

# Draft decision

## Transgrid Waratah Super Battery

(non-contestable)

(1 July 2024 to 30 June 2029)

Made under the Electricity Infrastructure  
Investment Act 2020 (NSW)

## Appendix C Adjustment mechanisms

September 2023



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## Note

This appendix forms part of the AER's draft decision on Transgrid's 2024–29 non-contestable determination for the Waratah Super Battery (WSB) project. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

- **Draft decision** (main document)
- Appendix A – Assessment approaches
- Appendix B – Quarterly service payments
- Appendix C – Adjustment mechanisms
- Confidential Appendix D – Rate of return averaging periods

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## C. Adjustment mechanisms

The following table sets out adjustment events/mechanisms that may result in adjustment to the amount payable to Transgrid in relation to the non-contestable (network augmentation and SIPS control system) components of the WSB project.

Adjustment event	Description of adjustment
1. Regulatory Requirements as defined in s.46(3) of the EII Regulation	An increase or decrease in the revenue Transgrid may recover to accommodate additional prudent, efficient, and reasonable costs Transgrid incurs in complying with a regulatory requirement, as defined in s. 46(3) of the EII Regulation.
2. A service standard event	An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from a service standard event, as defined in NER Chapter 10, Service Standard Event.
3. A tax change event	An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from a tax change event, as defined in NER Chapter 10, Tax Change Event.
4. An insurance event	An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from an insurance event, as defined in NER Chapter 10, Insurance Event.
5. An inertia shortfall event	An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from an inertia shortfall event, as defined in NER Chapter 10, Inertia Shortfall Event.
6. A fault level shortfall event	An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from a fault level shortfall event, as defined in NER Chapter 11, Fault Level Shortfall Event.
7. Insurance Coverage Event	<p>An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs following an insurance coverage event:</p> <p>An insurance coverage event occurs if:</p> <ol style="list-style-type: none"> <li>1. Transgrid: <ol style="list-style-type: none"> <li>(a) Makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies, or</li> <li>(b) Would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances, and</li> </ol> </li> <li>2. Transgrid incurs costs: <ol style="list-style-type: none"> <li>(a) Beyond a relevant policy limit for that policy or set of insurance policies, or</li> <li>(b) That are unrecoverable under that policy or set of insurance policies due to changed circumstances, and</li> </ol> </li> <li>3. The costs referred to in paragraph 2 above materially increase the costs to Transgrid in providing NSW non-contestable services.</li> </ol> <p>For the purpose of this insurance coverage event:</p> <p><i>'changed circumstances'</i> means movements in the relevant insurance market, including liability insurance that are beyond the control of Transgrid, where those movements mean that it is no longer possible for Transgrid to take out an insurance policy or set of insurance policies at all or on reasonable</p>

	<p>commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies.</p> <p>'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:</p> <ul style="list-style-type: none"> <li>(i) The limit not been exhausted, or</li> <li>(ii) Those costs not been unrecoverable due to changed circumstances.</li> </ul> <p>A relevant insurance policy or set of insurance policies is an insurance policy or set of policies held during the regulatory control period or a previous regulatory control period in which Transgrid was regulated.</p> <p>Note: for the avoidance of doubt, in assessing an insurance coverage event pass through application under clause 6A.7.3(j) of EII Chapter 6A, the AER will have regard to:</p> <ul style="list-style-type: none"> <li>(i) The relevant insurance policy or set of insurance policies for the event,</li> <li>(ii) The level of insurance that an efficient and prudent Network Operator would obtain, or would have sought to obtain, in respect of the event,</li> <li>(iii) Any information provided by Transgrid to the AER about Transgrid's actions and processes, and</li> </ul> <p>Any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.</p>
<p><b>8. Insurer's credit risk event</b></p>	<p>An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs following an insurer's credit risk event:</p> <p>An insurer's credit risk event occurs if an insurer of Transgrid becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Transgrid:</p> <ul style="list-style-type: none"> <li>(a) Is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy, or</li> <li>(b) Incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.</li> <li>(c)</li> </ul> <p>Note: in assessing an insurer credit risk event pass through application, the AER will have regard to, among other things:</p> <ul style="list-style-type: none"> <li>(i) Transgrid's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation, and</li> <li>(ii) In the event that a claim would have been covered by the insolvent insurer's policy, whether Transgrid had a reasonable opportunity to insure the risk with a different provider.</li> </ul>
<p><b>9. Natural disaster event</b></p>	<p>An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs following a natural disaster event:</p> <p>Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood, or earthquake that occurs during the 2024-29 regulatory control period that changes the costs to Transgrid in providing EII services, provided the cyclone, fire, flood, earthquake or other event was:</p>

