



**Australian Energy Market Commission**

**Draft Rule Determination**

**Rule Proposal:**

**Draft National Electricity Amendment (TransGrid Participant Derogation - Treatment of Contingent Projects (Interim Arrangements)) Rule 2005**

**Proponent:** *TransGrid*

**Date:** **19 January 2006**

**Commissioners:**  
Tamblyn  
Carver

## Contents

Summary .....	3
1. TransGrid's Rule Proposal.....	4
2. The draft Rule determination .....	5
3. Requirements under the NEL .....	5
3.1 The Rule Making Test.....	5
3.2 The head of power for the draft Rule .....	6
4. Consultation Process.....	7
5. Matters raised in Analysis and Consultation .....	7
5.1 Relationship to AEMC Chapter 6 Review.....	7
5.2 Revenue and Investment Certainty.....	8
5.3 Implementation of the ACCC's Determination.....	9
5.4 Expiry date of the derogation.....	10
5.5 Efficient Capital Expenditure on Contingent Projects.....	10
5.6 Treatment of Contingent Projects in Next Regulatory Period.....	11
5.7 Summary of differences between the proposed Rule and the draft Rule .....	12
6 Commission's consideration and reasoning in relation to the Rule Making Test	
6.1 Assessment against Rule making test.....	13

## Summary

TransGrid has proposed that a change be made to the National Electricity Rules (the Rules), to allow it to recover the costs of investment in approved contingent projects during the regulatory period when they are incurred. Under its current revenue determination, TransGrid is not able to recover the cost of such investments until the next regulatory period because clause 6.2.4 of the Rules only permits reopening of the revenue cap within the current regulatory period on limited grounds.

TransGrid's proposal seeks to remove uncertainty surrounding its recovery of the costs of investment in approved contingent projects and thereby remove a potential disincentive to undertake investment in contingent projects. The proposed Rule change - in the form of a participant derogation - would achieve this by allowing TransGrid to recover its costs at the end of each financial year when the expenditure on an approved contingent project has been incurred. TransGrid would then recover the return on assets and return of capital based on the cost of the efficient investment (as approved by the Australian Energy Regulator (AER)) that is added to the Regulated Asset Base (RAB) at the end of each year the expenditure is incurred.

In coming to its decisions the Commission assessed the following key issues.

- Relationship to AEMC Chapter 6 Review
- Revenue and investment certainty
- Implementation of the Australian Competition and Consumer Commission's (ACCC) Determination
- Expiry date of the derogation
- Efficient capital expenditure on contingent projects
- Treatment of contingent projects in next regulatory period

Two submissions were received by the Commission. In addressing the submissions and issues identified by the Commission in the course of its assessment, the Commission has made a number of changes to the proposed Rule.

The Commission's draft decision is that the derogation would contribute to the NEM objective by removing barriers to necessary investment in the transmission network by TransGrid. This investment is expected to ensure the safe and reliable operation of the transmission system, which will improve (or maintain) operational outcomes for both upstream and downstream users of the system.

Accordingly the Commission has determined that, subject to submissions received in the second round of consultation, it intends to make a Rule to address the issue raised in the proposal. The draft Rule Determination sets out the Commission's reasons as required under the NEL.

# 1. TransGrid's Rule Proposal

On 16 September 2005, TransGrid submitted a proposal to the Commission for a participant derogation to provide allowances for approved contingent projects within the current regulatory period. In the Statement of Principles for the Regulation of Electricity Transmission Revenues (SRP) the ACCC introduced the concept of excluded (or contingent) investment projects. These projects are excluded from the *ex ante* capex allowance and require pre-defined triggers and AER approval before they can proceed. For TransGrid's 2004-09 Revenue Cap the ACCC applied the concept of contingent (or excluded) projects but clause 6.2.4 of the Rules prohibits reopening the revenue cap to fund contingent projects that have been triggered within the current regulatory period.

Due to clause 6.2.4 of the current Rules, TransGrid would not receive any funding for approved contingent projects that are undertaken until the commencement of the next revenue reset period. As part of the cost recovery process an incentive period associated with contingent project capital expenditure is determined by the Australian Energy Regulator (AER). In recognition of the requirements of clause 6.2.4 of the Rules, the ACCC set out in its determination the following process to be applied at the commencement of the next revenue reset to recover the cost of incurred approved contingent projects in the current regulatory period.

