

## **AER DRAFT DECISION (NON-CONTESTABLE) – TRANSGRID – WARATAH SUPER BATTERY 2024–29**

### **24 NOVEMBER 2023**

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to make a submission under the Draft Decision (non-contestable) – Transgrid - Waratah Super Battery 2024-29.

The EUAA supports the Waratah Super Battery project and its designation as a priority transmission infrastructure project by the NSW Government.

The EUAA understands that the Waratah Super Battery project has been designated as a priority transmission infrastructure project under the *Electricity Infrastructure Investment Act (NSW) 2020* by the NSW Government. From this perspective, the EUAA recognizes that the project will proceed and be subject to the Transmission Efficiency Test specific to NSW, which has similar (but potentially less robust) economic requirements to the regular Regulatory Investment Test – Transmission.

The EUAA strongly supports all of AER's draft decisions for the Waratah Super Battery 2024-29.

The EUAA does not support Transgrid's Revised Revenue Proposal to remove the Capital Expenditure Sharing Scheme (CESS) and accelerated depreciation of the asset. The EUAA has arrived at this position by reason of:

- CESS
  - Transgrid's Revised Revenue Proposal argues that the application of the CESS introduces an asymmetric risk for Transgrid due to the higher likelihood of overspend. However, we understand that the Network Operator Deed between Transgrid and EnergyCo transfers this risk to EnergyCo, which in turn passes these costs onto NSW consumers in any case.
  - Transgrid's Revised Revenue Proposal also argues that no CESS is better for consumers, however the EUAA understands that this is only true in the highly unlikely event of an underspend.
  - Transgrid argues that equity injection from its investors is questionable with the CESS in place. The EUAA counters that Transgrid appears to have one of the highest debt to equity ratios of the NEM's network service providers, and well above the recommended 60:40 debt to equity ratio. As willing investors in the transition of our energy system, equity participants are acknowledging the challenges, risks and rewards of doing so. We have to assume that they were also very aware of the regulatory environment they were investing in and as such, risks such as these would have been contemplated as part of their decision to participate (or continue to participate).

- Notwithstanding the existence of the Network Operator Deed, the EUAA strongly supports the inclusion of CESS in revenue determinations of this nature as an important tool to mitigate project overspend.
- Financeability:
  - The EUAA has been vocal in its opposition to accelerated depreciation of new electricity network assets.
  - Accelerated depreciation unfairly transfers costs (and risk) to consumers before the realisation of the consumer benefits (i.e. future reduced costs) are realised.
  - The EUAA rejects energy networks shifting risk to consumers when their businesses have been established to bear those risks. We also assume that through the process of due diligence that equity investors fully understood the risks, costs and benefits of investing (or continuing to be an investor) in the transition of the Australian energy system.

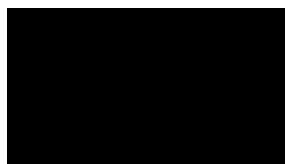
The EUAA also does not accept Transgrid's proposal to have an uncapped revenue adjustment mechanism related to "unavoidable contract variations" and supports the AER's draft determination to cap this revenue adjustment mechanism to \$30 million.

The EUAA believes that there are alternative solutions that Transgrid, and potentially governments, have not thoroughly explored that would assist in managing the alleged risk asymmetry and financeability issues.

The EUAA is disappointed with Transgrid's lack of transparency on some issues surrounding the Waratah Super Battery Project, including the transferring of risks through EnergyCo to NSW consumers, which removes incentives for Transgrid to minimise overspend and places overrun costs onto NSW energy users. We appreciate this arrangement may have been confidential but to continue its pursuit of CESS removal when they had every reason to assume their risks would be mitigated has had a negative impact on trust between Transgrid and some of its stakeholders.

The EUAA is a member of the Transgrid Advisory Council where we have voiced these concerns regarding Transgrid's proposals to remove CESS and accelerate depreciation on its Integrated System Plan (ISP) projects, including the Waratah Super Battery project. We remain committed to working with Transgrid to find equitable solutions to the issues that confront all of us as we move towards a net zero energy system.

Do not hesitate to be in contact should you have any questions.



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