	<p>(a) A consequence of an act or omission that was necessary for the Network Operator to comply with a regulatory obligation or requirement or with an applicable regulatory instrument, or</p> <p>(b) Not a consequence of any act or omission of the Network Operator.</p>
<b>10. Terrorism event</b>	<p>An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs following a terrorism event: Terrorism event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:</p> <p>(a) From its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear);</p> <p>(b) And changes the costs to Transgrid in providing NSW non-contestable services.</p> <p>Note: in assessing a terrorism event pass through application the AER will have regard to, among other things:</p> <p>(i) Whether Transgrid has insurance against the event,</p> <p>(ii) The level of insurance that an efficient and prudent Network Operator would obtain in respect of the event, and</p> <p>(iii) Whether a declaration has been made by a relevant government authority that a terrorism event has occurred.</p>
<b>11. Annual Updates to revenue for actual inflation</b>	<p>An annual update to revenue for the actual rate of inflation.</p> <p>The actual inflation is the percentage change in the Australian Bureau of Statistics' (ABS) Consumer Price Index (CPI), All Groups, Weighted Average of Eight Capital Cities, from December in year t-1 to December in year t-2.</p>
<b>12. Return on debt update to the allowed rate of return</b>	<p>Return on debt update to the allowed rate of return.</p> <p>Updated rate of return is the applicable rate of return calculated for year t, updated for the return on debt calculated for year t, in accordance with the 2022 RORI and using the averaging periods approved by the AER.</p>
<b>13. Additional contractual payments to EnergyCo</b>	<p>An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from additional contractual payments to EnergyCo.</p> <p>Any payments Transgrid is obligated to pay to the Infrastructure Planner (EnergyCo) in year t, by jurisdictional legislation or contractual arrangements, where the obligation is imposed on Transgrid after the revenue proposal is submitted and is not already included in the contractual arrangements or building block calculations of this revenue proposal.</p> <p>This excludes payments Transgrid can avoid or mitigate, and is not in the form of a penalty, fine or compensation for a breach of a requirement imposed on Transgrid by a relevant law.</p>
<b>14. Paired Generation Costs</b>	<p>An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from paired generation event.</p> <p>The Paired Generation mechanism provides for the prudent, efficient, and reasonable cost impact to Transgrid of the following trigger events (a paired generation event):</p> <ol style="list-style-type: none"> <li>1. A further procurement process for Paired Generation Services is completed, or</li> <li>2. The Infrastructure Planner selects a new generator to provide Paired Generation Services.</li> </ol> <p>The adjustment is to include Transgrid's prudent, efficient, and reasonable costs associated with:</p>

	<p>a). Participating in the tender administration process (if the trigger event is the completion of a further procurement process),</p> <p>b). The contract administration process, and</p> <p>c). The connection of additional generators to the System Integrity Protect Scheme.</p>
15. Unavoidable Contract Variations	<p>An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from an unavoidable contract variation.</p> <p>The unavoidable contract variation adjustment mechanism is the change in prudent, efficient, and reasonable design and construction costs to Transgrid from the following trigger events:</p> <p>i) a change in the final design occurs and the cost implications are known, or</p> <p>ii) a change in the civil works costs are higher (or lower) than the forecast amount accepted by the AER in relation to the revenue determination, up to a maximum cumulative adjustment of \$30 million (real, 2023) over the regulatory period.</p>
16. Contractor Force Majeure	<p>An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from a contractor force majeure event.</p> <p>The Contractor Force Majeure adjustment mechanism accounts for efficient, prudent, and reasonable additional construction costs incurred by Transgrid:</p> <p>(i) during the construction phase,</p> <p>(ii) as a result of an unforeseen force majeure event impacting the contractor,</p> <p>(iii) where the costs are not covered by an existing insurance policy or adjustment mechanism, and</p> <p>(iv) Transgrid have informed EnergyCo of the Force Majeure event consistent with the requirements of the Network Operator Deed,</p> <p>(v) and the Force Majeure event is declared in accordance with the terms of the construction contract.</p>

### Application of adjustments to revenue determination

All adjustments are implemented in the same manner, namely they are implemented on an annual basis:

- Each year, Transgrid submits an updated PTRM to the AER by 31 March, incorporating any adjustments for events occurring in the prior year.
- The AER reviews and advises Transgrid of whether it accepts the adjustments and the updated PTRM by 31 May.
- Transgrid updates the quarterly schedule of payments in line with the updated PTRM approved by the AER and provides it to the SFV by 30 June 2023.
- The SFV updates payment amounts in line with the approved updated schedule or payments. This is reflected in the first quarterly payment in September.

### Formulaic description of adjustment

The quarterly schedule of payments is adjusted in line with the following formula:

$$\sum_{n=1}^4 NPV(QP_n) = NPV(AR_t(Adjusted)) + NAA_t + PTC_t$$



Where:

$NPV(QP_n)$  = the net present value of each quarterly payment in the year t, calculated by applying the updated rate of return expressed as a quarterly compounding discount rate.

$AR_t(Adjusted)$  = the annual revenue requirement for year t, calculated using the PTRM, adjusted for actual inflation, updated rate of return, and additional contractual payments to EnergyCo.

$NAA_t$  = the approved adjustment mechanisms for other events in year t, which may be positive or negative, calculated in accordance with the associated trigger events.

$PTC_t$  = the approved nominated adjustment mechanisms in year t, which may be a positive or negative amount, determined in accordance with the associated trigger events.

All adjustment proposals received are subject to an assessment by the AER.