

From: [REDACTED]
Sent: Tuesday, May 2, 2023 5:16 PM
To: Kris.Funston@aer.gov.au; [REDACTED]; [REDACTED]; [REDACTED]
Subject: Embargoed Final report- TPIR Stage 3- under embargo until 8am Thursday 4 May
Attachments: EMBARGOED EPR008 - Info sheet - TPIR Stage 3.pdf; EMBARGOED EPR008 - Final Report - TPIR Stage 3.pdf

Documents attached to this email are embargoed until 8am, Thursday 4 May 2023

Good afternoon everyone

Please find attached the final report and info sheet for Stage 3 of the Transmission planning & investment review which will be published this Thursday, 4 May.

Thank you for all of input, constructive feedback and good humour over the Review. We have really enjoyed working with you in such a collaborative manner to improve our policy making.

We look forward to working with you all on future projects, including the rule changes which are very excitingly starting to come in.

If you have any questions, feel free to reach out to me or Danielle

Kind regards,

[REDACTED] Director
Australian Energy Market Commission
D [REDACTED] | T [REDACTED]
[REDACTED]@aemc.gov.au | www.aemc.gov.au

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From: [REDACTED]
Sent: Tuesday, May 2, 2023 6:26 PM
To: Danielle Beinart; [REDACTED]@recfit.tas.gov.au; [REDACTED]
[REDACTED]@epw.qld.gov.au; [REDACTED]@sa.gov.au; [REDACTED]@delwp.vic.gov.au;
[REDACTED]@energy.wa.gov.au; [REDACTED]@nt.gov.au;
[REDACTED]@dcceew.gov.au
CC: [REDACTED]@planning.nsw.gov.au;
[REDACTED]@epw.qld.gov.au; [REDACTED] (DEM); [REDACTED]@delwp.vic.gov.au; [REDACTED]
[REDACTED] (DELWP); [REDACTED]@sa.gov.au; [REDACTED]@planning.nsw.gov.au; [REDACTED]
[REDACTED]; [REDACTED] ACT.SCER@act.gov.au; [REDACTED]
(DEECA); [REDACTED]; [REDACTED]@epw.qld.gov.au;
[REDACTED] (DEECA) <[REDACTED]@delwp.vic.gov.au>; [REDACTED]
[REDACTED]@dcceew.gov.au; Wattle
Subject: Embargoed TPIR Stage 3 final report- under embargo until 8am Thursday 4 May
Attachments: EMBARGOED EPR008 - Final Report - TPIR Stage 3.pdf; EMBARGOED
EPR008 - Info sheet - TPIR Stage 3.pdf

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Good evening all

I am pleased to attach embargoed copies of the Stage 3 TPIR final report and information sheet.

Thank you for all your valuable input over the course of the Review. We have enjoyed working with you all and have found your feedback very helpful in refining our policy positions.

We are holding an online public forum on the Stage 3 final report. The link to register will be included in the AEMC email that comes out on Thursday. If you would like me to send it to you, please let me know (it won't be live until Thursday).

We look forward to working with you in the future (perhaps on the rule changes coming out of the Review and emissions reduction). Please reach out to me or Danielle if you have any questions on the report.

I also wanted to highlight that we have received 3 rule change requests from the Hon. Chris Bowen Minister for Climate Change and Energy. These are the rule change requests for financeability, concessional finance and enhancing community engagement. If you would like any further details about the process for the rule change, or to be put in touch with the teams running each of these rule changes please let me know.

Kind regards,
[REDACTED]

From: [REDACTED]
Sent: Wednesday, May 3, 2023 4:37 PM
To: [REDACTED]
Subject: RE: Embargoed Final report- TPIR Stage 3- under embargo until 8am Thursday 4 May [SEC=OFFICIAL]

Hi [REDACTED]

Sorry I just saw this email. I am free now if it helps/works? Otherwise I'm largely free tomorrow too.

[REDACTED]

[REDACTED] Director
Australian Energy Market Commission
D [REDACTED] | T [REDACTED]
[REDACTED] [@aemc.gov.au](mailto:[REDACTED]@aemc.gov.au) | www.aemc.gov.au

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From: [REDACTED] <[REDACTED]@aer.gov.au>
Sent: Wednesday, 3 May 2023 3:37 PM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Embargoed Final report- TPIR Stage 3- under embargo until 8am Thursday 4 May [SEC=OFFICIAL]

OFFICIAL

Hi [REDACTED],

It'll likely be [REDACTED]'s team. They're looking to start a guideline update very shortly to implement the MCC rule change and the early works + community engagement recommendations from TPIR s2.

Mapping out with you the necessary guideline updates coming from TPIR more broadly would be really useful – [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]'s team is under the pump at the moment but it'd be useful if we could have an initial chat between 4 and 5 today or I'm free most of tomorrow

Kind regards,

[REDACTED] (he/him)

A/Assistant Director | Policy Development | Strategic Policy & Energy Systems Innovation

Australian Energy Regulator

Level 29 | 135 King Street Sydney NSW

T: [REDACTED]



The ACCC acknowledges the traditional owners and custodians of Country throughout Australia and recognises their continuing connection to the land, sea and community. We pay our respects to them and their cultures; and to their Elders past, present and future.

From: [REDACTED] <[REDACTED]@aemc.gov.au>

Sent: Wednesday, 3 May 2023 1:59 PM

To: [REDACTED] <[REDACTED]@aer.gov.au>

Subject: RE: Embargoed Final report- TPIR Stage 3- under embargo until 8am Thursday 4 May [SEC=OFFICIAL]

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Thanks [REDACTED],

Do you know what area will be looking after it? It would be good to talk guideline updates more generally at some stage too and map out all the guidance/guideline updates with you that have been recommended in the Review or earlier rule changes (like MCC) so we can work out best timing/no opening things twice as we start progressing the TPIR rule changes.

[REDACTED]

From: [REDACTED] <[REDACTED]@aer.gov.au>

Sent: Wednesday, 3 May 2023 1:51 PM

To: [REDACTED] <[REDACTED]@aemc.gov.au>

Subject: RE: Embargoed Final report- TPIR Stage 3- under embargo until 8am Thursday 4 May [SEC=OFFICIAL]

OFFICIAL

Sadly no update or contact I can share on the guidelines yet – it's on the to-do list but I'm not sure what the hold up is internally

Kind regards,

[REDACTED] (he/him)

A/Assistant Director | Policy Development | Strategic Policy & Energy Systems Innovation

Australian Energy Regulator

Level 29 | 135 King Street Sydney NSW

T: [REDACTED]



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From: [REDACTED] <[REDACTED]@aemc.gov.au>

Sent: Wednesday, 3 May 2023 11:10 AM

To: [REDACTED] <[REDACTED]@aer.gov.au>

Subject: RE: Embargoed Final report- TPIR Stage 3- under embargo until 8am Thursday 4 May [SEC=OFFICIAL]

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Thanks [REDACTED]!

I've really enjoyed working with you on it.

I had a call from Verity from ENA again last night- she asked about the CBA guideline update again and if there was a contact?

From: [REDACTED] <[REDACTED]@aer.gov.au>

Sent: Wednesday, 3 May 2023 10:21 AM

To: [REDACTED] <[REDACTED]@aemc.gov.au>; Kris Funston <Kris.Funston@aer.gov.au>; [REDACTED]

[REDACTED] <[REDACTED]@aemo.com.au>; [REDACTED] <[REDACTED]@aemo.com.au>; [REDACTED]

[REDACTED] <[REDACTED]@aer.gov.au>

Subject: RE: Embargoed Final report- TPIR Stage 3- under embargo until 8am Thursday 4 May [SEC=OFFICIAL]

OFFICIAL

Congrats to you and the team, [REDACTED], on this review – we'll see you all in the subsequent rule changes :)

Kind regards,

[REDACTED] (he/him)

A/Assistant Director | Policy Development | Strategic Policy & Energy Systems Innovation

Australian Energy Regulator
Level 29 | 135 King Street Sydney NSW
T: [REDACTED]



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From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Tuesday, 2 May 2023 5:16 PM
To: Kris Funston <Kris.Funston@aer.gov.au>; [REDACTED] <[REDACTED]@aer.gov.au>; [REDACTED] <[REDACTED]@aemo.com.au>; [REDACTED] <[REDACTED]@aemo.com.au>; [REDACTED] <[REDACTED]@aer.gov.au>
Subject: Embargoed Final report- TPIR Stage 3- under embargo until 8am Thursday 4 May

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We look forward to working with you all on future projects, including the rule changes which are very excitingly starting to come in.

If you have any questions, feel free to reach out to me or Danielle

Kind regards,

[REDACTED] Director
Australian Energy Market Commission
D [REDACTED] T [REDACTED]
[REDACTED] <[REDACTED]@aemc.gov.au | www.aemc.gov.au

Level 15, 60 Castlereagh St, Sydney NSW 2000.

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From: [REDACTED]
Sent: Wednesday, May 10, 2023 5:34 PM
To: [REDACTED]
CC: [REDACTED]
Subject: Feedback loop [REDACTED]

Hi [REDACTED]

I hope you are well. Thank you for the discussion last week going through the timings of the AEMC's upcoming transmission workplan.

I'm emailing to let you know that we have spoken to Transgrid and they are aware that the Commonwealth will be the proponent for the Feedback loop rule change – apologies for the delay.

[REDACTED]

Regarding the system planning working group, the current consideration is that the market bodies would attend as observers. However, the exact structure is currently under development. [REDACTED] is Cc'd if you have further questions.

Kind regards,

[REDACTED]
[REDACTED]
Senior Policy Officer
Electricity Division | Networks Reform
Turrbal and Jagera Country, 145 Ann St, Brisbane QLD 4000 Australia
Department of Climate Change, Energy, the Environment and Water
P: | E: [REDACTED]@dcceew.gov.au

[DCCEEW.gov.au](https://www.dcceew.gov.au) ABN 63 573 932 849

Acknowledgement of Country

Our department recognises the First Peoples of this nation and their ongoing connection to culture and country. We acknowledge First Nations Peoples as the Traditional Owners, Custodians and Lore Keepers of the world's oldest continuous living culture and pay respects to their Elders past, present and emerging

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From: [REDACTED]
Sent: Thursday, May 11, 2023 11:49 AM
To: [REDACTED]
Subject: RE: Financeability rule change

Hi [REDACTED],

Thanks for providing this info – much appreciated. I have ensured that appropriate caveats are in the slide shared with internal colleagues.

[REDACTED]

- [REDACTED]
- [REDACTED]

[REDACTED]

Let me know if you'd like a further conversation on any of the above.

Regards,

[REDACTED]

Manager - Transmission Reform, Reform Development & Insights



Australian Energy Market Operator

M [REDACTED] | E [REDACTED]@aemo.com.au

L1/25 Grenfell Street, Adelaide 5000

aemo.com.au

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From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Monday, 8 May 2023 1:24 PM
To: [REDACTED] <[REDACTED]@aemo.com.au>
Subject: RE: Financeability rule change

Hi [REDACTED]

No problem.

I have filled in the table below, but note these are my views as indicative timing only and we need to go through the internal processes to have more definitive timeframes for all of the below rule changes. I have highlighted in green text the ones we have received rule change requests for. It would be great if you could caveat as you have indicated below, and please don't share externally.

I did have a question re the timing of the feedback loop rule change. We would like your views on when the rule change request needs to be completed. We understand it won't likely be in place for the Humelink feedback loop, so when will the next ISP project go through the feedback loop? We can then make sure it is in place in plenty of time.

Let me know if you have any other questions

Thanks

[REDACTED]

From: [REDACTED] <[REDACTED]@aemo.com.au>

Sent: Monday, 8 May 2023 1:18 PM

To: [REDACTED] <[REDACTED]@aemc.gov.au>

Subject: RE: Financeability rule change

Hi [REDACTED],

I was wondering if you could help me with some information on the status of upcoming rule changes that relate to both the emissions amendments to the NEO and the TAPR more broadly. We have an internal meeting later this week within the transmission reform area where I would like to provide this information. If you're able to let me know whether the following have been submitted yet (and if not your best guess on who may do and when this may happen), and also rough timing for each RCP. I promise I won't hold you to any of them(!) – it's merely for internal consumption and will be appropriately caveated.

Rule change	Submitted? By whom?	Timing (best guess)	Process	Sponsor and other info
Feedback loop rule change	Not submitted yet, expected from Minister Bowen (DCCEEW).	Expecting to receive it within the month. Looking to commence end 2023*	Standard	Sponsor: likely [REDACTED] ([REDACTED] until 1 June)
Social licence rule change	Yes, Minister Bowen.	Potential to fast track. If so, draft determination early August (if not consult early August). Final Due end October 2023	Fast tracked (intended)	Sponsor: [REDACTED] Now called: Enhancing community engagement in transmission building
Financeability rule change	Yes, Minister Bowen.	Consultation paper end May 2023. Final determination due end November 2023.	Standard	Sponsor: [REDACTED] Will be run in parallel with concessional finance. Now called: Accommodating financeability in the regulatory framework
Concession finance change	Yes, Minister Bowen	Consultation paper end May 2023. Final determination due end November 2023.	Standard	Sponsor: [REDACTED] Will be run in parallel with financeability Now called: Concessional finance for transmission network service providers
Harmonisation rule changes from amendments to the NEO ('priority package')	No, expected from Minister Bowen.	Approx July 2023.	Standard	Sponsor: [REDACTED] Will be run in parallel with other emissions rule change.
Emissions rule change- rules for network/pipeline expenditure proposals and assessment (opex and capex)	No, expected from Minister Bowen.	Approx July 2023.	Standard	Sponsor: [REDACTED] Will be run in parallel with other emissions rule change.
EAP1	No, expected from Minister Bowen.	Quarter 3 2023 consultation commence (if received).	Standard	Sponsor: [REDACTED]

Targeted ex post review for ISP projects	No, expected from Minister Bower.	Likely 2024.	Standard or fast tracked. To be considered further.	Sponsor: TBC
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*see my question in email above re when the next ISP project will go through the feedback loop

Thanks!

[REDACTED]

Manager - Transmission Reform, Reform Development & Insights



Australian Energy Market Operator

M [REDACTED] | E [REDACTED]@aemo.com.au

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From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Wednesday, 3 May 2023 9:13 AM
To: [REDACTED] <[REDACTED]@aemo.com.au>
Subject: RE: Financeability rule change

Thanks [REDACTED]

I hope you had a great break.

I will be working on emissions now, so I am sure I will see you in the emissions meetings!

[REDACTED]

From: [REDACTED] <[REDACTED]@aemo.com.au>
Sent: Tuesday, 2 May 2023 9:14 AM
To: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aemo.com.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Financeability rule change

Morning [REDACTED] and [REDACTED]

Yes – happy for [REDACTED] to reach out to Jo and I on that rule change.

Regards,

[REDACTED]

Manager - Transmission Reform, Reform Development & Insights



Australian Energy Market Operator

M [REDACTED] | E [REDACTED]@aemo.com.au

L1/25 Grenfell Street, Adelaide 5000

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From: [REDACTED] <[REDACTED]@aemc.gov.au>

Sent: Friday, 28 April 2023 12:07 PM

To: [REDACTED] <[REDACTED]@aemo.com.au>; [REDACTED]

<[REDACTED]@aemo.com.au>

Cc: [REDACTED] <[REDACTED]@aemc.gov.au>

Subject: Financeability rule change

Hi [REDACTED] and [REDACTED]

I hope you are both well, and [REDACTED] hope you had a great holiday!

I wanted to connect you with [REDACTED]. Andrew is the project lead for the financeability rule change. Would you two be the best AEMO contact for discussions on the financeability rule change?

Kind regards,

[REDACTED]

[REDACTED] Director

Australian Energy Market Commission

D [REDACTED] | T [REDACTED]

[REDACTED]@aemc.gov.au | www.aemc.gov.au

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From: [REDACTED]
Sent: Friday, May 12, 2023 10:23 AM
To: Funston, Kris; [REDACTED]@aer.gov.au
CC: Danielle Beinart [REDACTED]
Subject: HPE CM: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers
Attachments: CONFIDENTIAL For review by the AER - AEMC Financeability consultation paper - ERC0348.pdf; CONFIDENTIAL For review by the AER - AEMC Concessional Finance consultation paper - ERC0349.pdf

Hi Kris, [REDACTED] and [REDACTED]

As Danielle and Kris discussed yesterday, we would really appreciate it if you're able to review our attached confidential consultation papers for the Financeability (ERC0348) and Concessional finance (ERC0349) rule changes.

We are only asking that you identify any red flags that we should consider amending. We are not seeking a drafting review.

If you're able to get back to us with any red flags by COB Wednesday 17 May, that would be really appreciated.

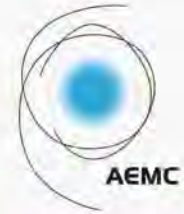
Thanks and regards
[REDACTED]

[REDACTED] Senior Adviser
Australian Energy Market Commission
D +61 [REDACTED]
[REDACTED]@aemc.gov.au | www.aemc.gov.au

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RULE

Australian Energy Market Commission

CONSULTATION PAPER

**NATIONAL ELECTRICITY AMENDMENT
(ACCOMMODATING FINANCEABILITY
IN THE REGULATORY FRAMEWORK)
RULE**

PROPONENT

Commonwealth Minister for Climate Change and Energy

1 JUNE 2023

Australian Energy
Market Commission

Consultation paper
Accommodating financeability
1 June 2023

INQUIRIES

Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

E aemc@aemc.gov.au
T (02) 8296 7800

Reference: ERC0348

ABOUT THE AEMC

The AEMC reports to the Energy Ministers' Meeting (formerly the Council of Australian Governments Energy Council). We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the Energy Ministers' Meeting.

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AEMC, Accommodating financeability in the regulatory framework, Consultation paper, 1 June 2023

SUMMARY

- 1 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.
- 2 There is broad consensus that transmission is a critical enable 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.
- 3 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).
- 4 The scale and pace of investment required for the transition to net-zero raises questions as to whether actionable ISP projects will be financeable, and this is the topic of this rule change request. In this context, financeability refers to the ability of Transmission Network Service Providers (TNSPs) to efficiently raise capital to finance their activities.

We are seeking your views on financeability issues for actionable ISP projects

- 5 The Honourable Chris Bowen MP, Commonwealth Minister for Climate Change and Energy (Minister or proponent) considers that there is a foreseeable risk that financeability concerns may arise for actionable ISP projects, which may impact the timely and efficient delivery of these major transmission projects. This is because:
 - TNSPs may face challenges in raising capital to proceed with ISP projects
 - the existing revenue framework is not sufficiently flexible to address financeability challenges that may arise in future.
- 6 The Minister's view reflects the conclusions set out recently by the Commission in Stage 2 of its Transmission Planning and Investment Review (TPIR or review).
- 7 To address the risk faced by TNSPs, the Minister submitted a rule change request on 11 April 2023 that seeks to:
 - introduce greater flexibility in the revenue-setting framework in the National Electricity Rules (NER) to vary the depreciation profile of assets that form part of an actionable ISP project
 - allow TNSPs to recover depreciation of biodiversity offset costs on an as incurred basis.
 - clarify the treatment of depreciation for asset classes, including biodiversity offsets.
- 8 The Minister expects that, if the proposed solution is implemented to allow depreciation

profiles for assets that form part of actionable ISP projects to be varied, it would be the primary mechanism that TNSPs use to address their financeability concerns. This differs from the current arrangements, where TNSPs have sought alternative methods to address their financeability concerns. These methods have included sourcing concessional finance from the Commonwealth Government, for example through the Rewiring the Nation (RTN) program.¹

9 Considering the NEO² and the issues raised in the rule change request, the Commission proposes to assess the rule change request against four assessment criteria outlined below.

- Outcomes for consumers.
- Principles of good regulatory practice: predictability and stability, and principles vs prescriptive-based approach.
- Principles of efficiency: risk allocation and incentives.
- Decarbonisation, reliability and security.

Submissions are due by 7 July 2023 with other engagement opportunities to follow

10 Written submissions responding to this consultation paper must be lodged with Commission by 7 July 2023 through the AEMC website, www.aemc.gov.au.

11 There will be opportunities for you to engage with the AEMC throughout this process, such as one-on-one discussions or industry briefing sessions. See the section of this paper about "How to engage with us" for further information.

Full list of consultation questions

QUESTION 1: IDENTIFYING THE PROBLEM

Do stakeholders have any new information or views on the problem raised in this rule change request, having regard to what has already been consulted on and established in TPIR?

QUESTION 2: HOW TO ASSESS FINANCEABILITY APPLICATIONS

(a) Should TNSPs have to submit an application to the AER to vary the depreciation profile of actionable ISP projects? If so, what information should this include?

(b) Should the AER vary the depreciation profile of actionable ISP projects using principles or a prescriptive approach?

(c) What level of AER discretion is appropriate?

1 Rule change request, p. 1.

2 Section 7 of the National Electricity Law (NEL)

(d) Do you consider that the proposed principles are appropriate? Should any other assessment factors be taken into account?

QUESTION 3: LEVEL OF FINANCEABILITY ASSESSMENT

- (a) Should the financeability assessment be at the TNSP RAB level or the ISP project level?
- (b) Should the financeability assessment take into account TNSP's financing of unregulated business activities and transmission assets that are delivered under state-based schemes?

QUESTION 4: APPLICATION OF PROPOSED RULE IN VICTORIA

Do you think there should be different arrangements in Victoria, compared to the rest of the NEM, to address financeability issues? If so, what differences need to be accommodated for and how?

QUESTION 5: FINANCEABILITY ASSESSMENT PROCESS AND TIMING

Is the proposed process and timing to assess requests to vary depreciation for actionable ISP projects practical and efficient? If not, what alternative processes and timings do you suggest be specified in the NER?

QUESTION 6: BIODIVERSITY OFFSET ARRANGEMENTS ACROSS NEM JURISDICTIONS

- (a) Do TNSPs have obligations to conserve biodiversity through biodiversity offsets, or other arrangements, in each jurisdiction of the NEM?
- (b) If so, are the costs of meeting these biodiversity obligations likely to impact financeability of actionable ISP projects?

QUESTION 7: RECOGNISING AND MANAGING BIODIVERSITY OFFSET COSTS

- (a) Should land purchased for biodiversity offset reasons be depreciable? Should other biodiversity offset costs be depreciable?

(b) Do you agree or disagree that recovering depreciation of biodiversity offset costs as incurred (as opposed to as commissioned), would be an appropriate solution to the financeability problem?

(c) Are the nature of biodiversity offsets different from other assets that comprise a specific actionable ISP project, such that biodiversity offsets should be depreciated on a different basis to other assets?

(d) Is it appropriate that consumers pay for biodiversity offset costs before actionable ISP projects have been completed? Should completion risk be re-allocated from TNSPs to consumers?

(e) Do you agree with the proposal to not require TNSPs to apply to vary depreciation for biodiversity offset costs for actionable ISP projects, but to provide the AER with discretion to vary depreciation in such cases?

QUESTION 8: APPLICATION OF PROPOSED SOLUTION TO INTENDING TNSPS

If TNSPs are able to recover depreciation of biodiversity offsets on an as incurred basis, should this be extended to intending TNSPs?

QUESTION 9: CLARIFYING DEPRECIATION TREATMENT OF ASSET CLASSES

(a) Do you agree with the proposal to require the AER to explicitly outline how depreciation would apply to all asset classes in actionable ISP projects? Should this include biodiversity assets?

(b) If you agree that the depreciation treatment of asset classes should be documented, how should it be implemented — through the NER, AER guidelines and/or other methods?

QUESTION 10: WILL THE PROPOSAL RESOLVE THE PROBLEM?

(a) Will the proposed solution resolve the problem raised in the rule change request? Would it reduce or eliminate the need for concessional finance from governments for ISP projects?

(b) Could the problem be resolved by implementing only one or two of the elements of the proposed solution, as outlined below, instead of implementing the whole proposed solution?

- allowing depreciation to be varied for actionable ISP projects
- clarifying the treatment of depreciation for asset classes, including biodiversity offsets;

- allowing TNSPs to recover depreciation of biodiversity offsets on an as incurred basis.
- (c) Are there any alternative solutions that would resolve the problem and be more preferable and aligned with the long-term interests of consumers?

QUESTION 11: IMPACT OF THE PROPOSED SOLUTION

What are the potential impacts of the proposed solutions in the rule change request? How do these solutions impact consumers, TNSPs, the AER, other NEM participants and any other stakeholders?

QUESTION 12: PROPOSED RULE DRAFTING

Separate from the issues addressed elsewhere in this consultation paper, does any part of the proposed rule drafting need to be clarified or changed?

QUESTION 13: AER GUIDANCE

Should the AER be required to develop and publish a document that provides guidance on:

- how it may vary the depreciation profile for assets that form part of an actionable ISP projects;
- clarify the treatment of depreciation for different asset classes, including biodiversity offsets; and
- any other matters?

If yes, should the NER require such guidance be provided by the AER in the form of a binding guideline, a discretionary non-binding guideline, a guidance note, or other documentation?

QUESTION 14: TRANSITIONAL ARRANGEMENTS

(a) If the proposed rule is made, should the AER be required to develop any guidance, or amend any AER models, before or after the commencement of the rule? If so, what level of prescription should be included in the NER?

(b) If the proposed rule is made, should it provide a transitional period to enable market participants to prepare? If so, how long should such a transitional period be?

(c) Is there a need for any transitional arrangements to assist with managing interactions

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other NER amendments or other market reforms? If so, what?

QUESTION 15: ASSESSMENT FRAMEWORK

Do you agree with the proposed assessment framework? Are there additional principles that the Commission should take into account or are there principles that are not relevant?

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solutions by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and, in so doing, contributes to well-informed, high quality rule changes.

We have included consultation questions in this paper, however, you are welcome to provide feedback on any additional matters that may assist the Commission in making its decision.

How to make a written submission

Due date: Written submissions responding to this consultation paper must be lodged with Commission by 7 July 2023.

How 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 ERC0348.³

You may, but are not required to, use the stakeholder submission form published with this consultation paper. Tips for making submissions are available on our website.⁴

You can find more information on the rule change process in *The Rule change process – a guide for stakeholders*.⁵

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive or defamatory content, or content that is likely to infringe intellectual property rights).⁶

For more information, you can contact us

Please contact the project leader with questions or feedback at any stage.

³ If you are not able to lodge a submission online, please contact us .

⁴ See: <https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/our-work-3>

⁵ *The rule change process: a guide for stakeholders, June 2017, available here: https://www.aemc.gov.au/sites/default/files/2018-09/A-guide-to-the-rule-change-process-200617.PDF*

⁶ Further information is available here: <https://www.aemc.gov.au/contact-us/lodge-submission>

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Project leader: Andrew Pirie
Email: andrew.pirie@aemc.gov.au

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1 THE CONTEXT FOR THIS RULE CHANGE REQUEST

This consultation paper seeks stakeholder feedback on the rule change request submitted by the Commonwealth Minister for Climate Change and Energy (the Minister) to address the risk that financeability challenges could arise for actionable ISP projects.⁷

1.1 The Commonwealth Minister has proposed the rules be changed to address financeability risks for actionable ISP projects

On 28 October 2022, Energy Ministers agreed that the Commonwealth Minister submit a rule change request to the AEMC seeking to mitigate the foreseeable risk that financeability concerns may arise for ISP projects.⁸

The Commonwealth Minister considers that there is a risk that financeability challenges could arise in relation to actionable ISP projects, as explained in chapter 2 of this consultation paper.⁹

To address this risk, the rule change request proposes the following solutions.

- A proposal to introduce greater flexibility for the AER to vary depreciation profiles of ISP projects. This reflects the AEMC's recommendation on financeability in the TPIR Stage 2 Final report, as explained in Appendix A.¹⁰
- A proposal to allow TNSPs to start recovering depreciation for biodiversity offset costs, as incurred, during construction of an ISP project. This proposal was not considered by the AEMC in TPIR Stage 2.
- A proposal that the AER must explicitly outline how depreciation is expected to be applied to different types of asset classes, including biodiversity offset.¹¹ This proposal was not considered by the AEMC in TPIR Stage 2.

Table 1.1 below summarises the rule change proposal against the current arrangements. More detail on the rule change proposal is set out in chapters 3 and 4 of this consultation paper.

⁷ AEMO, *2022 Integrated System Plan for the National Electricity Market*, June 2022.

⁸ Commonwealth Minister for Climate change and Energy, *Treatment of financeability for Transmission Network Service Providers — Rule change request*, 11 April 2023, p. 1.

⁹ Rule change request, pp. 1-2.

¹⁰ AEMC, *Transmission Planning and Investment Review — Stage 2 Final report*, 27 October 2022.

¹¹ *ibid.*

Table 1.1: Current and proposed arrangements to depreciate actionable ISP projects

	ISP PROJECT UNDER CONSTRUCTION	ISP PROJECT COMPLETE AND PROVIDING PRESCRIBED TRANSMISSION SERVICES
Current arrangements	TNSPs cannot recover depreciation (return of capital), as the asset is not yet operational.	TNSPs can recover depreciation, as the asset is operational and providing prescribed transmission services to customers. In most circumstances depreciation is recovered on a straight-line basis.
Proposed rule	TNSPs can recover depreciation as incurred for biodiversity offset costs, but not other assets under construction.	<ul style="list-style-type: none"> TNSPs can request to vary depreciation for any asset classes of an ISP project. Clarify treatment of depreciation for different asset classes, including biodiversity offsets.

Source: AEMC.

1.2 Commencing the rule change process

Previous stakeholder engagement on the financeability of ISP projects through TPIR is outlined in Appendix A. This engagement has informed the rule change request.

This paper is the first stage of this rule change process. A standard rule change process is proposed. The remaining stages are:

- stakeholders lodge submissions on the consultation paper and engage through other channels to assist the Commission in making its decision
- the Commission publishes a draft determination and draft rule (if relevant)
- stakeholders lodge submissions on the draft determination and engage through other channels to assist the Commission in making its decision
- the Commission publishes a final determination and final rule (if relevant).

The key dates for this process are outlined below.

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Figure 1.1: Key dates for this rule change process



Source: AEMC.

1.3

Related rule change process

The Commission is separately considering a rule change request from the Minister on *Concessional Finance for Transmission Network Service Providers*.¹²

That rule change request relates to amending the NER to enable the AER to take into account how any financial benefits that may arise from concessional financing of transmission infrastructure are shared between consumers and TNSPs.

Information on how to provide your submission and other opportunities for engagement on this related rule change are set out in the consultation paper available on the AEMC rule change page (ERC0349).

¹² Commonwealth Minister for Climate Change and Energy, *Treatment of Concessional Finance for Transmission Network Service Providers - Rule change request*, 11 April 2023.

2 THE PROBLEM RAISED IN THE RULE CHANGE REQUEST

This section sets out the problem identified in the rule change request, and the materiality of this problem. The Minister's explanation of the financeability problem in the rule change request is consistent with the financeability issues identified and assessed by the Commission in TPIR Stage 2.

2.1 There is a risk that financeability challenges could arise in relation to actionable ISP projects

In the context of TPIR and this rule change process, the term 'financeability' refers to the ability of TNSPs to efficiently (that is, without unnecessary costs) raise capital to finance their activities in the context of the framework used to determine regulated revenue.

Financeability concerns for TNSPs may arise from the way that cash flow is impacted by large investments in ISP projects relative to their existing RABs, over a short period. If TNSPs are unable to adapt their capital structures sufficiently quickly, this could negatively impact some financial metrics that are used to assess their creditworthiness.¹³

The Minister considers that there is a foreseeable risk that TNSPs may face difficulties in maintaining their financeability needs in relation to actionable ISP projects. This is because:

- TNSPs may face challenges in raising capital to proceed with ISP projects
- the existing revenue framework is not sufficiently flexible to address financeability challenges that may arise in the future.

These issues are explained below and reflect the conclusions from the TPIR Stage 2 Final report.¹⁴ Additional information is available in the rule change request.¹⁵

2.1.1 TNSPs may face challenges in raising capital to proceed with ISP projects

The TPIR Stage 2 final report concluded that there was currently no clear evidence of financeability concerns 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.¹⁶

Under the current arrangements, when a TNSP invests in a project, it receives a return on and of capital:

- It starts to receive a return on capital, based on forecast capital expenditure, during construction.

¹³ AEMC, *Transmission Planning and Investment Review — Stage 2 Final Report*, 27 October 2023, p. 8.

¹⁴ AEMC, *Transmission Planning and Investment Review - Stage 2 Final Report*, 27 October 2023, pp. 8-9

¹⁵ Rule change request, pp. 1-3.

¹⁶ AEMC, *Transmission Planning and Investment Review — Stage 2 Final report*, 27 October 2023, p. 8.

- It starts to receive a return of capital (regulatory depreciation), when the asset has been commissioned and is providing prescribed transmission services. The allowed revenue from the building block for regulatory depreciation is determined both by the depreciation profile of assets, which typically occurs on a straight-line basis, and an adjustment for inflation indexation.

Financeability may be impacted by the materiality of ISP projects relative to TNSP's RABs, and how the current application of regulatory depreciation defers cash flows. Specifically:

- The effect of the adjustment for inflation indexation on regulatory depreciation is to defer TNSP's cash flows. It is possible that, in the early years of a project, inflation indexation may be higher than straight-line depreciation, resulting in a negative regulatory depreciation amount in total.
- An effect of adding relatively very large capital expenditure to a RAB is that the weighted average remaining life of the assets in a TNSP's RAB may increase. If straight-line depreciation is applied under the existing arrangements, this could place pressure on TNSP's cash flows and financial metrics. This may impact its ability to efficiently raise capital to finance ISP projects, and other costs associated with augmentation and replacement of transmission assets, and maintaining and operating their transmission systems.¹⁷

TNSPs have an exclusive right to build, own and operate transmission solutions in the NEM but no obligation to deliver transmission projects under the national regulatory framework.¹⁸ Given this, there is a risk that financeability issues may delay investment in transmission infrastructure, including actionable ISP projects.¹⁹

2.1.2

The existing regulatory framework is not sufficiently flexible to address financeability challenges that may arise in future

The Minister agrees with the Commission's view from the TPIR Stage 2 Final report that the current regulatory framework in the NER is not sufficiently flexible to enable the AER to address potential financeability challenges when making revenue determinations.²⁰

The AER has some flexibility under the current arrangements to adjust the profile of regulatory allowances, including through depreciation. However, further clarity is required on

¹⁷ Where new transmission projects are being developed with similar characteristics to the existing system, and the RAB has a diversity of assets with different lives, new transmission projects can generally be absorbed without a significant impact on these financial metrics. However, TNSPs may be constrained in adapting their capital structure to meet the scale and sequencing of ISP projects, leading to financeability issues.

¹⁸ The NEL and NER do not expressly provide that the primary TNSP (PTNSP) has the exclusive right to implement major transmission projects in its region. There are several examples of transmission projects in the NEM that have been undertaken by a person other than the PTNSP, such as BassLink, MurrayLink, DirectLink and the proposed CopperString 2.0 project. However, there is currently no regulatory process to facilitate the contestable procurement of transmission projects, and the proponent of a contestable project would face considerable regulatory uncertainty.

¹⁹ The exclusive right of a TNSP to undertake an actionable ISP project is time limited under the current NER. Under clause 6A.8.2(b)(5), if a TNSP makes an application to amend a revenue determination for a contingent project the TNSP is to set out the intended date for commencing the contingent project, which must be during the regulatory control period. Under clause 6A.8.2(a1) the application has to be made as soon as practicable after the trigger event occurs.

²⁰ Rule change request, p. 2.

how the AER should assess and, if necessary, adjust depreciation profiles for ISP projects to address cash-flow concerns to support financeability.²¹ For this reason, the TPIR Stage 2 final report recommended that the rules regarding depreciation for TNSPs be amended to provide the AER with the explicit discretion to vary the depreciation profile for an actionable ISP project, on a case-by-case basis, following a request for amendment from a TNSP.

The current framework for the return of capital through depreciation of transmission assets is set out in Box 1 below.

