed self-contained hydrogen production, storage and refuelling station located adjacent to H2Perth, named the Hydrogen Refueller @H2Perth. Initially, Woodside is targeting production of 235 kg/day of hydrogen, with the potential to scale up to a targeted ~1000 kg/day. Woodside is targeting the supply of hydrogen to Western Australian industrial customers and the public (subject to safety, security and operational procedures). The Hydrogen Refueller @H2Perth proposes to use grid-sourced electricity from the South West Interconnected System and voluntary surrendering of Renewable Energy Certificates.

H2TAS

Woodside is progressing a proposed renewable ammonia and hydrogen production facility in the Bell Bay area of Tasmania. H2TAS is planned to be a phased development, targeting an initial capacity of up to 550 tpd of ammonia. Ammonia would be produced through electrolysis, utilising a combination of wind and hydroelectric

² Target is for net equity Scope 1 and 2 greenhouse gas emissions, relative to a starting base of the gross annual average equity Scope 1 and 2 greenhouse gas emissions over 2016-2020 and may be adjusted (up or down) for potential equity changes in producing or sanctioned assets with an FID prior to 2021. Post-completion of the Woodside and BHP petroleum merger (which remains subject to conditions including regulatory approvals), the starting base will be adjusted for the then combined Woodside and BHP petroleum portfolio.

³ Individual investment decisions are subject to Woodside's investment targets. Not guidance. Potentially includes both organic and inorganic investment.

⁴ This is a measure of the power output from a solar installation after the output of the PV panels have been converted to AC via inverter devices.

⁵ This term indicates the usage of 1,000 kilowatts in one hour.

⁶ This refers to maximum project life for the operation of a Solar PV Farm capable of generating up to 500 MW(ac) of electricity from Solar PV including a battery energy storage system delivered to industrial customers via the North West Interconnected System.

power. Woodside continues to evaluate the cost and schedule impacts of the renewable power solutions that would enable the project to progress.

3. AUSTRALIAN ELECTRICITY NETWORK REGULATORY REGIMES

In Australia there are three electricity network regulatory regimes in place as outlined below.

National Electricity Market

Electricity networks in Queensland, New South Wales, Victoria, South Australia, Tasmania, and the Australian Capital Territory create an interconnected grid forming the National Electricity Market (NEM). The Northern Territory has three separate networks – the Darwin to Katherine, Alice Springs and Tennant Creek systems – all owned by Power and Water Corporation. The three networks are classified as a single network for regulatory purposes but do not connect to each other or the NEM.

The Australian Energy Regulator (AER) regulates all major networks in the NEM, other than the Basslink interconnector linking Victoria and Tasmania. It also regulates the Northern Territory's network.

Western Australian Energy Market

The AER does not regulate electricity networks in Western Australia, where the Economic Regulation Authority (ERA) administers state-based arrangements in a similar way to the AER. Under this model the TNSP (Western Power) proposes an access arrangement to the ERA, which among other things, sets out the terms and conditions and prices for access.

Electricity networks are capital intensive and require significant investment to install and operate the required infrastructure. This gives rise to a natural monopoly industry structure. To counter any potential or real risks associated with this, the role of the ERA as economic regulator is to replicate the incentives that network businesses would face in a competitive market (that is, to control costs, invest efficiently and offer a market price).

The ERA's fundamental role is to set the maximum revenue that a network business can earn (rate of return) from its customers for delivering electricity. The AER fulfils this role via a periodic determination process, in which it assesses the amount of revenue a prudent network business would need to cover its efficient costs. Network revenues are then capped at this level for the regulatory period, which is typically five years. This process is known as "full regulation".

Pilbara

In the Pilbara a "light regulation" model was adopted for the covered Pilbara networks. The light regulation model is designed to avoid the time and costs associated with the full regulation model by deferring various issues (e.g. pricing structure and access terms and conditions) from upfront determination by the ERA, to negotiation, and if necessary, arbitration, between the access seeker and the NSP.

The light regulation model for the Pilbara network is adopted from part 23 of the National Gas Rules which was introduced to provide a simpler path for access to non-scheme pipelines in Australia.

The light regulation model, implemented on 1 July 2022, had as one of its key objectives, the provision of an efficient alternative to facilitate third-party access to electricity networks to the default arrangements previously in place under the *Electricity Networks Access Code 2004*.

4. CONSULTATION QUESTIONS

QUESTION 1: THE REGULATORY TREATMENT OF CONCESSIONAL FINANCE

Do you agree that the Rules need to recognise concessional finance to share benefits with consumers?

Woodside submits that most of the benefits of concessional finance should be passed through to consumers as it is consumers who will continue to pay for any over-investment in network assets, as they have done previously (noting the economic life of an asset may be up to 70 years).

