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

Dear Ms Collyer

RE Accommodating financeability in the regulatory framework

TasNetworks welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC's**) Consultation Paper on the rule change request from the Minister for Climate Change and Energy, the Hon Chris Bowen MP, regarding the financeability of major transmission projects.

TasNetworks is the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider and Jurisdictional Planner in Tasmania. TasNetworks and its subsidiary Marinus Link Pty Ltd (**MLPL**), are also progressing Project Marinus – the actionable Integrated System Plan (**ISP**) project for a new 1,500 megawatt interconnector between Tasmania and Victoria. TasNetworks is responsible for developing the on-island transmission developments in North West Tasmania necessary to support Marinus Link. TasNetworks is supportive of greater flexibility in the revenue setting framework to ensure these types of projects can be financed and delivered on-time to the benefit of customers.

As noted by the AEMC in the Transmission Planning and Investment Review (**TPIR**), financeability concerns for a TNSP may arise due to the current regulatory framework's treatment of regulatory depreciation. TasNetworks agrees with this observation and would like to provide further commentary on the following points:

- Financeability is a material issue for major transmission projects; and
- Applying a prescriptive test to address financeability is preferable to a principles-based approach.

TasNetworks supports Energy Networks Australia's rule change request and submission to the Consultation Paper.

Financeability is a material issue for major transmission projects

Projects are not financeable if the regulatory framework does not provide cashflows sufficient to meet financing costs or the returns required to attract and retain investors. Cashflow challenges may arise for TNSPs when a large amount of new investment relative to the existing asset base occurs in a short period of time. In these circumstances, TNSPs may not be able to finance ISP projects at benchmark credit ratings. As a consequence, and in the absence of external funding, ISP projects with demonstrated net benefits to Australian electricity customers could be delayed or terminated resulting in higher energy costs and a less secure supply of electricity.

As noted by the AEMC in TPIR and the consultation paper, TNSPs can face difficulties financing major transmission projects as a result of how revenue is set and recovered under the regulatory framework. TNSPs receive revenue allowances for 'regulatory depreciation'. Regulatory depreciation is calculated using straight-line depreciation less inflation on the opening regulatory asset base (**RAB**). Following commissioning of long-life assets, the inflation deduction often offsets the straight-line depreciation amount resulting in a negative regulatory depreciation revenue allowance for those assets in the short-term.

For typical network augmentations, a negative regulatory depreciation revenue allowance on new assets is generally offset by positive revenue on other assets within the RAB. However, due to the value of some actionable ISP projects in comparison to the broader asset base, the negative depreciation revenue allowance means TNSPs will not receive revenue required to finance the regulatory asset base (including the ISP project) at benchmark credit ratings set by the AER. For example, the transmission developments in North West Tasmania to support Marinus Link are expected to be at least 50% of the value of all other regulated assets owned by TasNetworks. A project of this size could have a negative impact on revenue / profitability of TasNetworks under the current regulatory arrangements.

In certain circumstances it may be more appropriate to consider the financeability of these projects on a discrete, standalone basis, if this results in a smoother revenue profile for customers.

A prescriptive test for financeability is preferable to a principles-based approach

TasNetworks agrees that a revised regulatory depreciation profile could help mitigate the risk that actionable ISP projects are delayed or cancelled if they are not financeable.

Although the Minister's rule change proposes that the Australian Energy Regulator (**AER**) have discretion to vary the depreciation profile of actionable ISP projects, TasNetworks agrees with ENA's rule change that this would result in inconsistency between projects leading to uncertainty for investors regarding:

- the method that would be used to assess whether there is a financeability issue; and
- the method for adjusting the cash flow timing to resolve the financeability issue.

Even with the principles included in the Minister's rule change proposal, it is unlikely that AER guidance would provide investors with sufficient certainty that financeability problems would (at the time of an AER revenue determination) be identified in every instance and addressed through adequate regulatory action.

TasNetworks therefore supports including a mechanistic test within the National Electricity Rules (**NER**) that would be applied consistently and transparently to all actionable ISP projects.

A prescriptive approach is preferable as it would give investors and customers confidence that projects will be financeable throughout the entire project lifecycle. Furthermore, any mechanistic approach should ensure that cash flows are amended so that the returns received by investors are sufficient to maintain the benchmark credit rating set by the AER in the Rate of Return Instrument.

Should you have any questions with respect to this submission, please contact Chris Noye, Leader Regulation at chris.noye@tasnetworks.com.au.

Yours sincerely

Chantal Hopwood

Head of Regulation