BOX 1: CURRENT FRAMEWORK FOR DEPRECIATION OF TRANSMISSION ASSETS

Under the current framework, the return of capital through depreciation is set by the AER under clause 6A.6.3 of the NER. This requires the AER to:

- set depreciation profiles that reflect the nature of the assets or category of assets over their economic life, under clause 6A.6.3(b)(1)
- set economic lives, depreciation methodologies and rates underpinning the calculation of depreciation for a given regulatory control period consistently for the same type of assets, under clause 6A.6.3(b)(3)
- depreciate an asset (or group of assets) on a straight-line basis over the life of which that asset (or group of assets) was first included in the RAB where:
 - they are dedicated to one transmission network user (not being a distribution network service provider) or a small group of transmission network users, under clause 6A.6.3(c)(1)
 - the value of the assets (or group of assets), as included in the value of that RAB at the beginning of the first regulatory year of the current regulatory control period, exceeds the indexed amount, at the commencement of that regulatory control period, of \$20 million, under clause 6A.6.3(c)(2)

Where the requirements under clause 6A.6.3(c) to use straight-line depreciation do not apply, the AER may adopt a different approach. For example, where assets (or groups of assets) are not dedicated to one transmission network user and are valued at less than \$20 million.

Based on the current list of ISP projects set out in Appendix B, this exception is unlikely to be relevant for most ISP projects. This is because the projects are expected to be major transmission projects that cost more than \$20 million, and so would need to be depreciated on a straight-line basis under current clause 6A.6.3(c).

Where clause 6A.6.3(c) does not apply, the AER's view provided to the AEMC during the TPIR review was that it was unclear whether the AER's discretion extends to resolving financeability concerns by adjusting depreciation timing, even when this would best achieve the NEO.(a)

Source: AEMC.

Note: (a)AEMC, *Transmission Planning and Investment Review - Stage 2 Draft report*, 2 June 2022, p. 14.

²¹ AEMC, *Transmission Planning and Investment Review - Stage 2 Final report*, 27 October 2023, p. 9.

2.2 The problem is material in relation to financeability challenges for ISP projects

The Minister's explanation of the financeability problem in the rule change request is consistent with the Commission's assessment in TPIR. The Minister considers that there is a material risk that successive ISPs result in a large amount of new investment for TNSPs, relative to their existing RAB.²² The Minister suggests that this could place pressure on TNSPs cash flows and by extension their credit metrics, in the absence of alternative methods to address financeability concerns, such as sourcing financing from the Commonwealth, including through the RTN program.²³

There is a material risk that successive ISPs result in a large amount of new investment for TNSPs, relative to their existing RABs. Appendix B shows that the order of magnitude of potential costs for ISP projects in AEMO's 2022 ISP Optimal development path (ODP), that may need to be financed in the future, is material relative to the 2023-2024 opening RABs for some TNSPs. There are uncertainties regarding the magnitude of ISP costs that may need to be financed in the future, including (but not limited to) the reasons outlined below:

- some committed ISP projects have already been financed to some extent
- it is unknown whether decisions will be made to invest in actionable and future ISP projects in the future
- it is unknown whether future ISP projects will become actionable ISP projects
- the estimated range of costs for ISP projects are subject to refinement, for example due to a change in transmission route selection.

Given that the potential order of magnitude of ISP costs that may need to be financed in future is material, there is a foreseeable risk that TNSPs may face financeability issues relating to actionable ISP projects. This may delay decisions to invest in actionable ISP projects.²⁴ If this occurs, it may:

- delay investment in new renewable generation and battery storage
- delay the transition to net zero
- impact the reliability and security of the power system, compared to more timely investment in ISP projects.

QUESTION 1: IDENTIFYING THE PROBLEM

Do stakeholders have any new information or views on the problem raised in this rule change request, having regard to what has already been consulted on and established in TPIR?

²² Rule change request, p. 2.

²³ Rule change request, p. 1.

²⁴ While the rule change request relates specifically to actionable ISP projects, there is the potential for projects that were classified as 'future ISP projects' in AEMO's 2022 ISP ODP to be re-classified as 'actionable ISP projects' in future versions of AEMO's ISP.

3 THE PROPOSED SOLUTION AND IMPLEMENTATION

This chapter sets out and seeks feedback on:

- the proposed solution in the rule change request, which includes the three elements of:
 - allowing depreciation to be varied for actionable ISP projects (section 3.1)
 - recognising and managing biodiversity offset costs (section 3.2)
 - clarifying the treatment of depreciation for asset classes (section 3.3)
- the suitability of the proposed solution to resolve the problem raised in the rule change request
- the costs and benefits of the proposed solution
- how the proposed solution may be implemented.

3.1 Allowing depreciation to be varied for actionable ISP projects

The proposed solution is to amend the NER to enable the depreciation profile of assets that form part of an actionable ISP project to vary from the straight-line approach. This section explains this proposal solution and following design matters related to it.

- How to assess financeability applications, including through the use of principles or a prescriptive test, and the appropriate level of AER discretion?
- Whether the financeability assessment should be at the TNSP RAB level or the ISP project level?
- How may the proposed solution apply in Victoria?
- What process and timing should apply to the assessment of a TNSP's request to vary depreciation?

3.1.1 Overview of the proposed solution to vary depreciation

To address the foreseeable risk that financeability challenges arise for TNSPs in relation to actionable ISP projects, the Minister proposes the following.²⁵

- A TNSP may submit a request to the AER to approve that an asset (or group of assets) that forms part of an actionable ISP project is depreciated on a basis other than a straight-line basis.²⁶
- The AER is provided with explicit discretion to vary the depreciation profile for actionable ISP projects.²⁷ The AER would assess TNSPs requests to vary the depreciation profile of ISP projects, on a case by case basis, and in doing so must have regard to a set of principles set out in the NER.²⁸

Further detail on design matters relating to the proposed solution are set out in sections 3.1.2 to 3.1.5 below.

²⁵ These proposed changes reflect the recommendations in AEMC, *TPIR Stage 2 – Final report*, 27 October 2022, p. 7.

²⁶ Rule change request, proposed rule 6A.6.3(d), p. 14.

²⁷ Rule change request, p. 3.

²⁸ Rule change request, proposed rule 6A.6.3(f), p.13.

3.1.2**How to assess financeability applications**

There are three aspects related to the AER's assessment of financeability applications from TNSPs for actionable ISP projects:

- whether the assessment should be based on principles or a prescriptive approach
- what level of discretion should be provided to the AER
- what factors should be taken into account in the assessment.

For context, Box 2 below provides an overview of the level of flexibility provided to the AER to depreciate electricity transmission and distribution assets, and gas pipeline assets, under the current provisions of the NER and National Gas Rules.

BOX 2: CURRENT ARRANGEMENTS FOR DEPRECIATION OF GAS AND ELECTRICITY ASSETS

In relation to gas pipeline assets, in 2019 the AEMC made a rule to provide full discretion to the AER in relation to depreciation, when assessing access arrangement proposals from pipeline service providers. The final determination noted that regulatory decision-making would be improved through the removal of limitations on regulatory discretion applied to certain elements of an access arrangement.^(a)

In relation to electricity transmission assets, the current regulatory framework is not sufficiently flexible to address financeability challenges that may arise in future. For more information, see section 2.1.2 of this consultation paper.

The current regulatory framework for depreciation of electricity distribution assets is similar to that for depreciation of electricity transmission, with some differences. NER clause 6.5.5 requires the AER to set depreciation profiles that reflect the nature of the asset or category of assets over their economic life. The AER has to set the economic life, depreciation methods and rates of depreciation consistently for the same type of assets. While the AER must depreciate assets on a straight-line basis, assets that have been included in a TNSP's RAB that are valued at more than \$20 million, there is no such requirement in relation to assets that have been included in DNSP's RABs.

Source: AEMC.

Note: (a) AEMC, *Regulation of covered pipelines*, Final determination, 14 March 2019, p. ii.

Should the assessment be based on principles or a prescriptive approach?

The rule change request seeks to implement a process where a TNSP planning to carry out an actionable ISP project may apply to the AER for the use of a depreciation profile that is not straight-line depreciation for assets related to that specific project. This creates a decision-making process for the AER who must consider the application.

The Minister considers that the AER should assess financeability applications from TNSPs to vary the depreciation profile for actionable ISP projects using a principles-based approach, as

this would provide flexibility to address the financeability challenges on a case-by-case basis.²⁹

However, the Minister also notes that, in this rule change process, the Commission should consider the use of principles vs a prescriptive test for assessing whether to vary the depreciation profile for an actionable ISP project.³⁰ This question has previously been considered during TPIR.³¹ However, further consideration of whether to apply a principles-based approach or a prescriptive test will be part of this rule change process with reference to the rule drafting philosophy.

What level of discretion should be provided to the AER?

The issue of using a principles or prescriptive approach for the AER's assessment of a TNSP's depreciation application, is related to the issue of the appropriate balance between providing flexibility for the AER through a principles-based approach and providing greater certainty for TNSPs and their investors through a prescriptive test. The implications of applying each of these approaches may be as follows:

- Greater AER discretion: A principles-based approach may include qualitative and quantitative factors. The AER may have discretion to assess financeability applications by balancing the overall impact of varying depreciation of an actionable ISP project, among other decisions on building blocks that impact overall revenue for TNSPs and overall transmission prices that form part of consumer's electricity prices. For example, this may involve the AER balancing decisions to approve TNSPs forecast capital and operating expenditure for a regulatory control period, with its decisions on whether to vary depreciation for an actionable ISP project.
- Limited or no discretion for the AER:
 - For example where a prescriptive financeability test is set out in the NER that must be applied by the AER. A prescriptive approach could direct the AER to consider either or both qualitative and quantitative factors. This type of approach may not provide any discretion for the AER to take into account other factors, such as other decisions on building blocks that impact overall revenue for TNSPs and overall transmission prices that form part of consumer's electricity prices.
 - Alternatively, some discretion may be provided to the AER by specifying certain factors that must be considered and others that may be taken into account when making a decision. For example, these factors could include any one of the principles proposed in this rule change request and/or any other factors, such as whether a TNSP has received concessional finance for an actionable ISP project.

²⁹ Rule change request, pp. 2; 5.

³⁰ *Ibid*, p. 6.

³¹ See Appendix A for an outline of previous stakeholder views on this issue.

What factors should be taken into account in the assessment?

The Minister proposes that the AER should assess financeability applications from TNSPs to vary the depreciation profile of actionable ISP projects using three principles to be set out in an amended clause 6A.6.3(f) of the NER. These principles are outlined in Box 3 below.³²

BOX 3: PROPOSED PRINCIPLES TO ASSESS FINANCEABILITY

Principle 1: The relative consumer benefits (having regard to the reliability and price risk associated with transmission delivery delays) from the provision of network services over time (the inter-generational equity principle).

Principle 2: The capacity of the TNSP to efficiently finance its overall RAB, including efficient capital expenditure (which focuses on the capacity to finance a project at the network business level, rather than at the project level).

Principle 3: Any other factors the AER considers relevant, having regard to Principles 1 and 2.

Source: Rule change request, p. 5.

These principles are similar to, but slightly different from, the principles recommended in the TPIR Stage 2 Final report. The rule drafting for Principle 1 in clause 6A.6.3(f)(1) of the proposed rule³³ is the same as the rule drafting for clause 6A.6.3(f)(1) recommended in TPIR.³⁴

However, the rule change request also links Principle 1 to the reliability and price risk associated with transmission delivery delays.³⁵ In the TPIR Stage 2 Final report, Principle 1 related to allowing a project to proceed in a timely manner so that consumer benefits could be unlocked however it did not refer to reliability and price risk.³⁶

There are a range of other factors that could be used by the AER to assess financeability applications which may include (but not be limited to):

- funds from operations (FFO)/net debt
- FFO/RAB
- FFO interest coverage
- net debt/RAB
- whether any concessional finance has been provided to the TNSP for that ISP project.

Section 3.1.3 below provides further information and questions in relation to principle 2, which proposes that the financeability assessment is at the TNSP RAB level and not at the ISP project level.

³² Rule change request, pp. 6-7.

³³ Rule change request, p. 14.

³⁴ AEMC, *Proposed rule change – TPIR Stage 2*, 27 October 2022, pp. 4.

³⁵ Rule change request, p. 6.

³⁶ AEMC, *TPIR Stage 2 – Final report*, 27 October 2023, p. 12.

QUESTION 2: HOW TO ASSESS FINANCEABILITY APPLICATIONS

- (a) Should TNSPs have to submit an application to the AER to vary the depreciation profile of actionable ISP projects? If so, what information should this include?
- (b) Should the AER vary the depreciation profile of actionable ISP projects using principles or a prescriptive approach?
- (c) What level of AER discretion is appropriate?
- (d) Do you consider that the proposed principles are appropriate? Should any other assessment factors be taken into account?

3.1.3**Should the financeability assessment be at the TNSP RAB level or project level?**

The proposed rule specifies that the AER's financeability assessment is undertaken at the TNSP RAB level and not the ISP project level and notes:

- This approach is in line with the AER's requirements to have regard to the regulated network business as a whole when setting the regulated revenue TNSPs can recover, under NER clause 6A.1.1³⁷
- It reflects the TPIR Stage 2 Final report which notes that the core parts of the regulatory framework reflect economic assessment at the regulated network business level. For example, the allowed rate of return is set for regulated network service providers and not individual projects. The revenue and pricing principles also make it clear that it is the "regulated network service provider" that "should be provided with a reasonable opportunity to recover at least efficient costs".³⁸

The Minister notes that, in this rule change process, the Commission should consider whether the assessment of an application to vary the depreciation profile for an actionable ISP project is at the regulated business level or the project level.³⁹

The Commission will consider whether the financeability assessment should take into account TNSP's financing for:

- unregulated business activities that may be carried out by TNSPs
- transmission assets that are delivered under state based schemes, such as the NSW Electricity Infrastructure Investment (EII) Act.

QUESTION 3: LEVEL OF FINANCEABILITY ASSESSMENT

- (a) Should the financeability assessment be at the TNSP RAB level or the ISP project level?

³⁷ Rule change request, p. 6.

³⁸ Rule change request, p. 7.

³⁹ Ibid, p. 6.

(b) Should the financeability assessment take into account TNSP's financing of unregulated business activities and transmission assets that are delivered under state-based schemes?

3.1.4

How may the proposed solution apply in Victoria?

The rule change request proposes to provide greater flexibility to vary depreciation for actionable ISP projects in the NEM.

Transmission arrangements are different in Victoria from other jurisdictions in the NEM. Victoria is the only jurisdiction in the NEM where AEMO has declared network functions. Under the contestable framework in Victoria, transmission network planning functions are separated from network ownership and operation so that the functions undertaken by TNSPs elsewhere are split between AEMO and Victorian declared transmission system operators:

- AEMO is responsible for planning and procuring the augmentation of the Victorian shared transmission network.
- Declared transmission system operators (DTSOs) own and operate transmission infrastructure. AusNet is the principal DTSO in Victoria.⁴⁰

The rule change request does not comment on whether there may be a need for different arrangements to apply in Victoria. However, this may be relevant in relation to the application of the rule (if made) for Victoria, including whether the rules should clarify any functions or responsibilities between AEMO and DTSOs in Victoria.

QUESTION 4: APPLICATION OF PROPOSED RULE IN VICTORIA

Do you think there should be different arrangements in Victoria, compared to the rest of the NEM, to address financeability issues? If so, what differences need to be accommodated for and how?

3.1.5

What process should apply for the financeability assessment?

The process proposed by the Minister to apply for a financeability assessment is based on the process we proposed in TPIR.

Clause 6A.6.3 of the proposed rule sets out the following steps related to the assessment of a financeability application:

- A TNSP may, prior to submitting a request to vary the depreciation profile of assets that form part of an actionable ISP project, submit a request (an initial request) to the AER to develop and publish an issues paper that:

⁴⁰ In 2021, AusNet owned and operated 99 per cent of Victorian shared transmission network assets. AusNet Services, *Submission to Draft Determination: Efficient management of system strength on the power system rule change*, 17 June 2021. As of 17 December 2020, the DTSOs owning, controlling or operating sections of the Victorian declared transmission system included AusNet Services, TransGrid (operating as NSW Electricity Networks Operations Pty Ltd), TransGrid Services, Rowville Transmission Facility Pty Ltd, Transmission Operations (Australia) Pty Ltd and Transmission Operations (Australia) 2 Pty Ltd.

- provides an indication on whether the asset (or group of assets) should be depreciated on a basis other than on a straight line basis and, if so, may indicate a range of depreciation profiles; and
 - identifies key matters that the AER considers necessary to have regard to in making a determination under proposed new clause 6A.6.3(d) for the asset (or group of assets).
- An initial request must be made no earlier than six months, and no later than four months, prior to the TNSP submitting an application under clause 6A.8.2(a) in relation to the relevant asset (or group of assets).
- If a TNSP makes an initial request under proposed new clause 6A.6.3(h), the AER must develop and publish an issues paper on the initial request within two months of receiving the initial request:
- The AER may request from the TNSP additional information or analysis that the AER considers reasonably necessary to assist it in publishing an issues paper under proposed new clause 6A.6.3(j)
- If the AER requests additional information or analysis under proposed new clause 6A.6.3(k), then the period of time for publishing an issues paper under proposed new clause 6A.6.3(j) is automatically extended by the period of time it takes the TNSP to provide the additional information or analysis to the AER.
- A request to vary the depreciation profile of assets that form part of an actionable ISP project under proposed new clause 6A.6.3(d), must be made at the same time as submitting a contingent project application (CPA) under clause 6A.8.2(a)

QUESTION 5: FINANCEABILITY ASSESSMENT PROCESS AND TIMING

Is the proposed process and timing to assess requests to vary depreciation for actionable ISP projects practical and efficient? If not, what alternative processes and timings do you suggest be specified in the NER?

3.2 Recognising and managing biodiversity offset costs

This section discusses:

- biodiversity offset arrangements across jurisdictions of the NEM
- allowing TNSPs to depreciate biodiversity offsets to be recovered on an as incurred basis
- whether the biodiversity offset depreciation should also apply to intending TNSPs (ITNSPs).

3.2.1 Biodiversity offset arrangements across jurisdictions of the NEM

A number of TNSPs may have incurred (or may incur in the future) biodiversity offset costs to meet their biodiversity conservation obligations under state legislation.

For example, the *Biodiversity Conservation Act 2016* in NSW establishes the Biodiversity Offset Scheme (BOS). Under the BOS, applications for development or clearing approvals must set out how impacts on biodiversity will be avoided and minimised. The remaining residual impacts can be offset by the purchase and/or retirement of biodiversity credits or payment to the Biodiversity Conservation Fund.⁴¹

Transgrid has incurred biodiversity offset costs in relation to Project EnergyConnect and Humelink under this scheme, as explained in section 3.2.2 below.

The *Native Vegetation Act 1991 (SA)* and associated regulations in South Australia establishes a framework for preserving and enhancing native vegetation. Parties who modify native vegetation may be required to offset the impacts on biodiversity resulting from any clearance activity. As a result, ElectraNet has incurred biodiversity offset costs in relation to Project EnergyConnect, as explained in section 3.2.2 below.

QUESTION 6: BIODIVERSITY OFFSET ARRANGEMENTS ACROSS NEM JURISDICTIONS

- (a) Do TNSPs have obligations to conserve biodiversity through biodiversity offsets, or other arrangements, in each jurisdiction of the NEM?
- (b) If so, are the costs of meeting these biodiversity obligations likely to impact financeability of actionable ISP projects?

3.2.2

Proposed solution

In the rule change request, the Minister suggests that TNSPs' costs of meeting biodiversity conservation obligations for ISP projects are expected to:⁴²

- account for a material proportion of overall ISP project costs
- materially impact the financeability of ISP projects, in the absence of being depreciable.

For these reasons, the Minister suggests that TNSPs should be able to commence recovery of depreciation for biodiversity offset costs, on an as incurred basis, during construction of an ISP project.⁴³ This proposed amendment would have the effect of changing the current approach where depreciation does not commence for any asset class until the asset's operational life has commenced and it is providing prescribed transmission services to consumers.

The Minister suggests that the NER should be amended so the AER has discretion to vary depreciation for biodiversity offsets (where it will promote the NEO). This would mean that TNSPs do not need to apply to vary depreciation for biodiversity offsets. This is different from

⁴¹ Part 6 of the *Biodiversity Conservation Act 2016* (NSW).

⁴² Rule change request, p. 4.

⁴³ Rule change request, p. 5.

the proposed approach for other assets of an actionable ISP project, for which TNSPs would need to apply to the AER to vary depreciation.⁴⁴

The Minister suggests that depreciation of biodiversity offset costs for ISP projects should start to be recovered earlier than other asset classes that comprise an ISP project because:⁴⁵

The utility of biodiversity offsets begins when construction - which disturbs the natural environment - commences and the biodiversity offset ensures a degree of protection for the impacted species. This early public utility as compared to other asset classes gives merit to commencing depreciation of biodiverse offsets during construction, but only where doing so contributes to achievement of the NEO.

The Minister considers that depreciating biodiversity offsets on an as-incurred basis could promote the NEO on the basis that:⁴⁶

It could overcome or mitigate TNSPs financeability concerns in a Net present value (NPV) neutral manner, particularly in the period before the changes subject to this rule change can be applied to major ISP projects.

Depreciating biodiversity offsets on an as incurred basis could promote the NEO in a number of ways, for example:

- Reduce (both upfront and retrospectively) the amount of Rewiring the Nation funding used to address TNSPs' financeability concerns. The use of Rewiring the Nation funding to address financeability concerns is not NPV neutral; it provides a financial benefit to the TNSP. This financial benefit, however, could have otherwise been used to lower electricity consumers' costs had it not been needed to address financeability.

The rule change request notes that there have been cases where biodiversity offsets have not been treated as a depreciating asset class. The Minister suggests that treating biodiversity as a non-depreciable asset class results in lower cash flow for TNSPs in the initial stages of a project, potentially resulting in financeability issues.⁴⁷

The Commission seeks feedback on the rule change proposal. In addition to the information provided in the rule change request, we note that TNSPs may have options to efficiently meet their biodiversity conservation obligations. For example in NSW, TNSPs may purchase land for biodiversity offsets or make payments to the Biodiversity Conservation Fund.⁴⁸

The following additional information is related to the proposed solution to allow TNSPs to recover depreciation of biodiversity offset costs on an as incurred basis.

- **Current requirements for depreciation schedules:** Under current clause 6A.6.3(b)(1) of the NER, depreciation schedules must depreciate using a profile that

44 *ibid.*

45 *ibid.*

46 *ibid.*

47 *ibid.*

48 Under Part 6 of the *Biodiversity Conservation Act 2016* (NSW).

reflects the nature of the assets or category of assets over the economic life of that asset or category of assets. This approach has been long-standing for assets such as transmission lines, substations and reflects the view that consumers do not receive prescribed transmission services from (or use) these assets until they are commissioned. It is relevant to consider whether this approach is appropriate for biodiversity offsets, or whether consumers do receive a benefit and should start paying TNSPs for biodiversity offset costs before they start to receive prescribed transmission services.

- **Biodiversity conservation obligations on TNSPs:** Enabling biodiversity offset costs to flow through to consumers prior to the use of an asset needs to be considered with regard to the operation of the relevant biodiversity scheme. For example, in NSW, TNSPs undertaking development activities are required under state legislation to purchase Biodiversity Offset Credits where there are unavoidable biodiversity impacts arising from the development of infrastructure assets. Under such arrangements, development consent may not be granted and work cannot be progressed on these projects until such time as the TNSP has met all of its requirements under the scheme.⁴⁹ The implication of development consent not being granted on the regulatory framework has not been discussed in the rule change request.
- **Materiality of biodiversity offset costs:** There is uncertainty around biodiversity offset costs, which vary greatly between ISP projects. Some estimates of biodiversity offset costs for ISP projects are material:
 - **Humelink:** Transgrid's estimated environmental offset costs⁵⁰ of \$935m or around 28 per cent of the total estimated cost of \$3,317m for Humelink.⁵¹
 - **Project EnergyConnect:**
 - Transgrid: the AER approved environmental offset costs⁵² of \$125m or around 7 per cent of the AER's total forecast expenditure of \$1,818m for Project EnergyConnect.⁵³
 - ElectraNet: the AER approved environmental offset costs⁵⁴ of \$3m or around 1 per cent of the AER's total forecast expenditure of \$1,818m for Project EnergyConnect⁵⁵
- **Project completion risk:** If TNSPs are allowed to start recovering depreciation for biodiversity offset costs before the ISP project has been completed, this would re-allocate ISP project completion risk from TNSPs to consumers. The rule change request does not set out any reasoning as to why this would be appropriate, nor does it consider how this risk could be managed in the regulatory framework.

⁴⁹ Part 7 of the *Biodiversity Conservation Act 2016 (NSW)*.

⁵⁰ In NSW, environmental offset costs relate to biodiversity offset costs.

⁵¹ Based on Option 3C, Transgrid's assessment in the Project Assessment Conclusions Report (PACR) was that Option 3C provides the greatest net benefits across all scenarios. These costs are estimated and are subject to change in the Humelink CPA stage two for construction, the process for which has not yet commenced. Transgrid, *Reinforcing the NSW Southern Shared Network to increase transfer capacity to demand centres (HumeLink)*, Project Assessment Conclusions Report, 29 July 2021, pp. 5; 29.

⁵² In NSW, environmental offset costs relate to biodiversity offset costs.

⁵³ AER, *Final decision - Transgrid Contingent Project - Project EnergyConnect*, May 2021, p. 1; 16.

⁵⁴ In South Australia, environmental offset costs relate to biodiversity offset costs.

⁵⁵ AER, *Final decision - ElectraNet Contingent Project - Project EnergyConnect*, May 2021, pp. 1; 12.

QUESTION 7: RECOGNISING AND MANAGING BIODIVERSITY OFFSET COSTS

- (a) Should land purchased for biodiversity offset reasons be depreciable? Should other biodiversity offset costs be depreciable?
- (b) Do you agree or disagree that recovering depreciation of biodiversity offset costs as incurred (as opposed to as commissioned), would be an appropriate solution to the financeability problem?
- (c) Are the nature of biodiversity offsets different from other assets that comprise a specific actionable ISP project, such that biodiversity offsets should be depreciated on a different basis to other assets?
- (d) Is it appropriate that consumers pay for biodiversity offset costs before actionable ISP projects have been completed? Should completion risk be re-allocated from TNSPs to consumers?
- (e) Do you agree with the proposal to not require TNSPs to apply to vary depreciation for biodiversity offset costs for actionable ISP projects, but to provide the AER with discretion to vary depreciation in such cases?

3.2.3**Depreciating biodiversity offsets costs by intending TNSPs**

In December 2022, the AEMC made a rule that clarified the ability of the AER to establish a revenue determination for an entity that is intending to become, but is not yet, a TNSP (an intending TNSP (ITNSP)).⁵⁶ The final rule:

- allowed ITNSPs to capitalise the return on capital using the rate of return instrument (RORI) during the period before an ITNSP starts recovering revenue for the provision of prescribed transmission services
- did not allow ITNSPs to recover the return of capital (depreciation) during the period before an ITNSP starts recovering revenue for the provision of prescribed transmission services.

In this rule change, the proposed solution would allow depreciation of biodiversity offsets to be recovered on an as incurred basis for TNSPs, however it does not comment on whether this may also apply to ITNSPs. This is an issue that could be clarified in the NER.

To assist consideration of this issue, Table 3.1 sets out the arrangements for return on capital and return of capital (depreciation) as incurred during construction, and after prescribed transmission services start to be provided, for TNSPs and ITNSPs.

⁵⁶ An ITNSP is an Intending Participant or Market Network Service Provider who intends to provide prescribed transmission services. AEMC, *Final determination — Establishing revenue determinations for Intending TNSPs*, 22 December 2022, p. 11.

Table 3.1: Current, proposed and alternative depreciation arrangements for TNSPs and ITNSPs

	ISP PROJECT UNDER CONSTRUCTION	ISP PROJECT COMPLETE AND PROVIDING PRESCRIBED TRANSMISSION SERVICES
Current arrangements for ITNSPs	<ul style="list-style-type: none"> May capitalise the return on capital into the RAB, but are not paid until start providing prescribed transmission services. Can not recover depreciation. 	Can recover return on capital and depreciation, as the ITNSP is then a TNSP.
Minister’s proposed solution to vary depreciation and allow TNSPs to recover depreciation of biodiversity offset costs as incurred.	Allow TNSPs to recover depreciation for biodiversity offsets costs as incurred.	<p>Can recover return on capital and depreciation.</p> <p>Can vary depreciation on a basis other than a straight line basis, if proposed rule is made.</p>
Alternative proposal we raised in this consultation paper. Vary depreciation and allow TNSPs and ITNSPs to recover depreciation of biodiversity offset costs as incurred.	<ul style="list-style-type: none"> Allow TNSPs to recover depreciation for biodiversity offsets costs as incurred. Allow ITNSPs to capitalise into the RAB the depreciation of biodiversity offsets costs as incurred, but not be paid until start providing prescribed transmission services. 	<p>TNSPs and ITNSPs (then TNSPs) can:</p> <ul style="list-style-type: none"> recover return on capital and depreciation; and vary depreciation on a basis other than a straight line basis.

Source: AEMC.

QUESTION 8: APPLICATION OF PROPOSED SOLUTION TO INTENDING TNSPS

If TNSPs are able to recover depreciation of biodiversity offsets on an as incurred basis, should this be extended to intending TNSPs?

3.3

Clarifying the treatment of depreciation for asset classes

The rule change request proposes that the AER should be required to explicitly outline how depreciation is expected to be applied for actionable ISP projects:⁵⁷

- for different types of assets, including biodiversity offsets
- in circumstances where financeability concerns are, and are not, present.

Amendments to the NER to this effect are intended to promote transparency and provide greater certainty of revenues to TNSPs as well as costs to consumers.⁵⁸

The current arrangements are:

- TNSP's assets must be depreciated based on depreciation schedules that use a profile that reflects the nature of the assets or category of assets over the economic life of that asset or category of assets.⁵⁹
- TNSPs asset's are depreciated by asset classes, for each regulatory year, in the AER's post tax revenue model (PTRM).

QUESTION 9: CLARIFYING DEPRECIATION TREATMENT OF ASSET CLASSES

(a) Do you agree with the proposal to require the AER to explicitly outline how depreciation would apply to all asset classes in actionable ISP projects? Should this include biodiversity assets?

(b) If you agree that the depreciation treatment of asset classes should be documented, how should it be implemented — through the NER, AER guidelines and/or other methods?

3.4

Suitability of the proposed solution?

The Minister suggests that the proposed solution will resolve the problem raised in the rule change request.

To date TNSPs have sought alternative methods to address their financeability concerns, such as sourcing financing from the Commonwealth, including through the Rewiring the National program.⁶⁰

The Minister expects that, if this rule is made, the AER's ability to vary the depreciation profiles for actionable ISP projects inside the regulated revenue framework would be the primary mechanism that TNSPs could use to address any financeability issues they may have.⁶¹

⁵⁷ *Rule change request*, p. 4.

⁵⁸ *Rule change request*, p. 4.

⁵⁹ NER clause 6A.6.3

⁶⁰ *Rule change request*, p.1.

⁶¹ *ibid.*

If the rule was made, it would provide the AER with greater flexibility to address financeability challenges related to actionable ISP projects, if they exist, by:

- varying the profile and timing of regulatory allowances, to address cash flow concerns⁶²
- allowing recovery of depreciation for biodiversity offset costs as incurred, during construction.

The proposed solution would also provide certainty for investors and transparency relating to the treatment of depreciation for different asset classes, including biodiversity offsets.

While the Commission has considered the issue of financeability challenges arising for TNSPs in relation to building actionable ISP projects, there may be alternatives to the solution set out by the Minister in the rule change request. These alternative solutions could be outside the NER.

QUESTION 10: WILL THE PROPOSAL RESOLVE THE PROBLEM?

(a) Will the proposed solution resolve the problem raised in the rule change request? Would it reduce or eliminate the need for concessional finance from governments for ISP projects?

(b) Could the problem be resolved by implementing only one or two of the elements of the proposed solution, as outlined below, instead of implementing the whole proposed solution?

- allowing depreciation to be varied for actionable ISP projects
- clarifying the treatment of depreciation for asset classes, including biodiversity offsets;
- allowing TNSPs to recover depreciation of biodiversity offsets on an as incurred basis.

(c) Are there any alternative solutions that would resolve the problem and be more preferable and aligned with the long-term interests of consumers?

3.5 What are the costs and benefits of the proposed solution?

The Minister considers that the proposed solution in the rule change request — which includes providing greater flexibility for the AER to vary depreciation, clarifying the treatment of depreciation for asset classes (including biodiversity offsets), and allowing depreciation of biodiversity offsets to be recovered on an as incurred basis — will have the impacts outlined below.

The benefits identified in the rule change request rest on developing a flexible solution to address potential future financeability issues for actionable ISP projects.⁶³ In the Minister's view, this enables timely investment in transmission infrastructure for actionable ISP projects, which supports:

- placing downwards pressure on electricity prices⁶⁴

⁶² *Ibid*, p. 2.

⁶³ *Rule change request*, p. 9.

⁶⁴ *Ibid*.

- reducing adverse impacts on electricity prices as the electricity system transitions⁶⁵
- the reliability and security of the supply of electricity⁶⁶
- the transition to net zero.⁶⁷

These potential benefits appear most relevant to electricity consumers (through electricity price impacts and the supply of electricity) and Australians more generally (through supporting the economy's transition to net zero). However, the potential impact on other participants in the electricity sector should also be considered.

The rule change request also sets out the following cost impacts:

- While varying depreciation of specific actionable ISP projects will not increase the total costs borne by consumers over the life of an asset, if the variation results in accelerated depreciation it could shift more of the costs to near-term consumers. However, in the Minister's view the proposed principles would require this to be balanced against the benefits of timely delivery of actionable ISP projects and the impacts on price, reliability and security.⁶⁸
- The Minister acknowledges that there would be administrative and compliance costs arising from making the proposed rule for the AER and TNSPs. However, he considers that these costs would not be material, and the AER would only need to assess the financeability of actionable ISP projects where this is requested by the TNSP.⁶⁹
- The AER:
 - may incur costs in developing a guideline relating to varying depreciation profiles of actionable ISP projects⁷⁰
 - would incur costs as it must develop guidelines that explicitly outline how and when depreciation is expected to be applied.

The potential benefits appear most relevant to electricity consumers (through electricity price impacts and the supply of electricity) and Australians more generally (through supporting the economy's transition to net zero). The cost identified impact the AER and relevant TNSPs. However, there may be other impacts that the rule change request has not identified. In addition, the potential impacts on other participants in the electricity sector should also be considered in assessing whether making the proposed rule is consistent with the NEO.

QUESTION 11: IMPACT OF THE PROPOSED SOLUTION

What are the potential impacts of the proposed solutions in the rule change request? How do these solutions impact consumers, TNSPs, the AER, other NEM participants and any other

⁶⁵ *Rule change request*, p. 8

⁶⁶ *ibid.*

⁶⁷ *Rule change request*, p. 9.

⁶⁸ *Rule change request*, p. 9.

⁶⁹ *ibid.*

⁷⁰ *Rule change request*, p. 10.

stakeholders?

3.6 What implementation issues might there be?

If the Commission were to make a rule change based on one or more of the proposed solutions in the rule change request, as described in sections 3.1, 3.2 and 3.3 of this consultation paper, it must then consider how that rule is to be implemented. These considerations include:

- which rules should be amended
- whether the AER should prepare guidance material on the new rule
- if transitional arrangements are needed.

3.6.1 Proposed rule drafting

The proposed rule is attached to the rule change request. It proposes to amend Chapter 6A of the NER by adding new clauses 6A.6.3(d), (e), (f), (g) and (h)⁷¹ as highlighted in the AEMC's TPIR Stage 2 Final report.

The proposed rule does not include three amendments to the NER that were included in the recommended rule drafting accompanying the TPIR Stage 2 draft report. These are amendments to NER clauses S6A.1.3(7)(ii), S6A.1.3(7)(iv) and to insert a definition of 'initial request' in Chapter 10 of the NER.⁷² The Minister has confirmed that these amendments were intended to be included in the proposed rule so it was the same as that recommended in TPIR Stage 2 draft report.

QUESTION 12: PROPOSED RULE DRAFTING

Separate from the issues addressed elsewhere in this consultation paper, does any part of the proposed rule drafting need to be clarified or changed?

