Submission

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Subject Submission to Financeability of ISP Projects

Infigen Energy (Infigen) welcomes the opportunity to make a submission. Infigen delivers reliable energy to customers through a portfolio of wind capacity across New South Wales, South Australia, Victoria and Western Australia, including both vertical integrated assets and PPAs. Infigen also owns and operates a portfolio of firming capacity, including a 123 MW open cycle gas turbine in NSW, a 25 MW / 52 MWh battery in SA, and has recently taken ownership of 120 MW of dual fuel peaking capacity in SA. Our development pipeline has projects at differing stages of development covering wind, solar and batteries and we are also exploring further opportunities to purchase energy through capital light PPAs. This broad portfolio of assets has allowed us to retail electricity to over 400 metered sites to some of Australia's most iconic large energy users.

TransGrid has proposed two changes to the economic regulatory framework applicable to all of its ISP projects:

- Remove indexation of the regulatory asset base (RAB). This would have the effect of moving from a real to nominal rate of return model.
- Allow depreciation to apply "as incurred" as compared to "as commissioned".

TransGrid notes that without these changes, there is a "serious risk that ISP projects may not be delivered, or are not delivered in a timely manner". Developing new transmission, particularly Project Energy Connect, is critical for delivering a secure, reliable, and affordable power system.

Infigen is therefore supportive of changes to cost recovery for TNSPs where they remove barriers to investment, while not exposing consumers to unnecessary cost or risk. In particular, if the assumptions of the AER's benchmark firm cannot be realized due to real-world financing constraints, this may be problematic for the facilitation of new investment.

Indexation

The recent review by Sapare states, "Investors in specific, long-lived, assets necessary to supply network services would expect to maintain the real value of their investment". However, we would argue that investors are ultimately focused on a return on capital commensurate with an appropriate level of risk. There are many financing structures that enable the same capital investment but which may be more preferable – with lower risk to investors, a lower cost of capital, and ultimately lower costs to consumers.

Investment decisions based on nominal equity returns are common, and well understood by investors. Conversely, credit rating metrics (including debt-service cover ratios and similar metrics) represent material constraints on financing.

TransGrid and Electranet have identified that lower cash flows in the early years will impact on the ability of the TNSP to obtain low-cost debt. While higher financing costs would not necessarily immediately flow through to consumers, it is unlikely to be in consumers' long-term interest.

While short-term costs to consumers will increase slightly, this will be offset by longer-term gains. Furthermore, it is credible that under current low interest rates, residential consumers in particular may preference a lower discount rate than TransGrid and hence deliver a lower NPV of costs for consumers.

Infigen therefore supports the proposed rule change for a non-indexed RAB and nominal rate of return.

Depreciation of capital expenditure

While TransGrid notes, "many hundreds of millions of dollars is invested before any revenue for depreciation is received", this is not unique to transmission. All capital-intensive projects face high upfront costs that must be borrowed until project commencement, with the costs of that money factored into the project's returns. It would be highly unusual for consumers to pay for an asset before it exists and is utilised.

While this is, again, a question of financing (assuming the same NPV), construction risks are typically higher, and there will be no compensatory benefits to consumers over the same period – resulting in a greater step change in costs to consumers in the near-term.

Infigen is therefore less supportive of this proposed change.

Other issues

It is not clear to Infigen why the proposed changes should be specific to ISP projects. Presumably, the same financing issues would apply to future large transmission developments even if not proposed in the ISP. Applying a nominal RAB to all new expenditure will reduce the risks of TNSPs "picking and choosing" structures that benefit the TNSP at a cost to consumers. Infigen therefore recommends that any changes apply to all new investment.

Finally, it is unfortunate that, yet again, despite the ISP having identified the potential need for major upgrades for several years, these issues have only *now* been identified when the clock is running on delivering critical infrastructure investment. Both AEMO and TNSPs need to be more proactive in identifying issues in sufficient time for a measured response that does not rely on urgent rule changes (e.g., Mandatory Primary Frequency Control) or risk disrupting essential investment.

Conclusion

We look forward to the opportunity to continue to engage with the AEMC. If you would like to discuss this submission, please contact Dr Joel Gilmore (Regulator Affairs Manager) on joel.gilmore@infigenenergy.com or 0411 267 044.

Yours sincerely

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