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INFORMATION

Accommodating financeability in the regulatory framework

The Commission has made a draft determination and draft rule to support the financeability of TNSPs investing in actionable ISP projects

The Commission has decided to make a more preferable draft rule addressing challenges that Transmission Network Service Providers (TNSPs) may have in raising finance to proceed with actionable Integrated System Plan (ISP) projects. This is in response to rule change requests received from the Honourable Chris Bowen MP, Commonwealth Minister for Climate Change and Energy (Minister) and Energy Networks Australia.

Under the draft rule, a TNSP's financeability position will be prevented from worsening as a result of the ISP project, based on a TNSP's regulated business and determined using the benchmark gearing ratio in the applicable rate of return instrument (RORI). The draft rule would introduce greater flexibility in the revenue setting framework in the National Electricity Rules (NER) by allowing the Australian Energy Regulator (AER) to vary the depreciation profile of assets that form part of an actionable ISP project. Varying depreciation would bring forward cashflows. This, in turn, would improve a TNSP's financial metrics and consequently, its ability to efficiently raise finance.

The draft rule seeks to promote the long term interests of consumers by supporting timely investment in and delivery of transmission, a critical enabler for the transition to net zero. This will unlock cheaper renewable energy sources, reducing emissions and wholesale prices to the benefit of consumers today and in the future.

Stakeholder submissions are due by 8 February 2024.

The draft rule addresses the risk to delivery of necessary transmission investment

Our draft rule is made in the context of the broad consensus that transmission is a critical enabler for the transition to net zero. 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 challenges for the existing regulatory framework because:

- TNSPs may face challenges in raising finance to proceed with ISP projects, and
- the existing revenue-setting framework may not be sufficiently flexible to address financeability challenges.

The draft rule would address this risk by:

- allowing a TNSP to submit a financeability request to the AER at the same time as submitting a request for an amendment to its revenue determination for an ISP project
- requiring the AER to assess whether the TNSP has a financeability issue by applying a financeability test set out in the NER
- requiring the AER to adjust a TNSP's cashflows if a TNSP has a financeability issue
- requiring the AER to set out further details of how it would determine the TNSP's financeability position in Financeability Guidelines
- applying additional rules to TNSPs that have received concessional finance where relevant to prevent a TNSP from benefiting from both concessional finance and a cashflow adjustment for an ISP project unless agreed to by the relevant government funding body.

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TNSPs would be able to apply for a financeability assessment from the commencement date of the final rule (if made) on 29 March 2024.

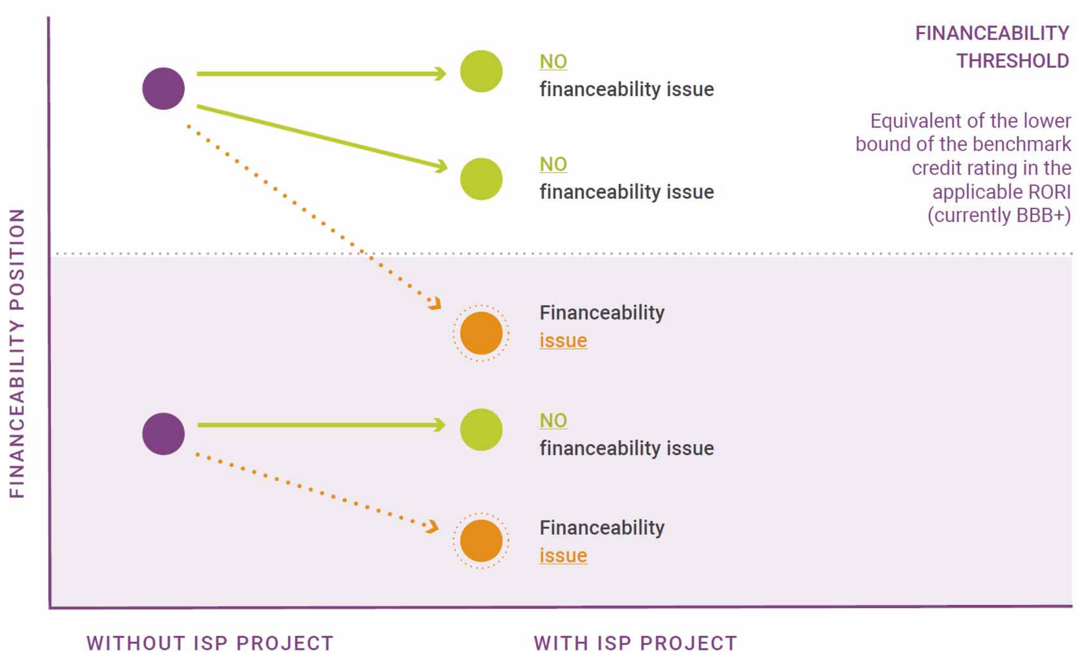
The financeability test would assess whether a TNSP's financeability position is worse off as a result of investing in an ISP project