3.6.2 Should the AER be required to develop guidelines about the rule?

The proposed solution is to include principles in the NER to enable the AER to assess applications to vary the depreciation profile of assets used in an actionable ISP project. If a principles-based approach is used and the AER has some degree of discretion, then this raises the question of whether the AER should provide additional guidance, such as through the development of guidelines, to support the implementation of the proposed solution.

⁷¹ *Rule change request*, pp. 11-18.

⁷² See AEMC, *Proposed Rule changes – TPIR Stage 2*, p. 8.

The Minister proposes that the AER develop guidelines that could provide further information in the rules change request. The proposed rules state that the AER may develop guidelines on:⁷³

- the approach the AER proposes to use to make a determination under clause 6A.6.3(d) for a TNSP to depreciate an asset (or group of assets) that form part of an actionable ISP project, on a basis other than a straight line basis;
- the information the AER requires for the purposes of that determination
- the information the AER requires for the purposes of developing and publishing the issues paper in accordance with clause 6A.6.3(h)
- any other matters the AER considers appropriate.

In addition, the rule change request suggests that if amendments to the NER regarding biodiversity offsets are also made, then the AER should explicitly outline in guidelines how and when depreciation is expected to be applied to different asset classes, including biodiversity offsets.⁷⁴ This is not included in the proposed rule.

In TPIR Stage 2, our final recommendation was to introduce depreciation principles in the rules and that it was not necessary to include a binding requirement for the AER to issue a guideline. However, we noted that given the complexity of this issue and considerable stakeholder interest, we expected that the AER would likely develop supplementary guidance setting out its detailed approach for assessing requests to vary the depreciation profile of an actionable ISP project. The proposed rules in TPIR indicated that the AER may make such guidelines.⁷⁵

QUESTION 13: AER GUIDANCE

Should the AER be required to develop and publish a document that provides guidance on:

- how it may vary the depreciation profile for assets that form part of an actionable ISP projects;
- clarify the treatment of depreciation for different asset classes, including biodiversity offsets; and
- any other matters?

If yes, should the NER require such guidance be provided by the AER in the form of a binding guideline, a discretionary non-binding guideline, a guidance note, or other documentation?

⁷³ Rule change request, p. 4; proposed clause 6A.6.3(g), p. 14.

⁷⁴ Rule change request, pp. 3-4.

⁷⁵ AEMC, TPIR Stage 2 — Final report, p. 14.

3.6.3**Are any transitional arrangements needed?**

Transitional arrangements may be needed to support the effective implementation of a rule. Such arrangements may be needed for the AER, TNSPs or any other stakeholder, to support predictable and stable management of the economic regulatory framework.

Time to develop AER guidance

The solution proposed in the rule change request is to include principles in the NER to enable the AER to assess applications to vary the depreciation profile of assets used in an actionable ISP project. The AER can make an assessment based on these principles and as soon as the rule is made.⁷⁶ The rule can then be supplemented by any guidance developed by the AER. This approach would enable the reform to be implemented more rapidly than if such AER guidance had to be developed first.

In TPIR Stage 2, we noted that we expected that the AER would publish any depreciation guideline approximately nine months after the relevant changes to the NER. This would provide stakeholders with the opportunity to engage in the process of developing this guideline. This would not prevent TNSPs from requesting a change in depreciation as soon as the new rules are published. This approach to implementation is consistent with stakeholder views, which emphasised the importance of giving effect to the reform quickly and the potential costs associated with delaying transmission projects.⁷⁷

The rule change request does not specify when the rule proponent considers that AER should publish its guidance document.

Amending AER models

The rule change request does not comment on the need to amend any AER models to implement this proposed solution. However, the proposed solutions may require amendments to the AER's models, such as the PTRM and/or the Roll forward model (RFM), which are used for TNSP revenue determinations. These amendments may be:

- temporary to enable a rule (if made) to commence operation as soon as possible after this rule change process, and/or
- permanent to support the ongoing implementation of a rule (if made).

Interactions with other reforms

The proposed solution may interact with other NER changes or reforms, such as the any rule made as a result of the Concessional finance rule change request that the AEMC is currently considering.

⁷⁶ Rule change request, p. 8.

⁷⁷ AEMC, TPIR — Stage 2 Final Report, p. 15.

QUESTION 14: TRANSITIONAL ARRANGEMENTS

- (a) If the proposed rule is made, should the AER be required to develop any guidance, or amend any AER models, before or after the commencement of the rule? If so, what level of prescription should be included in the NER?
- (b) If the proposed rule is made, should it provide a transitional period to enable market participants to prepare? If so, how long should such a transitional period be?
- (c) Is there a need for any transitional arrangements to assist with managing interactions other NER amendments or other market reforms? If so, what?

4 MAKING OUR DECISION

When considering a rule change proposal, the Commission considers a range of factors. This chapter outlines:

- issues the Commission must take into account
- the proposed assessment framework
- decisions the Commission can make
- rule-making for the Northern Territory.

4.1 The Commission must act in the long term interests of consumers

The Commission is bound by the National Electricity Law (NEL) to only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the national electricity objective.

The NEO is:⁷⁸

To promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system

4.2 We must also take these factors into account

The Commission must take into account the revenue and pricing principles set out in section 7A of the NEL in making certain rules.⁷⁹ Relevantly for this rule change request, we must take those principles into account in making rules with respect to the determination by the AER, for the purpose of making a transmission determination with respect to services that are the subject of such a determination, of allowances for depreciation.⁸⁰

The Commission considers the following revenue and pricing principles are the most relevant to this rule change request:

- A regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in—(a) providing direct control network services; and (b) complying with a regulatory obligation or requirement or making a regulatory payment.⁸¹
- A regulated network service provider should be provided with effective incentives in order to promote economic efficiency with respect to direct control network services the operator provides. The economic efficiency that should be promoted includes efficient

⁷⁸ Section 7 of the NEL

⁷⁹ Section 88B of the NEL refers to items 15 to 24 of the NEL, which cover transmission system revenue and pricing.

⁸⁰ NEL schedule 1 item 22.

⁸¹ Section 7A(2) of the NEL

investment in a distribution system or transmission system with which the operator provides direct control network services⁸²

- Regard should be had to the regulatory asset base with respect to a distribution system or transmission system adopted—(a) in any previous—(i) as the case requires, distribution determination or transmission determination; or (ii) determination or decision under the National Electricity Code or jurisdictional electricity legislation regulating the revenue earned, or prices charged, by a person providing services by means of that distribution system or transmission system; or (b) in the Rules.⁸³
- A price or charge for the provision of a direct control network service should allow for a return commensurate with the regulatory and commercial risks involved in providing the direct control network service to which that price or charge relates.⁸⁴
- Regard should be had to the economic costs and risks of the potential for under and over investment by a regulated network service provider in, as the case requires, a distribution system or transmission system with which the operator provides direct control network services.⁸⁵

4.3

We have three options when making our decision

After using the assessment framework to consider the rule change request, the Commission may decide:

- to make the rule as proposed by the proponent⁸⁶
- to make a rule that is different to the proposed rule (a more preferable rule), as discussed below, or
- not to make a rule.

The Commission may make a more preferable rule (which may be materially different to the proposed rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NEO.⁸⁷

4.4

Proposed assessment framework

The Commission has identified the following criteria to assess whether the proposed rule or a more preferable rule is likely to contribute to the achievement of the NEO. These are:

Outcomes for consumers:

- Does the proposal provide a reasonable balance between the benefits and costs borne by near-term and later-term consumers? Is the proposed inter-generational principle robust and practical?

⁸² Section 7A(3) of the NEL.

⁸³ Section 7A(4) of the NEL.

⁸⁴ Section 7A(5) of the NEL.

⁸⁵ Section 7A(6) of the NEL.

⁸⁶ Rule change request, pp. 13-20.

⁸⁷ Section 91A of the NEL.

Principles of good regulatory practice:

- Predictability and stability:
 - Does the proposal provides a stable and predictable framework for TNSPs, investors, consumers and the AER?
 - Whether the implementation of the proposed rule provides appropriate transitional arrangements for the AER, TNSPs and stakeholders, to support predictable and stable management of the economic regulatory framework?
- Prescription vs principles-based approach: Does the AER have an appropriate level of discretion in assessing whether to vary depreciation for an actionable ISP project? What is an appropriate balance between prescription and flexibility for the AER and relevant service providers for this issue?

Principles of efficiency

- Risk allocation: Would allowing TNSPs to recover the cost of depreciation for biodiversity offsets, as incurred during construction, appropriately allocate risk between TNSPs and consumers?
- Incentives: Would requiring the AER to clarify how different asset classes are to be depreciated, including biodiversity offsets, support incentives for TNSPs to deliver actionable ISP projects and provide prescribed transmission services at the lowest possible cost for consumers?

Decarbonisation, reliability and security

- Decarbonisation: Does the proposal support the financeability of actionable ISP projects in a timely manner, enabling new renewable generation and energy storage to deliver power to consumers more quickly, supporting decarbonisation of the NEM?
- Reliability and security outcomes: Does the proposal support the timely delivery of actionable ISP projects at an efficient cost, to enable the reliable and secure provision of energy to consumers over the long term?

QUESTION 15: ASSESSMENT FRAMEWORK

Do you agree with the proposed assessment framework? Are there additional principles that the Commission should take into account or are there principles that are not relevant?

4.5**The proposed rule would not apply in the Northern Territory**

Parts of the NER, as amended from time to time, apply in the Northern Territory, subject to modifications set out in regulations made under the Northern Territory legislation adopting the NEL.⁸⁸

⁸⁸ National Electricity (Northern Territory) (National Uniform Legislation) Act 2015 (NT Act). The regulations under the NT Act are the National Electricity (Northern Territory) (National Uniform Legislation) (Modification) Regulations 2016.

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The proposed rule would not apply in the Northern Territory, as it amends provisions in NER Chapter 6A and Chapter 10 that do not apply in the Northern Territory.⁸⁹ Consequently, the proposed rule will not be assessed against additional elements required by the Northern Territory legislation.

⁸⁹ Under the NT Act and its regulations, only certain parts of the NER have been adopted in the Northern Territory. The version of the NER that applies in the Northern Territory is available on the AEMC website at: <https://energy-rules.aemc.gov.au/ntner>.

ABBREVIATIONS

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
BOS	Biodiversity Offset Scheme
Commission	See AEMC
DTSO	Declared Transmission System Operator
ENA	Energy Networks Australia
FFO	Funds from operations
ITNSP	Intending TNSPs
ISP	Integrated System Plan
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
NPV	Net present value
NSW EII Act	NSW Electricity Infrastructure Investment Act
NT	Northern Territory
ODP	Optimal development path
PACR	Project Assessment Conclusions Report
Proponent	The proponent of the rule change request
PTNSP	Primary TNSP
PTRM	Post tax revenue model
RAB	Regulatory asset base
REZ	Renewable Energy Zone
RFM	Roll forward model
RORI	Rate of Return Instrument
RTN	Rewiring the nation
TNSP	Transmission Network Service Provider
TPIR	Transmission Planning and Investment Review

A PREVIOUS AEMC ENGAGEMENTS ON FINANCEABILITY OF ISP PROJECTS

This appendix provides background on:

- our consideration of financeability of ISP projects in two participant derogation rule changes
- our assessment of financeability in TPIR Stage 2 and our recommendation to provide the AER with explicit flexibility to vary depreciation to address financeability risk; and
- stakeholder views on financeability from TPIR Stage 2.

We note that, as outlined in section 3.1 of this consultation paper, we will further consider the appropriate level of discretion the AER should have to vary depreciation to address a financeability risk.

A.1 We considered financeability of ISP projects in two participant derogation rule changes

We considered related financeability issues in the Transgrid and ElectraNet financeability derogation rule change requests.

In our final determinations on these rule change requests, published in 2021, we determined not to make Transgrid and ElectraNet's proposed participant derogation which would have allowed Transgrid and ElectraNet to bring forward revenue for its share of actionable ISP projects.⁹⁰

In these final determinations, we recognised that we could not be certain whether financeability issues would arise in the longer term. We decided that we would further consider financeability, among other issues relating to the timely and efficient delivery of ISP projects, in TPIR.⁹¹

A.2 We considered stakeholder views and provided recommendations on financeability in TPIR Stage 2

Transmission is a critical enabler for the transition to net zero, both in the NEM and for 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 it quickly. TPIR was to recommend improvements to the regulatory frameworks for transmission investment and planning to support efficient investment in and timely delivery of major transmission projects.⁹²

Financeability was an area of focus for Stage 2 of TPIR.

⁹⁰ AEMC, Final determination — Participant Derogation — Financeability of ISP Projects (TransGrid) and Participant Derogation — Financeability of ISP Projects (ElectraNet), 8 April 2021, pp.34-35

⁹¹ AEMC, Final determination — Participant Derogation — Financeability of ISP Projects (TransGrid) and Participant Derogation — Financeability of ISP Projects (ElectraNet), 8 April 2021, pp.34-35

⁹² AEMC, Final report — TPIR, 4 May 2023, p. 1.

During our consultation with stakeholders in TPIR Stage 2, the issue of financeability was raised in relation to the concern that transmission investments could be delayed because incumbent TNSPs have an exclusive right to invest, but no clear corresponding obligation to invest.⁹³

Financeability presented an important issue in the context of a rapidly transitioning power system.⁹⁴

Given the complexity around the timing of major investments, we noted that cash-flow challenges may arise when a large amount of new investment relative to a TNSP's existing RAB occurs in a short period. In such circumstances, businesses may be unable to raise funds and adjust their capital structures within the required timeframe.

A.2.1

We recommended providing explicit flexibility to vary depreciation to address financeability risk

Our recommendation from the TPIR stage 2 final report was that the revenue-setting framework for TNSPs would benefit from increased flexibility to address the foreseeable risk that financeability challenges may prevent future actionable ISP projects from progressing in a timely manner.⁹⁵

Specifically, we proposed the following.⁹⁶

- The AER should have explicit discretion to vary the depreciation profile of an actionable ISP project through a NPV neutral adjustment. Such a change would be considered on a case-by-case basis following a request from a TNSP. This would support the capacity of TNSPs to finance efficient capital expenditure associated with such major projects.
- The NER should include a set of principles to guide the AER's approach when determining requests to vary the depreciation profile for a specific actionable ISP project.

The three principles recommended were:⁹⁷

- **Principle 1:** The relative consumer benefits from the provision of network services over time (inter-generational equity).
- **Principle 2:** The capacity of the network operator to efficiently finance its overall RAB, including efficient capital expenditure.
- **Principle 3:** Any other factors the AER considers appropriate and which may not be captured by principles 1 and 2.

The principles seek to provide greater clarity regarding the criteria against which the AER would assess the need to vary depreciation. This would provide TNSPs with better information to develop their project plans and funding arrangements ahead of the AER's decision, supporting the timely delivery of transmission projects.⁹⁸

⁹³ AEMC, *TPIR — Stage 2 Draft report*, 2 June 2022, p. 9.

⁹⁴ AEMC, *TPIR — Stage 2 Draft report*, 2 June 2022, p. 10.

⁹⁵ AEMC, *TPIR — Stage 2 Final report*, 27 October 2022.

⁹⁶ *Ibid.*, p. 7 and p. 10.

⁹⁷ *Ibid.*, p. 11.

⁹⁸ *Ibid.*, p. 11.

We considered that the development of principles in the rules, rather than requiring the AER to develop principles in guidelines, improves certainty and enables faster implementation.⁹⁹

- The AER should be able to make decisions to vary depreciation based on the depreciation principles in the NER without the need to first issue a guideline.
- The NER's principles could be supplemented with more detailed information in a guidance note at a later date. Enabling decisions to be made prior to finalising any sub-ordinate explanatory material regarding the new rules would allow the AER to undertake an assessment without having first issued a guideline, allowing these reforms to be implemented more quickly.

Additional information is set out in the AEMC's Stage 2 TPIR Final report.¹⁰⁰

A.2.2

Summary of stakeholder views on financeability

This section sets out a summary of stakeholder views from TPIR Stage 2 on whether financeability challenges are likely to arise for ISP projects, the recommended solution developed through the review and alternative solutions to this potential issue. These stakeholder views have been provided for information purposes only, and will not be treated as submissions to this rule change process.

Stakeholders had wide-ranging views on whether financeability challenges may arise, as outlined below.

- Transgrid and Energy Networks Australia (ENA) stated that financeability challenges are already evident with ISP projects, pointing to the experience of Project EnergyConnect.¹⁰¹ ENA rejected the AEMC TPIR Stage 2 draft report's characterisation that financeability concerns are only likely to occur in 'exceptional circumstances'.
- Some stakeholders agreed that financeability challenges may arise under future ISP scenarios given the scale, immediacy and/or sequencing of ISP investments.¹⁰²
- Other stakeholders did not consider that financeability challenges are likely to arise. In their view, the regulatory framework already adequately supports investment and there is insufficient evidence to conclude otherwise.¹⁰³ Another believed that caution should be taken before drawing definitive judgements around financeability, as in principle the RAB should serve as a sufficient guarantee of cashflows to allow any project to be financed, provided a TNSP receives its cost of capital.¹⁰⁴

There were mixed views on whether depreciation should be varied to address financeability challenges, with the majority of stakeholders supporting this proposal.

99 *ibid*, p. 15.

100 See: AEMC, TPIR Stage 2 — Final report, 27 October 2022: https://www.aemc.gov.au/sites/default/files/2022-10/stage_2_final_report.pdf

101 Submissions to the AEMC TPIR Stage 2 — Draft report: Transgrid p.1; ENA, p. 2

102 Submissions to the AEMC TPIR Stage 2 — Draft report: Re-alliance, p. 2; Tilt p. 2; AEMO, p. 3; CEFC p. 2.

103 Submissions to the AEMC TPIR Stage 2 — Draft report: AEC p.1; AGL p.1; EUAA p.4.

104 ENGIE, submission to AEMC TPIR Stage 2 — Draft report, p.2.

- Of those stakeholders that considered financeability issues may arise in the future, the majority supported varying depreciation as the appropriate solution to address these challenges.¹⁰⁵
- Some stakeholders raised reasons why depreciation should not be varied. These included potential consequences for inter-generational equity¹⁰⁶ and the view that varying depreciation may be a narrow solution, given that financeability issues may relate to a broader range of factors such as the rate of return.¹⁰⁷

Stakeholders supported providing the AER with discretion to vary depreciation, as outlined below.

- The majority of stakeholders supported providing the AER with the ability to exercise discretion and have flexibility when considering requests to vary depreciation profiles.
- Transgrid considered that a prescriptive approach would be more appropriate. Transgrid suggested that the AER should have limited flexibility both in terms of determining whether a financeability issue exists and how this should be addressed.¹⁰⁸
- Stakeholders had mixed views on the principles proposed to be applied by the AER in assessing a request to vary depreciation. These principles have been reflected in this rule change proposal.¹⁰⁹

Other stakeholders pointed to alternatives to varying depreciation, including:

- contestable procurement,¹¹⁰
- government funding of transmission projects through RTN or government underwriting the costs of early works.¹¹¹

105 Submissions to the AEMC TPIR Stage 2 — Draft report: AEMO p. 3; CIEG p. 2; ENGIE p. 2; EUAA p. 3; CEFC p. 2; ENA p. 2; Origin p. 1; ReAlliance p. 3; TasNetworks p. 1; Transgrid p. 4.

106 Submissions to the AEMC TPIR Stage 2 — Draft report: EUAA p. 4; NICE p. 10; PIAC p. 6.

107 Transgrid, submission to the AEMC TPIR Stage 2 — Draft report, p. 4 and p. 27.

108 Transgrid, submission to the AEMC TPIR stage 2 — Draft report, p. 4.

109 For more information, see AEMC, TPIR Stage 2 — Final report, pp. 12-13.

110 Submissions to the AEMC TPIR Stage 2 — Draft report: CIEG p. 6; PIAC p. 6; AEC p. 2.

111 Submissions to the AEMC TPIR Stage 2 — Draft report: CIEG p. 6, NICE p.2; PIAC p. 9; Snowy Hydro p. 3; TILT p. 2.

B

AEMO'S 2022 ISP AND ESTIMATED COST OF ISP PROJECTS

This appendix provides an outline of the following from AEMO's 2022 ISP ODP:

- a description of the categories of ISP projects
- projects that are actionable under the NSW EII Act framework and are not actionable under the ISP framework
- ISP projects that have been completed or are close to being completed
- ISP projects that may need to be financed to some extent in the future, including estimated costs.

AEMO's 2022 ISP ODP categorised and described ISP projects as outlined below.

- Committed and anticipated — these are the earliest projects in the ODP. They already have regulatory approval and are highly likely to proceed.¹¹²
- Actionable — urgent projects for which work should commence at the earliest possible time.¹¹³
- Future — projects which may include the need for the TNSP to undertake preparatory works or REZ design reports to enable more detailed consideration of the project in the next ISP.¹¹⁴

Projects that are actionable under the NSW EII Act

AEMO's 2022 ISP also included the following projects that are actionable under the NSW EII Act 2020, rather than actionable under the ISP framework.¹¹⁵

- Committed project — Central West Orana REZ transmission link¹¹⁶
- Actionable projects:
 - Sydney Ring — to reinforce Sydney, Newcastle and Wollongong supply
 - New England REZ transmission link.

ISP projects that have been completed or are close to completed

Outlined below are committed ISP projects in AEMO's 2022 ISP ODP that have been completed, or are close to completion. The costs of some of these projects have already been recovered from customers.

- **QNI Minor - Queensland – New South Wales Interconnector Minor upgrade:** In April 2020, the AER approved capital expenditure of \$218m for Transgrid to deliver VNI minor. Transgrid will recover this cost over 2021-22 and 2022-23.¹¹⁷

¹¹² AEMO, *2022 Integrated System Plan for the National Electricity Market*, June 2022 p. 66.

¹¹³ Ibid, p. 67.

¹¹⁴ AEMO, *2022 Integrated System Plan for the National Electricity Market*, June 2022, p. 12.

¹¹⁵ AEMO, *Integrated System Plan for the National Electricity Market*, June 2022, p. 13.

¹¹⁶ Government Gazette of the state of New South Wales, *Renewable Energy Zone (Central West Orana) Order 2021 - Number 569 - Electricity and Water*, 5 November 2021.

¹¹⁷ AER, *Final decision - Transgrid Contingent Project - QNI minor upgrade*, April 2020, p. 3.

- **VNI minor - Victoria to NSW interconnector upgrade:** In April 2021, the AER approved capital expenditure of \$45m for Transgrid to deliver VNI minor. Transgrid has and will recover this cost over 2021-22 and 2022-23.¹¹⁸
- **Eyre Peninsula link:** This project was completed by ElectraNet and has been operational since February 2023.¹¹⁹
- **Northern QREZ Stage 1:** this project is expected to be delivered by late 2023.¹²⁰

ISP projects that may require financing in future

Table B.1 below provides a list of ISP projects in AEMO's 2022 ISP ODP that have not yet completed, and may require finance to some extent to enable completion. There are uncertainties regarding the magnitude of ISP costs that may need to be financed in the future for a range of reasons including (but not limited to):

- the fact that some of these committed ISP projects have already been financed to some extent
- it is unknown whether decisions will be made to invest in actionable and future ISP projects in future
- it is unknown whether all the future ISP projects will become actionable ISP projects
- the estimated range of costs for ISP projects are subject to change, for example due to refinement of transmission routes and other costs.

118 AER, *Final decision - Transgrid Contingent Project - Victoria-New South Wales (VNI) Interconnector minor upgrade*, April 2021, p.4.

119 ElectraNet, *Eyre Peninsula Link website*, accessed 19 April 2023: <https://www.electranet.com.au/projects/eyre-peninsula-link/>

120 AEMO, *2022 Integrated System Plan for the National Electricity Market*, June 2023, p. 13.

Table B.1: Estimated cost of ISP projects that may need finance

TNSP	ISP PROJECT IN AEMO'S 2022 ISP ODP	ISP PROJECT STATUS	RANGE OF ES- TIMATED COSTS	2023-24 OPENING RAB
Transgrid	Project EnergyConnect	Committed	\$1,818m	\$8,815m
	Humelink	Actionable	\$953 - \$3,315m	
	New England REZ extension	Future	\$891 - \$2,316m	
Total estimated range of Transgrid ISP costs			\$3,662 - \$7,449m	
Powerlink	QNI connect	Future	\$384 - \$3,125m	\$7,216m
	Central to Southern Qld	Future	\$55 - \$1,615m	
	Darling Downs REZ expansion	Future	\$43m + Battery Energy Storage System (BESS) costs.	
	Gladstone grid reinforcement	Future	\$408m	
	Far north Qld REZ expansion	Future	\$155 - \$1,893m	
	Facilitating power to Central Queensland	Future	\$37m	
Total estimated range of Powerlink ISP costs			\$1,082 - \$7,121m	
ElectraNet	Project EnergyConnect	Committed	\$457m	\$3,854m
	South East South Australia REZ expansion	Future	\$57 - \$571m	
	Mid north SA REZ expansion	Future	\$340 - \$582m	
Total estimated range of ElectraNet ISP costs			\$854 - \$1,610m	
AusNet	Western Renewable Link	Committed	\$152 - \$1,072m	\$3,631m
	VNI west (via Kerang)	Actionable	\$3,282 - \$3,685m	
	South west	Future	\$851 - \$930m	

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TNSP	ISP PROJECT IN AEMO'S 2022 ISP ODP	ISP PROJECT STATUS	RANGE OF ES- TIMATED COSTS	2023-24 OPENING RAB
	Victoria REZ expansion			
Total estimated range of AusNet ISP costs			\$4,285 - \$5,687m	
Marinus Link	Marinus Link connecting Tasmania and Victoria	Actionable	\$2,270 - \$4,080m	No current RAB.

Note: The estimated range of ISP costs are based on: AEMO, *Final report — 2021 Transmission Cost Report for the Integrated System Plan — Final Report*, August 2021. The exceptions are the estimated range of ISP costs for VNI West, which are based on the more recent: AEMO-Transgrid, *VNI West Consultation Report – Options Assessment*, February 2023.

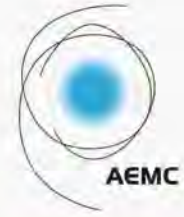
Transgrid and ElectraNet's costs for Project EnergyConnect are based on: AER, *Final decision – Transgrid contingent project — Project EnergyConnect*, May 2021, p. 1; AER, *Final decision – ElectraNet contingent project — Project EnergyConnect*, May 2021, p. 1.

AEMO selected AusNet to deliver the Western Renewables Link project following a competitive tender process in December 2019: AusNet, *Western Renewables Link - Project Overview*, August 2022, p. 3. This committed project is expected to be completed by July 2026 (see AEMO, *Integrated System Plan for the National Electricity Market*, June 2022, pp. i3; 94).

Marinus Link is not currently registered as a TNSP, but is registered as an Intending Participant. Marinus Link has a funding agreement in place from the Commonwealth, Victorian and Tasmanian Governments.

TasNetworks does not have any committed, anticipated, actionable or future ISP projects in AEMO's 2022 ISP ODP.

TNSP opening RABs for 2023-24 are based on: AER, *Final decision — AusNet Services Transmission Determination 2022 to 2027*, Overview, 28 January 2022, p. 24; AER, *Final decision — Powerlink Queensland Transmission Determination 2022 to 2027*, April 2022, p. 37; AER, *Final decision — Transgrid transmission determination 1 July 2023 to 30 June 2028*, Attachment 2 – Regulatory asset base, April 2023, p. 5; AER, *Final decision – ElectraNet transmission determination 1 July 2023 to 30 June 2028*, Attachment 2 – Regulatory asset base, April 2023, p. 5.



Australian Energy Market Commission

CONSULTATION PAPER

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

1 JUNE 2023

RULE

Australian Energy
Market Commission

Consultation paper
Concessional finance for TNSPs
1 June 2023

INQUIRIES

Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

E aemc@aemc.gov.au
T (02) 8296 7800

Reference: ERC0349

ABOUT THE AEMC

The AEMC reports to the Energy Ministers' Meeting (formerly the Council of Australian Governments Energy Council). We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the Energy Ministers' Meeting.

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SUMMARY

- 1 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.
- 2 There is broad consensus that transmission is a critical enable 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.
- 3 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).
- 4 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.
- 5 The Minister's rule change request is in the context of the Commonwealth Government's Rewiring the Nation Fund, which 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.
- 6 The Commission is considering the request and this consultation paper is the first stage in the public consultation process.
- 7 We are seeking your feedback on the rule change request, including how we propose to assess the request to determine whether it will promote the long-term interests of consumers.

We seek your views on how the NER can share the benefits of concessional finance with consumers

- 8 We are considering how concessional financing provided by government funding bodies, such as the Clean Energy Finance Corporation (CEFC), to TNSPs should be treated in the NER when some benefits may be intended to be shared with consumers.
- 9 As the NER does not explicitly recognise the treatment of concessional finance, additional guidance may be required to clarify the treatment of benefits from concessional finance. This

view was shared by stakeholders who provided submissions to our TPIR Stage 3 Draft Report. A summary of these submissions is provided in Appendix A.

10 The rule change request details an approach to how the NER can be amended to allow sharing of concessional finance benefits with consumers, including:

- Enabling the AER to allow an agreed benefit, determined through negotiation by the TNSP and government funding body (GFB), to be passed onto consumers.
- Requiring TNSPs to provide the necessary information to the AER including the value of the benefit that the TNSP and GFB have agreed should be passed onto consumers.

11 The rule change request also outlines how concessional finance benefits can be shared with consumers in the Victorian Declared Shared Network for transmission assets procured through both contestable and non-contestable processes.

We consider that there are six assessment criteria that are most relevant to this rule change request

12 Considering the NEO and the issues raised in the rule change request,¹ the Commission proposes to assess the rule change request against six assessment criteria.

13 We seek feedback on our proposal to assess the request against:

- Incentives — does the proposal detail an appropriate regulatory treatment to capture the consumer benefit of concessional finance in the regulatory framework?
- Simplicity and transparency — does the proposal provide a simple and transparent mechanism for notification and capturing of consumer benefits from concessional finance in the regulatory framework?
- Consider broader direction of reform — does the proposal give regard to complementary reforms being considered, including the AEMC's recommended reforms to transmission planning and investment and rule change request on providing flexibility in addressing TNSP financeability concerns?
- Prescription vs principles-based approach — does the proposal promote a principles-based approach over prescription to the regulatory treatment of consumer benefits from concessional finance, except where prescription is necessary?
- Risk allocation — does the proposal consider the impacts of different approaches to risk allocation on stakeholder behaviours and outcomes, specifically TNSPs and the regulator?
- Decarbonisation — noting the proposal does not directly influence the assessment of a project's economic case, is the proposal consistent with the timely decarbonisation of the energy market?

Submissions are due by 7 July 2023 with other engagement opportunities to follow

14 Written submissions responding to this consultation paper must be lodged with Commission

¹ Section 7 of the NEL.

by 7 July 2023 via the Commission's website, www.aemc.gov.au.

- 15 There may be other opportunities for you to engage with us, such as round-table discussions or industry briefing sessions.
- 16 See the section of this paper about "How to engage with us" for further instructions and contact details for the project leader.
- 17 There will be also be an opportunity for you to provide feedback on the Commission's draft determination.

Full list of 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?

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

1. Who should notify the AER about the existence of a concessional finance arrangement and when?
2. Do you agree that the TNSP should notify the AER about the existence of a concessional finance arrangement?

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

1. What types of information about the concessional finance arrangement should be provided to the AER and by whom?
2. Do you agree with the types of information detailed in the rule change request?

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. How should the AER determine the amount of the concessional finance to be treated as a benefit to consumers and/or TNSPs?

2. How should this amount be treated in the CPA and revenue determination process?
3. 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?
4. 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?
5. Do you see any issues with treating some or all of the benefits as either a capital contribution or as a revenue adjustment?
6. Do you agree the AER should be required to seek submissions from the government funding body on 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?

QUESTION 5: PROPOSED SOLUTION

1. 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)?
2. Are there any measures in the proposed solution that you think are not required, or are there additional measures that you think are required?
3. Do you think the proposed solution:
 - a. is targeted, fit for purpose and proportionate to the issues it is intended to address?
 - b. considers the broader direction of reforms in transmission infrastructure?
 - c. provides for simplicity and transparency in regulatory arrangements?

QUESTION 6: COSTS AND BENEFITS OF THE PROPOSED SOLUTION

1. What do you think the direct and indirect costs of the proposed solution are likely to be? Are these costs likely to be proportionate to the problem they are intended to address?
2. What do you think the benefits of the proposed solution are likely to be?

QUESTION 7: IMPLEMENTATION CONSIDERATIONS

1. Do you have any suggestions regarding the commencement timeframe?
2. How long would it take to implement the changes for you or those you represent?

3. Are there additional measures that should be considered that would support the effective implementation of the desired solution?

QUESTION 8: COMPLIANCE AND ENFORCEMENT

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

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

1. Can you share any alternative solutions that you think would be preferable and more aligned with the long-term interests of consumers?
2. Are there alternative solutions that sit outside of the energy rules such as industry or jurisdictional initiatives that would more successfully address the issue?

QUESTION 10: ASSESSMENT FRAMEWORK

Do you agree with the proposed assessment framework? Are there additional principles that the Commission should take into account or principles included here that are not relevant?

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solutions by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and, in so doing, contributes to well-informed, high quality rule changes.

We have included consultation questions in this paper, however, you are welcome to provide feedback on any additional matters that may assist the Commission in making its decision.

How to make a written submission

Due date: Written submissions responding to this consultation paper must be lodged with Commission by 7 July 2023.

How 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 ERC0349.²

You may, but are not required to, use the stakeholder submission form published with this consultation paper.

Tips for making submissions are available on our website.³

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive or defamatory content, or content that is likely to infringe intellectual property rights).⁴

Other opportunities for engagement

There may be other opportunities for you to engage with the project team prior to, and following, your formal submission. Our [stakeholder guide to the rule change process](#) sets out the process stages for the rule change, and describes the AEMC's "stakeholder engagement toolkit".⁵

For more information, you can contact us

Please contact the project leader with questions or feedback at any stage.

Project leader: Chirine Dada
Email: chirine.dada@aemc.gov.au
Telephone: 02 8296 7800

2 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission.

3 See: <https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/our-work-3>

4 Further information is available here: <https://www.aemc.gov.au/contact-us/lodge-submission>

5 AEMC, *The rule change process, A guide for stakeholders*, 20 June 2017.

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1

THE CONTEXT FOR THIS RULE CHANGE REQUEST

The rule change request is one of the priority actions that was agreed to by Energy Ministers on 28 October 2022.

The rule change request is seeking to facilitate the intent of the Commonwealth's 'Rewiring the Nation' Fund which commits \$20 billion in concessional finance for the upgrade and expansion of Australia's electricity grids. Announcements relating to the Rewiring the Nation Fund have been made for [Marinus Link](#), [VNI West \(via Kerang\)](#), [REZs and offshore wind development](#) and [Transmission and REZ projects in NSW](#). This finance is intended to facilitate lower costs and reduce bill impacts to consumers arising from significant infrastructure investment. It is also intended to facilitate new transmission infrastructure that will enable greater inter-regional electricity flows and increase the availability of lower-cost renewable generation and storage.

1.1

The Commonwealth Minister has proposed the rules be changed to share benefits of concessional finance with consumers

The rule change request notes that the NER does not explicitly recognise the treatment of concessional finance.

Under the National Electricity Law (NEL) the AER must apply a rate of return to network businesses in accordance with its Rate of Return Instrument (RORI). The AER set an allowed return on debt which is part of the rate of return formula. Under the current framework if a TNSP secures finance below the AER's allowed return on debt it retains the additional savings. As such, the benefits of concessional finance will flow to the TNSP under the current framework.

A change to the rules is required to enable funds such as Rewiring the Nation to be applied for the benefit of consumers when intended. It would also clarify the intended purpose of the concessional finance arrangement (between the TNSP and GFB) and provide clarity on the treatment of concessional financing to improve investor confidence and facilitate the timely delivery of transmission infrastructure.

The rule change request is seeking to only apply to TNSPs.