- *“the ACCC will add to the closing RAB the target capex and Annual Revenue approved by the AER for each year of the incentive period leading up to the re-set; and*
- *the ACCC will add to the ex ante capex allowance the target capex and Annual Revenue approved for each year of the incentive period that comes after the re-set.*

*At the revenue reset following the completion of the incentive period, the ACCC will add to the closing RAB the depreciated value of the actual investment in the project that complies with the requirements of the Code. This will include the return on and return of the actual investment for the period between the end of the incentive period and the revenue cap re-set.”<sup>1</sup>*

In TransGrid's current revenue determination, the ACCC approved \$722 million of contingent projects out of a total capital expenditure allowance of \$2,010 million.<sup>2</sup>

TransGrid has submitted that the process for recovery of the revenue proposed by the ACCC involves risk and uncertainty that will impact on its capacity to commit to, and implement, contingent projects during the current regulatory period. The proposed Rule change would permit the following in the current regulatory period.

- The efficient capital costs for an approved contingent project incurred in each given financial year to be added to TransGrid's RAB at the end of that financial year.

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<sup>1</sup> ACCC, NSW and ACT Transmission Network Revenue Cap TransGrid 2004-05 to 2008-09, 27 April 2005, p. 211.

<sup>2</sup> ACCC, NSW and ACT Transmission Network Revenue Cap TransGrid 2004-05 to 2008-09, 27 April 2005, p. 129.

- The maximum allowed revenue is to be increased at the end of the financial year to account for the return of and on capital associated with a contingent project's efficient capital costs.
- Contingent projects commenced in the current regulatory period to be treated as non-contingent projects when setting the revenue cap for the next regulatory period.

TransGrid also requested that the derogation's expiry date be conditional on when the AER determines TransGrid's next revenue reset.

TransGrid indicated that the trigger for the Queensland-NSW Interconnect (QNI) upgrading was likely to be met by late 2005. Furthermore, it is concerned that if the work is undertaken the AER may not have an obligation under the Rules to compensate TransGrid's expenditure on contingent projects at the next revenue reset.

## 2. The draft Rule determination

The Commission has determined, in accordance with section 99 of the NEL, to make the draft Rule set out at Attachment 1 of this draft Rule determination. The wording of the draft Rule amends aspects of the proposed Rule as put forward by TransGrid, for the reasons set out at section 5 of this determination.

In coming to its decision, the Commission has considered the following.

- The Rule proposal and the proposed Rule put forward by TransGrid (see section 1 of this determination).
- Submissions received (see section 5 of this determination).
- The requirements under the NEL (see section 3 of this determination).

The Commission has applied the statutory Rule making test and, for the reasons set out in section 6 of this draft Rule determination, is satisfied that the draft Rule is likely to contribute to the achievement of the NEM objective.

## 3. Requirements under the NEL

### 3.1 The Rule Making Test

The NEL requires the Commission to apply the Rule making test in its analysis and assessment of a Rule proposal at the draft determination phase of the Rule making process. The Rule making test states:

*“(1) The AEMC may only make a Rule if it is satisfied that the Rule will or is likely to contribute to the achievement of the national electricity market objective.*

*“(2) For the purposes of subsection (1), the AEMC may give such weight to any aspect of the national electricity market objective as it considers appropriate in all the circumstances, having regard to any relevant MCE statement of policy principles.” (section.88 of the NEL)*

The NEM objective is at the centre of the Rule making test, and is set out in section 7 of the NEL:

*“The national electricity market objective is to promote efficient investment in, and efficient use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, reliability and security of supply of electricity and the reliability, safety and security of the national electricity system.”*

In summary, the Rule making test imposes the following requirements on the Commission in preparing a draft Rule determination:

- The Commission must be satisfied that a Rule that is to be made will or is likely to contribute to the achievement of the NEM objective;
- The NEM objective is to be understood and interpreted as an economic objective;
- The Commission may *only* make a Rule if it is satisfied in accordance with the Rule making test;
- The Commission is empowered to give weight to any aspect of the NEM objective as it considers appropriate in the factual circumstances presented by particular Rule proposals;
- In weighting aspects of the NEM objective, the Commission must have regard to any relevant MCE statement of policy principles; and
- The Commission must set out the reasons as to whether it is satisfied as to the Rule making test in its draft determination in relation to a proposal for a Rule.

### **3.2 The head of power for the draft Rule**

The AEMC’s power to make Rules fall under section 35 and Schedule 1 of the NEL. Section 34 (1) (c) of the NEL states:

*the AEMC...may make Rules...for ...regulating—...  
(c) the activities of persons (including Registered participants) participating in the national electricity market or involved in the operation of the national electricity system.*

Further, section 34 (3) (1) and (m) also confer power to make a participant derogation.