QUESTION 2: RESPONSIBILITY TO INFORM THE AER ABOUT THE EXISTENCE OF A CONCESSIONAL FINANCING ARRANGEMENT

The TNSP should be required to provide the necessary information to the AER including the value of the benefit that the TNSP has received from the government funding body (GFB). A minimal amount should be passed on to the TNSP to ensure that costs incurred to receive concessional finance are recovered plus a small amount to make it attractive for TNSP to undertake commercial investments.

As stated in topic 1 above, Woodside submits that the TNSP should maintain the relative position they would have in been without the concessional finance. However, it would be counter to good public policy that a TNSP would be considerably better off because of receiving concessional finance.

With respect to the information provided to the administrator of concessional funds, consistent with other government transactions, an appropriate level of transparency must be applied.

QUESTION 3: WHAT TYPES OF INFORMATION ABOUT THE CONCESSIONAL FINANCE ARRANGEMENT SHOULD BE PROVIDED TO THE AER AND BY WHOM

Do you agree with the types of information that should be provided to the AER, as detailed in the rule change request, and that the TNSP be required to provide the information?

Woodside submits that both the TNSP and the GFB should jointly be responsible for providing full details of the concessional arrangements for the term of the agreement. If there are changes in the terms and conditions associated with the concessional financing arrangements the TNSP and the GFB should be required to keep the AER of changed circumstances if they arise over the term.

QUESTION 4: HOW THE AER CONFIRMS THE INTENT OF THE CONCESSIONAL FINANCE AND THE METHOD(S) THROUGH WHICH THE AER CAN TREAT THE CONCESSIONAL FINANCE BENEFITS

1. Do you agree that the AER should confirm the amount to be treated as a benefit to consumers and/or TNSPs with the TNSP and the GFB?

Woodside submits that the AER should be responsible for confirming the majority of the concessional finance is passed to consumers, given the nature of regulated assets to be funded and the potential conflicts of interest of the parties involved.

2. Do you agree that this amount should be treated as either a capital contribution and deducted from the RAB or as a MAR adjustment? Do you prefer one method over another? Why?

Woodside submits that the amount should be treated as aggregate annual revenue (MAR), given the likely long-term nature of the financial concession provided.

3. Do you see any issues with treating some or all of the benefits as either a capital contribution or as a revenue adjustment?

Woodside has no specific comment.

4. Do you agree the AER should be required to seek submissions from the government funding body:

- *to ensure benefits are passed on to customers and/or TNSPs as intended, and*
- *to determine whether they intended that some or all of the benefit of the concessional finance be treated as a capital contribution or a MAR adjustment, if required?*

If not, how should the AER confirm intent and treatment of consumer benefits?

Woodside agrees the AER should seek the required information from the GFB and confirm that the majority of the benefit of concessional finance be passed to consumers.

QUESTION 5: PROPOSED SOLUTION

Do you think the proposed solution is the most appropriate way to share benefits of concessional finance with consumers, or is there another more effective solution that could be implemented (including non-rules based solutions)?

Woodside refers to comments above.

2. Do you think the proposed solution:

- *is targeted, fit-for-purpose and proportionate to the issues it is intended to address?*
- *considers the broader direction of reforms in transmission infrastructure?*
- *provides for simplicity and transparency in regulatory arrangements?*

Woodside refers to comments above.

QUESTION 6: COSTS AND BENEFITS OF THE PROPOSED SOLUTION

What do you think the direct and indirect costs and benefits of the proposed solution are likely to be? Are the costs likely to be proportionate to the problem they are intended to Address?

Woodside submits the primary benefits are that:

- Concessional funding benefits are directed to consumers;
- TNSPs will be incentivised to proceed with investments;
- Consumer prices associated with transmission should decline; and
- Risks of undertaking investments remain with TNSPs.

QUESTION 7: IMPLEMENTATION CONSIDERATIONS

1. *Do you have any suggestions regarding the commencement timeframe?*
2. *Are there additional measures that should be considered that would support the effective implementation of the desired solution?*

Woodside submits, without understanding the quantum of the reduction in cost of capital, commencement timing would be as soon as possible or from the first regulatory reset.

QUESTION 8: COMPLIANCE AND ENFORCEMENT

Do you have any feedback on the compliance and enforcement role proposed for the AER?

Woodside submits that any changes in concessional finance terms need to be enforced by relevant regulatory authorities.

QUESTION 9: ARE THERE ALTERNATIVES SOLUTIONS THAT WOULD BE PREFERABLE?

Can you share any alternative solutions that you think would be preferable and more aligned with the long-term interests of consumers?

Woodside has no specific comment.

QUESTION 10: ASSESSMENT FRAMEWORK

Do you agree with the proposed assessment framework?

Woodside has no specific comment.

5. CONCLUSION

We trust this information is useful for the AEMC's considerations. If you would like further information or to discuss the matters raised in this submission, please do not hesitate to contact us.

Yours sincerely

Sam Bartholomaeus

Sam Bartholomaeus
Vice President Renewables and Power