1.2

We have engaged with stakeholders on this issue previously

As part of the Stage 3 draft report of the Transmission Planning and Investment Review (TPIR) we identified that additional guidance is needed to clarify how the benefits from concessional finance are treated in the National Electricity Rules (NER).⁶

Stakeholders in their submissions to the TPIR Stage 3 report generally recognised and agreed that the objective of the concessional finance is to support the timely delivery of major

⁶ Australian Energy Market Commission, *Transmission Planning and Investment Review Stage 3 draft report*, Sydney, 21 September 2022, p. IV.

projects and to benefit consumers. They were widely supportive of the need to develop additional guidance on the treatment of benefits from concessional finance in the NER.⁷

Some stakeholders agreed that the TNSP is best placed to provide the necessary information to the AER to enable the treatment of benefits from the concessional finance, whilst others suggested that the AER should be empowered to seek the required information from either party to the agreement.

We held a virtual public forum on concessional finance as part of the Stage 3 Draft Report⁸ and consulted with stakeholder groups following receipt of their submissions. We will continue to consult with stakeholders on these issues as part of this rule change request. Stakeholder submissions received in response to TPIR Stage 3 Draft Report will be considered and are not required to be resubmitted.

The Commission has also recently considered the treatment of concessional financing in the context of the National Gas Rules (NGR) as part of the *Review into extending the regulatory frameworks to hydrogen and renewable gases*. The final report recommended that the NGR be amended to provide the regulator with discretion to treat concessional finance in the same manner as user capital contributions and government grants, where appropriate. In practice, the regulator would treat concessional finance as a capital contribution by deducting an amount from the capital base when determining scheme pipeline revenue and prices.

The Commission notes the similarities in the policy considerations for the treatment of concessional finance benefits in the NGR and NER. However, considering the differences in the NER and NGR regulatory regimes, the Commission recognises that the treatment of concessional finance will need to be fit-for-purpose and targeted to each framework.

1.3

We have started the rule change process

This paper is the first stage of our consultation process.

A standard rule change request includes the following formal stages:

- a proponent submits a rule change request
- the Commission commences the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a draft determination and draft rule (if relevant)
- stakeholders lodge submissions on the draft determination and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule (if relevant).

⁷ Submissions available [here](#). A summary of submissions is provided at appendix A.

⁸ A public forum was held on 4 October 2022 on the TPIR Stage 3 Draft Report (Longer-term reforms) including how concessional financing provided by governments and agencies such as the Clean Energy Finance Corporation (CEFC) should be treated for regulatory purposes when some of the benefits may be intended to flow to consumers.

We will undertake this rule change request as a standard rule change and consistent with the timeframe of a standard rule change process the key dates for this process are outlined in the figure below.

Figure 1.1: ERC0349 Concessional Finance for TNSP's - Key Dates



Source: AEMC

Information on how to provide your submission and other opportunities for engagement is set out at the front of this document in the Summary.

You can find more information on the rule change process in [The Rule change process – a guide for stakeholders](#).⁹

We seek stakeholder feedback on how we propose to assess the request and how the Rules should be amended to share benefits of concessional finance with consumers.

1.4

We are undertaking a related rule change on providing flexibility to address TNSP financeability challenges

The Commission has received a rule change request from the Minister that seeks to mitigate the foreseeable risk that financeability concerns may arise for ISP projects. It proposes to provide the AER with explicit flexibility in the revenue-setting framework to vary the depreciation profile of an actionable ISP project for a TNSP.¹⁰ This rule change project may have regard to the availability and provision of concessional finance for transmission projects.

The Commission intends to consider these two rule change requests in separate rule change processes. However, given they both relate to the financing of transmission projects in the ISP, the processes will run concurrently. Information on how to provide your submission and other opportunities for engagement on this related rule change is set out in the consultation paper available on the rule change page [here](#).

⁹ AEMC, *The rule change process: a guide for stakeholders*, June 2017, available here: <https://www.aemc.gov.au/sites/default/files/2018-09/A-guide-to-the-rule-change-process-200617.PDF>

¹⁰ Further information is available at: <https://www.aemc.gov.au/rule-changes/accommodating-financeability-regulatory-framework>.

2 THE PROBLEM RAISED IN THE RULE CHANGE REQUEST

This chapter seeks stakeholder feedback on the problem identified in the rule change request – whether it is or will soon become a problem and if so, the scale and impact of the problem.

2.1 The Rules need to recognise concessional finance to enable benefits to be shared with consumers

The NER currently does not explicitly recognise the treatment of concessional finance. Financing sourced through concessional means is not differentiated from other forms of debt. Under the current rules, the benefit of any concessional finance would be retained by a TNSP. The rule change request proposes instead 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 current framework does not facilitate sharing some or all of the benefits of concessional financing with consumers. While the current framework would ensure that consumers benefit from the delivery of specific assets, where the financier providing concessional finance intends for the finance to reduce the prices paid by consumers for the delivery of specific projects, the framework is unable to facilitate this. This presents an issue in the current context of the NEM and associated build-out of transmission infrastructure.

The Commonwealth Government has committed to providing low-cost finance through the Rewiring the Nation Policy which has the specific intention of reducing the bill impact of the associated significant transmission infrastructure investment. In order to be able to achieve this, the rules would need to be amended so that some or all of the benefits of concessional finance can be shared with consumers.

The Commission has previously consulted on this issue through its *Transmission Planning and Investment Review*. Stakeholder responses to this review widely supported the AEMC developing guidance on the treatments of the benefits of concessional finance. More detail on these stakeholder submissions is available in appendix A.

QUESTION 1: THE REGULATORY TREATMENT OF CONCESSIONAL FINANCE

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

3 THE PROPOSED SOLUTION AND IMPLEMENTATION

The rule change request that has been submitted would allow the AER to treat contributions from non-users (such as a government funding body) and the benefit that a TNSP would receive from concessional finance, as either a capital contribution or an adjustment to the maximum allowed revenue (MAR adjustment). In order to facilitate this the rule change request also proposes information provisions to allow the AER to obtain the necessary information in order to make such a determination.

3.1 Proposal to facilitate the sharing of concessional finance benefits between TNSPs and consumers

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 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 GFB have agreed should be passed onto 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.

These are discussed further below.

3.1.1 Information requirements

The Minister considers that the NER should allow the AER the ability to determine the intention of the government funding body and the extent to which it intends the benefit of such finance to be passed onto consumers in the form of either a capital contribution or an adjustment to recoverable revenue.

Who should be responsible for informing the AER about the existence of a concessional financing arrangement?

The rule change request proposes that the TNSP should be responsible for notifying the AER about the existence of concessional finance. The request further states that the NER should ensure that the AER is informed by the TNSP if the TNSP, or any entity in its corporate structure, receives a government contribution from a GFB.

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

1. Who should notify the AER about the existence of a concessional finance arrangement and when?
2. Do you agree that the TNSP should notify the AER about the existence of a concessional finance arrangement?

What types of information about the concessional finance arrangement should be provided to the AER and by whom?

The rule change request proposes that when the service provider is informing the AER if it, or another entity, has received concessional finance the NER should provide that the TNSP must provide the following information:

- The name of the GFB that provided the government contribution and contact details for that body.
- A description of the amount and type of government contribution provided.
- If the government contribution was provided to an entity other than the TNSP, the name and ACN of the entity that received the government contribution and contact details for that entity.
- A copy of the agreement between the GFB and the TNSP or, if relevant, the entity that received the government contribution that sets out the terms on which the government contribution was provided.
- A description of the capital expenditure in relation to which the government contribution was provided.
- If the government contribution was provided to an entity other than the TNSP, how some or all of the benefit of the government contribution was provided to the TNSP.
- A statement from the TNSP as to whether the GFB intended that some or all of the value of the government contribution be treated as a capital contribution.

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

1. What types of information about the concessional finance arrangement should be provided to the AER and by whom?
2. Do you agree with the types of information detailed in the rule change request?

How should the GFB's intent for the purpose of the concessional finance be determined? And

how should the consumer benefit of concessional finance be treated?

The Minister suggests that the NER should require the AER to consult with the TNSP, the GFB, and if relevant, the entity that received the government contribution, to ensure that the intent of the funding provided by the government body is clearly determined.

They further suggest that the AER should be required 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 as a capital contribution or as a reduction in a TNSP's revenue, and if yes, what portion of that value should be treated as a capital contribution or revenue reduction.

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. How should the AER determine the amount of the concessional finance to be treated as a benefit to consumers and/or TNSPs?
2. How should this amount be treated in the CPA and revenue determination process?
3. 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?
4. 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?
5. Do you see any issues with treating some or all of the benefits as either a capital contribution or as a revenue adjustment?
6. Do you agree the AER should be required to seek submissions from the government funding body on 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?

3.2**Will the proposed solution resolve the problem?**

The rule change request states that the proposed solution will address the issue by amending the NER to:

- Explicitly recognise the offering of concessional finance to TNSPs and the sharing of benefits with consumers.
- Specify who is responsible for informing the AER of the offering of concessional finance and providing the required information to facilitate the treatment of benefits including the intent of the concessional finance.
- Specify how the AER confirms the intent of the concessional finance and the method(s) through which the AER can treat the concessional finance benefits.

The proposed solution seeks to ensure that the benefits of concessional finance can be shared with consumers, where intended, and the AER is provided with the necessary powers under the NER to gather relevant information and facilitate the regulatory treatment of the concessional finance benefits.

QUESTION 5: PROPOSED SOLUTION

1. 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)?
2. Are there any measures in the proposed solution that you think are not required, or are there additional measures that you think are required?
3. Do you think the proposed solution:
 - a. is targeted, fit for purpose and proportionate to the issues it is intended to address?
 - b. considers the broader direction of reforms in transmission infrastructure?
 - c. provides for simplicity and transparency in regulatory arrangements?

3.3

What are the costs and benefits of the proposed solution?

The benefits of the proposed solution cited in the rule change request are that it would:

- Lower costs to consumers related to the investment in transmission infrastructure.
- Incentivise TNSPs to build the necessary transmission infrastructure when they receive concessional finance.
- Increase certainty in the investment environment by providing clarity on the treatment of concessional finance benefits.

The rule change request indicates that the costs of the proposed solution are likely to be minimal.

The rule change request states that the costs of the proposed solution are expected to be minimal and administrative in nature.

QUESTION 6: COSTS AND BENEFITS OF THE PROPOSED SOLUTION

1. What do you think the direct and indirect costs of the proposed solution are likely to be? Are these costs likely to be proportionate to the problem they are intended to address?
2. What do you think the benefits of the proposed solution are likely to be?

3.4

What implementation issues might there be?

The rule change request outlines how the TNSPs, government funding body (GFB) and AER will be impacted by the proposed solution, including:

- TNSPs receiving the proportion of the concessional finance benefit determined and agreed to by the GFB and TNSP.
- TNSPs being required to provide relevant information to the AER.
- The GFB being required to consult with the AER to confirm their intent of the concessional finance benefit.
- The AER incorporating the treatment of the concessional finance benefit in the TNSP's regulatory determination processes of the TNSP.

We will give consideration to any transitional arrangements that may be required to accommodate the implementation of the proposed solution to existing concessional finance agreements.¹¹

QUESTION 7: IMPLEMENTATION CONSIDERATIONS

1. Do you have any suggestions regarding the commencement timeframe?
2. How long would it take to implement the changes for you or those you represent?
3. Are there additional measures that should be considered that would support the effective implementation of the desired solution?

3.5

How would the rule change apply in Victoria?

Victoria is the only jurisdiction in the NEM where AEMO has declared network functions. In Victoria, the functions undertaken by TNSPs elsewhere are split between AEMO and declared transmission system operators (DTSOs). AEMO is accountable for the provision of the shared network, procuring services from DTSOs (such as AusNet Services), who own and operate the shared network assets.

The rule change request outlines how concessional finance benefits would be shared with consumers in Victoria's Declared Shared Network for transmission assets procured through contestable and non-contestable processes.

The rule change request proposes that arrangements for the delivery of concessional finance benefits in Victoria's contestable process will be determined by the GFB (the CEFC) and AEMO, as the Victorian transmission planner. For a contestable project, any sharing of concessional finance benefits with consumers will be through a reduction in the overall total cost of a tenderer's bid.

In Victoria, non-contestable projects are permitted to be rolled into the service provider's RAB. This rule change request proposes to not apply to non-contestable augmentations. The TNSP, under the proposed arrangements, will be required to notify the AER whether they have received concessional finance as part of their revenue determination. The AER in

¹¹ We are aware announcements from Rewiring the Nation Fund have been made for [Marinus Link](#), [VNI West \(via Kerang\)](#), [REZs and offshore wind development](#) and [Transmission and REZ projects in NSW](#).

response can use its proposed powers to vary the MAR allowance or reduce the RAB of the relevant service provider.

3.6 What are your views on compliance and enforcement in relation to the proposed solution?

The rule change request seeks to allow the AER to obtain the necessary information from a TNSP to determine the agreed intent of the concessional finance and the extent to which the benefits of the concessional finance are to be passed to consumers. The rule change request proposes to give the AER powers to facilitate the correct regulatory treatment of consumer benefits of concessional finance. This includes a compliance and enforcement role for the AER to confirm the TNSP's proposed treatment of the concessional finance benefits with the GFB.

The rule change request states that the NER should require the AER to consult with the TNSP, the GFB, and if relevant, the entity that received the government contribution, to ensure that the proposed treatment of the concessional finance benefit aligns with the intent of the funding provided by the government body.

Further, the request proposes that the AER should be required 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 as a capital contribution or as a reduction in a TNSP's revenue, and if yes, what portion of that value should be treated as a capital contribution or revenue reduction. The AER is advised to consult with both the TNSP and GFB in determining the intent of the concessional finance.

QUESTION 8: COMPLIANCE AND ENFORCEMENT

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

3.7 Can the problem be resolved in a different or more efficient way?

We are also seeking input on whether the issue can be resolved outside of a rule change, or whether there are more preferable rules that might better promote the long term interests of consumers.

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

1. Can you share any alternative solutions that you think would be preferable and more aligned with the long-term interests of consumers?
2. Are there alternative solutions that sit outside of the energy rules such as industry or jurisdictional initiatives that would more successfully address the issue?

4 MAKING OUR DECISION

When considering a rule change proposal, the Commission considers a range of factors.

This chapter outlines:

- issues the Commission must take into account
- the proposed assessment framework
- decisions the Commission can make
- rule-making for the Northern Territory.

We would like your feedback on the proposed assessment framework.

4.1 The Commission must act in the long term interests of consumers

The Commission is bound by the National Electricity Law (NEL) to only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the national electricity objective (NEO).

The NEO is:¹²

To promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- price, quality, safety, reliability and security of supply of electricity; and
- the reliability, safety and security of the national electricity system

4.2 We must also take these factors into account

4.2.1 Revenue and pricing principles

The Commission must take into account the revenue and pricing principles set out in section 7A of the NEL in making certain rules.¹³ Relevantly for this rule change request, we must take those principles into account in making rules with respect to transmission system revenue and pricing and the principles to be applied, and procedures to be followed, by the AER in exercising or performing an AER economic regulatory function or power relating to the making of a transmission determination.¹⁴

The Commission considers the following revenue and pricing principles are the most relevant to this rule change request:

- A regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in complying with a regulatory obligation or requirement, or making a regulatory payment.¹⁵

¹² Section 7 of the NEL.

¹³ Section 88B of the NEL.

¹⁴ Section 88B of the NEL refers to items 15 to 24 of Schedule 1 to the NEL, which cover transmission system revenue and pricing and regulatory economic methodologies.

¹⁵ Section 7A(2) of the NEL.

- Regard should be had to the regulatory asset base with respect to a transmission system adopted in any previous transmission determination (or other relevant determination) or in the NER.¹⁶
- A price or charge for the provision of a direct control network service should allow for a return commensurate with the regulatory and commercial risks involved in providing the direct control network service to which that price or charge relates.¹⁷

4.3 We have three options when making our decision

After using the assessment framework to consider the rule change request, the Commission may decide:

- To make the rule as proposed by the Minister¹⁸
- To make a rule that is different to the proposed rule (a more preferable rule), as discussed below, or
- Not to make a rule.

The Commission may make a more preferable rule (which may be materially different to the proposed rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NEO.¹⁹

4.4 Proposed assessment framework

Considering the NEO and the issues raised in the rule change request, the Commission proposes to assess this rule change request using the following focus areas:

- Incentives — does the proposal detail an appropriate regulatory treatment to capture the consumer benefit of concessional finance in the regulatory framework?
- Simplicity and transparency — does the proposal provide a simple and transparent mechanism for notification and capturing of consumer benefits from concessional finance in the regulatory framework?
- Consider broader direction of reform — does the proposal give regard to complementary reforms being considered including the AEMC's recommended reforms to transmission planning and investment and rule change request on providing flexibility in addressing TNSP financeability concerns?
- Prescription vs principles-based approach — does the proposal promote a principles-based approach over prescription to the regulatory treatment of consumer benefits from concessional finance, except where prescription is necessary?
- Risk allocation — does the proposal consider the impacts of different approaches to risk allocation on stakeholder behaviours and outcomes, specifically TNSPs and the regulator?

¹⁶ Section 7A(4) of the NEL.

¹⁷ Section 7A(5) of the NEL.

¹⁸ The Minister for Climate Change and Energy, Rule change request, *Treatment of Concessional Finance for Transmission Network Service Providers*, 11 April 2023.

¹⁹ Section 91A of the NEL.

- Decarbonisation — noting the proposal does not directly influence the assessment of a project's economic case, is the proposal consistent with the timely decarbonisation of the energy market?

QUESTION 10: ASSESSMENT FRAMEWORK

Do you agree with the proposed assessment framework? Are there additional principles that the Commission should take into account or principles included here that are not relevant?

4.5

The proposed rule would not apply in the Northern Territory

Parts of the NER, as amended from time to time, apply in the Northern Territory, subject to modifications set out in regulations made under the Northern Territory legislation adopting the NEL.²⁰

The proposed rule would not apply in the Northern Territory, as it amends provisions in NER chapter 6A that does not apply in the Northern Territory.²¹ Consequently, the Commission will not assess the proposed rule against additional elements required by the Northern Territory legislation.

²⁰ National Electricity (Northern Territory) (National Uniform Legislation) Act 2015 (**NT Act**). The regulations under the NT Act are the National Electricity (Northern Territory) (National Uniform Legislation) (Modification) Regulations 2016.

²¹ Under the NT Act and its regulations, only certain parts of the NER have been adopted in the Northern Territory. The version of the NER that applies in the Northern Territory is available on the AEMC website at: <https://energy-rules.aemc.gov.au/ntner>.

ABBREVIATIONS

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
GFB	Government Funding Body
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
NERL	National Energy Retail Law
NERO	National Energy Retail Objective
NERR	National Energy Retail Rules
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
Proponent	The proponent of the rule change request

A

SUMMARY OF STAKEHOLDER SUBMISSIONS TO TPIR STAGE 3 DRAFT REPORT ON CONCESSIONAL FINANCE

Table A.1: Summary of stakeholder views on concessional finance in TPIR Stage 3 Draft Report

KEY ISSUE	STAKEHOLDER VIEWS
<p>Defining and clarifying the objective of concessional finance (CF) and the need for additional guidance in the NER</p>	<p>Stakeholders widely support the AEMC developing additional guidance on the treatment of benefits from CF.</p> <p>Some stakeholders commented that:</p> <ul style="list-style-type: none"> The NER should provide for appropriate transitional arrangements to account for agreements already entered between TNSPs and Government funding bodies, or where negotiations are already underway (e.g. Marinus Link). Consideration should be given to how concessional finance arrangements would apply in Victoria, given transmission arrangements that separate planning and delivery, and the Federal Government's recent commitment to provide a concessional loan to support VNI West.
<p>Notifying the AER about CF, including provision of information, and how the intent of the CF is communicated to the AER</p>	<p>Most stakeholders agreed that the TNSP is best placed to notify the AER of the decision on CF and to provide the necessary information to the AER.</p> <p>Some stakeholders commented that:</p> <ul style="list-style-type: none"> Both parties to the CF arrangement should notify the AER and that this is likely to occur in practice. The regulatory framework should enable the AER to consult with the government funding body (financier) to determine whether the intention was for consumers and/or the TNSP to benefit from the CF, and if so, the proportion of the concessional finance intended to benefit each party.

Australian Energy
Market Commission

Consultation paper
Concessional finance for TNSPs
1 June 2023

KEY ISSUE	STAKEHOLDER VIEWS
How the AER treats CF	<p>Most stakeholders agreed additional guidance is required on how the determined value of the CF benefit should be treated by the AER in the revenue determination process.</p> <p>A large group of stakeholders provided detailed proposals on how the regulatory framework and the AER should treat benefits from CF. Some stakeholders commented that:</p> <ul style="list-style-type: none"> • The NER should facilitate a range of possible regulatory mechanisms (including treating the consumer benefit as a capital contribution, making an adjustment to a TNSP's MAR, or making an adjustment to a TNSP's prices) and these stakeholders suggested that the mechanism should be agreed on by the TNSP and provider of CF, avoiding the need for the AER to develop guidelines and exercise discretion in its determination. • An ex-post assessment framework would promote transparency and ensure TNSPs have passed on the CF benefits. • Actual Commonwealth lending rates should be included in regulatory decisions, including the WACC. Changes to the relevant laws or rules may be required and should not be considered a barrier.

Note: For more information, please see the AEMC *Transmission Planning and Investment Review* project page [here](#). Submissions received in relation to concessional finance are located under the heading "Stage 3 Draft Report".

From: [REDACTED]
Sent: Monday, May 15, 2023 5:20 PM
To: [REDACTED]
CC: [REDACTED]
Subject: Financeability rule change request - consultation paper discussion [SEC=OFFICIAL]

Hi [REDACTED],

I hope you've been well.

The Commonwealth, as the proponent of the financeability rule change request, would be interested in receiving a short briefing on the consultation paper ahead of its release.

If possible, we would like to gain an understanding of what types of questions and subject areas are being focused on in the paper.

If this is something you would be able to provide, does a time before midday on Friday suit you?

Kind regards,

[REDACTED]

[REDACTED]

Senior Policy Officer

Electricity Division | Rewiring the Nation Office | Networks Reforms
Eora Country, L7 100 Market Street, Sydney 2000, GPO Box 3090
Department of Climate Change, Energy, the Environment and Water
P [REDACTED] | E [REDACTED]@dcceew.gov.au

DCCEEW.gov.au ABN 63 573 932 849

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as this one, advise the sender by return e-mail accordingly. This notice should not be deleted or altered -----

From: [REDACTED]
Sent: Tuesday, May 16, 2023 11:15 AM
To: [REDACTED]
CC: [REDACTED]; [REDACTED]
Subject: RE: Concessional finance rule change request - consultation paper [SEC=OFFICIAL]

Hi [REDACTED],

That sounds great. A combined briefing will be useful.

I will hold time on Friday morning and wait to hear back from you.

Thanks,
[REDACTED]

From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Tuesday, 16 May 2023 10:56 AM
To: [REDACTED] <[REDACTED]@dcceew.gov.au>
Cc: [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Concessional finance rule change request - consultation paper [SEC=OFFICIAL]

Hi [REDACTED]

I hope you've been well too.

I think this is a great idea and a good opportunity to meet [REDACTED] too who we understand has taken over from [REDACTED]

I have cc [REDACTED] who you have also reached out to for a similar short briefing on the financeability rule change consultation paper, as a combined briefing on both papers may be useful.

We will discuss this internally and come back to you.

In the meantime, please hold that time and we will aim to confirm shortly.

Best,
[REDACTED]

From: [REDACTED] <[REDACTED]@dcceew.gov.au>
Sent: Monday, May 15, 2023 5:23 PM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@dcceew.gov.au>
Subject: Concessional finance rule change request - consultation paper [SEC=OFFICIAL]

Hi [REDACTED]

I hope you've been well.

The Commonwealth, as the proponent of the concessional finance rule change request, would be interested in receiving a short briefing on the consultation paper ahead of its release.

If possible, we would like to gain an understanding of what types of questions and subject areas are being focused on in the paper.

If this is something you can provide, would between 9am and midday on Friday 19 May suit you?

Kind regards,

[REDACTED]

[REDACTED]

Senior Policy Officer

Electricity Division | Rewiring the Nation Office | Networks Reforms

Eora Country, L7 100 Market Street, Sydney 2000, GPO Box 3090

Department of Climate Change, Energy, the Environment and Water

P [REDACTED] E [REDACTED]@dcceew.gov.au

DCCEEW.gov.au ABN 63 573 932 849

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From: [REDACTED]
Sent: Wednesday, May 17, 2023 1:55 PM
To: [REDACTED] Kris Funston; [REDACTED]
CC: Danielle Beinart; [REDACTED]
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

OFFICIAL:Sensitive

Hi [REDACTED]

Thanks for allowing us the opportunity to review these draft papers.

[REDACTED]

[REDACTED]

[REDACTED] Thanks to you and your team for all the work on these.

Kind regards, [REDACTED]

[REDACTED]
Senior Financial Advisor
Australian Energy Regulator
[REDACTED]@aer.gov.au

From: [REDACTED]@aemc.gov.au>
Sent: Friday, 12 May 2023 10:23 AM
To: Kris Funston <Kris.Funston@aer.gov.au>; [REDACTED]@aer.gov.au>; [REDACTED]@aer.gov.au>
Cc: Danielle Beinart <Danielle.Beinart@aemc.gov.au>; [REDACTED]@aemc.gov.au>; [REDACTED]@aemc.gov.au>; [REDACTED]@aemc.gov.au>
Subject: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers

CAUTION: This email originated from outside of the organisation. Do not click links or open attachments unless you recognise the sender and know the content is safe.

Hi Kris, [REDACTED] and [REDACTED]

As Danielle and Kris discussed yesterday, we would really appreciate it if you're able to review our attached confidential consultation papers for the Financeability (ERC0348) and Concessional finance (ERC0349) rule changes.

We are only asking that you identify any red flags that we should consider amending. We are not seeking a drafting review.

If you're able to get back to us with any red flags by COB Wednesday 17 May, that would be really appreciated.

Thanks and regards

[REDACTED]
[REDACTED] Senior Adviser
Australian Energy Market Commission
D [REDACTED]
[REDACTED] [@aemc.gov.au](mailto:[REDACTED]@aemc.gov.au) | www.aemc.gov.au

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From: [REDACTED]
Sent: Thursday, May 18, 2023 3:55 PM
To: [REDACTED]
CC: [REDACTED]; [REDACTED]
Subject: RE: Concessional finance rule change request - consultation paper [SEC=OFFICIAL]

Hi [REDACTED]

No problem at all! Tuesday morning suits us well.

We are available between 10am and 11am and 11.30am and 12pm.

Regards,
[REDACTED]

From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Thursday, 18 May 2023 2:09 PM
To: [REDACTED] <[REDACTED]@dcceew.gov.au>
Cc: [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Concessional finance rule change request - consultation paper [SEC=OFFICIAL]

Hi [REDACTED]

I appreciate your patience whilst I confirmed this internally.

Unfortunately, we will need to push the briefing back a couple of days.

Are you and [REDACTED] available sometime on Tuesday morning, between 9.30 and 12pm?

Best,
[REDACTED]

[REDACTED] Senior Adviser
Australian Energy Market Commission
D [REDACTED] | T [REDACTED]
[REDACTED] [@aemc.gov.au](mailto:[REDACTED]@aemc.gov.au) | www.aemc.gov.au

Level 15, 60 Castlereagh St, Sydney NSW 2000

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From: [REDACTED] <[REDACTED]@dcceew.gov.au>
Sent: Thursday, May 18, 2023 9:59 AM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Concessional finance rule change request - consultation paper [SEC=OFFICIAL]

Hi [REDACTED],

Would Friday morning still suit yourself and Andrew?

Kind regards,
[REDACTED]

From: [REDACTED]
Sent: Tuesday, 16 May 2023 11:15 AM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Concessional finance rule change request - consultation paper [SEC=OFFICIAL]

Hi [REDACTED]

That sounds great. A combined briefing will be useful.

I will hold time on Friday morning and wait to hear back from you.

Thanks,
[REDACTED]

From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Tuesday, 16 May 2023 10:56 AM
To: [REDACTED] <[REDACTED]@dcceew.gov.au>
Cc: [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Concessional finance rule change request - consultation paper [SEC=OFFICIAL]

Hi [REDACTED]

I hope you've been well too.

I think this is a great idea and a good opportunity to meet [REDACTED] too who we understand has taken over from [REDACTED]

I have cc [REDACTED] who you have also reached out to for a similar short briefing on the financeability rule change consultation paper, as a combined briefing on both papers may be useful.

We will discuss this internally and come back to you.

In the meantime, please hold that time and we will aim to confirm shortly.

Best,

[REDACTED]

From: [REDACTED] <[REDACTED]@dcceew.gov.au>
Sent: Monday, May 15, 2023 5:23 PM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@dcceew.gov.au>
Subject: Concessional finance rule change request - consultation paper [SEC=OFFICIAL]

Hi [REDACTED]

I hope you've been well.

The Commonwealth, as the proponent of the concessional finance rule change request, would be interested in receiving a short briefing on the consultation paper ahead of its release.

If possible, we would like to gain an understanding of what types of questions and subject areas are being focused on in the paper.

If this is something you can provide, would between 9am and midday on Friday 19 May suit you?

Kind regards,

[REDACTED]

[REDACTED]

Senior Policy Officer

Electricity Division | Rewiring the Nation Office | Networks Reforms
Eora Country, L7 100 Market Street, Sydney 2000, GPO Box 3090
Department of Climate Change, Energy, the Environment and Water
P [REDACTED] | E [REDACTED]@dcceew.gov.au

DCCEEWgov.au ABN 63 573 932 849

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From: [REDACTED]
Sent: Wednesday, May 24, 2023 4:50 PM
To: [REDACTED] Kris Funston; [REDACTED]
CC: Danielle Beinart; [REDACTED]
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

OFFICIAL:Sensitive

Hi [REDACTED]

Thanks, as I noted in my other email, we'll aim to get back to you about your questions tomorrow.

Kind regards [REDACTED]
[REDACTED]

From: [REDACTED]<[REDACTED]@aemc.gov.au>
Sent: Wednesday, 24 May 2023 4:32 PM
To: [REDACTED]<[REDACTED]@aer.gov.au>; Kris Funston <Kris.Funston@aer.gov.au>; [REDACTED]<[REDACTED]@aer.gov.au>
Cc: Danielle Beinart <Danielle.Beinart@aemc.gov.au>; [REDACTED]<[REDACTED]@aemc.gov.au>; [REDACTED]<[REDACTED]@aemc.gov.au>; [REDACTED]<[REDACTED]@aemc.gov.au>; [REDACTED]<[REDACTED]@aer.gov.au>
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

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Hi [REDACTED]

Thank you and your colleagues for your red flag review of the Financeability and Concessional finance consultation papers – this is much appreciated.

[REDACTED] and I would like to clarify one thing about the application of depreciation as incurred for TNSPs, so I'll contact you separately for a quick call.

Regards
[REDACTED]

From: [REDACTED]<[REDACTED]@aer.gov.au>
Sent: Wednesday, May 17, 2023 1:55 PM
To: [REDACTED]<[REDACTED]@aemc.gov.au>; Kris Funston <Kris.Funston@aer.gov.au>; [REDACTED]<[REDACTED]@aer.gov.au>
Cc: Danielle Beinart <Danielle.Beinart@aemc.gov.au>; [REDACTED]<[REDACTED]@aemc.gov.au>; [REDACTED]<[REDACTED]@aemc.gov.au>; [REDACTED]<[REDACTED]@aemc.gov.au>

<[REDACTED]@aemc.gov.au> [REDACTED]@aer.gov.au>

Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

OFFICIAL:Sensitive

Hi [REDACTED]

Thanks for allowing us the opportunity to review these draft papers.

[REDACTED]

[REDACTED]

[REDACTED] Thanks to you and your team for all the work on these.

Kind regards, [REDACTED]

[REDACTED]
Senior Financial Advisor
Australian Energy Regulator
[REDACTED]@aer.gov.au

From: [REDACTED]@aemc.gov.au>

Sent: Friday, 12 May 2023 10:23 AM

To: Kris Funston <Kris.Funston@aer.gov.au>; [REDACTED]@aer.gov.au>; [REDACTED]@aer.gov.au>

Cc: Danielle Beinart <Danielle.Beinart@aemc.gov.au>; [REDACTED]@aemc.gov.au>; [REDACTED]@aemc.gov.au>; [REDACTED]@aemc.gov.au>

Subject: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers

CAUTION: This email originated from outside of the organisation. Do not click links or open attachments unless you recognise the sender and know the content is safe.

Hi Kris, [REDACTED] and [REDACTED]

As Danielle and Kris discussed yesterday, we would really appreciate it if you're able to review our attached confidential consultation papers for the Financeability (ERC0348) and Concessional finance (ERC0349) rule changes.

We are only asking that you identify any red flags that we should consider amending. We are not seeking a drafting review.

If you're able to get back to us with any red flags by COB Wednesday 17 May, that would be really appreciated.

Thanks and regards

[REDACTED]

[REDACTED] Senior Adviser

Australian Energy Market Commission

D [REDACTED]

[REDACTED]@aemc.gov.au | www.aemc.gov.au

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From: [REDACTED]
Sent: Thursday, May 25, 2023 3:36 PM
To: [REDACTED]
CC: [REDACTED]
 [REDACTED] Kris Funston; Danielle Beinart
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

OFFICIAL:Sensitive

Hi [REDACTED]

[REDACTED]

[REDACTED]

Let me know if you have any further questions.

Kind regards, [REDACTED]
[REDACTED]

From: [REDACTED]<[REDACTED]@aemc.gov.au>
Sent: Thursday, 25 May 2023 11:39 AM
To: [REDACTED]<[REDACTED]@aer.gov.au>
Cc: [REDACTED]<[REDACTED]@aemc.gov.au>; [REDACTED]
 [REDACTED]<[REDACTED]@aemc.gov.au>; [REDACTED]<[REDACTED]@aer.gov.au>; [REDACTED]
 [REDACTED]<[REDACTED]@aer.gov.au>; [REDACTED]<[REDACTED]@aer.gov.au>; [REDACTED]
 [REDACTED]<[REDACTED]@aer.gov.au>; Kris Funston <Kris.Funston@aer.gov.au>; Danielle Beinart
 <Danielle.Beinart@aemc.gov.au>
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

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Hi [REDACTED]

Thank you very much for your response below.

[REDACTED]

[Redacted]

Regards

[Redacted]

From: [Redacted] <[Redacted]@aer.gov.au>
Sent: Thursday, May 25, 2023 10:01 AM
To: [Redacted] <[Redacted]@aemc.gov.au>
Cc: [Redacted] <[Redacted]@aemc.gov.au>; [Redacted] <[Redacted]@aer.gov.au>;
<[Redacted]@aemc.gov.au>; [Redacted] <[Redacted]@aer.gov.au>; [Redacted] <[Redacted]@aer.gov.au>;
<[Redacted]@aer.gov.au>; [Redacted] <[Redacted]@aer.gov.au>; [Redacted] <[Redacted]@aer.gov.au>;
[Redacted] <[Redacted]@aer.gov.au>; Kris Funston <Kris.Funston@aer.gov.au>
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

OFFICIAL: Sensitive

H [Redacted]

[Redacted]

[Redacted]

[Redacted]

Please feel free to give me a call me if you have any further questions.

Kind regards, [Redacted]

[Redacted]

Senior Financial Advisor
Australian Energy Regulator
[Redacted]@aer.gov.au

From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Wednesday, 24 May 2023 5:11 PM
To: [REDACTED] <[REDACTED]@aer.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aer.gov.au>; [REDACTED] <[REDACTED]@aer.gov.au>
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

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Hi [REDACTED]

Great – thanks so much!

Regard
[REDACTED]

From: [REDACTED] <[REDACTED]@aer.gov.au>
Sent: Wednesday, May 24, 2023 4:48 PM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aer.gov.au>; [REDACTED] <[REDACTED]@aer.gov.au>
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

OFFICIAL:Sensitive

Hi [REDACTED]

We'll aim to get back to you tomorrow. I'll let you know if there are any issues responding by then, or if we need to chat, after I speak to my colleagues.