Finally under Schedule 1 of the NEL, the Commission may make Rules regarding:

- *The regulation of revenues earned or that may be earned by owners, controllers or operators of transmission systems from the provision by them of services that are the subject of a transmission determination (s.16);*
- *Principles to be applied, and procedures to be followed, by the AER in exercising or performing an AER economic regulatory function or power (s.17);*
- *The mechanisms or methodologies for the derivation of the maximum allowable revenue or prices to be applied by the AER in making a transmission determination (s.20)*

The Commission is satisfied that the draft Rule falls within the subject matters for which the Commission may make Rules as set out in section 34 of the NEL and in Schedule 1 of the NEL.

## **4. Consultation Process**

The Commission issued a section.95 Notice under the NEL on 20 October 2005 and invited submissions from interested parties. Submissions closed on 18 of November 2005.

## **5. Matters raised in Analysis and Consultation**

The Commission received two submissions in relation to TransGrid's Rule change proposal. The submissions were from TransGrid and the AER. The AER opposed the Rule change proposal while TransGrid questioned the AEMC's change to the proposed Rules. EnergyAustralia, who is also subject to the same contingent project provisions, has not lodged a submission. EnergyAustralia was granted \$72 million of contingent project capital expenditure out of a total allowance of \$242 million.<sup>3</sup>

### **5.1 Relationship to AEMC Chapter 6 Review**

#### **What the proponent said**

TransGrid is concerned that the new Rules to be made by the AEMC as a result of the Chapter 6 Review may not provide for the transitioning of the arrangements for contingent projects triggered in its current revenue reset period. Specifically TransGrid is concerned that these incurred costs may not be included into the regulatory arrangements that will apply to its next revenue reset. This is because under the current TransGrid revenue determination adjustments to fund approved contingent projects incurred in the current regulatory period would occur at the beginning of the next reset period (1 July 2009), and can continue into the next regulatory period.

TransGrid considers that investment uncertainty is created by the approach taken in its revenue determination to this issue, which seeks to bind TransGrid and the AER to regulatory arrangements to apply in the next regulatory period which may conflict with the new Chapter 6 Rules due to be made by the AEMC by 1 July 2006.

#### **What the submissions said.**

The AER stated that the AEMC's review of transmission regulation provides the appropriate means of addressing TransGrid's risk concerns. It also expressed the view that TransGrid's expenditure associated with investment on the QNI upgrade would be minimal before the middle of 2006, after which the new Rules will be in force.

#### **The Commission's consideration and reasoning**

Under TransGrid's current revenue cap determination, funding for contingent projects undertaken in the current regulatory period will not be provided until the next revenue reset. Furthermore, each approved contingent project will create a different stream of accrued revenue which will have to be recovered in the next regulatory period. These arrangements will add complexity and uncertainty to the regulatory arrangements established by the determination in the context of the new Rules being established that will apply to TransGrid's next revenue reset. TransGrid's proposed Rules would allow the progressive recovery of contingent project costs within the current revenue cap and avoid the need for complex adjustments in the next revenue reset to recover expenditure undertaken in the previous period adjusted for the time value of money.

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<sup>3</sup> ACCC, NSW and ACT Transmission Network Revenue Cap Energy Australia 2004-05 to 2008-09, 27 April 2005, p. 69.

The AER considers that approval of the derogation would increase complexity because TransGrid would be the only transmission network service provider (TNSP) allowed to reopen its revenue cap to fund contingent projects. While the latter point is correct, TransGrid and EnergyAustralia are the only TNSP's that have current revenue determinations that provide for contingent projects. The Commission considers that in these circumstances the greater complexity would be that involved in the arrangements proposed by the ACCC for the delayed recovery of contingent project expenditure which the proposed derogation is intended to avoid.

Although the AEMC Chapter 6 Review will include savings and transitional Rules there can be no assurance at this time as to how these issues will be addressed in the final Rules. The Commission considers therefore that the most effective way to resolve these matters raised by TransGrid is through the proposed derogation.

## **5.2 Revenue and Investment Certainty**

### **What the proponent said**

*“...the ACCC decision cannot bind a future AER and the arrangement does not provide TransGrid with any reasonable level of certainty that efficient investment in a contingent project will be recognised in the RAB.”<sup>4</sup>*

TransGrid is concerned that there is remaining uncertainty that contingent project expenditure incurred (by TransGrid) in the current regulatory period will be fully funded in the next regulatory period because the ACCC's determination can not bind the future actions of the AER, and in any event is unclear on the mechanism to be applied.