The draft rule would allow a TNSP to submit a request for a financeability assessment. If requested by a TNSP, the AER would be required to apply the financeability test in accordance with the draft rule. The AER must determine that a TNSP has a financeability issue if the TNSP's financeability position without an ISP project is:

- at or above the financeability threshold and its financeability position drops below the financeability threshold with the ISP project, or
- below the financeability threshold and its financeability position deteriorates at all with the ISP project.

The financeability test is illustrated below in Figure 1. The financeability threshold would be equivalent to the benchmark credit rating in the applicable RORI.

Figure 1 - How to determine whether a TNSP has a financeability issue after an actionable ISP project



The AER would be required to set out further details of how it would determine the TNSP's financeability position in Financeability Guidelines. This includes the selection of financial metrics to apply and the weightings to apply to each financial metric. The Guidelines would need to set out how the financeability position would relate to the financeability threshold (the equivalent of the benchmark credit rating in the applicable RORI), and may include other matters such as how the AER would treat depreciation for biodiversity offsets.

The AER would be required to adjust a TNSP's cashflows if a TNSP has a financeability issue

If the AER determines the TNSP has a financeability issue, the AER would be required to adjust the TNSP's cashflows such that:

- if the TNSP's financeability position without the ISP project is at or above the financeability threshold, the TNSP's financeability position with the ISP project does not fall below the financeability threshold
- if the TNSP's financeability position without the ISP project is below the financeability threshold, the TNSP's financeability position with the ISP project does not worsen.

The AER could achieve this by using a combination of one or more of the methods outlined below.

- Using a new method under the draft rule, advance a TNSP's cashflows by depreciating the assets of an ISP project by using a profile that it considers appropriate (e.g. a profile other than straight-line depreciation or shorter asset lives).
- Using existing mechanisms under the current NER:
  - as incurred recovery of depreciation prior to commissioning
  - revenue smoothing within the regulatory control period, if available.

Related rule change process: *Sharing concessional finance benefits with consumers*

The Commission is separately considering a rule change request from the Minister on *Sharing concessional finance benefits with consumers*.

That rule change request seeks to clarify the regulatory treatment of concessional finance under the NER where a government funding body has agreed with a network service provider to share any of the benefits of concessional finance with consumers. A draft determination and draft rule was published on 14 December 2023.

We are holding a public forum on the draft determination

We will hold a public forum webinar on 15 December 2023.

The purpose of the forum is to provide an overview of the draft determination and to give stakeholders an opportunity to ask questions.

Background

The existing regulatory framework was developed and has evolved over a period of incremental growth of the grid, rather than the current required pace of step-change growth set out in the AEMO ISP.

In our Transmission Planning and Investment Review Stage 2 final report, we concluded that there was currently no clear evidence of financeability issues with specific projects or TNSPs. However, we recognised that successive ISP iterations could see the timing of major transmission projects moved forward or bunched in a way that creates a risk of financeability issues arising in the future.

The Commission continues to hold the view that there is a material risk that TNSPs face financeability issues if successive ISP projects result in a large amount of new investment, relative to the TNSP's existing RAB. This could impact timely and efficient investment in transmission infrastructure that is required to support the transition of the National Electricity Market (NEM).

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