Kind regards, [REDACTED]
[REDACTED]

From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Wednesday, 24 May 2023 4:44 PM
To: [REDACTED] <[REDACTED]@aer.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>

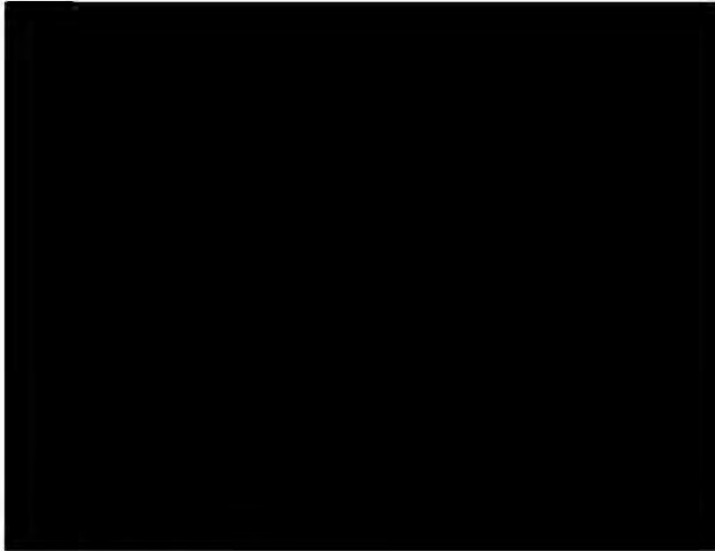
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

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Hi [REDACTED]

[REDACTED]

[REDACTED]



Thanks and regards

[Redacted]

From: [Redacted]
Sent: Wednesday, May 24, 2023 4:32 PM
To: [Redacted] <[Redacted]@aer.gov.au>; Kris Funston <Kris.Funston@aer.gov.au>; [Redacted] <[Redacted]@aer.gov.au>
Cc: Danielle Beinart <Danielle.Beinart@aemc.gov.au>; [Redacted] <[Redacted]@aemc.gov.au>; [Redacted] <[Redacted]@aemc.gov.au>; [Redacted] <[Redacted]@aemc.gov.au>; [Redacted] <[Redacted]@aer.gov.au>
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

Hi [Redacted]

Thank you and your colleagues for your red flag review of the Financeability and Concessional finance consultation papers – this is much appreciated.



Regards

[Redacted]

From: [Redacted] <[Redacted]@aer.gov.au>
Sent: Wednesday, May 17, 2023 1:55 PM
To: [Redacted] <[Redacted]@aemc.gov.au>; Kris Funston <Kris.Funston@aer.gov.au>; [Redacted] <[Redacted]@aer.gov.au>
Cc: Danielle Beinart <Danielle.Beinart@aemc.gov.au>; [Redacted]

<[REDACTED]@aemc.gov.au>; [REDACTED]@aemc.gov.au>
<[REDACTED]@aemc.gov.au>; [REDACTED]@aer.gov.au>
Subject: RE: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers [SEC=OFFICIAL:Sensitive]

OFFICIAL:Sensitive

Hi [REDACTED]

Thanks for allowing us the opportunity to review these draft papers.

[REDACTED]

[REDACTED]

[REDACTED] Thanks to you and your team for all the work on these.

Kind regards, [REDACTED]

[REDACTED]
Senior Financial Advisor
Australian Energy Regulator
[REDACTED]@aer.gov.au

From: [REDACTED]@aemc.gov.au>
Sent: Friday, 12 May 2023 10:23 AM
To: Kris Funston <Kris.Funston@aer.gov.au>; [REDACTED]@aer.gov.au>; [REDACTED]@aer.gov.au>
Cc: Danielle Beinart <Danielle.Beinart@aemc.gov.au>; [REDACTED]@aemc.gov.au>; [REDACTED]@aemc.gov.au>; [REDACTED]@aemc.gov.au>
Subject: CONFIDENTIAL - For your red flag review - Financeability and Concessional finance consultation papers

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Hi Kris, [REDACTED] and [REDACTED]

As Danielle and Kris discussed yesterday, we would really appreciate it if you're able to review our attached confidential consultation papers for the Financeability (ERC0348) and Concessional finance (ERC0349) rule changes.

We are only asking that you identify any red flags that we should consider amending. We are not seeking a drafting review.

If you're able to get back to us with any red flags by COB Wednesday 17 May, that would be really appreciated.

Thanks and regards

[REDACTED]

[REDACTED] Senior Adviser
Australian Energy Market Commission
D [REDACTED]
[REDACTED]@aemc.gov.au | www.aemc.gov.au

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Subject: AEMC-DCCEEW catch up - and update on social licence rule change
[SEC=OFFICIAL]

Location: Microsoft Teams Meeting

Start: 7/3/2023 1:00 AM

End: 7/3/2023 1:30 AM

Show Time As: Tentative

Recurrence: (none)

Meeting Status: Received

Organizer: [REDACTED]

Required Attendees: [REDACTED]

Optional Attendees: [REDACTED]; [REDACTED]; [REDACTED]

Resources: Microsoft Teams Meeting

Microsoft Teams meeting

Join on your computer, mobile app or room device

[Click here to join the meeting](#)

Meeting ID: 436 243 919 728

Passcode: bft49Z

[Download Teams](#) | [Join on the web](#)

Join with a video conferencing device

[597361658@t.plcm.vc](tel:597361658@t.plcm.vc)

Video Conference ID: 135 854 360 7

[Alternate VTC instructions](#)

Or call in (audio only)

+61 2 7208 4605,991374805# Australia, Sydney

Phone Conference ID: 991 374 805#

[Find a local number](#) | [Reset PIN](#)

[Learn More](#) | [Meeting options](#)

From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Tuesday, May 30, 2023 8:05 AM
To: [REDACTED] <[REDACTED]@dcceew.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@dcceew.gov.au>
Subject: RE: Monthly AEMC-DCCEEW catch up - and update on social licence rule change [SEC=OFFICIAL]

Hi [REDACTED]

Thanks for including [REDACTED] and [REDACTED]

Viashin until 26 June, so the first week in July would work well for us.

We have good availability again that week and can move other things around. The only times we cant do are 1-2pm on Tuesday, 10:30-11:30am on the Thursday, or Friday afternoon.

Kind regards,
[REDACTED]

From: [REDACTED] <[REDACTED]@dcceew.gov.au>
Sent: Monday, May 29, 2023 8:42 PM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@dcceew.gov.au>
Subject: RE: Monthly AEMC-DCCEEW catch up - and update on social licence rule change [SEC=OFFICIAL]

Hi [REDACTED]

Lovely hearing from you!

I'll be travelling w/c 26th June for some full-day planning and research project events, but am quite free the week prior or following? Great to hear the plan for fast-tracking. CC'ing in [REDACTED] and [REDACTED] as the social licence policy leads (with me leading the research stream of work).

Let me know what suits and we'll set something up. 😊

Many thanks,

[REDACTED] (she/her)

Senior Behavioural Scientist

Electricity Division (QLD – remotely based)

Department of Climate Change, Energy, the Environment and Water

M [REDACTED] E [REDACTED] <[REDACTED]@dcceew.gov.au>

[DCCEEW.gov.au](https://www.dcceew.gov.au) ABN 63 573 932 849



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From: [REDACTED] <[REDACTED]@aemc.gov.au>

Sent: Monday, May 29, 2023 5:20 PM

To: [REDACTED] <[REDACTED]@dcceew.gov.au>

Cc: [REDACTED] <[REDACTED]@aemc.gov.au>

Subject: RE: Monthly AEMC-DCCEEW catch up - and update on social licence rule change

Hi [REDACTED]

No problem at all. I can catch you up on the social licence rule change.

[REDACTED] (cced) is our project lead for the rule change, and I will be sponsoring it.

It would be good to catch up with you on this in late June as we start preparing the draft determination (our plan currently is to fast track the rule change request as there has already been significant consultation during the review).

Do you have availability in the week of 26 June? At this stage we have good availability except for Friday afternoon and Tuesday I have meetings from 11:30am-3:30pm.

Kind regards,

[REDACTED]

-----Original Appointment-----

From: [REDACTED] <[REDACTED]@dcceew.gov.au>

Sent: Monday, May 29, 2023 11:00 AM

To: [REDACTED]

Cc: [REDACTED]

Subject: Tentative: Monthly AEMC-DCCEEW catch up [SEC=OFFICIAL]

When: Monday, 5 June 2023 11:30 AM-12:30 PM (UTC+10:00) Canberra, Melbourne, Sydney.

Where: Blackwood

Hi [REDACTED]

I'll be travelling on the 5th so will see how flights go. Hoping I can rush to make it !:)

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From: [REDACTED]
Sent: Tuesday, May 30, 2023 11:21 AM
To: [REDACTED]
Subject: RE: Social licence rule change [SEC=OFFICIAL]

That's fine [REDACTED] Talk soon.

[REDACTED]

From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Tuesday, May 30, 2023 7:52 AM
To: [REDACTED] <[REDACTED]@dcceew.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Social licence rule change [SEC=OFFICIAL]

Thanks so much [REDACTED] we really appreciate it. We look forward to catching up on your work and our rule change towards the end of next month.

[REDACTED]

From: [REDACTED] <[REDACTED]@dcceew.gov.au>
Sent: Monday, May 29, 2023 6:58 PM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Social licence rule change [SEC=OFFICIAL]

Hi [REDACTED]

No problem. [REDACTED], RE-Alliance's National Director is on [REDACTED] or [REDACTED]@re-alliance.org.au. My replacement in the Policy Manager role is [REDACTED] and she is on [REDACTED] or [REDACTED]@re-alliance.org.au.

Cheers,

[REDACTED]

[REDACTED] | Assistant Director | Transmission Policy
Department of Climate Change, Energy, Environment and Water
Ngunnawal Country, 51 Allara St, Canberra ACT 2601 Australia
P [REDACTED] | E [REDACTED]@dcceew.gov.au

[DCCEEW.gov.au](https://www.dcceew.gov.au) ABN 63 573 932 849

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From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Monday, May 29, 2023 5:51 PM
To: [REDACTED] <[REDACTED]@dcceew.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: Social licence rule change

Hi [REDACTED]

I hope you are well. I reached out to [REDACTED] this afternoon about our social licence rule change, apologies I should have also included you on that email. We are planning on kicking off the rule change in early August and hoping to fast-track it to a draft determination given the previous consultation through the review.

We are looking at setting up a meeting with DCCEEW at the end of June to talk about the rule change and the draft determination, I have asked Sharon for some dates.

We also wanted to reach out to other interested parties such as ReAlliance. I hope you don't mind me asking, but would you know the best contact there now that you have moved on?

Kind regards,

[REDACTED]

[REDACTED] Director
Australian Energy Market Commission
D [REDACTED] | T [REDACTED]
[REDACTED]@aemc.gov.au | www.aemc.gov.au

Level 15, 60 Castlereagh St, Sydney NSW 2000.

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From: [REDACTED]
Sent: Thursday, June 1, 2023 7:48 AM
To: [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]@industry.gov.au;
Danielle Beinart; [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED];
[REDACTED]; [REDACTED]@dcceew.gov.au; [REDACTED]; [REDACTED]@dcceew.gov.au;
[REDACTED]@dcceew.gov.au; [REDACTED]@dcceew.gov.au; [REDACTED]; [REDACTED]
[REDACTED]@dcceew.gov.au
CC: [REDACTED]; [REDACTED]
Subject: Monthly AEMC-DCCEEW catch up- draft agenda

Good morning everyone

I hope you are well. Below is the draft agenda for our meeting on Monday. Please let me know if there is anything you would like to add.

Draft agenda

1. Update on received rule changes approach and timing (AEMC)
 - a. Financeability
 - b. Concessional finance
 - c. Community Engagement (Social licence)
2. Update on pending rule changes including AEMCs thoughts on timing and process (DCCEEW and AEMC)
 - a. Feedback loop
 - b. [REDACTED]
 - c. EAP1
 - d. emissions
 - e. Targeted ex-post review
3. [REDACTED]
4. [REDACTED]
5. Other business

Kind regards,

[REDACTED]

[REDACTED] Director
Australian Energy Market Commission
D [REDACTED] | T [REDACTED]
[REDACTED]@aemc.gov.au | www.aemc.gov.au

Level 15, 60 Castlereagh St, Sydney NSW 2000.

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From: AER External Affairs
Sent: Friday, June 2, 2023 2:09 PM
CC: AER External Affairs
Subject: AER EMBARGO: Transgrid's Humelink stage 1 part 2 contingent project application consultation [SEC=OFFICIAL] [ACCC-ACCCANDAER.FID2689891]
Attachments: A.1 - Transgrid-HumeLink Stage 1 Part 2_Principal Application-23052023-Public.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

OFFICIAL

Good afternoon

The Australian Energy Regulator (AER) has received Transgrid's stage 1 part 2 contingent project application for its HumeLink project which will be published on the AER website for consultation on Monday 5 June.

Interested stakeholders are invited to provide a submission by 30 June 2023.

Please see attached, an embargo copy of Transgrid's Principal Application which will be published Monday, alongside supporting information and their confidentiality claims.

This material is strictly under embargo until published on the AER website, Monday 5 June 2023 at 9.00 am.

Please reach out if you have any questions.

Kind regards,

[REDACTED]
Assistant Director | Stakeholder Engagement
Strategic Communications & Engagement Branch
Australian Energy Regulator
Level 17 | 2 Lonsdale Street, Melbourne VIC 3000
M: [REDACTED] | E: [REDACTED]@aer.gov.au
www.energymadeeasy.com.au | www.aer.gov.au



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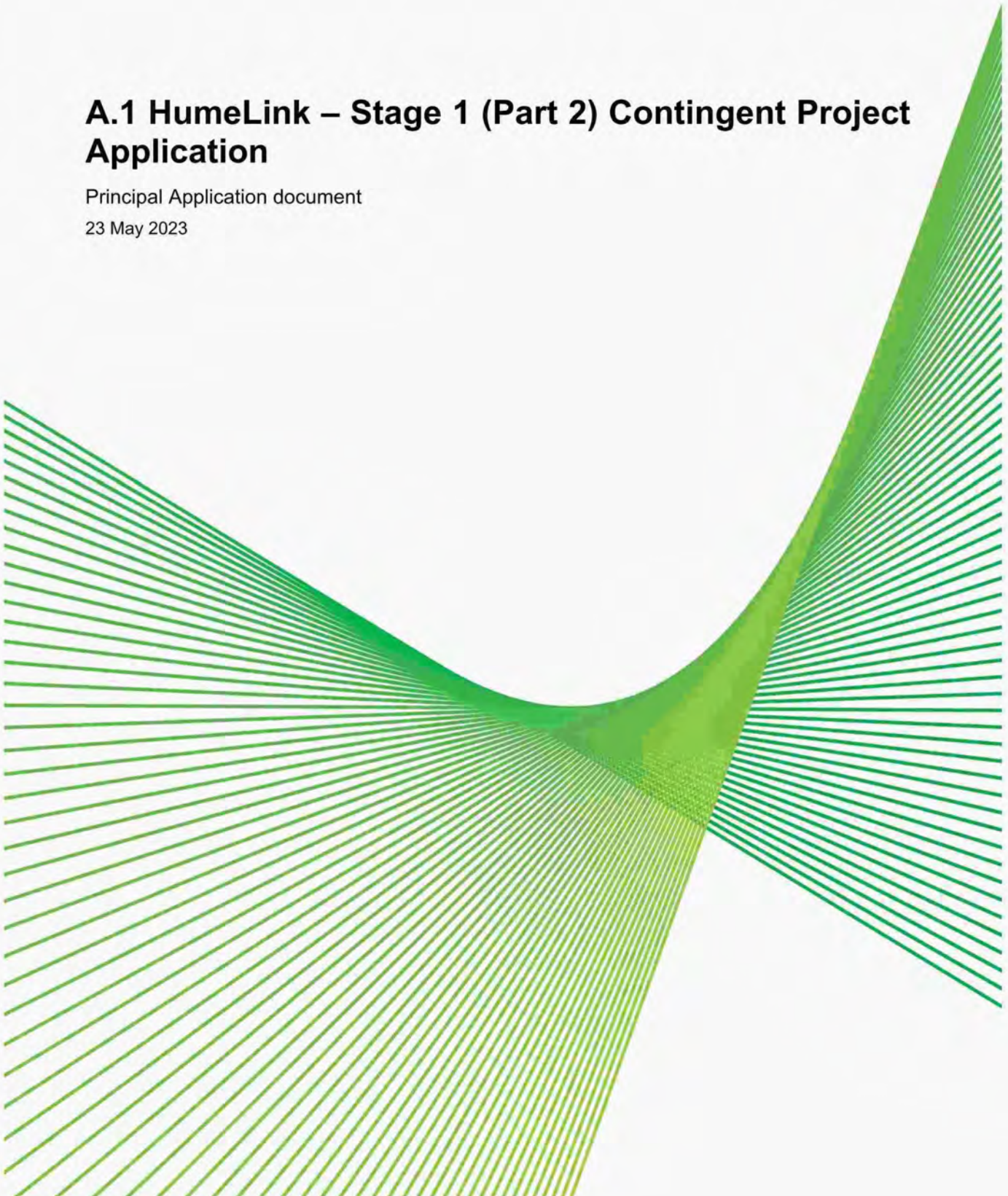


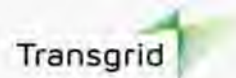
People. Power. Possibilities.

A.1 HumeLink – Stage 1 (Part 2) Contingent Project Application

Principal Application document

23 May 2023





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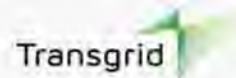
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Executive Summary

The Project and this Application

We are pleased to submit our Stage 1 Contingent Project Application (CPA or Application) for Long Lead Equipment (LLE) for HumeLink (the Project or HumeLink), referred to in this document as our Stage 1 (Part 2) Application or CPA-1 Part 2. This follows our Stage 1 (Part 1) Application (or CPA-1 Part 1), which the AER approved in August 2022.¹

This document is the Principal Application document, which sets out our proposed expenditure, the associated incremental revenue requirement and the indicative customer bill impacts for purchasing LLE for HumeLink as part of our early works activities.

HumeLink is a key component of the energy market transition and will reinforce the southern shared network, which transports electricity from generators across southern New South Wales (NSW), and electricity imported from Victoria and South Australia to major population centres. The current southern shared network is heavily congested at times of high demand and will become more congested as new renewable generation is connected in southern NSW.

HumeLink will create additional capacity for new generation in areas with high quality resources – primarily, wind and solar generation – in southern NSW, increase the transfer capacity between Victoria and NSW and improve wholesale market competition, reducing customers' final electricity bills.

The Australian Energy Market Operator's (AEMO's) Final 2022 Integrated System Plan (2022 ISP), has defined HumeLink as a staged actionable ISP project, without decision rules.² The project stages and target timing identified in the 2022 ISP are:³

- Stage 1 – complete the early works by approximately 2024, and
- Stage 2 – deliver the Project by July 2026, subject to feedback loop confirmation by AEMO.

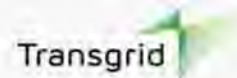
We are currently progressing early works in line with the AER's Final Decision on our Stage 1 (Part 1) Application. This, however, did not include an allowance for purchasing LLE. Rather, it included forecast capex for booking the production slots. The AER's approval of this Application would allow us to purchase LLE for transformers, reactors, conductor and steel as part of our Stage 1 activities. This will maximise benefits to customers by:

- providing the necessary cost certainty by locking in prices for LLE now. This will provide confidence that they will not be over-or-under investing in the Project
- protecting against future inflationary pressures, which are driving-up prices globally. This will ensure that the Project is delivered at the lowest sustainable cost

¹ AER, [HumeLink Early Works Contingent Project Determination](#) (HumeLink CPA-1 Part 2 Decision), August 2022

² AEMO, [2022 Integrated System Plan](#) (2022 ISP), June 2022, p.13.

³ AEMO, [2022 ISP](#), June 2022, p. 67 and 68



- securing supply-chain availability in a competitive global market, which is resulting in extensions on lead times for critical equipment. This will ensure that we meet AEMO's target delivery date of July 2026.⁴

Purchasing LLE now, as part of our Stage 1 activities, will not change the total project cost. Rather, it will bring the associated cost forward to Stage 1 and reduce our Stage 2 forecast capex by an equivalent amount.

We are on schedule to submit our Stage 2 Application to the AER by September 2023. This will contain the Project's deliver cost, which represents the bulk of the Project's costs. The AER's approval of this Stage 1 (Part 2) Application will support a class 2-3 cost estimate in our Stage 2 Application.

Unless otherwise specified, all expenditure forecasts in this Application are expressed in real terms (\$2022-23), and all revenue forecasts are expressed in nominal terms, consistent with the AER's recent 2023-28 Revenue Determination for Transgrid.

A project of national significance

HumeLink involves around 360km of new 500kV transmission lines in an electrical 'loop' that links the Greater Sydney load centre with the Snowy Scheme and Project EnergyConnect in south-west NSW.⁵

The NSW Government has declared HumeLink as a Critical State Significant Infrastructure for NSW.⁶ The Australian Government has also identified HumeLink in Australia's Long Term Emissions Reduction Plan, which finds that HumeLink is needed to strengthen the network in southern NSW and transport renewable energy to consumers from new projects, including Snowy 2.0.⁷

AEMO's 2022 ISP reconfirms the need for HumeLink given its key strategic value for the National Electricity Market (NEM) and the benefits it will provide to consumers.⁸ HumeLink has been a key project in AEMO's ISPs since 2018. AEMO's 2022 ISP has assessed that HumeLink will contribute roughly \$1.3 billion⁹ in net market benefits under the most likely scenario (step change) and will deliver significant value under all scenarios.¹⁰

AEMO's update to its 2022 Electricity Statement of Opportunities (ESOO) notes that HumeLink has 'the potential to significantly reduce the projected reliability risk' for NSW notwithstanding the NSW Electricity Infrastructure Roadmap developments, including the Waratah Super Battery.¹¹

Direction in AEMO's Final 2022 ISP to proceed with Stage 1

AEMO's 2022 ISP assessed that progressing Stage 1 urgently is critical to achieve the following benefits:¹²

⁴ AEMO, 2022 ISP, June 2022, p.13. (see Table 1).

⁵ AEMO, 2022 ISP, June 2022, p. 12 and 68

⁶ Section 5.3 of the Environmental Planning and Assessment Act 1979 (NSW) on 9 March 2018

⁷ Australian Government, [Australia's long-term emissions reduction plan – a whole-of-economy plan to achieve net zero emissions by 2050](#), 2021

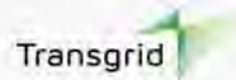
⁸ AEMO, 2022 ISP, June 2022, p. 13

⁹ Of the \$24.5 billion in net market benefits that will be delivered by AEMO's ODP. See AEMO, 2022 ISP, June 2022, p. 68

¹⁰ AEMO, 2022 ISP, June 2022, p. 68

¹¹ AEMO, [Update to 2022 Electricity Statement of Opportunities](#) (ESOO), February 2023, p.12

¹² AEMO, 2022 ISP, June 2022, p. 80



- insurance value – mitigating the risk that not enough firm capacity is available if coal exits faster than anticipated over the period 2026 to 2028.¹³ HumeLink is the only project that can be delivered in time to address this risk
- option value¹⁴ – allowing us to deliver the Project as soon as possible or defer it if circumstances change, and
- protection against rising project costs – urgently undertaking further work to drive down costs and, if necessary, a government co-contribution could be considered, given the broader economic and societal value this project delivers.

Our Stage 1 (Part 1) Application

On 5 April 2022, following feedback loop confirmation from AEMO, we submitted our Stage 1 (Part 1) Application to the AER. This included forecast capex of \$383.3 million to undertake early works activities including project design, stakeholder engagement, land-use planning, approvals and acquisition, securing production slots for LLE and project management.¹⁵

In August 2022, the AER approved our Stage 1 (Part 1) capex forecast in full, noting that it was less than the \$390.1 million assessed by AEMO in its ISP feedback loop assessment.¹⁶ As noted above, our Stage 1 (Part 1) capex forecast did not include the cost of purchasing LLE. Rather, it included \$27.2 million for booking the production slots.¹⁷

We are currently undertaking early works activities and have been keeping the AER and our Transgrid Advisory Council (TAC) updated with our progress, key learnings and outcomes from these activities. We will provide a detailed update on this as part of our Stage 2 Application which we are targeting to submit to the AER in September 2023.

Our Stage 1 (Part 2) Application

The delivery of Major Projects, including HumeLink, are subject to rapidly evolving external factors including inflationary pressure, a heated construction market, increasing demand for capital and an extremely competitive global supply chain. These factors are resulting in unprecedented cost increases for labour and materials as well as significant extensions on lead times for critical equipment.

In light of these conditions, over the last six months, we have worked with the Commonwealth Government to establish a programmatic approach to accelerate the delivery of transmission infrastructure and drive costs down through economies of scale and scope. This is known as the Powering Tomorrow Together (PTT) program, which involves the integrated delivery of EnergyConnect, HumeLink and VNI West. Through the PTT program we are securing the lowest risk-adjusted price for LLE for HumeLink, specifically:

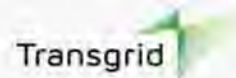
¹³ This is the amount of generation or storage that can be guaranteed to be available on demand

¹⁴ AEMO, 2022 ISP, June 2022, p 24, AEMO defines option value as the risks and regret of an investment (or lack of) based on an assumed future that does not play out, and the value of staging.

¹⁵ The \$383.3 million (\$Real 2022-23) is equivalent to \$321.9 million (\$Real 2017-18) included in AER's decision.

¹⁶ The \$390.1 million (\$Real 2022-23) is equivalent to \$327.6 million (\$Real 2017-18) included in AEMO's feedback loop confirmation.

¹⁷ The \$27.2 million (\$Real 2022-23) is equivalent to \$22.8 million (\$Real 2017-18) included in the AER's decision.



- in February 2023, we entered into agreements with suppliers to purchase transformers and reactors, and
- we are currently progressing similar procurement activities for conductor and steel and expect to enter into agreements with suppliers shortly.

The timing of establishing the LLE agreements with suppliers means that purchasing LLE (as opposed to booking production slots) will form part of our Stage 1 activities. We are therefore submitting this Stage 1 (Part 2) Application to enable recovery of costs required to secure LLE for transformers, reactors, conductor and steel.¹⁸ As noted above, this will not change the total project cost. Rather, it will bring the associated costs forward and reduce our Stage 2 cost by an equivalent amount.

Purchasing LLE as part of our Stage 1 activities maximises benefits to customers by:

- providing greater cost certainty for customers by locking in prices now
- protecting against future inflationary pressure to ensure the Project is delivered at lowest sustainable cost, and
- securing supply-chain availability, in a competitive global market, in order to meet AEMO's target delivery date of July 2026.¹⁹

On 6 April 2023, we requested feedback loop confirmation from AEMO for our Stage 1 (Part 2) costs of \$249.6 million for purchasing LLE.²⁰ On 19 May 2023, AEMO provided written feedback loop confirmation on the basis that our total Stage 1 costs do 'not change the status of the actionable ISP project as part of the optimal development path specified in the 2022 ISP'. These costs total \$632.9 million, comprising:²¹

- the AER's CPA Stage 1 (Part 1) Decision, which included a Stage 1 capex allowance of \$383.3 million,²² and
- our Stage 1 (Part 2) feedback loop request for \$249.6 million for LLE (i.e. the subject of this Application).²³

Our incremental capex and revenue forecasts and indicative price impact

Table 1 shows the total incremental forecast capex of \$226.7 million in this Application reflects the cost of purchasing LLE, shown in column B, less the production slot booking fee approved by the AER in our Stage 1 (Part 1) Application. The total capex forecast of \$226.7 million comprises:

- [REDACTED] for transformers and reactors, and
- [REDACTED] for conductors and steel towers.

¹⁸ AER, [HumeLink Early Works Contingent Project Determination](#), August 2022. See Table 4.

¹⁹ AEMO, 2022 ISP, June 2022, p.13. (see Table 1).

²⁰ The \$249.6 million (\$Real 2022-23) is equivalent to \$209.6 million (\$Real 2017-18) in our request to AEMO for Stage 1 (Part 2) costs.

²¹ The \$632.9 million (\$Real 2022-23) is equivalent to \$558.8 million (\$Real 2020-21) and \$531.5 million (\$Real 2017-18)

²² The \$383.3 million (\$Real 2022-23) is equivalent to \$321.9 million (\$Real 2017-18) included in its [HumeLink CPA-1 Part 2 Decision](#).

²³ The \$249.6 million (\$Real 2022-23) is equivalent to \$209.6 million (\$Real 2017-18) in our request to AEMO for Stage 1 (Part 2) costs.



Table 1: HumeLink forecast capex for LLE, \$Million Real 2023

LLE	Booking fee CPA-1 Part 1	Full cost of LLE	CPA-1 Part 2
	(A)	(B)	(B) – (A)
Transformers and Reactors	█	█	█
Steel and Conductors	█	█	█
Total	27.2	253.9	226.7

Note: 1. Totals may not add due to rounding

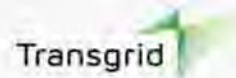
Based on our incremental capex forecast, we are seeking the AER’s approval to increase our maximum allowance revenue (MAR). Given the timing of this Application our required incremental revenue relates to the 2023-28 period, and is modest because:

- we are not seeking to adjust our 2018–23 or 2023–28 opex allowances as part of this Application, other than adjusting our 2023–28 allowance for debt raising costs as a consequence of the revised capex allowance, and
- our capex is not expected to be commissioned until June 2025 when the early works have been completed.

Table 2: – Incremental maximum allowed revenue – MAR (smoothed) (\$M, Nominal)

MAR (Smoothed Revenue)	2023-24	2024-25	2025-26	2026-27	2027-28	Total
AER 2023-28 Final Decision	924.0	930.0	963.7	998.7	1,034.9	4,851.3
Impact of CPA-1 Part 1	-	21.7	22.5	23.3	24.2	91.7
Impact of CPA-1 Part 2	-	9.1	9.4	9.8	10.1	38.5
Updated MAR	924.0	960.9	995.7	1,031.8	1,069.2	4,981.5

Based on the forecast MAR adjustment, the indicative customer bill impact is an increase of \$1.50 per annum for residential customers and \$5.62 per annum for small business customers, commencing in 2024-25.



1. Introduction

We are pleased to submit our Stage 1 (Part 2) Application for HumeLink which relates to purchasing LLE for transformers, reactors, steel and conductors. This follows our Stage 1 (Part 1) Application, which the AER approved in August 2022.

AEMO considers that Stage 1 activities, including purchasing LLE, are critical to achieve the following benefits:²⁴

- insurance value – mitigating the risk that not enough firm capacity is available if coal exits faster than anticipated over the period 2026 to 2028. HumeLink is the only project that can be delivered in time to address this risk²⁵
- option value²⁶ – allowing us to deliver the Project as soon as possible or defer it if circumstances change, and
- protection against rising project costs – urgently undertaking further work to drive down costs and, if necessary, a government co-contribution could be considered, given the broader economic and societal value this project delivers.

We are currently progressing Stage 1 works in line with the AER's Final Decision on our Stage 1 (Part 1) Application and have been keeping the AER and our TAC updated with our progress, key learnings and outcomes from these activities. We will provide a detailed update on this as part of our Stage 2 Application in September 2023.

Our Stage 1 (Part 1) Application did not include the cost of purchasing LLE. Rather, it included forecast capex for booking the production slots.

Purchasing LLE as part of our Stage 1 activities will not change the total project cost. Rather, it will bring the associated cost forward and reduce our Stage 2 forecast capex by an equivalent amount.

Purchasing LLE in Stage 1 maximises benefits to customers by:

- providing the necessary cost certainty by locking in prices for LLE now. This will provide confidence that they will not be over-or-under investing in the Project
- protecting against future inflationary pressures, which are driving-up prices globally. This will ensure that the Project is delivered at the lowest sustainable cost,
- securing supply-chain availability in a competitive global market, which is resulting in extensions on lead times for critical equipment. This will ensure that we meet AEMO's target delivery date of July 2026.²⁷

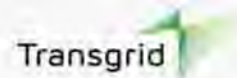
We are on schedule to submit our Stage 2 CPA to the AER by September 2023, and this Stage 1 (Part 2) Application will support this.

²⁴ AEMO, 2022 ISP, June 2022, p. 80

²⁵ This is the amount of generation or storage that can be guaranteed to be available on demand.

²⁶ AEMO, 2022 ISP, June 2022, p 24, AEMO defines option value as the risks and regret of an investment (or lack of) based on an assumed future that does not play out, and the value of staging.

²⁷ AEMO, 2022 ISP, June 2022, p.13. (see Table 1).



Section 3.2 of this Principal Application explains the relevant trigger events for this Application and demonstrates that they have occurred.

In accordance with clause 6A.8.2 of the National Electricity Rules (NER or Rules), this Principal Application seeks the AER's approval to amend the following so that we can recover the efficient costs of LLE contained in this Application:

- the capex allowance in the AER's 2018-23 and 2023-28 Revenue Determinations, and
- our revenue requirements and maximum allowed revenue (MAR) for the 2023–28 regulatory period.

1.1. Compliance with the NER

This Application and the supporting documents establish the matters in clause 6A.8.2(f) of the NER, being:

- the forecast of the total capex for the Project meets the threshold as referred to in clause 6A.8.1(b)(2)(iii)
- the amounts of forecast capex and incremental opex reasonably reflect the capex criteria and the opex criteria, taking into account the capex factors and the opex factors respectively, in the context of the contingent project
- the estimates of incremental revenue are reasonable, and
- the dates are reasonable.

1.2. Structure of this document

The remainder of this document is structured as follows:

- Chapter 2 describes the Project, the direction from AEMO in its 2022 ISP to proceed with Stage 1 and AEMO's approval of our Stage 1 (Part 1) Application
- Chapter 3 sets out the regulatory requirements for this Application
- Chapter 4 sets out forecast capex for the Stage 1 (Part 2) activities
- Chapter 5 sets out forecast incremental revenue for the Stage 1 (Part 2) activities and the indicative customer bill impact
- Chapter 6 sets out how the NER and Guidance note requirements have been addressed, and
- Appendix A is our revenue Application.

1.3. Structure of the Stage 1 (Part 2) Application

Our Stage 1 (Part 2) Application comprises the attachments and models (illustrated in Figure 1) as well as other supporting documents. This Principal Application document references these attachments, models and other supporting documents and should be read in conjunction with them.

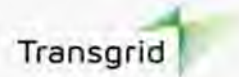


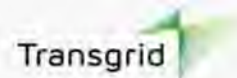
Figure 1: HumeLink - Stage 1 (Part 2) Application



The attachments and models are summarised in Table 3.

Table 3: Documents and models comprising this Application (excluding our other supporting documents)

Document /model number	Name	Content/purpose
A.1	HumeLink – Stage 1 (Part 2) Application - Principal Application document	Seeks the AER’s approval to amend the forecast capex allowance, revenue requirements and MAR in the 2023-28 Revenue Determination based on this Application.
A.1.1A	HumeLink CPA-1 Part 1 2023-28 Post Tax revenue Model (PTRM)	Demonstrates the calculations of our incremental revenue requirements and MAR for the 2023-28 regulatory period, based on the AER’s HumeLink Stage 1 (Part 1) Determination.
A.1.1B	HumeLink CPA-1 Part 1 2018-23 Post Tax revenue Model (PTRM)	Demonstrates the calculations of our incremental revenue requirements for the 2018-23 regulatory period, based the AER’s HumeLink Stage 1 (Part 1) Determination
A.1.1C	HumeLink CPA-1 Part 1 2023–28 Roll-forward Model (RFM)	Rolls forward the Regulatory Asset Base (RAB) and Tax Asset Base (TAB) across the 2018–23 regulatory period, inclusive of capex approved in AER’s HumeLink Stage 1 (Part 1) Determination.
A.1.1D	HumeLink CPA-1 Part 1 2023–28 Depreciation Model	Calculates forecast depreciation based on as-commissioned capex in the 2018–23 regulatory period, including capex approved in AER’s HumeLink Stage 1 (Part 1) Determination.
A.1.2A	HumeLink CPA-1 (Part 2) 2023-28 Post Tax revenue Model (PTRM)	Demonstrates the calculations of our incremental revenue requirements and MAR for the 2023-28 regulatory period, based this Application for Stage 1 (Part 2)



Document /model number	Name	Content/purpose
A.1.2B	HumeLink CPA-1 Part 2 2023–28 Roll-forward Model (RFM)	Rolls forward the RAB and TAB across the 2018–23 regulatory period, including capex in this Stage 1 (Part 2) Application
A.5	LLE Capex forecast model	This model forecasts incremental LLE capex by regulatory asset class and year to 2024-25, calculated as the difference between the forecast capex for production slots, included in Stage 1 (Part 1), and the full cost of purchasing LLE.