### **What the submissions said**

The AER suggested an amendment to the Rules in its submission to the AEMC Chapter 6 Review that would allow for the funding of contingent projects and considers that this would provide the certainty TransGrid is seeking. However, this was not a formal Rule change proposal. Rather, it was a suggestion in the AER submission to the AEMC Chapter 6 Review process that the AER considers such a Rule change would be appropriate.

### **The Commission's consideration and reasoning**

TransGrid's current regulatory period commenced on 1 July 2004.<sup>5</sup> In the absence of the current AEMC Chapter 6 Review, TransGrid would have been exposed to a level of regulatory risk because the Rules do not allow the regulator to bind the decisions of a future regulator. This creates the risk for TransGrid that the AER may not allow TransGrid to recover its incurred contingent project expenditure.

The AEMC Chapter 6 Review has created an additional level of uncertainty for TransGrid in that the Rules to apply to the next reset are yet to be finalised by the AEMC but any contingent project costs incurred must be recovered in the next regulatory reset in July 2009. TransGrid is concerned that the new Chapter 6 Rules may not allow for contingent project cost recovery in the next revenue reset. The new Rules will come into force on 1 July 2006.

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<sup>4</sup> TransGrid, Rule change proposal, 16 September 2005, p. 2.

<sup>5</sup> ACCC, NSW and ACT Transmission Network Revenue Cap TransGrid 2004–05 to 2008–09, 27 April 2005, p. 8.

However, as the Rule change process is still underway, the content of the new Chapter 6 Rules remains uncertain.

The Commission is of the view that the increased uncertainty created by the requirement for delayed recovery of contingent project expenditure (for TransGrid) and the ongoing Chapter 6 Review produces a level of regulatory risk that may inhibit or delay investment decisions.

### **5.3 Implementation of the ACCC's Determination**

#### **What the proponent said**

With respect to contingent projects, TransGrid is seeking a derogation “to give effect to certain aspects of the regulatory framework the ACCC sought to establish.”

*“...the Final Decision identified a particular limitation of 6.2.4 of the Rules, and more generally the Rules governing the setting of the TNSP revenue caps, that prevents the full and proper achievement of the arrangements sought to be implemented by the determination.”<sup>6</sup>*

#### **What the submissions said**

The AER has suggested that an amendment to the Rules is needed to ensure that contingent projects are provided for as intended by the SRP. The AER considers that this will address TransGrid's risk concerns.

#### **The Commission's consideration and reasoning**

In TransGrid's Final Decision the ACCC stated that

*“The revenue cap cannot be adjusted during the regulatory control period as a result of the ACCC's approval of the contingent project. In the absence of a Code change to permit this to occur, the ACCC's decision will be implemented at the re-set of the revenue cap...”<sup>7</sup>*

In the SRP the ACCC recommended that the Rules be changed to allow for revenue cap reopening for contingent project funding.

*“An amendment to the code which allowed a reopening of the revenue cap to deal with excluded investment would permit the necessary adjustments to be made during the regulatory period. The ACCC considers that there is a strong case to amend the code, as it would provide absolute certainty to TNSP's as to the treatment of excluded projects.”<sup>8</sup>*

The Commission considers that these statements in the ACCC determination and the SRP provide a clear indication that the TransGrid Final Decision would have allowed for revenue cap reopening for approved contingent projects if it were not for clause 6.2.4 of the Rules. The ACCC took this approach in developing the relevant provisions of the SRP and the AER took a similar view in its submission to the AEMC's transmission revenue regulation review.<sup>9</sup>

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<sup>6</sup> TransGrid, Rule change proposal, 16 September 2005, p. 2.

<sup>7</sup> ACCC, NSW and ACT Transmission Network Revenue Cap TransGrid 2004–05 to 2008–09, 27 April 2005, p 212.

<sup>8</sup> ACCC, Statement of Principles for the Regulation of Electricity Transmission Revenues – Background Paper, 8 December 2004, p. 143.

<sup>9</sup> AER, Submission to AEMC Revenue Issues Paper, p. 9.

The proposed derogation would allow that approach to be implemented within the current regulatory period.

## **5.4 Expiry date of the derogation**

### **What the proponent said**

The expiry date is 30 June 2009 unless the AER has not set the next revenue cap by then, in which case the derogation expires when the AER sets the next revenue cap.