In addition, we have provided the AER with other supporting documents that are referenced within the documents listed in Table 3.

2. Project Overview

2.1. A project of national significance

In March 2018, the NSW Government declared HumeLink as a Critical State Significant Infrastructure for NSW.²⁸ The Australian Government has also identified HumeLink in Australia's Long Term Emissions Reduction Plan, which finds that HumeLink is needed to strengthen the network in southern NSW and transport renewable energy to customers from new projects, including Snowy 2.0.²⁹

In July 2021, we published a Regulatory Investment Test for Transmission (RIT-T), which identifies HumeLink (Option 3C in the RIT-T) as the preferred option for reinforcing the southern shared network. The RIT-T assessment estimates that HumeLink will deliver \$491 million in net benefits (on a weighted basis in NPV terms) primarily from avoided, or deferred, costs associated with generation and storage infrastructure.³⁰

In June 2022, AEMO published its Final 2022 ISP, which reconfirms the need for HumeLink given its key strategic value for the NEM and the benefits it will provide to customers.³¹ It found that HumeLink will be needed if a third NSW coal-fired power station (including Liddell) retires, noting that the closure of two of NSW power stations (Liddell and Eraring) has already been announced as likely to occur by 2025. If this risk materialises, HumeLink will be needed to maintain power system reliability in NSW, avoiding the need to invest in long-duration storage.³² The 2022 ISP has assessed that:

HumeLink is the only actionable ISP project that could be delivered in the critical period that directly addresses this risk.

In February 2023, AEMO published an update to its 2022 ES00. This assesses that HumeLink has 'the potential to significantly reduce the projected reliability risk' for NSW notwithstanding the NSW Electricity Infrastructure Roadmap developments including the Waratah Super Battery.³³

In April 2023, the Liddell power station closed. Consistent with the assumptions in AEMO's 2022 ISP, the Eraring power station is still expected to close in 2025 and Bayswater power station is scheduled to be retired between 2030 and 2033.³⁴

HumeLink will be our largest capital project since construction of our existing network. It involves around 360km of new 500 kV transmission lines in an electrical 'loop' that links the Greater Sydney load centre with the Snowy Mountains Hydroelectric Scheme and Project EnergyConnect in south-west NSW.³⁵

HumeLink is a key component of the energy market transition. It will create additional capacity for new generation – primarily renewable wind and solar generation – in southern NSW, increase the transfer

²⁸ Section 5.3 of the Environmental Planning and Assessment Act 1979 (NSW) on 9 March 2018

²⁹ Australian Government, [Australia's long-term emissions reduction plan – a whole-of-economy plan to achieve net zero emissions by 2050](#), October 2021

³⁰ Transgrid, HumeLink – Project assessment Conclusion Report (PACR) Addendum – December 2021 p.5.

³¹ HumeLink has been identified as a key project in AEMO's ISPs since 2018. AEMO, 2022 ISP, June 2022, p. 13

³² AEMO, 2022 ISP, June 2022, pp 64-65, 82.

³³ AEMO, [Update to 2022 Electricity Statement of Opportunities \(ES00\)](#), February 2023, p.12

³⁴ Australian Financial Review (AFR), [AGL bows to shareholders and hastens coal exit](#), 29 September 2022

³⁵ AEMO, 2022 ISP, June 2022, p. 68



capacity between Victoria and NSW and improve wholesale market competition, thereby reducing customers' final electricity bills.

Figure 2 is a map of the proposed 500kV double circuit transmission line routes.

Figure 2: Map of proposed transmission line routes



2.2. Direction from AEMO to proceed with Stage 1 (Early Works)

AEMO's 2022 ISP defines HumeLink as a staged actionable ISP project, without decision rules, at a total cost of \$3.91 billion.³⁶ It has also assessed that HumeLink contributes roughly \$1.3 billion of the \$24.5 billion in net market benefits delivered by the Optimal Development Path (ODP) under the most likely scenario (step change) and will deliver significant value under all scenarios.³⁷ The project stages and target timing identified in the 2022 ISP are:³⁸

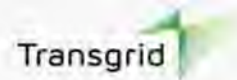
- Stage 1 – complete the early works by approximately 2024, and
- Stage 2 – implement the Project by July 2026, subject to feedback loop confirmation by AEMO.

AEMO has assessed that delivering the Project as early as possible, with early works as the first stage and with an additional checkpoint via the feedback loop before construction to reconfirm the Project's need,

³⁶ AEMO, [2022 ISP](#), June 2022, p. 67 and 68. The \$3.91 billion (\$Real 2022-23) is equivalent to \$3.28 billion (\$Real 2017-18) included in AEMO's [Feedback Loop Notice](#), published on 22 January 2022.

³⁷ AEMO, 2022 ISP, June 2022, p. 68.

³⁸ AEMO, [2022 ISP](#), June 2022, p. 67 and 68.



protects customers against the risk of schedule slippage and provides insurance value against the risk of coal exiting faster than projected in NSW.

AEMO's 2022 ISP therefore directs the staged delivery of the Project to ensure it can be delivered under all scenarios by July 2026 and achieve the following benefits through early works activities:³⁹

- insurance value – this mitigates the risk that not enough firm capacity is available if coal exits faster than anticipated over the period 2026 to 2028. HumeLink is the only project that can be delivered in time to address this risk
- option value⁴⁰– this allows us to deliver the Project as soon as possible or defer it if circumstances change, and
- protection against rising project costs – this directs us to urgently undertake further work now to drive down costs and, if necessary, a government co-contribution could be considered, given the broader economic and societal value this project delivers.

2.3. Approval of our Stage 1 (Part 1) Application

On 25 January 2022, we requested feedback loop confirmation from AEMO for our Stage 1 (Part 1) Application. On 27 January 2022, AEMO provided written feedback loop confirmation at a cost of \$390.1 million (Real 2017-18) and reconfirmed the total Project cost of \$3.91 billion.

On 5 April 2022, we submitted to the AER our Stage 1 (Part 1) Application seeking an increase to our revenue in accordance with clause 6A.8.2 of the NER to fund Stage 1 activities. Our Stage 1 (Part 1) Application included forecast capex of \$383.3 million to undertake these activities including project design, stakeholder engagement, land-use planning and approvals and acquisition, securing production slots for LLE and project management.⁴¹

Our Stage 1 (Part 1) Application did not include the cost of purchasing LLE in full but rather included \$27.2 million for booking the production slots.⁴²

In August 2022, the AER approved our Stage 1 (Part 1) capex forecast of \$383.3 million.⁴³ We are currently undertaking early works activities and have been keeping the AER and our TAC updated with our progress as well as the key learnings and outcomes from these activities. Key activities so far include:

- **Route selection and refinement** – we have now established the Project's centreline (i.e., route). There is one section near Tumut that requires additional review based on feedback from the local community. This will be dealt with through an amendment after the EIS submission.

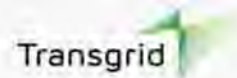
³⁹ AEMO, 2022 ISP, June 2022, p. 80

⁴⁰ AEMO, 2022 ISP, June 2022, p 24. AEMO defines option value as the risks and regret of an investment (or lack of) based on an assumed future that does not play out, and the value of staging.

⁴¹ The \$383.3 million (\$Real 2017-18) is equivalent to \$321.9 million (\$Real 2017-18).

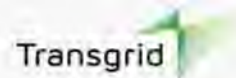
⁴² The \$27.2 million (\$Real 2022-23) is equivalent to \$22.8 million (\$Real 2017-18) included in the AER's decision.

⁴³ The \$383.3 million (\$Real 2022-23) is equivalent to \$321.9 million (\$Real 2017-18) included in AER's decision.



- **Land acquisition** – we are making good progress and are ahead of schedule, in providing access for infrastructure delivery. Currently, we have in principle agreements with landowners for 36 per cent of private easements that are required for the Project.
- **Ground investigation and design development** – we have undertaken geotechnical drilling to develop the design and support the competitive design and construct procurement process for the Project.
- **Environmental Planning and Approvals** – we are on track to submit our draft Environment Impact statement (EIS) to the Department of Planning and Environment in May 2023.
- **Procurement** – we have undertaken a thorough procurement process comprising two phases to ensure that the Project's construction cost is prudent and efficient and therefore provides the best possible value for money under the prevailing circumstances:
 - The first phase consisted of initial market sounding in mid-2022. This involved industry briefings, receipt of questionnaire and feedback submissions, and interviews. This phase was open to all bona-fide delivery contractors and major engineering firms, subcontractors and suppliers with the potential to play a key role in the delivery of the HumeLink project
 - The second phase consisted of:
 - > expressions of interest (EOI) to identify potential suitably experienced and capable contractors to participate in the next phase Early Contractor Involvement (ECI) process, and
 - > the ECI is a two-stage collaborative process to maximise responsiveness in the supplier market. This is on track to conclude at the end of May 2023, followed by the award of contracts to the successful Delivery partners in June 2023.

We will provide a detailed update on this as part of our Stage 2 Application in September 2023. By undertaking early works activities now, we expect to achieve a class 2-3 capex forecast for Stage 2, which represents the bulk of the Project's costs.



3. Regulatory Requirements

The regulatory requirements for actionable ISP projects are contained in:

- clause 6A.8.2 of the NER
- the AER's Process Guideline for CPAs,⁴⁴ and
- the AER's Guidance Note for Regulation of actionable ISP projects.⁴⁵

The key requirements are outlined below. Chapter 6 of this Application shows how we have satisfied the regulatory requirements.

3.1. Regulatory requirements

Clause 6A.8.2 of the NER sets out the requirements for making an application to amend a revenue determination to include a contingent project that is an actionable ISP project. This Application is made in accordance with the requirements of clause 6A.8.2(a), (a1) and (b) of the NER, being:

- during the 2018 to 2023 regulatory period
- to amend the revenue determination that applies to us in respect of a contingent project included in AEMO's ISP as an actionable ISP project, and⁴⁶
- within the specified time limits.⁴⁷

This Application includes the information specified in clause 6A.8.2(b) of the NER:

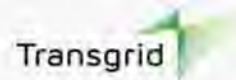
- (1) an explanation that substantiates the occurrence of the trigger event
- (2) a forecast of the total capital expenditure for the contingent project
- (3) a forecast of the capital and incremental operating expenditure, for each remaining regulatory year which the Transmission Network Service Provider considers is reasonably required for the purpose of undertaking the contingent project
- (4) how the forecast of the total capital expenditure for the contingent project meets the threshold as referred to in clause 6A.8.1(b)(2)(iii)
- (5) the intended date for commencing the contingent project (which must be during the regulatory control period)
- (6) the anticipated date for completing the contingent project (which may be after the end of the regulatory control period), and

⁴⁴ AER, [Process Guideline for Contingent Project Applications under the NER](#), September 2007.

⁴⁵ AER, [Guidance Note for Regulation of actionable ISP projects](#), March 2021.

⁴⁶ NER clause 6A.8.2(a)

⁴⁷ NER clause 6A.8.2(a)



- (7) an estimate of the incremental revenue which the Transmission Network Service Provider considers is likely to be required to be earned in each remaining regulatory year of the regulatory control period as a result of the contingent project being undertaken as described in subparagraph (3), which must be calculated:
- (i) in accordance with the requirements of the post-tax revenue model referred to in clause 6A.5.2
 - (ii) in accordance with the requirements of the roll forward model referred to in clause 6A.6.1(b)
 - (iii) using the allowed rate of return for that Transmission Network Service Provider for the regulatory control period as determined in accordance with clause 6A.6.2
 - (iv) in accordance with the requirements for depreciation referred to in clause 6A.6.3, and
 - (v) on the basis of the capital expenditure and incremental operating expenditure referred to in subparagraph (b)(3).

Clause 6A.8.2(f)(2) of the NER requires the AER to accept the relevant amounts in this Final Application if it is satisfied that:

the amounts of forecast capital expenditure and incremental operating expenditure reasonably reflect the capital expenditure criteria and operating expenditure criteria, taking into account the capital expenditure factors and operating expenditure factors, in the context of the contingent project.

In addressing these requirements, we have had regard for the AER's:

- Guidance Note for Regulation of actionable ISP projects,⁴⁸ and
- Process Guideline for Contingent Project Applications.⁴⁹

We have met regularly with the AER and our TAC in preparing this Application and the AER's feedback has informed the content and structure of this Final Application and supporting documentation.

3.2. Trigger events

Under the NER, we can submit this Stage 1 (Part 2) Application to the AER, if we satisfy the trigger events for actionable ISP projects in clause 5.16A.5.⁵⁰ Table 4 shows that the trigger events for Stage 1 of the Project have been met.

⁴⁸ AER, [Guidance Note, Regulation of actionable ISP projects](#), March 2021

⁴⁹ AER, [Process Guideline for Contingent Project Applications under the National Electricity Rules](#), September 2007

⁵⁰ Rule 5.16A.5 Actionable ISP project trigger event.

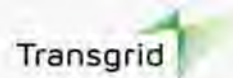


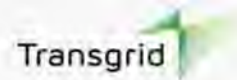
Table 4: Occurrence of the trigger events

Trigger event	Status
<p>Publish the RIT-T Project Assessment Conclusions Report (PACR), which must identify a preferred option that passes the RIT-T.</p>	<p>Complete</p> <p>On 29 July 2021, we published a PACR, which identified the preferred option to be a new 500 kV double circuit transmission lines in an electrical 'loop' between Maragle, Wagga Wagga and Bannaby (i.e., 'Option 3C').</p>
<p>Obtain written feedback loop confirmation from AEMO that:</p> <ul style="list-style-type: none"> the preferred option addresses the identified need and is on the optimal development path (ODP) in the most recent ISP, and at the forecast cost, the Project remains part of the ODP 	<p>Complete</p> <p>On 19 May 2023, AEMO provided written feedback loop confirmation that:</p> <ul style="list-style-type: none"> the Stage 1 (Part 2) for LLE meets the identified need in the most recent ISP, being the 2022 ISP⁵¹ and Stage 1 (Part 1 and Part 2) of the Project remains part of the ODP at a total cost of \$632.9 million,⁵² noting: <ul style="list-style-type: none"> the AER approved \$383.3 million for Stage 1 (Part 1) in August 2022,⁵³ and This Application seeks the AER's approval for Stage 1 (Part 2) forecast capex of \$249.6 million⁵⁴
<p>There are no outstanding RIT-T PACR disputes - either no disputes were raised or if a dispute has been raised, it has been rejected by the AER or the PACR has been amended accordingly.</p>	<p>Complete</p> <p>On 17 December 2021, we resolved the dispute raised by Wunelli Pty Ltd by publishing an addendum to the PACR. This contained the additional analysis requested by the AER in its dispute determination, published on 24 November 2021. The resolution of this dispute marked the completion of the RIT-T process.</p>
<p>The cost in the Stage 1 CPA must be no more than the cost included in AEMO's written feedback loop confirmation.</p>	<p>Confirmed</p> <p>Our Stage 1 capex (actual and forecast) in this application is within the Stage 1 cost cap of \$632.9 million,⁵⁵ set out in AEMO's feedback loop confirmation.</p>

3.3. Project timing

For the purposes of this Stage 1 (Part 2) Application, the applicable dates for commencement and completion are:

- date for commencement – 1 July 2022, and
- anticipated date for completion – 30 June 2025.



We have already incurred some costs in relation to purchasing LLE, associated with design and establishing contract with suppliers to meet AEMO's July 2026 completion date. The proposed timing for the remaining LLE costs is based on the activities set out in the contract with suppliers.

3.4. Customer and other Stakeholder engagement

3.4.1. Stage 1 Engagement activities

Engaging with our customers is integral to our business. Given the size, scale and route of HumeLink, we are undertaking extensive engagement with a diverse group of stakeholders including local communities, landowners, First Nations people and primary producer groups.

There is strong interest and reactions to the Project. We are undertaking extensive early engagement as part of our Stage 1 activities, which is critical to maintaining the social licence required to minimise the risk of the Project being delayed and the associated costs.

We are implementing our HumeLink Engagement Strategy which involves engaging with landowners, indigenous and local communities and other stakeholders to:

- provide information on the Project timeframes, milestones and engagement processes so that customers have the maximum opportunity to be involved in the Project
- effectively communicate the advantages of the Project to the community and facilitate their full participation in it, and
- offer initiatives and programs that invest in the community and provide benefits to them.

To date, we have undertaken 27 Community Consultation Group (CCG) meetings, and 777 stakeholder meetings across the project footprint.

A full description of our Stage 1 customer and stakeholder engagement activities and outcomes will be provided to the AER as part of our Stage 2 Application in September 2023.

3.4.2. Engagement on this Application

To inform the development of this Application, we undertook specific pre-lodgement engagement with our TAC. Since it was established in 2016, the TAC has been central to our customer engagement activities, providing ongoing support and insights to our business on policy issues, regulatory strategy, customer perspectives and industry insights.

Our pre-lodgement engagement with the TAC involved monthly meetings over the period February to May 2023.

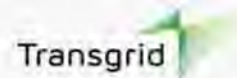
⁵¹ AEMO's assessment must consider the Stage 1 costs as well as the full delivery cost of the Project.

⁵² The \$632.9 million (\$Real 2022-23) is equivalent to \$558.8 million (\$Real 2020-21) and \$531.5 million (\$Real 2017-18)

⁵³ The \$383.3 million (\$Real 2022-23) is equivalent to \$321.9 million (\$Real 2017-18) included in its [HumeLink CPA-1 Part 2 Decision](#)

⁵⁴ The \$249.6 million (\$Real 2022-23) is equivalent to \$209.6 million (\$Real 2017-18) in our request to AEMO for Stage 1 (Part 2) costs.

⁵⁵ The \$632.9 million (\$Real 2022-23) is equivalent to \$558.8 million (\$Real 2020-21) and \$531.5 million (\$Real 2017-18)



- On 23 March 2023, we discussed the drivers, benefits to consumers, expected costs and regulatory process for our Stage 1 (Part 2) Application
- On 23 March 2023, AEMO also attended our TAC meeting and explained how it will assess our Stage 1 (Part 2) Application
- On 11 April 2023, we provided TAC members with our Feedback Loop request letter to AEMO and asked them to complete an online feedback form seeking their views on the following three questions:
 - 'Do you support Transgrid's proposal to submit a further Stage 1 CPA (i.e., CPA-1 Part 2) for HumeLink, to recover costs of purchasing long lead equipment?
 - If you responded 'no' or 'undecided' for the previous question, could you please explain why?
 - Would you like to submit any further comments?"

Through this engagement we received written submissions from the Energy Users Association of Australia (EUAA) and the Public Interest Advocacy Centre (PIAC), which raised a number of questions and concerns. These ranged from the reliability of forecast costs and consumer impacts to the implications of delays to the Project, and the timeframe and approach to stakeholder engagement. On 17 April 2023, we provided a written responses to TAC members addressing these questions and concerns.

Table 5 summarises the issues and questions raised through our engagement process, what we heard on our Stage 1 activities and where in this Application we have addressed this feedback. The TAC also raised a broader range of questions and concerns beyond the scope of this Application, including on the savings arising from our PTT program and our social licence considerations. We have addressed this feedback outside of this Application.

Table 5: Summary of TAC feedback and where in this Application we have discussed this feedback

What we heard – key issues and questions	Discussed in this Application
What is the evidence of the need and the cost	Refer Chapter 2
What is the confidence level around the forecast costs	Refer Chapter 4
What is the confidence level around the re-sale value of the LLE? Will consumers be worse off from purchasing LLE in Stage 1 rather than Stage 2?	Refer Chapter 4
Who will benefit (Transgrid or consumers) if the LLE the is sold for more than the purchase price paid by consumers.	Refer Chapter 4
To what extent are consumers paying for what amounts to Transgrid's own business development?	Refer Chapter 4
How certain are the benefits for consumers if all projects go ahead as planned?	Addressed outside of this Application.
What effect will timing misalignments and unpredictable delays have on the consumer benefit?	
Where do extrinsic timing and cost issues relating to social licence and other factors fit into this?	
Dissatisfaction with timeframe and approach for stakeholder engagement	

We are grateful to the TAC for its continued participation, input and invaluable feedback.



4. Capex forecast

This chapter:

- overviews AEMO's feedback loop confirmation for our Stage 1 (Part 2) Application
- explains the scope of our Stage 1 (Part 2) activities and the expected benefits for consumers, and
- sets out our forecast Stage 1 (Part 2) capex and the basis of our forecast.

4.1. AEMO's feedback loop confirmation of Stage 1 (Part 2) capex

On 6 April 2023, we requested feedback loop confirmation from AEMO for our Stage 1 (Part 2) forecast capex of \$249.6 million for purchasing LLE.⁵⁶ On 19 May 2023, AEMO provided written feedback loop confirmation on the basis that our total Stage 1 costs do 'not change the status of the actionable ISP project as part of the optimal development path specified in the 2022 ISP'. These costs total \$632.9 million, comprising:⁵⁷

- the AER's CPA Stage 1 (Part 1) Decision, which included a Stage 1 capex allowance of \$383.3 million,⁵⁸ and
- our Stage 1 (Part 2) feedback loop request for \$249.6 million for LLE (i.e., the subject of this Application).⁵⁹

4.2. The scope of our Stage 1 (Part 2) activities and outcomes for consumers

The delivery of Major Projects, including HumeLink, are subject to rapidly evolving external factors. These include inflationary pressure, heated construction markets across all industry sectors, increasing demand for capital and an extremely competitive global supply chain. These factors are resulting in unprecedented cost increases for labour and materials both nationally and internationally as well as significant extensions on lead times for critical equipment.

In light of these conditions, over the last six months, we have worked with the Commonwealth Government to establish a programmatic approach to:

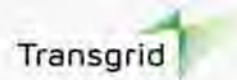
- accelerate the delivery of transmission infrastructure
- drive costs down through economies of scale and scope, and
- improve certainty of deliverability in a highly constrained labour and equipment supply chain market.

⁵⁶ The \$249.6 million (\$Real 2022-23) translates to the \$209.6 million (\$Real 2017-18) in our request to AEMO for Stage 1 (Part 2) costs.

⁵⁷ The \$632.9 million (\$Real 2022-23) is equivalent to \$558.8 million (\$Real 2020-21) and \$531.5 million (\$Real 2017-18)

⁵⁸ The \$383.3 million (\$Real 2022-23) is equivalent to \$321.9 million (\$Real 2017-18) included in its [HumeLink CPA-1 Part 2 Decision](#).

⁵⁹ The \$249.6 million (\$Real 2022-23) is equivalent to \$209.6 million (\$Real 2017-18) in our request to AEMO for Stage 1 (Part 2) costs.



This is known as the PTT program, which involves the integrated delivery of EnergyConnect, HumeLink and VNI West. The scale and scope of the PTT program allows us to:

- attract and retain Delivery Partners and their contract resources
- work with our Delivery Partners to ensure projects are delivered on time and at the lowest sustainable costs, and
- manage constraints by coordinating resources and timing of delivery of works across multiple projects.

Through the PTT program we are securing the lowest risk-adjusted price for LLE for HumeLink, specifically:

- in February 2023, we entered into agreements with suppliers to purchase transformers and reactors, and
- we are currently progressing similar procurement activities for conductor and steel and expect to enter into agreements with suppliers shortly.

Our procurement process for transformers and reactors highlighted the capacity challenges in the market and that large-scale equipment orders require extensive lead time due to factory order books nearing capacity. We found that near-term capacity outside of China is exhausted. A letter from a key supplier received through the recent procurement process, provided as an Attachment to this Application, evidences the current market capacity challenges. It states that:

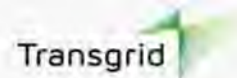
As TransGrid would be aware, the increase in both global and local demand for power transformers is growing exponentially and we cannot forecast what will happen in the next 6 or more months. Our manufacturing slots are booked on a first come first served basis and those organisations that have secured factory capacity in binding agreements will meet their targeted project dates. As a local example, Central West Orana which has a larger demand than [sic] the HumeLink project for this portfolio and also requires delivery at the same time as HumeLink.

The timing of establishing the LLE agreements with suppliers means that purchasing LLE, as opposed to booking production slots, will form part of Stage 1 rather than Stage 2 activities. This does not change the total project cost, rather it simply brings forward the cost of the activity and reduces our Stage 2 cost by an equivalent amount.

Purchasing LLE as part of Stage 1 activities maximises benefits to customers by:

- providing the necessary cost certainty by locking in prices for LLE now. This will provide confidence that they will not be over-or-under investing in the Project
- protecting against future inflationary pressures, which are driving-up prices globally. This will ensure that the Project is delivered at the lowest sustainable cost, and
- securing supply-chain availability in a competitive global market, which is resulting in extensions on lead times for critical equipment. This will ensure that we meet AEMO's target delivery date of July 2026.⁶⁰

⁶⁰ AEMO, 2022 ISP, June 2022, p.13. (see Table 1).



The resale value of the LLE is the same as the forecast capex of \$249.6 million,⁶¹ included in this Application. This means that should the project not proceed to Stage 2, then we could:

- repurpose the LLE for other projects that we are currently progressing, such as VNI-West
- sell the LLE to enable the delivery of NSW Government's Renewable Energy Zones (REZs) such as Central-West Orana REZ, New England REZ or Hunter-Central Coast REZ
- sell the LLE to enable the delivery of large transmission projects being progressed by other transmission businesses, such as CopperString which is being built by Powerlink in north Queensland, or
- sell the LLE to the Commonwealth Government in return for any underwritten funds.

The proceeds from the sale of LLE would be treated as disposals and deducted from RAB when it becomes time to roll forward the RAB over the 2023–28 period. This means that customers would not be worse off from purchasing the LLE in Stage 1 given the Commonwealth Government's underwriting agreement and the overall demand for LLE for other large transmission projects. This provides confidence that the sale proceeds would not be lower than the cost included in this Application. Moreover, consumers would benefit if the sale proceeds exceeded the costs in this Application.

We are on schedule to submit our Stage 2 Application by September 2023.⁶²

4.3. Our forecast Stage 1 (Part 2) capex and the basis of our forecast

Table 6 shows our total forecast early works capex for LLE is \$226.7 million, excluding equity raising costs. This reflects the cost of purchasing LLE, shown in column B, less the production slot booking fee approved by the AER in our Stage 1 (Part 1). The total Stage 1 (Part 2) capex forecast of \$226.7 million comprises:

- ██████████ for transformers and reactors, and
- ██████████ for conductors and steel towers.

Table 6: HumeLink forecast capex for LLE, \$Million Real 2023 (excluding equity raising costs)

Stage 1 (Part 2)	Booking fee CPA-1 (Part 1)	Full purchase cost	CPA-1 (Part 2)
	(A)	(B)	(C) = (B) – (A)
Transformers and reactors	██████████	██████████	██████████
Steel and conductors	██████████	██████████	██████████
Total	27.2	253.9	226.7

Note: 1. Totals do not add due to rounding

Table 7 sets out our total forecast incremental capex of \$226.7 million for LLE by year. This shows that:

- there is a negative capex amount in 2022-23, because capex was higher in CPA-1 (Part 1) than it is in CPA-1 (Part 2), leading to a reduction in capex in that year, and

⁶¹ The \$249.6 million (\$Real 2022-23) is equivalent to \$209.6 million (\$Real 2017-18) noted earlier in this Application.

⁶² AEMO, [Integrated System Plan Feedback Loop Notice – HumeLink \(Early works\)](#), 27 January 2022 (HumeLink Feedback Loop Notice). The \$3.91 billion (\$Real 2022-23) is equivalent to \$3.28 billion (\$Real 2017-18) included in the notice.



- the majority of the costs will be incurred in 2023-24 and 2024-25 and that our total capex is within the cost capex of \$249.6 million in AEMO's feedback loop confirmation.⁶³

Our forecast capex is additional to the forecast capex approved by the AER in its:

- HumeLink Stage 1 (Part 1) Determination,⁶⁴ and
- 2023-28 Revenue Determination

Table 7: CPA-1 Part 2 forecast capex (\$M, Real 2022-23, excluding equity raising costs)

Stage 1 (Part 2)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total ¹
Transformers and reactors							
Steel and conductors							
Total capex	(1.1)	102.1	125.8	-	-	-	226.7

Note: 1. Totals may not add due to rounding

Our forecast capex for transformers and reactors is calculated based on agreements with suppliers, which contain the number of transformers and reactors as well as the associated unit rates. We entered into these agreements in February 2023 as part of our PTT process. These agreements are provided as Attachments to this Application along-side our procurement strategy, which demonstrates how we maximised responsiveness of the supplier market to ensure that costs for transformers and reactors is prudent and efficient.

We are currently progressing similar procurement activities for conductor and steel and expect to enter into agreements with suppliers shortly. Given we do not have agreements with suppliers, we have calculated our forecast capex based on rates and quantities contained in a report from Fission, who has been appointed as the independent estimator for the Project during the ECI process that is currently underway (this is discussed in section 2.3). Our Stage 2 Application will explain our ECI process and outcomes.

In its assessment of the rates and quantities for steel towers and conductor, Fission has had regard for:

- Aurecon's high-level concept design, provided to the ECI tenderers to enable them to commence work, noting that the tendered will develop their own detailed scope through the ECI process
- early market sounding responses for conductor
- ECI Stage 1 tenderer submissions from specialist suppliers of steel towers, and
- benchmark information from other major infrastructure projects encompassing Power, Rail and Transport Infrastructure

Based on this information:

- For steel towers – Fission assessed:

⁶³ The \$249.6 million (\$Real 2022-23) translates to the \$209.6 million (\$Real 2017-18) in our request to AEMO for Stage 1 (Part 2) costs.

⁶⁴ AER, [Determination – HumeLink Early Works Contingent Project](#), August 2022



- that prices in the ECI tender responses are reasonable and in line with contractor prices for similar size projects (i.e., consistent with benchmark costs), and
- quantities (i.e., tower weights) having regard for Aurecon's concept design and the ECI tender responses and found that:
 - > for the East, the ECI tender responses are reasonable and consistent Fission's own assessment based on Aurecon's high level concept design, however.
 - > for the West, the ECI tender response are reasonable but differed to Fission's own assessment of quantities based on Aurecon's high level concept design. This is due to the ECI tenderers considering the tower type assessment for non-alpine versus alpine region. Fission determined that the ECI tender responses were more appropriate based on the feedback from the tenderers.
- For conductor – Fission has assessed that:
 - its quantities are consistent with ECI tender responses (East and West) and
 - for prices, the mid-point of early market sounding responses is reasonable.

4.4. Capex threshold

The proposed capex of a contingent project is required to exceed either \$30 million, or 5 per cent of the MAR for the first year of the regulatory control period, whichever is the greater.

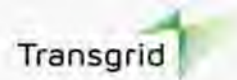
Table 8 shows that the forecast capex satisfies the relevant threshold. This means that the capex is covered by the contingent project requirements of the NER.

Table 8 – Contingent project thresholds (\$M, Real 2022-23)

AER Decision	5% of MAR	Contingent Project Threshold	Pass / Fail
First year MAR			
897.8 ⁶⁵	44.9	44.9	Pass (as capex > \$44.9 million)

Notes: NER clause 6a.8.1(b)(2)(iii) requires that expected capex is higher than the greater of \$30 million or 5% of MAR. The threshold is \$44.9 million (being 5% of MAR).

⁶⁵ AER, Final Decision – TransGrid – Post-tax Revenue Model for the 2023–28 period – April 2023, Revenue Summary.



5. Forecast Revenue and impact on customers' bills

This chapter sets out the incremental revenue forecast for our Stage 1 (Part 2) activities, our updated MAR and the indicative impact on the transmission component of customers' bills.

As discussed above, this Application seeks the AER's approval to amend the forecast capex allowances for the 2018–23 and 2023–28 periods as well as the revenue requirements and MAR in its 2023–28 Revenue Determination based on this Application. We are not seeking any adjustment to our 2018–23 MAR.

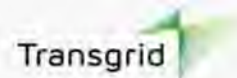
We have determined our incremental revenue forecast using the same assumptions and approaches recently adopted by the AER in its 2023–28 Revenue Determination. Table 9 summarises the incremental revenue forecast of \$131.7 million (\$Nominal) over the 2023–28 regulatory period for both CPA-1 Part 1 and CPA-1 Part 2, broken down by building block component, and briefly explains how we have calculated each component. Further detail is provided in Appendix A.

This shows that the incremental revenue we are seeking over the 2023–28 regulatory period is modest because:

- we are not seeking to adjust our current opex allowance as part of this Application, other than adjusting our allowance for debt raising cost as a consequence of the revised capex allowance, and
- our capex is not expected to be commissioned until June 2025 when the early works have been completed.

Table 9 – 2023–28 incremental revenue forecast from Stage 1 (early works) (\$M, Nominal)

Building block	\$ Million, Nominal	\$ Million, Real 2022-23	Approach
Return on capital	164.9	149.9	Calculated by multiplying the forecast opening capital base (updated to include expenditure on Stage 1 (early works) for a given year by the allowed rate of return adopted by the AER.
Return of capital	(39.0)	(36.0)	Calculated as forecast straight line depreciation for each asset class less indexation of the capital base. The value is negative because indexation is higher than depreciation over the 2023–28 regulatory period.
Opex	1.4	1.3	We are not seeking to adjust our current opex allowance as part of this Application, other than adjusting our allowance for debt raising cost as a consequence of the revised capex allowance. Debt raising costs have been calculated using the AER's standard approach.
Revenue adjustments	5.1	5.0	Updated to include the incremental building blocks revenue from the 2018–23 regulatory period that we were not able to include in the MAR for that period (due to the timing of this Stage 1 (Part 2) Application).



Building block	\$ Million, Nominal	\$ Million, Real 2022-23	Approach
Corporate income tax	(3.7)	(3.3)	Calculated as forecast pre-tax income multiplied by the corporate tax rate, less the assumed value of imputation credits.
Annual revenue requirement (i.e., unsmoothed)	128.7	116.9	
Impact of smoothing	1.5	0.7	Calculated by resolving the year 2 X-factor so that the NPV of the MAR for the 2023–28 regulatory period matched that of the forecast annual revenue requirement for the same period.
Maximum allowed revenue (i.e., smoothed)	131.7	117.6	

Table 10 details the 2023–28 incremental revenue forecast of our Stage 1 (Part 2) Application by year.

Table 10: – Incremental revenue forecast (smoothed) (\$M, Nominal)

MAR (Smoothed Revenue)	2023-24	2024-25	2025-26	2026-27	2027-28	Total
AER 2023-28 Final Decision	924.0	930.0	963.7	998.7	1,034.9	4,851.3
Impact of CPA-1 Part 1	-	21.7	22.5	23.3	24.2	91.7
Impact of CPA-1 Part 2	-	9.1	9.4	9.8	10.1	38.5
Updated MAR	924.0	960.9	995.7	1,031.8	1,069.2	4,981.5

Table 11 shows the indicative customer bill impact is an increase of approximately \$1.50 per annum for residential customers and an increase of \$5.62 per annum for small business customers, commencing 2024-25.

We have applied the same approach to estimating the indicative impact on customer bills over the 2023–28 period that the AER used in its Project EnergyConnect Determination. We converted our proposed MAR into indicative household and small business bills using forecast energy throughput and typical household and small business bill information, such as the typical bill size and the share of NSW residential and small business bills attributed to transmission charges. We are currently consulting with the AER on our approach to cross-period smoothing of allowed revenue.⁶⁶

⁶⁶ To smooth allowed revenue across period we have taken the difference between the MAR for the 2018-23 period and the unsmoothed annual building blocks revenue requirement (ABBRR) in NPV terms and added it to the allowed revenues for the 2023-28 period.

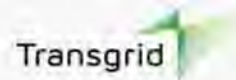


Table 11: Impact of Stage 1 on the transmission component of customers' bills (\$ per customer per year, Real 2022-23)

	2023-24	2024-25	2025-26	2026-27	2027-28
Residential bills					
AER 2023-28 Final Decision	1,769.59	1,765.75	1,765.24	1,765.28	1,766.20
Impact of CPA-1 Part 1	-	3.59	3.57	3.57	3.60
Impact of CPA-1 Part 2	-	1.51	1.50	1.50	1.51
Updated typical residential customer bill	1,769.59	1,770.84	1,770.32	1,770.35	1,771.30
Small business bills					
AER 2023-28 Final Decision	7,547.01	7,532.67	7,530.78	7,530.91	7,534.34
Impact of CPA-1 Part 1	-	13.40	13.35	13.36	13.44
Impact of CPA-1 Part 2	-	5.62	5.61	5.61	5.64
Updated typical small business bill	7,547.01	7,551.69	7,549.74	7,549.87	7,553.42

5.1. Commercial viability of the Project

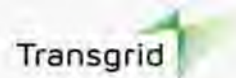
We consider that HumeLink is in the long-term interests of customers because it is integral to achieving AEMO's ODP. However, no matter how beneficial HumeLink and other major transmission projects will be to customers, they must be commercially viable in order to proceed. There are two elements to commercial viability:

- The allowed return must be reasonable – it must match the market (risk reflective) cost of capital, and
- The regulatory allowance must be provided in a way that enables network businesses to support the benchmark credit rating (BBB+ under the 2022 RoRI) at the benchmark level of gearing (60% under the 2022 RoRI), while funding network augmentation projects. That is, the regulated cash flows associated with a major project such as HumeLink must be sufficient to ensure the financeability of that project.

No business could be reasonably expected to pursue a project that:

- is forecast to generate less than the return that investors in the market would reasonably require, given the risks associated with that project, and / or
- is expected to generate regulated cash flows that are insufficient to support the AER's benchmark credit rating at the benchmark level of gearing.

We consider that a clear, objective, predictable and formulaic process to assessing the financeability of major transmission projects such as HumeLink, and for addressing any financeability concerns identified, is required to give investors the confidence to commit to such projects. We intend to engage with the AEMC via a rule change process to seek an amendment to the existing NER that would introduce a formal requirement to assess the financeability of Actionable ISP projects.



6. Guide to compliance

Table 12 lists the NER requirements for a CPA, and where we have addresses these in our Application.

Table 12: Compliance with NER requirements

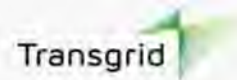
NER, clause 6A.8.2(b) requirements	Reference in Application
(1) an explanation that substantiates the occurrence of the trigger event	Chapter 3
(2) a forecast of the total capex for the contingent project	Chapter 4
(3) a forecast of the capital and incremental opex, for each remaining regulatory year which the Transmission Network Service Provider considers is reasonably required for the purpose of undertaking the contingent project	Chapter 4
(4) how the forecast of the total capex for the contingent project meets the threshold as referred to in clause 6A.8.1(b)(2)(iii)	Chapter 4
(5) the intended date for commencing the contingent project (which must be during the regulatory control period)	Chapter 3
(6) the anticipated date for completing the contingent project (which may be after the end of the regulatory control period) and	Chapter 3
(7) an estimate of the incremental revenue which the Transmission Network Service Provider considers is likely to be required to be earned in each remaining regulatory year of the regulatory control period as a result of the contingent project being undertaken as described in subparagraph (3), which must be calculated: <ul style="list-style-type: none"> (i) in accordance with the requirements of the post-tax revenue model referred to in clause 6A.5.2 (ii) in accordance with the requirements of the roll forward model referred to in clause 6A.6.1(b) (iii) using the allowed rate of return for that Transmission Network Service Provider for the regulatory control period as determined in accordance with clause 6A.6.2 (iv) in accordance with the requirements for depreciation referred to in clause 6A.6.3, and (v) on the basis of the capex and incremental opex referred to in subparagraph (b)(3). 	Chapter 5 and Appendix A

Table 13 lists the CPA requirements in the AER's Guidance Note and where we have addressed these in our Stage 1 Application.



Table 13: Compliance to AER Guidelines

AER Guideline requirement	Reference in Application
Stakeholder engagement (section 2.2)	
Overview of stakeholder engagement approach and feedback received	Chapter 3.
Project governance (section 2.4)	
Project governance framework and processes, including key roles, accountabilities and responsibilities	Our project governance framework has been provided in previous CPAs and is principally unchanged.
Project (including risk) reporting, monitoring and evaluation arrangements	
Any supporting assurance arrangements	
Project Plans (section 2.4.2)	
High level delivery schedule, with key milestones and timeframes	Our capex forecast model provides a high-level delivery schedule, with key milestones and timeframes for LLE.
Key dependencies and decision points for the project	
Project resourcing and capability arrangements	
Risk management framework and plan (see also section 2.6.3 - 'Risk management')	
Established arrangements for post completion project review	
Procurement strategy, processes, and outcomes (section 2.5)	
Overview of procurement strategy, including scope of work packages	Our procurement process is outlined in our Procurement Strategy for conductor, transformers and reactors, which are provided as Attachments to this Application.
Tender Evaluation Plan(s), including roles and responsibilities of the evaluation team	
Overview of procurement process(es), including summary of activities and timeline	
Outcomes of procurement activities	
Tender Evaluation and Probity Report(s)	
Risk assessment (section 2.6)	
Detailed risk register containing identifiable projects risks, and	
A summary of the efficient mitigation steps taken for the relevant risks	The risk assessments will be developed and included in our Stage 2 Application.
An assessment for each residual risk	
Assessment of the risks captured in contractors' scopes of work	



Appendix A Revenue Application

This Appendix A sets out our incremental revenue forecast for the Stage 1 (Part 2) activities, having regard for clause 6A.8.2(b)(9) of the NER. It also describes (in section A.8) the approach used to calculate those revenues.

Table 14 sets out the incremental MAR for our Stage 1 (Part 2) activities for the 2023-28 regulatory period. This has been calculated using the AER's 2023-28 Decision PTRM.⁶⁷

Table 14 – Incremental MAR (\$M, Nominal)

MAR (Smoothed Revenue)	2023-24	2024-25	2025-26	2026-27	2027-28	Total
AER 2023-28 Final Decision	924.0	930.0	963.7	998.7	1,034.9	4,851.3
Impact of CPA-1 Part 1	-	21.7	22.5	23.3	24.2	91.7
Impact of CPA-1 Part 2	-	9.1	9.4	9.8	10.1	38.5
Updated MAR	924.0	960.9	995.7	1,031.8	1,069.2	4,981.5

The rest of this Appendix A:

- identifies the weighted average cost of capital (WACC) and standard asset life assumptions adopted for the 2023-28 regulatory period
- sets out projected regulatory depreciation, tax allowance, debt and equity raising costs, smoothed revenue requirements and MAR for the 2023-28 regulatory period, and
- details the potential customer bill impact from the incremental revenue requirements resulting from the Project for the 2023-28 regulatory period.

A.1 WACC

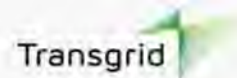
We have calculated the incremental revenue for the Stage 1 (Part 2) activities using the same WACC assumptions as those adopted by the AER in its 2023-28 Revenue Determination. This is consistent with the requirements of clause 6A.8.2(b)(4)(ii) of the NER.

The WACC parameters are set out in Table 15.

Table 15 – WACC parameters

Parameter	AER Approved Value
Forecast inflation	2.92%
Value of imputation credits	57.00%

⁶⁷ Throughout this Appendix A we refer to the PTRM included with the AER's Final Decision for the 2023-28 regulatory period as the 'AER 2023-28 Decision PTRM or Final Decision. We have also presented any revenue forecasts in end of year nominal terms.



Parameter	AER Approved Value
Gearing	60.00%
Nominal pre-tax return on debt	
	2023-24 4.63%
	2024-25 4.59%
	2025-26 4.72%
	2026-27 4.82%
	2027-28 4.97%
Nominal post-tax return on equity	7.48%
Nominal vanilla WACC	
	2023-24 5.77%
	2024-25 5.75%
	2025-26 5.82%
	2026-27 5.88%
	2027-28 5.97%

A.2 Asset lives

We have allocated our forecast capex for Stage 1 (Part 2) activities across the relevant asset classes in the AER's PTRM. Capex is depreciated in the PTRM using the standard asset lives used in the AER's 2023-28 Revenue Determination. The applicable standard asset lives are set out in Table 16.

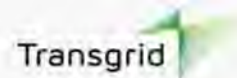
Table 16 – Asset lives

Asset Category	Standard Life (years)	Explanation
Transmission lines	50.0	As per the AER's 2023-28 Revenue Determination.
Substations	40.0	
Equity raising costs	39.2	As per the AER's 2023-28 Revenue Determination, this is calculated as the weighted average standard life for forecast net commissioned capex.

Note: Only asset classes that attract the Project capex are shown.

A.3 Incremental regulatory depreciation

Table 17 sets out our forecast incremental regulatory depreciation for the 2023-28 regulatory period for our Stage 1 (Part 2) activities, consistent with clause 6A.8.2(b)(7)(iv) of the NER. This forecast has been calculated using the AER's most recent PTRM for the 2023-28 period, projected incremental capex, and the asset lives in section A.2.



Incremental regulatory depreciation is negative over the 2023-28 regulatory period. This is because the long-lived nature of the assets leads to indexation being higher than real straight-line depreciation earlier in the lives of those assets. This relationship will reverse later in the assets' lives, leading to positive regulatory depreciation.

Table 17 – Incremental regulatory depreciation (\$M, Nominal)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
AER 2023-28 Final Decision	98.38	111.74	144.04	172.62	162.86	689.63
Impact of CPA-1 Part 1	(9.23)	(5.30)	(5.27)	(5.22)	(5.17)	(30.20)
Impact of CPA-1 Part 2	0.03	(3.78)	(1.80)	(1.70)	(1.59)	(8.82)
Updated regulatory depreciation	89.19	102.66	136.97	165.69	156.10	650.61

A.4 Tax allowance

Table 18 sets out the incremental forecast net tax allowance for the 2023-28 regulatory period attributed to the Stage 1 (Part 2) activities. This has been calculated using the PTRM and projected incremental capex.

We have not made any other changes to the net tax calculation from that used in the AER's 2023-28 Revenue Determination.

Table 18 – Incremental net tax allowance (\$M, Nominal)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
AER 2023-28 Final Decision	23.39	21.11	17.44	23.56	26.08	111.57
Impact of CPA-1 Part 1	0.78	(0.84)	(0.73)	(0.62)	(0.52)	(1.93)
Impact of CPA-1 Part 2	(0.00)	0.11	(0.71)	(0.62)	(0.54)	(1.77)
Updated net tax allowance	24.17	20.37	16.00	22.31	25.02	109.63

A.5 Debt and equity raising costs

Our forecast incremental revenue includes allowances for debt and equity raising costs, consistent with the AER's 2023-28 Revenue Determination. Both costs are calculated automatically within the PTRM.

Debt raising costs are included within the opex building block and are calculated as follows:

- projected opening RAB at the start of each regulatory year is multiplied by assumed gearing (of 60%) and the debt raising cost benchmark (of 0.083%).
- Equity raising costs are included within the capex forecast and recovered via the return on and of capital building blocks. These costs are calculated as follows:
 - retained cash flows are projected by subtracting opex, interest payments, revenue adjustments, tax payable, and dividends from projected smoothed (i.e., MAR) revenue



- equity raising is projected by subtracting retained cash flows from the equity funding component of projected capex (assuming 60% gearing), and split between distribution reinvestment and external equity raising sources, and
- equity raising costs are calculated by multiplying the two sources by assumed benchmark equity raising cost rates.

Consistent with the AER's 2023-28 Revenue Determination, no equity raising costs were projected for the Stage 1 (Part 2) activities.

Table 19 – Incremental debt and equity raising costs (\$M, Real 2022-23)

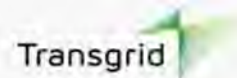
	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Debt raising costs						
AER 2023-28 Final Decision	4.51	5.07	5.30	5.37	5.42	25.67
Impact of CPA-1 Part 1	0.16	0.21	0.21	0.21	0.22	1.01
Impact of CPA-1 Part 2	(0.00)	0.05	0.12	0.13	0.13	0.43
Updated debt raising costs	4.67	5.33	5.64	5.71	5.76	27.11
Equity raising costs						
AER 2023-28 Final Decision	-	-	-	-	-	-
Impact of CPA-1 Part 1	-	-	-	-	-	-
Impact of CPA-1 Part 2	-	-	-	-	-	-
Updated equity raising costs	-	-	-	-	-	-

A.6 Incremental revenue requirements for each year to end of period

Table 20 details the incremental 2023-28 ABBRR for Stage 1 (Part 2) activities based on the forecasts provided above and using the PTRM.

Table 20 – Incremental revenue requirements (\$M, Nominal)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
AER 2023-28 Final Decision						
Return on capital	508.42	570.27	603.69	617.59	633.05	2,933.04
Regulatory depreciation	98.38	111.74	144.04	172.62	162.86	689.63
Opex	212.44	234.91	243.43	251.52	259.94	1,202.24
Revenue adjustments	6.40	(9.47)	(20.57)	(20.25)	(27.57)	(71.46)
Net tax allowance	23.39	21.11	17.44	23.56	26.08	111.57
Unsmoothed revenue requirement	849.03	928.55	988.04	1,045.04	1,054.36	4,865.02
Impact of CPA-1 Part 1						
Return on capital	18.43	23.33	23.94	24.50	25.18	115.38



	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Regulatory depreciation	(9.23)	(5.30)	(5.27)	(5.22)	(5.17)	(30.20)
Opex allowance	0.16	0.21	0.21	0.21	0.22	1.01
Revenue adjustments	5.13	-	-	-	-	5.13
Net tax allowance	0.78	(0.84)	(0.73)	(0.62)	(0.52)	(1.93)
Unsmoothed revenue requirements	15.29	17.39	18.15	18.87	19.70	89.39
Impact of CPA-1 Part 2						
Return on capital	(0.06)	6.06	14.22	14.47	14.79	49.47
Regulatory depreciation	0.03	(3.78)	(1.80)	(1.70)	(1.59)	(8.82)
Opex allowance	(0.00)	0.05	0.12	0.13	0.13	0.43
Revenue adjustments	-	-	-	-	-	-
Net tax allowance	(0.00)	0.11	(0.71)	(0.62)	(0.54)	(1.77)
Unsmoothed revenue requirements	(0.03)	2.44	11.83	12.28	12.80	39.31
Updated						
Return on capital	526.79	599.65	641.85	656.57	673.02	3,097.89
Regulatory depreciation	89.19	102.66	136.97	165.69	156.10	650.61
Opex allowance	212.60	235.17	243.76	251.86	260.29	1,203.68
Revenue adjustments	11.53	(9.47)	(20.57)	(20.25)	(27.57)	(66.33)
Net tax allowance	24.17	20.37	16.00	22.31	25.02	107.87
Unsmoothed revenue requirements	864.29	948.38	1,018.02	1,076.18	1,086.85	4,993.72

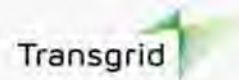
A.7 Amended ABBRR and MAR

The AER's Final Decision on the ABBRR for the 2023-28 regulatory period is set out in Table 21, together with the calculation of the amended revenue required for our Stage 1 (Part 2) activities.

Table 21 – Amended ABBRR (\$M, Nominal)

ABBRR	2023-24	2024-25	2025-26	2026-27	2027-28	Total
AER 2023-28 Final Decision	849.0	928.6	988.0	1,045.0	1,054.4	4,865.0
Impact of CPA-1 Part 1	15.3	17.4	18.1	18.9	19.7	89.4
Impact of CPA-1 Part 2	(0.0)	2.4	11.8	12.3	12.8	39.3
Updated ABBRR	864.3	948.4	1,018.0	1,076.2	1,086.9	4,993.7

Table 22 sets out the updated MAR for the 2023-28 regulatory period.



Due to the timing of the CPA and the requirements of clause 6A.8.2(n) of the NER, we will only begin to recover incremental revenue approved by the AER in the 2024-25 regulatory year, in accordance with our approved Transmission Pricing Methodology.

Table 22 – Amended MAR for the 2023–28 regulatory period (\$M, Nominal)

MAR (Smoothed Revenue)	2023-24	2024-25	2025-26	2026-27	2027-28	Total
AER 2023-28 Final Decision	924.0	930.0	963.7	998.7	1,034.9	4,851.3
Impact of CPA-1 Part 1	-	21.7	22.5	23.3	24.2	91.7
Impact of CPA-1 Part 2	-	9.1	9.4	9.8	10.1	38.5
Updated MAR	924.0	960.9	995.7	1,031.8	1,069.2	4,981.5

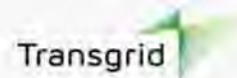
A.8 Modelling approach

We have used a three-step modelling approach to calculate the indicative revenue and bill impacts shown above. This was needed because we first needed to incorporate the AER’s 2022 Decision on our Stage 1 (Part 1) Application to the AER’s 2023-28 Final Decision PTRM before then adding the expenditure from this Stage 1 (Part 2) Application.

The three-step approach is set out in Table 23 and identifies the relevant attachments (i.e., models) that have been updated. All updates made are highlight red within those attachments.

Table 23 – Three-step approach to modelling the revenue impact Stage 1 (Part 2)

Step	Description	Relevant attachments
A	<ul style="list-style-type: none"> Start with the latest version of the PTRM for the 2018–23 period, being those published by the AER with the 2022-23 return on debt update, and add the HumeLink capex allowed by the AER for the 2018–23 period as part of the Stage 1 (Part 1) Application. This is used to estimate the additional building block revenue over the 2018–23 period that was not included in 2018-23 MAR. 	A1.1B
B	<p>Update the AER’s 2023–28 Final Decision PTRM to include the impact of Stage 1 (Part 1) Application. This requires the following three models to be updated:</p> <ul style="list-style-type: none"> The 2023–28 PTRM The roll-forward model, which rolled forward the RAB over the 2018–23 period and also inputs to the PTRM for the 2023–28 period, and The depreciation tracking module, which forecasts depreciation on the opening RAB as at 1 July 2023 and inputs to the PTRM for the 2023–28 period. <p>The unrecovered building block revenue calculated in Step A is input into the PTRM for the 2023–28 period consistent with how this was illustrated in the AER’s decision on the Stage 1 (Part 1) Application.</p>	A.1.1A A.1.1C A.1.1D



Step	Description	Relevant attachments
C	<p>Further update the PTRM from Step B to incorporate the expenditure from the Stage 1 (Part 2) Application.</p> <p>This involved updates to two models:</p> <ul style="list-style-type: none">• The PTRM from Step 2• The RFM from Step 2. <p>The expenditure input into both models was sourced from the LLE Capex forecast model.</p>	<p>A.1.2A</p> <p>A.1.2B</p> <p>A.5</p>

Subject: Monthly AEMC-DCCEEW catch up

Location: Blackwood

Start: 6/5/2023 1:30 AM

End: 6/5/2023 2:30 AM

Show Time As: Tentative

Recurrence: Monthly

Recurrence Pattern: the first Tuesday of every 1 month(s) from 1:00 PM to 2:00 PM

Meeting Status: Not yet responded

Organizer: [REDACTED]

Required Attendees:

[REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]
[REDACTED]@industry.gov.au; Danielle Beinart; [REDACTED]; [REDACTED]
[REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]@dceew.gov.au; [REDACTED]
[REDACTED]@dceew.gov.au; [REDACTED]@dceew.gov.au; [REDACTED]
[REDACTED]@dceew.gov.au; [REDACTED]@dceew.gov.au

Optional Attendees: [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]

Resources: Blackwood

1. Update on received rule changes approach and timing (AEMC)
 - a. Financeability
 - b. Concessional finance
 - c. Community Engagement (Social licence)
2. Update on pending rule changes including AEMCs thoughts on timing and process (DCCEEW and AEMC)
 - a. Feedback loop
 - b. [REDACTED]
 - c. EAP1
 - d. emissions
 - e. Targeted ex-post review
3. [REDACTED]
4. [REDACTED]
5. Other business

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Video Conference ID: 135 744 345 4

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From: Anderson, Tristan

Sent: Monday, June 5, 2023 2:32 PM

To: [redacted] Gowans, Kirsty; [redacted]@recfit.tas.gov.au;
 [redacted]@recfit.tas.gov.au; [redacted]@recfit.tas.gov.au; [redacted]@sa.gov.au;
 [redacted]@sa.gov.au; [redacted]@act.gov.au; [redacted]@act.gov.au;
 [redacted]@nt.gov.au; [redacted]@dmirs.wa.gov.au;
 [redacted]@dmirs.wa.gov.au; [redacted]@delwp.vic.gov.au;
 [redacted]@delwp.vic.gov.au; [redacted]@delwp.vic.gov.au;
 [redacted]@planning.nsw.gov.au; [redacted]@planning.nsw.gov.au;
 [redacted]@epw.qld.gov.au; [redacted]@epw.qld.gov.au; [redacted]
 [redacted]@aer.gov.au;
 [redacted]@esb.org.au; Victoria Mollard; [redacted]
CC: [redacted]@dpiw.nsw.gov.au; [redacted]@sa.gov.au; [redacted]
 [redacted]
 [redacted]

Subject: For action: Transmission Working Group Meeting 3 Papers - Thu 8 June 3pm AEST [SEC=OFFICIAL]

Attachments: Final Agenda - Meeting 3 - TWG - June 2023.docx; Meeting 2 Minutes - TWG - 30 March 2023.docx; Congestion management update - TWG - June 2023.docx; [redacted]
 [redacted] - TWG - June 2023.docx; [redacted]
 [redacted]

Good afternoon all,

Please find attached the package of papers for our meeting of the Transmission Working Group on Thursday 8 June at 3pm (AEST). Apologies for the delay in circulating these papers.

A short summary of the agenda and papers is below.

1. Agenda – Meeting 3

o Note

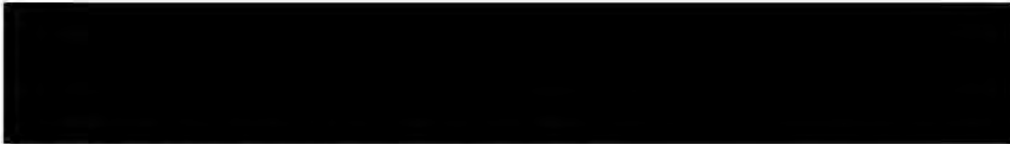
- [redacted]
- [redacted]

o **For endorsement:** Draft Minutes from the 30 March TWG meeting

- Note that there are currently 3 ongoing action items for DCCEEW, Victoria and Queensland

2. [redacted]

- We seeking to discuss views from jurisdictions on the ESB recommendations ahead of Energy Senior Officials on the 15/16 June.



5. **For discussion:** Update on rule changes – June 2023

- This seeks TWG agreement for the Commonwealth to progress the TPIR stage 3 rule changes, and provides an update on the status of other rules changes.

Please get in touch if you have any questions.

Regards,



Director, Transmission Policy

Ngunnawal Country, 51 Allara St, Canberra
Department of Climate Change, Energy, the Environment and Water
M [redacted] | E [redacted]@dcceew.gov.au

DCCEEW.gov.au ABN 63 573 932 849

Acknowledgement of Country




Our department recognises the First Peoples of this nation and their ongoing connection to culture and country. We acknowledge First Nations Peoples as the Traditional Owners, Custodians and Lore Keepers of the world's oldest living culture and pay respects to their Elders past, present and emerging.

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Transmission Working Group

Agenda – 8 June 2023

TIME	ITEM
3:00	1. Welcome, acknowledgement of country and introductions <ul style="list-style-type: none">• Endorsement of meeting minutes from 30 March 2023
3:05	2. 
3:20	
3:40	4. 
3:50	5. Update on rule change requests <ul style="list-style-type: none">• Transmission Planning and Investment Review Stage 2 and 3• Other rule changes
3:55	6. Other business
4:00	7. Meeting close <ul style="list-style-type: none">• Next meeting August 2023

From: [REDACTED]
Sent: Monday, June 5, 2023 2:39 PM
To: [REDACTED] Gowans, Kirsty;
 [REDACTED]@recfit.tas.gov.au; [REDACTED]@recfit.tas.gov.au;
 [REDACTED]@recfit.tas.gov.au; [REDACTED]@sa.gov.au; [REDACTED]@sa.gov.au;
 [REDACTED]@act.gov.au; [REDACTED]@act.gov.au; [REDACTED]@nt.gov.au;
 [REDACTED]@dmirs.wa.gov.au; [REDACTED]@dmirs.wa.gov.au;
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 [REDACTED]@delwp.vic.gov.au; [REDACTED]@planning.nsw.gov.au;
 [REDACTED]@planning.nsw.gov.au; [REDACTED]@epw.qld.gov.au;
 [REDACTED]@epw.qld.gov.au; [REDACTED]
 [REDACTED]@aer.gov.au; [REDACTED]@esb.org.au; Victoria Mollard;
CC: [REDACTED]@dpie.nsw.gov.au; [REDACTED]@sa.gov.au; [REDACTED]
 [REDACTED]
 [REDACTED]

Subject: For action: Transmission Working Group Meeting 3 Papers - Thu 8 June 3pm AEST [SEC=OFFICIAL]
Attachments: Meeting 2 Minutes - TWG - 30 March 2023.docx; [REDACTED]
 [REDACTED] - TWG - June 2023.docx; [REDACTED]
 [REDACTED] Final Agenda - Meeting 3
 - TWG - June 2023.docx

Good afternoon all,

Please find attached the package of papers for our meeting of the Transmission Working Group on Thursday 8 June at 3pm (AEST). Apologies for the delay in circulating these papers.

A short summary of the agenda and papers is below.

1. Agenda – Meeting 3

- o Note

- [REDACTED]
- [REDACTED]

- o **For endorsement:** Draft Minutes from the 30 March TWG meeting
 - Note that there are currently 3 ongoing action items for DCCEEW, Victoria and Queensland

2. [REDACTED]

- We seeking to discuss views from jurisdictions on the ESB recommendations ahead of Energy Senior Officials on the 15/16 June.



4.



5. **For discussion:** Update on rule changes – June 2023

- This seeks TWG agreement for the Commonwealth to progress the TPIR stage 3 rule changes, and provides an update on the status of other rules changes.

Please get in touch if you have any questions.

Regards,



Director, Transmission Policy

Ngunnawal Country, 51 Allara St, Canberra
Department of Climate Change, Energy, the Environment and Water
M [redacted] | E [redacted]@dcceew.gov.au

DCCEEW.gov.au ABN 63 573 932 849

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From: [REDACTED]
Sent: Thursday, June 8, 2023 12:10 PM
To: Danielle Beinart
CC: [REDACTED]; [REDACTED]
Subject: RE: Financeability rule change [Official]

Thanks Danielle.
Look forward to reading and engaging with you on this.
Regards,
[REDACTED]

Data Classification: Official

From: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Sent: Thursday, June 8, 2023 11:28 AM
To: [REDACTED] <[REDACTED]@transgrid.com.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Financeability rule change [Official]

Hi [REDACTED]

Thanks for the heads up.

We published our financeability CP today and look forward to discussing further. See:
<https://www.aemc.gov.au/rule-changes/accommodating-financeability-regulatory-framework>

Kind Regards
Danielle

From: [REDACTED] <[REDACTED]@transgrid.com.au>
Sent: Thursday, June 8, 2023 10:46 AM
To: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Financeability rule change [Official]

Hi Danielle
Hope you're well.
Further to the below, I can update that a rule change is on its way to the AEMC. It will most likely be lodged today, or tomorrow at the latest.
Regards,
[REDACTED]

Data Classification: Official

From: [REDACTED]
Sent: Tuesday, June 6, 2023 12:14 PM
To: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Financeability rule change [Official]

Hi Danielle

All good at this end thanks.

Thanks very much for your email. At this stage I understand it's likely to be an ENA rule change.

Regards,
[REDACTED]

Data Classification: Official

From: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Sent: Tuesday, June 6, 2023 11:56 AM
To: [REDACTED] <[REDACTED]@transgrid.com.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Financeability rule change [Official]

Hi [REDACTED]

I'm well thanks and hope you are too?

Thanks for your email – are you able to let me now if it's likely to be a Transgrid or ENA rule change request?

I sent an update through to ENA yesterday to let them know that we expect to publish the consultation papers for both the financeability and concessional finance rule changes on Thursday of this week. I'm not sure what timeline Transgrid/ENA are running to but would it make sense for Transgrid/ENA to review the consultation paper we publish before lodging any separate request as the existing process may adequately address the issues Transgrid/ENA would like to put forward?

I've copied in [REDACTED] and also [REDACTED] who are the sponsor and project leads for financeability.

Kind Regards
Danielle

From: [REDACTED] <[REDACTED]@transgrid.com.au>
Sent: Tuesday, June 6, 2023 11:23 AM
To: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Subject: Financeability rule change [Official]

Hi Danielle

Hope you're well.

In [REDACTED] absence, I want to advise you that a financeability rule change is imminent. I will provide you with a further update later this week.

Regards,

[REDACTED]

[REDACTED]

Senior Manager Policy Reform Office | Community and Policy

Transgrid | 180 Thomas Street, Sydney, NSW, 2000

T: [REDACTED] **M:** [REDACTED]

E: [REDACTED]@transgrid.com.au **W:** www.transgrid.com.au



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Data Classification: Official

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From: [REDACTED]
Sent: Thursday, June 15, 2023 11:37 AM
To: [REDACTED]
CC: [REDACTED]; [REDACTED]
Subject: RE: Financeability rule change request - consultation paper & ENA's request [SEC=OFFICIAL]

Hi [REDACTED]

Great – thanks for sending through those times.

4pm on Monday suits us well. I will send an invite shortly.

Cheers,
[REDACTED]

From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Wednesday, June 14, 2023 6:48 PM
To: [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Financeability rule change request - consultation paper & ENA's request [SEC=OFFICIAL]

Hi [REDACTED]

Hope you are well! [REDACTED] is on leave this week, but I would be happy to set up a meeting.

Times that would work for us would be:

- Monday after 3pm
- Tuesday 11:30-1 or after 4pm.

I'm also just CC'ing [REDACTED] who will be taking over as Project Sponsor following [REDACTED] secondment to DCCEEW.

Let me know if those times work for you, and feel free to send through an invite if they do.

Cheers
[REDACTED]

[REDACTED] (he/him)

Adviser

Australian Energy Market Commission

D [REDACTED] T [REDACTED]
[REDACTED]@aemc.gov.au | www.aemc.gov.au

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From: [REDACTED] <[REDACTED]@dcceew.gov.au>
Sent: Wednesday, June 14, 2023 2:37 PM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@dcceew.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: Financeability rule change request - consultation paper & ENA's request [SEC=OFFICIAL]

Hi [REDACTED]

I hope you enjoyed your long weekend!

Would you be available on Friday or early next week to discuss the additional financeability rule change request submitted by the ENA? We are also keen to chat about the next steps for the rule change following the release of the consultation paper.

Happy for you to suggest a time that suits best.

Kind regards,

[REDACTED]

[REDACTED]
Senior Policy Officer

Electricity Division | Rewiring the Nation Office | Networks Reforms
Eora Country, L7 100 Market Street, Sydney 2000, GPO Box 3090
Department of Climate Change, Energy, the Environment and Water
P [REDACTED] | E [REDACTED]@dcceew.gov.au
DCCEEW.gov.au ABN 63 573 932 849

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From: [REDACTED]
Sent: Thursday, June 29, 2023 8:49 AM
To: [REDACTED]; Danielle Beinart
Subject: RE: <https://www.aemc.gov.au/rule-changes/enhancing-community-engagement-transmission-building>

Thanks [REDACTED] and Danielle.

From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Wednesday, 28 June 2023 6:18 PM
To: [REDACTED] <[REDACTED]@aemo.com.au>; Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Subject: RE: <https://www.aemc.gov.au/rule-changes/enhancing-community-engagement-transmission-building>

Thanks Danielle,

[REDACTED] if you would like to chat about the rule change, please let me know. We are thinking through a few minor amendments to the drafting of the proposed rules, for example including First Nations in the groups to be consulted with, and making it an active requirement for TNSPs to consider who else may reasonable want to be engaged with (rather than them being required to express interest).

Kind regards,
[REDACTED]

From: [REDACTED] <[REDACTED]@aemo.com.au>
Sent: Wednesday, June 28, 2023 3:58 PM
To: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: <https://www.aemc.gov.au/rule-changes/enhancing-community-engagement-transmission-building>

Ok thanks Danielle

From: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Sent: Wednesday, 28 June 2023 3:56 PM
To: [REDACTED] <[REDACTED]@aemo.com.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: Re: <https://www.aemc.gov.au/rule-changes/enhancing-community-engagement-transmission-building>

Hi [REDACTED]

We are targeting 10 August for publication of the draft determination (noting this is being progressed as a fast track rule change and so there is no consultation paper as consultation has already occurred via TPIR).

[REDACTED] - if there is anything else to add please chip in!

Cheers
Danielle

Danielle Beinart | Executive General Manager
Australian Energy Market Commission
T +61 2 8296 7836

danielle.beinart@aemc.gov.au | www.aemc.gov.au

Assistant: [REDACTED] [REDACTED] [REDACTED]@aemc.gov.au

Level 15, 60 Castlereagh St, Sydney NSW 2000

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From: [REDACTED] <[REDACTED]@aemo.com.au>
Sent: Wednesday, June 28, 2023 3:32:25 PM
To: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Subject: RE: <https://www.aemc.gov.au/rule-changes/enhancing-community-engagement-transmission-building>

What's the AEMC likely timing for the release of the consultation paper?

Thanks

From: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Sent: Wednesday, 28 June 2023 3:16 PM
To: [REDACTED] [REDACTED]@aemo.com.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au> [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: <https://www.aemc.gov.au/rule-changes/enhancing-community-engagement-transmission-building>

Hi [REDACTED]

Great – let us know if you have any questions or would like to discuss!

Cheers, Danielle

From: [REDACTED] <[REDACTED]@aemo.com.au>
Sent: Wednesday, June 28, 2023 2:50 PM
To: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: <https://www.aemc.gov.au/rule-changes/enhancing-community-engagement-transmission-building>

Hi Danielle

I'm able to access.

Thanks
[REDACTED]

From: Danielle Beinart <Danielle.Beinart@aemc.gov.au>
Sent: Wednesday, 28 June 2023 2:23 PM
To: [REDACTED] <[REDACTED]@aemo.com.au>
Cc: [REDACTED] <[REDACTED]@aemc.gov.au>; [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: <https://www.aemc.gov.au/rule-changes/enhancing-community-engagement-transmission-building>

Hi [REDACTED]

I hope you are well?

I'm cc'ing [REDACTED] and [REDACTED] who are the sponsor/project lead for this rule change.

Can I confirm you are unable to access the rule change request which should be linked on the project page (see below)?

Cheers, Danielle

Enhancing community engagement in transmission building



Rule Change: Pending

Overview

On 11 April 2023 the AEMC received a rule change request from the Minister for Climate Change and Energy to amend the National Electricity Rules.

[View more](#)

Documentation

Pending

AEMC documents

[Rule change request](#)

Project Details

Reference:	ERC0357
Proponent(s):	The Honourable Chris Bowen, Minister for Climate Change and Energy
Stage:	Pending
Project Leader:	Viashin Goverder

Project Contact

[Contact Viashin Goverder](#)

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From [REDACTED] <[REDACTED]@aemo.com.au>

Sent: Wednesday, June 28, 2023 12:24 PM

To: Danielle Beinart <Danielle.Beinart@aemc.gov.au>

Subject: <https://www.aemc.gov.au/rule-changes/enhancing-community-engagement-transmission-building>

Hi Danielle

Can you share with AEMO in confidence the actual rule change request for the following pending rule change:

[Enhancing community engagement in transmission building | AEMC](#)

Kind regards

[REDACTED]

[Redacted] | Group Manager – Reform Development & Insights
Australian Energy Market Operator | M [Redacted] | E [Redacted]@aemo.com.au

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Subject: Monthly AEMC-DCCEEW catch up

Start: 7/5/2023 5:30 AM

End: 7/5/2023 6:30 AM

Show Time As: Tentative

Recurrence: Monthly

Recurrence Pattern: the first Tuesday of every 1 month(s) from 1:00 PM to 2:00 PM

Meeting Status: Not yet responded

Organizer: [REDACTED]

Required Attendees: Danielle Beinart; [REDACTED]; [REDACTED]; [REDACTED];

[REDACTED]@industry.gov.au; [REDACTED]; [REDACTED]; [REDACTED];

[REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]@dcceew.gov.au;

[REDACTED]@dcceew.gov.au; [REDACTED]@dcceew.gov.au; [REDACTED]@dcceew.gov.au;

[REDACTED]@dcceew.gov.au

Optional Attendees: [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED];

[REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED];

Resources: Blackwood

Draft agenda

1. Update on received rule changes approach and timing (AEMC)
 - a. Financeability
 - b. Concessional finance
 - c. Community Engagement (Social licence)
 - d. Feedback loop
 - e. Emissions
2. Update on pending rule changes including AEMCs thoughts on timing and process (DCCEEW and AEMC)
 - a. [REDACTED]
 - b. EAP1
 - c. Targeted ex-post review
3. [REDACTED]
4. [REDACTED]
5. Other business

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From: [REDACTED]
Sent: Monday, 10 July 2023 9:17 AM
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Community engagement rule change [SEC=OFFICIAL]

Thanks [REDACTED]

I know the CBA guidelines are mentioned across lots of the rule changes (I have put the list below that we sent to [REDACTED] of all the guidelines mentioned in TPIR) so we will do our best to line up dates so they aren't opened many times. There is a separate process for updating guidelines for emissions in the emissions rule changes, but maybe it is one that can be done separately with the social licence changes as well (Feedback loop probably wont be until later.) I do note for social licence we indicated the AER may want to update these guidelines, but left it up to the AER to determine the form in which to provide guidance (e.g. via existing guidelines or another mechanism).