### **What the submissions said**

TransGrid reiterated its preference for the conditional expiry date on the grounds that the derogation concerns regulatory periods and overlap. It is also concerned about the uncertainty created by the AEMC Review of the Chapter 6 Rules.

### **The Commission's consideration and reasoning**

TransGrid's request for this derogation relates to the cross over between its current regulatory arrangements and the new Chapter 6 Rules to be made by 1 July 2006. The conditional expiry date is intended to ensure that the derogation will still apply if the AER does not complete TransGrid's next revenue reset by 30 June 2009.

The conditional expiry date proposed by TransGrid is inconsistent with the requirements of the NEL. Section 103 (4) NEL requires a derogation to specify an expiry date. The Commission's advice indicates that TransGrid's derogation must specify an expiry date. Accordingly the Commission has amended TransGrid's proposed Rule by replacing the qualified expiry date with the date of 30 June 2009.

If the AER does not complete TransGrid's next revenue reset by 30 June 2009 then another Rule change that extends the derogation can be proposed by TransGrid.

## **5.5 Efficient Capital Expenditure on Contingent Projects**

### **What the proponent said**

The efficient capital costs of a contingent project incurred in each financial year are to be added to TransGrid's RAB at the end of that financial year.

### **What the submissions said**

The AER expressed the view that the derogation proposed by TransGrid adopts a "cost of service" approach to regulation and is not consistent with the incentive regulation elements of the AER's approach.

### **The Commission's consideration and reasoning**

The AER's SRP states that the aim of the incentive based regime is to provide TNSP's with incentives to operate efficiently and undertake required investment. It allows TNSP's to retain any revenue returns associated with the difference between forecast and actual capital expenditure during a regulatory period. It also provides for the recovery of the cost of undertaking approved contingent projects and the application of an incentive regime to such projects. Contingent projects were introduced to account for uncertain projects that become necessary if certain pre-defined triggers are met. Contingent projects are identified at the commencement of the revenue reset.

This proposed derogation would allow TransGrid to recover the cost of approved (by the AER) contingent projects as they are incurred consistent with the intention of the SRP.

Whether the efficient costs of approved contingent projects are recovered as incurred or after a delay does not appear to make a difference to whether the process has an incentive or cost of service character.

The AER's concern may relate to TransGrid's use of the phrase "efficient" capital expenditure in its proposed derogation, without actually defining what it means. This may infer a different definition of efficient capital expenditure from that in TransGrid's revenue determination. If this is correct the AER has identified a flaw in TransGrid's draft Rule.

To overcome this potential ambiguity, the Commission proposes to define "efficient capital costs" for the purposes of this derogation as "the amount of capital expenditure that the AER will include in the RAB in accordance with Section F of TransGrid's Final Decision."

The Commission considers that this will remove any uncertainty regarding the treatment of capital expenditure related to contingent projects and allows the AER to consider contingent projects in accordance with its determination.

## **5.6 Treatment of Contingent Projects in Next Regulatory Period**

### **What the proponent said**

TransGrid has proposed that in setting the revenue cap for the future regulatory period, the AER must treat any contingent project that has commenced in the current regulatory period as a "non-contingent" project at the next revenue reset.

### **What the submissions said**

Neither the AER nor TransGrid commented on this issue in their submissions.

### **The Commission's consideration and reasoning**

Under its current determination, TransGrid cannot recover the cost of a contingent project incurred in its current regulatory period until the next regulatory period. The Commission understands that the cost recovery mechanism set out in TransGrid's revenue determination is as follows.

The costs would be recovered over an incentive period defined by the AER. The AER also determines the start and finish date of the incentive period and the profile of the target capex. Under this regime, at the commencement of the next revenue reset the AER adds the target capex (for the approved contingent project) to the RAB for any year of the incentive period leading up to the revenue reset. The approved Annual Revenue (AR) for the project for any year of the incentive period leading up to the next revenue reset is also added to the RAB.<sup>10</sup> If the incentive period straddles the two regulatory periods, at the revenue reset the AER will add the target capex to the *ex ante* capex allowance and the AR for the project to

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<sup>10</sup> The AER defines AR as the return of and on capital. Thus, depreciation and financing costs are capitalised.

the Maximum Allowed Revenue (MAR) for each remaining year of the incentive period in the next regulatory period.

When the incentive period is completed, the depreciated value of the actual investment is added to the RAB. The ACCC does not state how the previous additions to the RAB (see above) are treated but it would appear they would have to be removed from the RAB to avoid double counting.