There's quite a few different consultation procedures and I think some do allow minor updates- but I think the CBA guidelines are under the rules consultation procedures.

Relevant guideline	Workstream recommendation made under	Guidance	Reference
<i>Cost benefit analysis guidelines</i>	Emissions reduction	Include guidance on how emission reduction will be treated as a class of market benefit	Stage 3 final report - Section 3.2.1 p. 30
	Social licence	Cost recovery: Guidance on how social licence related costs will be considered and assessed in the RIT-T (noted this could be in a stand alone document re expenditure forecast assessment guideline) as an alternative)	Stage 2 final report- Section 3.2.3, p.23
		Engagement: guidance on the expectations on TNSPs regarding engagement with local communities affected by projects during the RIT-T	Stage 2 final report- Section 3.3.3, p.30
		Engagement: guidance on how TNSPs might ensure that a credible option can be implemented in sufficient time to meet the identified need (<i>RIT-T application guidelines for actionable ISP projects (within Cost benefit analysis guidelines)</i>)	Stage 2 final report - Section 3.3.3, p.30
		Updated guidance on the term early works	Stage 2 final report- Section 4.2.2, p.40

	Feedback loop	Provide AEMO discretion to establish the timeframe for when the feedback loop is to occur	Stage 2 final report- Section 5.3, p.50
<i>Regulation of actionable ISP projects 2021 guidance note</i>	Ex post review	To be updated to reflect ex post review for ISP and non-ISP capex.	Stage 3 final report- Section 4.1.2, P37
	Social licence	Cost recovery: guidance on how the AER will approach its assessment of efficient costs under different cost recovery avenues.	Stage 2 final report - Section 3.2.3, p.24
		Engagement: guidance on the expectations on TNSPs regarding engagement with local communities affected by projects during the RIT-T	Stage 2 final report- Section 3.3.3, p.30
		Updated guidance on the term early works	Stage 2 final report- Section 4.2.2, p.40
<i>RIT-T Application guidelines on valuing market benefits</i>	Emissions reduction	Include guidance on how emission reduction will be treated as a class of market benefit	Stage 3 final report- Section 3.2.1 p. 31
RIT-D guidelines	Emissions reduction	Include guidance on how emission reduction will be treated as a class of market benefit	Stage 3 final report- Section 3.2.1 p. 31
<i>Capital Expenditure Incentive Guidelines</i>	Ex post review	Explain the process for ex post review for ISP projects	Stage 3 final report- Section 4.1.2, P37
<i>Expenditure forecast assessment guideline</i>	Social licence	Cost recovery: guidance on how the AER will approach its assessment of efficient costs under different cost recovery avenues.	Stage 2 final report - Section 3.2.3, p.24
New guideline?- on depreciation for financeability	Financeability	AER to develop a depreciation guideline setting out how the depreciation arrangements would be applied	Stage 2 final report - Section 2.4.1, p. 14
New guidance? Or within an existing guideline	Social licence	Cost recovery: Guidance on how the arrangements for pass-through events would apply to unexpected and unavoidable costs related to social licence	Stage 2 final report- Section 3.2.3, p.25

From: [redacted] <[redacted]@aer.gov.au>
 Sent: Friday, July 7, 2023 11:22 AM
 To: [redacted] <[redacted]@aemc.gov.au>
 Cc: [redacted] <[redacted]@aer.gov.au>; [redacted] <[redacted]@aemc.gov.au>
 Subject: RE: Community engagement rule change [SEC=OFFICIAL]

OFFICIAL

[Redacted]

Kind regards,

[Redacted]
Assistant Director | Policy Development | Strategic Policy & Energy Systems Innovation

Australian Energy Regulator
Level 29 | 135 King Street Sydney NSW
T: [Redacted]



The ACCC acknowledges the traditional owners and custodians of Country throughout Australia and recognises their continuing connection to the land, sea and community. We pay our respects to them and their cultures; and to their Elders past, present and future.

From: [Redacted] <[Redacted]@aemc.gov.au>
Sent: Friday, 7 July 2023 10:44 AM
To: [Redacted] <[Redacted]@aer.gov.au>
Cc: [Redacted] <[Redacted]@aer.gov.au>; [Redacted] <[Redacted]@aemc.gov.au>
Subject: RE: Community engagement rule change [SEC=OFFICIAL]

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[Redacted]

Cheers,

[Redacted] Adviser
Australian Energy Market Commission
D [Redacted] | T [Redacted]
[Redacted]@aemc.gov.au | www.aemc.gov.au

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Sent: Thursday, July 6, 2023 1:16 PM
To: [redacted] <[redacted]@aemc.gov.au>
Cc: [redacted] <[redacted]@aer.gov.au>
Subject: RE: Community engagement rule change [SEC=OFFICIAL]

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[redacted]
[redacted]
[redacted]
[redacted]

Kind regards,

[redacted] (he/him)
Assistant Director | Policy Development | Strategic Policy & Energy Systems Innovation
Australian Energy Regulator
Level 29 | 135 King Street Sydney NSW
T: [redacted]



The ACCC acknowledges the traditional owners and custodians of Country throughout Australia and recognises their continuing connection to the land, sea and community. We pay our respects to them and their cultures; and to their Elders past, present and future.

From: [redacted] <[redacted]@aemc.gov.au>
Sent: Tuesday, 4 July 2023 10:28 AM
To: [redacted] <[redacted]@aer.gov.au>
Subject: RE: Community engagement rule change [SEC=OFFICIAL]

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Morning [redacted]

Any chance you would be able to provide me with feedback by Thursday this week? Understandably everyone has a lot on their plate.

Cheers,

[redacted]
[redacted] Adviser
Australian Energy Market Commission
D [redacted] | T [redacted]
[redacted]@aemc.gov.au | www.aemc.gov.au

Level 15, 60 Castlereagh St, Sydney NSW 2000

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Please consider the environment before printing.

From: [REDACTED] <[REDACTED]@aer.gov.au>
Sent: Wednesday, June 28, 2023 12:34 PM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Community engagement rule change [SEC=OFFICIAL]

OFFICIAL

Thanks, [REDACTED] I'll circulate it around and find the relevant people

Kind regards,

[REDACTED] (he/him)
Assistant Director | Policy Development | Strategic Policy & Energy Systems Innovation

Australian Energy Regulator
Level 29 | 135 King Street Sydney NSW
T: [REDACTED]



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From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Wednesday, 28 June 2023 10:57 AM
To: [REDACTED] <[REDACTED]@aer.gov.au>
Subject: RE: Community engagement rule change [SEC=OFFICIAL]

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Thanks [REDACTED]

I have attached the rule change request.

We were particularly keen on the AER views on the transitional rules included in the rule change request. Specifically, whether they are needed. There is also a transitional relating to updates to the CBA guidelines which we are keen to sense check with the AER.

Let me know if you have any other questions.

Cheers,

[REDACTED]

[REDACTED] Adviser
Australian Energy Market Commission
D: [REDACTED] | T: [REDACTED]
[REDACTED]@aemc.gov.au | www.aemc.gov.au

Level 15, 60 Castlereagh St, Sydney NSW 2000

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From: [REDACTED] <[REDACTED]@aer.gov.au>
Sent: Wednesday, June 28, 2023 10:14 AM
To: [REDACTED] <[REDACTED]@aemc.gov.au>
Subject: RE: Community engagement rule change [SEC=OFFICIAL]

OFFICIAL

Hi [REDACTED]
I hope you've been well too!

The social licence stuff sits across several teams in the AER so it might depend on what specifically you were looking to discuss. Could you send through some topics or questions and I can chase down who the right person (or people) would be.

Kind regards,

[REDACTED] (he/him)
Assistant Director | Policy Development | Strategic Policy & Energy Systems Innovation
Australian Energy Regulator
Level 29 | 135 King Street Sydney NSW



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From: [REDACTED] <[REDACTED]@aemc.gov.au>
Sent: Wednesday, 28 June 2023 9:58 AM
To: [REDACTED] <[REDACTED]@aer.gov.au>
Subject: Community engagement rule change

CAUTION: This email originated from outside of the organisation. Do not click links or open attachments unless you recognise the sender and know the content is safe.

Hi [REDACTED]
Hope you have been well!

Would you happen to know who in the AER I should reach out to for a discussion on the community engagement rule change request (social licence reform from TPIR)? Perhaps someone who is involved in developing the new guidelines?

Cheers,

[REDACTED]
[REDACTED] Adviser
Australian Energy Market Commission
[REDACTED] | T [REDACTED]
[REDACTED]@aemc.gov.au | www.aemc.gov.au

Level 15, 60 Castlereagh St, Sydney NSW 2000

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From: [REDACTED]
Sent: Monday, July 10, 2023 1:23 PM
To: [REDACTED]
CC: [REDACTED]

Subject: RE: TPIR Stage 3 rule changes - Ex-post review and early works [SEC=OFFICIAL]
Attachments: DCCEEW - targeted ex-post review rule change request - DRAFT.docx;
DCCEEW - Early works rule change request - AEMC comments.docx

Hi [REDACTED]

Thanks again for the opportunity to review the rule change requests. I have attached versions with some comments from us, and included our high level dot points on each of the rule change request below.

We also wanted to raise a suggestion in the early works rule change [REDACTED]

[REDACTED] Happy
to discuss this further including our rationale.

High level comments on the early works/ more and earlier planning activities rule change request:

- Suggest reducing the emphasis on preparatory activities, the focus of the rule change request should be early works.
- It is important to clarify that the rule change seeks to enable TNSPs to submit an early works CPA **prior to completing a RIT-T and feedback loop**. A TNSP may submit an early works CPA already.
- It is also important to clarify that the purpose of the rule change is to bring cost recovery certainty forward to encourage TNSPs to undertake more and earlier planning activities.
- The rule change request seems to emphasise community engagement as part of early works, this may reduce clarity given the community engagement rule change which we are looking to initiate. We suggest broadening early works and emphasising high expenditure activities which mitigate supply chain risk, though noting that detailed engagement is part of early works.
- The rule change request should also seek to introduce a definition of early works CPA
- The rule change request should clarify that a definition of early works will guide the AER and TNSPs over what may be included in an early works CPA. It is not a test for the AER to approve an early works CPA.
- It is important to make the distinction between staged and unstaged ISP projects and how this rule change applies to each scenario.

High level comments on the targeted ex post review rule change request:

- The rule change seeks to reduce uncertainty around the treatment of capex overspend due to the riskier ISP projects- it does this by introducing a targeted ex post review process for ISP projects
- Making it clear that ISP ex post review is project specific, non-ISP capex review is not based on specific projects rather it is all other capex

- Making it clear there is no change for the process for reviewing non-ISP capex- it will just not include ISP capex ie. overspends in ISP projects wont put non ISP-capex at risk and vice versa.

We also noted the footnote title on both rule changes need to be updated. Please let me know if you have any questions on our comment above, or in the rule change requests attached.

Kind regards,
[REDACTED]

From: [REDACTED]@dcceew.gov.au>
Sent: Friday, July 7, 2023 9:09 AM
To: [REDACTED]@aemc.gov.au>
Cc: [REDACTED]@dcceew.gov.au>; [REDACTED]
<[REDACTED]@dcceew.gov.au> [REDACTED]@aemc.gov.au>;
[REDACTED]@dcceew.gov.au>
Subject: RE: TPIR Stage 3 rule changes - Ex-post review and early works [SEC=OFFICIAL]

Hi [REDACTED]

That is absolutely fine – thank you for the heads up.

Enjoy your long weekend and I will speak to you next week.

Thanks,
[REDACTED]

From: [REDACTED]@aemc.gov.au>
Sent: Thursday, July 6, 2023 10:05 PM
To: [REDACTED]@dcceew.gov.au>
Cc: [REDACTED]@dcceew.gov.au> [REDACTED]
<[REDACTED]@dcceew.gov.au>; [REDACTED]@aemc.gov.au>
Subject: RE: TPIR Stage 3 rule changes - Ex-post review and early works [SEC=OFFICIAL]

Hi [REDACTED]

Apologies we have not been able to finish the review of the rule change requests. I am on leave tomorrow and [REDACTED] is not in but we will aim to get them to you on Monday.

Sorry for the delay.
[REDACTED]

From: [REDACTED]@dcceew.gov.au>
Sent: Tuesday, July 4, 2023 3:44 PM
To: [REDACTED]@aemc.gov.au>
Cc: [REDACTED]@dcceew.gov.au>; [REDACTED]

<[REDACTED]@dcceew.gov.au>; [REDACTED]@aemc.gov.au>

Subject: RE: TPIR Stage 3 rule changes - Ex-post review and early works [SEC=OFFICIAL]

No problem at all [REDACTED] thanks for letting me know.

Thanks,
[REDACTED]

From: [REDACTED]@aemc.gov.au>

Sent: Tuesday, July 4, 2023 3:26 PM

To: [REDACTED]@dcceew.gov.au>

Cc: [REDACTED]@dcceew.gov.au>; [REDACTED]

<[REDACTED]@dcceew.gov.au>; [REDACTED]@aemc.gov.au>

Subject: RE: TPIR Stage 3 rule changes - Ex-post review and early works [SEC=OFFICIAL]

Hi [REDACTED]

We will do our best to provide comments this week. We have quite a few deliverables this week but will aim for Thursday if possible and give you an update later in the week.

Kind regards
[REDACTED]

From: [REDACTED]@dcceew.gov.au>

Sent: Tuesday, July 4, 2023 8:18 AM

To: [REDACTED]@aemc.gov.au>

Cc: [REDACTED]@dcceew.gov.au>; [REDACTED]

<[REDACTED]@dcceew.gov.au>; [REDACTED]@aemc.gov.au>

Subject: RE: TPIR Stage 3 rule changes - Ex-post review and early works [SEC=OFFICIAL]

Hi [REDACTED]

Would you have the capacity to provide high-level comments by COB Thursday?

We can also push to Friday if that would work better, just let me know.

Thanks,
[REDACTED]

From: [REDACTED]@aemc.gov.au>

Sent: Monday, July 3, 2023 5:30 PM

To: [REDACTED]@dcceew.gov.au>

Cc: [REDACTED]@dcceew.gov.au>; [REDACTED]

<[REDACTED]@dcceew.gov.au>; [REDACTED]@aemc.gov.au>

Subject: RE: TPIR Stage 3 rule changes - Ex-post review and early works [SEC=OFFICIAL]

Hi [REDACTED]

I am well thanks, I hope you are too. We will take a look at the rule changes, and provide any high-level feedback. When did you need comments by?

Also noted re not sharing beyond the immediate team, we will make sure not to do so.

Kind regards,

[REDACTED]

From: [REDACTED]@dcceew.gov.au>
Sent: Monday, July 3, 2023 4:54 PM
To: [REDACTED]@aemc.gov.au>
Cc: [REDACTED]@dcceew.gov.au>; [REDACTED]
<[REDACTED]@dcceew.gov.au>
Subject: TPIR Stage 3 rule changes - Ex-post review and early works [SEC=OFFICIAL]

Hi [REDACTED]

I hope this email finds you well!

The team have completed first drafts of the ex-post review and early works rule change requests recommended by the AEMC in TPIR Stage 3.

I am wondering if you have the capacity to run your eyes over each of the rule changes (attached) and provide any feedback you might have. This would be very high-level preliminary-type feedback to see if there is anything major missing or any sections that need to be stronger or weaker.

This would by no means be taken as formal feedback from the AEMC, but rather checking to make sure we are on the right track prior to our internal review process ahead of sending it out for formal feedback.

These drafts are not complete and have not yet been cleared – as such, I would grateful if you didn't share beyond the immediate team or outside of the AEMC.

Please feel free to give me a call if you have any questions.

Many thanks,

[REDACTED]

[REDACTED]

Senior Policy Officer

Electricity Division | Rewiring the Nation Office | Network Reform
Turrbal and Jagera Country, 145 Ann St, Brisbane QLD 4000 Australia
Department of Climate Change, Energy, the Environment and Water
P: [REDACTED] | **E:** [REDACTED]@dcceew.gov.au
DCCEEWgov.au ABN 63 573 932 849



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Australian Government
Department of Climate Change, Energy,
the Environment and Water

Rule Change Request

Enhancing preparatory activities for ISP projects

August 2023

DRAFT

Commented [A1]: A AEMC
7/4/2023 2:05:00 PM
Suggest an alternative name to de-emphasise preparatory activities. For example : Encouraging more and earlier planning activities.

OFFICIAL

1. Request to make a Rule

1.1. Name and address of the person making the request

The Honourable Chris Bowen MP
Minister for Climate Change and Energy
Parliament House
Canberra ACT 2600

2. Relevant background

AEMC Transmission Planning and Investment Review

The Australian Energy Market Commission (AEMC) established the Transmission Planning and Investment Review (the Review) to ensure that the regulatory framework can support the timely and efficient delivery of major transmission projects, while ensuring investments in these projects are in the long-term interests of consumers.

On 4 May 2023, the AEMC published the Review's Stage 3 Final Report. This report focused on developing recommendations to manage uncertainty in the longer-term. A recommendation in the Stage 3 Final Report was to address insufficient incentives within the economic assessment process for TNSPs to earlier undertake planning activities.

The Commonwealth agrees with the AEMC's final position outlined in Stage 3 of the Review and considers that enabling a Transmission Network Service Provider (TNSP) to conduct an early works specific contingent project application (CPA) is an appropriate solution to address this issue.

The role of preparatory activities and early works for major transmission projects

Completing preparatory activities and early works likely lead to better outcomes for consumers because these activities reduce uncertainty in the delivery of major transmission projects. This is because they improve the reliability of expenditure forecasts, manage the risk of project delays, and promote innovative and cost-effective design.

Preparatory activities inform subsequent Integrated System Plan's (ISP) by developing the design of investment options and improving project cost estimates. TNSPs have an obligation under the NER to undertake preparatory activities for all actionable ISP projects, as well as for future ISP projects, where specified in the ISP.

The AEMC is soon to commence the [Enhancing community engagement in transmission building rule change](#). This rule change seeks to embed in the National Electricity Rules (NER) an updated definition of preparatory which expands the definition of preparatory activities to include engagement and consultation with local councils, local community members, members of the public and any other relevant stakeholders wishing to express their views.

Early works help manage cost uncertainty and the risk of project delays in the delivery of major transmission investments. It is not explicitly defined within the NER but is referenced in several

Commented [A2]: A AEMC
7/4/2023 2:09:00 PM
We wouldn't characterise the problem as an insufficient incentive. We considered that more planning would de-risk the untimely delivery of a project. To encourage TNSPs to do more planning we are bringing cost recovery forward.

Commented [A3]: A AEMC
7/4/2023 2:11:00 PM
An early works CPA prior to completing the RIT-T. A TNSP can already submit an early works CPA.

Commented [A4]: A AEMC
7/4/2023 2:11:00 PM
Suggest removing preparatory activities and focus on early works.

Commented [A5]: A AEMC
7/4/2023 2:14:00 PM
Suggest removing this, if commentary on the rule change is preferred then perhaps include a more high level description of the rule change given that we may make a more preferable draft rule.

regulatory documents including the ISP, the AER's *Cost Benefit Analysis Guideline* and the AER's *Guidance Note on the Regulation of Actionable ISP projects*.

The AER guidelines describe early works as activities that are more substantial and distinct from preparatory activities. The AER guidelines describe early works as activities that are more substantial and distinct from preparatory activities.¹ Early works in most cases involves more substantive costs than preparatory activities.

The Review's Stage 2 final report recommended that the AER describe early works in its guidance as: activities that are completed commence prior to the construction of the preferred option, to improve the accuracy of cost estimates, and/or to ensure facilitate that a project can be delivered within the time frames specified by the most recent ISP.²

The AER is implementing this recommendation as part of the recently commenced *Review of the cost benefit analysis and regulatory investment test guidelines*. The AER are examining how its guidelines can provide greater certainty regarding early works and the activities it encompasses to transmission businesses in advance of constructing a project.

The AER clarifying the meaning of early works will help stakeholders distinguish early works from preparatory activities, understand the types of activities TNSPs are able to complete when the ISP recommends completing early works, and what to include in an early works CPA. This rule change request intends to build on the AER's work to clarify early works expectations by providing TNSPs with the explicit ability to conduct an early works CPA.

3. Statement of Issue

The economic assessment process is not sufficiently incentivising TNSPs to undertake early planning activities

Obtaining and maintaining social licence is critical to the timely and efficient delivery of projects identified in the ISP.

This rule change request seeks to encourage TNSPs to efficiently undertake more planning activities earlier by improving the economic assessment process.

Ineffective community engagement by TNSPs can result in failure to obtain a 'social licence', risking timely and efficient delivery of transmission projects. Effective broad and early engagement ensures issues such as transmission route selection are identified and managed early before key decisions are made.

The Terms of Reference for the AEMC's Review tasked the Commission to examine whether the economic assessment process for ISP projects appropriately balances timeliness and rigour.

The Review identified that under existing arrangements, a TNSP is only able to receive cost recovery certainty for early works and preparatory activities after completing a RIT-T (which could be early works specific) and feedback loop as these are preconditions to submit a CPA.

¹ Australian Energy Regulator, Guidance note - regulation of actionable ISP projects, March 2021, p. 26.

² Australian Energy Market Commission, Transmission Planning and Investment Review Stage 2 Final Report, Sydney, 27 October 2022, p.37.

Commented [A6]: A AEMC
7/4/2023 2:15:00 PM
Repetition

Commented [A7]: A AEMC
7/4/2023 2:16:00 PM
Suggest removing this para

Commented [A8]: A AEMC
7/7/2023 3:17:00 PM
Consider being consistent with the definition proposed in the TPIR stage 3 final report because not all early works need to be completed prior to construction, also we considered that facilitate was more appropriate than ensure.

Commented [A9]: A AEMC
7/4/2023 2:24:00 PM
Submit and early works CPA prior to completing a RIT-T.

Commented [A10]: A AEMC
7/7/2023 3:20:00 PM
Suggest testing the AER's comfortability with this given that they have not publicly committed to further work.

Commented [A11]: A AEMC
7/7/2023 3:30:00 PM
Consider emphasising cost recovery certainty, bringing this forward would encourage more and earlier planning.

Commented [A12]: A AEMC
7/4/2023 2:27:00 PM
Suggest broadening early works away from just community engagement. Would be good to talk about supply chain risk, easement delays etc.

Commented [A13]: A AEMC
7/4/2023 2:27:00 PM
The cost of preparatory activities are recovered through the ex-ante revenue determination

The absence of cost recovery certainty could mean that TNSPs do not carry out early works when it would be most beneficial for the timely and efficient delivery of the ISP project. Typically, the first CPA would seek an allowance for early works while the second CPA would seek approval for the full cost associated to deliver a project. It is evident that clear guidance and certainty within the NER on early works cost recovery is missing.

The NER does not currently provide guidance on the assessment of early works costs. There is the ability for TNSPs to understand previous AER decisions, such as the AER's approval of Transgrid's CPA1 for HumeLink. Although the AER's recent CPA decision on HumeLink early works included an allowance for several activities related to building and maintaining social licence, there is no general guidance available to assist TNSP decision making.

Further, the rules do not currently specify that the Australian Energy Market Operator (AEMO) may include in the ISP examples of preparatory activities and early works for actionable ISP projects. Currently, the ISP may specify whether preparatory activities must be carried out for future ISP projects.³

The NER should be made consistent, and these arrangements extended to apply to actionable ISP projects whereby TNSPs undertake preparatory activities to refine the costs and benefits of a project made actionable. The NER must also clarify that the ISP may specify examples of early works that a TNSP may undertake for all actionable ISP projects, rather than only a staged ISP project.

4. Description of the proposed rule

The proposed early works rule would amend the NER to implement the rule change recommendations contained in the Review's Stage 3 Final Report, dated 4 May 2023. The proposed amendments, which were prepared by the AEMC and accompanied the Stage 2 Final Report, are attached to this request.

The Commonwealth proposes:

- TNSPs be enabled to submit a separate early works specific contingent project application to the AER without needing to first complete a RIT-T or feedback loop.
 - This is to encourage TNSPs bring forward early works and undertake more planning activities earlier in the economic assessment process.
- Introducing in the NER a definition of early works to underpin the AER's assessment of an early works CPA, to protect consumers from inefficient expenditure.
- Clarifying in the NER that AEMO, in the ISP, can specify examples of preparatory activities and early works for actionable ISP projects.

The proposed amendments would promote more efficient and earlier engagement with affected communities helping the timely and efficient delivery of ISP projects by introducing greater flexibility into the revenue-setting framework. In addition, these changes could contribute to time-savings reducing overall project delivery timelines.

³ Clause 5.22.6(c) of the NER.

Commented [A14]: A AEMC
7/10/2023 10:08:00 AM
Consider highlighting the issue of timely cost recovery certainty, i.e why the existing timeframe of cost recovery could be improved?

Commented [A15]: A AEMC
7/10/2023 10:10:00 AM
Consider whether this should be about bringing cost recovery certainty forward rather than creating more guidance.

Commented [A16]: A AEMC
7/10/2023 10:59:00 AM
Note that the main focus of the rule change is not to provide guidance. Also we do not consider that the rule change will provide substantive guidance.

Commented [A17]: A AEMC
7/4/2023 2:59:00 PM
and

Commented [A18]: A AEMC
7/4/2023 3:00:00 PM
The rule change should also introduce a definition of early works CPA

Commented [A19]: A AEMC
7/4/2023 3:08:00 PM
Early works is broader than engagement

Commented [A20]: A AEMC
7/10/2023 11:01:00 AM
By bringing cost recovery certainty for these activities forward?

4.1. TNSPs should be enabled to submit an early works CPA prior to completing the RIT-T and feedback loop

TNSPs should have the explicit ability, when they see fit, to submit an early works CPA, for an actionable ISP project, without having to complete a RIT-T and feedback loop.⁴

This change to the NER may lead to overall project delivery time-savings as conducting earlier planning activities, such as early works, may reduce supply chain delays and mitigate other project delay risks.

This proposed change may represent a time saving of up to four months to complete the economic assessment process relative to the current arrangements. This is because the proposed rule does not require a TNSP to complete a RIT-T and feedback loop prior to submitting an early works specific CPA before commencing the relevant activities to conduct early works.

The proposed rule also clarifies that when a TNSP is preparing RIT-T, feedback loop and CPA, a TNSP must reflect the costs approved in any prior early works CPAs for the specific actionable ISP project to accurately reflect the total cost of the project.⁵

Due to each stage of an actionable ISP staged project being considered a distinct actionable ISP project, the costs approved in an early works CPA would not need to be included in any subsequent RIT-T, feedback loop of CPA as these costs are discrete from the following stages.

Under this proposal TNSPs will maintain the discretion not to bring early works/cost recovery forward in cases it is considered not beneficial or necessary.⁶

4.2. Guidance is required on the assessment of early works

It is essential that there is clear definition of early works within the NER to guide the assessment of an early works CPA. The definition proposed introduces principles for the AER to consider when assessing early works costs.

The AER should be satisfied that the costs proposed within an early works CPA are for activities that:

- Improve the accuracy of cost estimates for that project
- Facilitate delivery in line with the timeframes specified by the most recent ISP.⁷

Only in circumstances the AER considers this definition to have been met may a TNSP be able to have their early works CPA approved without needing to first complete a RIT-T or feedback loop.

The Commonwealth considers that alongside this definition within the NER, the AER should update current guidance, or create new guidance, that aims to address risks associated with bringing early works forward. These guidelines should:

Commented [A21]: A AEMC
7/10/2023 11:03:00 AM
For a staged project, a TNSP is not required to complete a RIT-T or feedback loop in stage 1: early works.

Commented [A22]: A AEMC
7/10/2023 11:05:00 AM
This time saving only relates to ISP staged projects because stage 1 may be completed quicker because no RIT-T or feedback loop needs to be completed.

Commented [A23]: A AEMC
7/4/2023 3:12:00 PM
Suggest phrasing them as limbs which the AER considers to be satisfied

Commented [A24]: A AEMC
7/4/2023 3:14:00 PM
The definition acts as a guide for what costs may be included in the early works CPA. It is not a threshold for approval.

⁴ Clause 5.16A.4(b1) of the NER.

⁵ Clause 5.16A.6 of the NER.

⁶ Clause 5.16A.4(b1) of the NER.

⁷ Glossary of the NER.

- Provide clarity on the types of early works to be brought forward,
- Have regard to the cost efficiency of proposed early works activities.

This rule change process should further consider the need for such guidance.

4.3. AEMO can specify preparatory activities and early works in the ISP

This rule proposes clarifying in the NER that AEMO, in the ISP, can specify examples of preparatory activities and early works for actionable ISP projects.

The ISP providing specific examples or preparatory activities and early works will assist:

- TNSPs in including efficient costs in their revenue proposal or early works CPA, and
- the AER when assessing the efficiency of early works costs.

AEMO should build on this list, where beneficial, within the ISP. Further, AEMO providing this information in the ISP would not obligate TNSPs to complete specific activities.⁸

The NER should further clarify that TNSPs must conduct preparatory activities for actionable ISP projects, that the TNSP considers beneficial, where these activities have not already commenced. This clarifies that TNSPs must carry out preparatory activities for actionable ISP projects regardless of whether these activities are specified in the ISP or not.

The proposed rule clarifies that the ISP may specify early works for all actionable ISP projects, rather than only specifying for staged ISP projects.⁹

5. How the proposed rule will address the issue

Including cost recovery certainty for these projects will encourage earlier and more planning activities to be conducted by TNSPs, ultimately leading to better community engagement, and increasing the pace of transmission delivery.

The recommendations to encourage TNSPs to undertake more planning activities, earlier in the process will:

- Enable TNSPs to develop options for transmission investment that more accurately reflect social, cultural, heritage and environmental impacts.
- Mitigate the risk of later project cost increases and project delays due to later consideration of critical social, cultural, heritage and environmental factors that may increase costs for consumers.
- Support economic efficiency through better information and transparency on what planning activities are beneficial and efficient for TNSPs to undertake.

The amendments outlined above will help to ensure critical transmission infrastructure to be delivered on time by more effectively obtaining and maintaining social licence.

⁸ Clause 5.22.6(6)(vii) of the NER.

⁹ Clause 5.16A.5 of the NER.

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Bringing cost recovery certainty forward

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7/10/2023 11:13:00 AM
Consider broadening the objective of early works beyond just social licence building

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7/10/2023 11:14:00 AM
Bring cost recovery forward to encourage...

This rule change request build on the foundation of reforms proposed by the AEMC in its TPIR Stage 2 and 3 in relation to social licence and bringing cost recovery for planning activities for ISP projects forward.

6. How the proposed rule will or is likely to contribute to the achievement of the National Electricity Objective

The NEO, as set out in section 7 of the National Electricity Law, is:

“to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.”

The relevant aspect of the NEO, with respect to this rule change request, is the promotion of efficient investment in electricity services for the long-term interests of consumers of electricity with respect to price, quality, safety, reliability and security of the supply of electricity.

Timely and efficient investment in actionable ISP projects is required to ensure reliability and security of the supply of electricity, and to reduce adverse impacts on price as the electricity system transitions to net zero.

The proposed amendments advance the NEO by:

1. Supporting timely and efficient project delivery to promote better outcomes for consumers by encouraging TNSPs to undertake increased preparatory activities and bringing early works forward.
2. Improving economic efficiency through greater cost recovery certainty for TNSPs.
3. Retaining flexibility in the regulatory framework making the delivery of the preferred option more adaptive to changes in conditions.
4. Facilitating decarbonisation through reducing the risk of transmission delays and supporting the timely connection of renewable energy resources.

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Consider focusing the rule change request on early works.

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7/10/2023 11:21:00 AM
Because of greater planning done earlier?

7. Expected costs, benefits and impacts of the proposed rule

7.1. Expected benefits

Undertaking more planning activities earlier in the process would enable TNSPs to develop options for transmission investment that more accurately reflect social, cultural, heritage and environmental impacts. This would mitigate the risk of later project cost increases and project delays because of later consideration of these factors. Bringing these activities forward could also mitigate the risk of additional costs to consumers due to supply chain delays and labour supply issues currently impacting major transmission projects.

The proposed early works amendments provide a flexible solution to consider the impact of new transmission infrastructure early in the regulatory process to ensure adequate and robust stakeholder engagement.

These amendments will enhance community engagement with impacted members of the community by ensuring they are engaged in the process at an earlier point to identify potential risks that may increase project costs at later stages.

7.2. Expected costs

The proposed amendments are not expected to impose any significant new costs on the market bodies, TNSPs or consumers. This is because this rule change request will result in a temporal shift of current costs for planning activities, rather than a material increase beyond current costings.

There will be some additional administrative and compliance costs associated with the proposed rule, but these are not expected to be material. The proposed rule would only require an assessment if requested by the TNSP, it would not be a requirement for every actionable ISP project, which reduces administrative burden for the AER and TNSPs.

The Commonwealth consider that, on balance, incurring greater costs of planning earlier in the process will significantly benefit consumers by avoiding greater costs to consumers in the future]

7.3. Expected impacts

TNSPs, market bodies and consumers are likely to be impacted by the proposed amendments outlined in this rule change request.

TNSPs may be impacted by:

- Being able to submit a separate early works specific CPA to the AER without needing to first complete a RIT-T ~~and~~ feedback loop.
- Early works being conducted earlier in the regulatory process than before the implementation of this rule change request.
- Requirement to carry out preparatory activities for actionable ISP projects, where they have not already commenced, it considers to be beneficial regardless of whether these activities are specified by AEMO in the ISP or not.
- Any additional compliance costs associated with the proposed rule.

Consumers may be impacted by:

- Minimising bill costs by ensuring the timely delivery of transmission infrastructure by encouraging TNSPs to undertake increased preparatory activities and bringing early works forward.

The reform may also impact the market bodies through:

- Providing AEMO with the ability to, in the ISP, specify examples of preparatory activities and early works for actionable ISP projects.
- Requirements for the AER to follow guidance in the NER in its assessment of an early works CPA.
- Additional administrative work for the AER associated with both the implementation and function of the proposed amendments.

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7/4/2023 3:19:00 PM
This is more the role of the community engagement rule change.

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7/10/2023 11:23:00 AM
Consider including in this section the risk of sunk costs to consumers, where are project does not go ahead after completing early works, although the risk is low.

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7/4/2023 3:21:00 PM
This is more a clarifying amendment rather than a change to current practice.

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7/10/2023 11:24:00 AM
What compliance costs?

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7/10/2023 11:25:00 AM
Similar to point under expected costs, there may be an increased risk of stranding

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7/10/2023 11:26:00 AM
AEMO may already do this so there is no significant impact.

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The impact on the AER is more so that they need to assess an early works CPA without having a RIT-T as reference. The early works definitional limbs does not create a significant impact.

- The development of any guidelines required to implement this rule change request.

Attachment A – Proposed changes to the National Electricity Rules as recommended by the AEMC in Stage 3 of the Transmission Planning and Investment Review

[To be inserted]