Despite the fact that TransGrid does not receive any incurred contingent project funding in the current regulatory period, there is an incentive mechanism in the AER approach. Under these arrangements TransGrid would be incentivised not to overspend because during the incentive period the return of and on capital are based on the approved forecast expenditure as opposed to the actual level of expenditure. Thus, TransGrid, will not recover costs for any overspend until the end of the incentive period when the actual depreciated expenditure is added to the RAB.

Under TransGrid's proposed derogation, efficient capital expenditure on a contingent project incurred in each year (of the current regulatory period) is added to the RAB at the end of that financial year. The applicable return of and on capital are calculated based on these additions to the RAB and this is added to the MAR for that financial year.

Clause 8A.1.3(c) of TransGrid's proposed Rules limits the duration of any incentive period to the end of the current regulatory period. Under this proposed Rule, at the commencement of the next revenue reset, contingent project expenditure (incurred in the current period) is to be treated in the same way capital expenditure incurred under the *ex ante* expenditure cap. Discussions with TransGrid indicated that it does not want the incentive period to continue into the next regulatory period and is prepared to have the future treatment of contingent project expenditure incurred in the current period determined by the Rules that result from the AEMC's Chapter 6 Review.

The Commission considers that on balance this is an appropriate approach. This Rule change removes uncertainty surrounding investment in contingent projects and avoids the potential complexity of having multiple contingent project incentive periods running concurrently within the next revenue period. The Commission also sees benefit in not binding the AER or the TNSP to existing regulatory arrangements beyond the current regulatory period in a context where changed Rules are likely to be in force following the AEMC's Chapter 6 Review.

## **5.7 Summary of differences between the proposed Rule and the draft Rule**

There are two changes that the AEMC is making to the proposal.

- Conditional expiry date replaced with specified date of 30 June 2009.
- Definition of "efficient capital costs" has been inserted.

## **6 Commission's consideration and reasoning in relation to the Rule Making Test**

The Rule making test is set out in detail in section 3 of this Determination and requires the Commission to be satisfied that a Rule that it proposes to make will contribute to the achievement of the NEM objective. The NEM objective is concerned with promoting the efficiency of the NEM in an economic sense for the long term interests of consumers of electricity.

### **6.1 Assessment against Rule making test**

The Commission expects this derogation will reduce regulatory uncertainty which could discourage efficient investment in contingent projects. It considers that this would improve the efficiency and reliability of the transmission system compared to the situation in the absence of the derogation. The reasons for this are set below.

- Under the contingent project provisions in TransGrid's current revenue cap, the timing of the expenditure and revenue recovery cash flows would be mismatched because cost recovery for approved investment does not occur until the regulatory period after the investment was undertaken. This derogation will allow a better alignment of TransGrid's contingent project investment cash flows thereby facilitating the more timely recovery of those costs reducing uncertainty regarding that outcome and thereby promoting efficient investment in those projects.
- The regulatory risk faced by TransGrid will be reduced because the derogation will give the TNSP a higher degree of certainty with respect to the recovery of the costs associated with efficient investment in approved contingent projects.

The derogation would not provide a means for TransGrid to undertake unnecessary or inefficient investments in contingent projects (which would then be rolled into the RAB) because the AER will still retain the responsibility for approval and efficiency assessments of contingent projects in accordance with the NEM objective. Furthermore, the ACCC has recognised in its SRP, as has the AER in its submission to the AEMC, that a Rule change such as this would be beneficial. The requirements of the Rule change and the improved level of certainty of revenue recovery for TransGrid should also ensure that when triggers are met, TransGrid will present well specified and supported projects to the AER for approval under the process set out in Appendix F of TransGrid's revenue determination.

The Commission also considers that this Rule change has the potential to reduce the likelihood of sub-optimal investment choices occurring due to the truncation of the set of feasible projects available to resolve a network issue. For example, the disincentives inherent in the current determination to contingent project investment may have caused TransGrid to defer presenting the project to the AER for approval thereby allowing another party to resolve the network issue in another manner that may be less efficient. Ensuring that the full set of feasible investment options is available to address network reliability or congestion requirements would increase the likelihood of selecting the best option for the efficient operation of the NEM.

Encouraging efficient and timely investment in the transmission system produces benefits for both upstream and downstream users and is therefore likely to contribute to the achievement

of the NEM objective. The overall benefits to the NEM may include any or all of the outcomes set out in the NEM objective.