

Transmission efficiency test and revenue determination draft guideline: non-contestable network infrastructure projects

AER NSW REZ Branch, Stakeholder forum

13 December 2022

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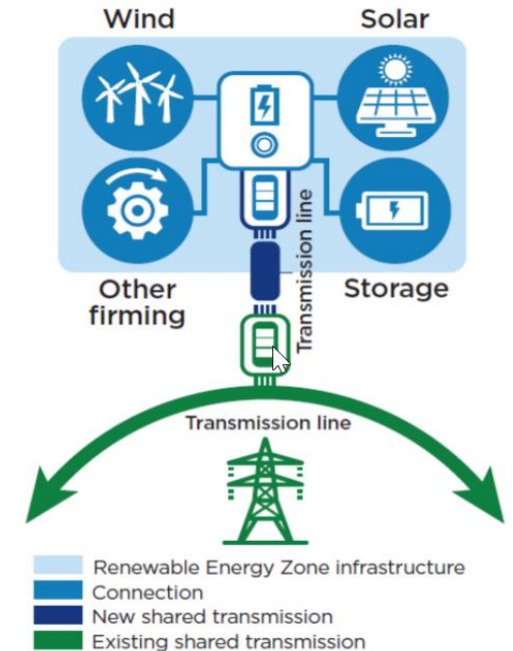
3 Contestable vs. non-contestable

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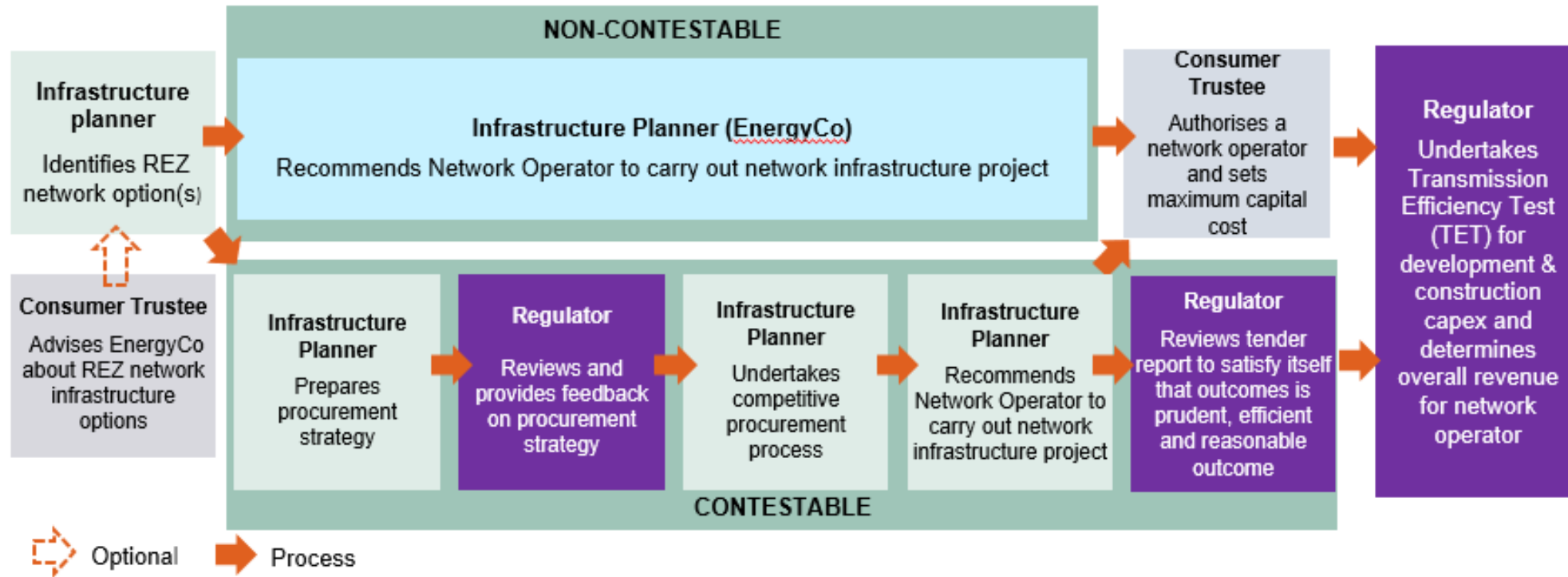
5 Non-contestable framework: What's in and what's out?

NSW REZ – what is it?

- The NSW Roadmap is:
 - the NSW Government’s plan to transform its electricity system into one that is cheap, clean and reliable.
 - enabled by the [Electricity Infrastructure Investment Act 2020](#) (EII Act).
 - designed to coordinate investment in transmission, generation, storage and firming infrastructure as ageing coal-fired generation plants retire.
- The Roadmap reforms establish a bespoke NSW network development regime.
 - The infrastructure planner identifies network options and recommends a project to deliver REZ requirements. (No RIT-T is applied).
 - The Minister may direct a network infrastructure project, or
 - The Consumer Trustee may authorize the recommended project and set a maximum capital cost, which the efficient construction and development capital costs cannot exceed.
 - The regulator determines the prudent, efficient and reasonable costs for the project.
- The NSW Roadmap is a jurisdictional scheme:
 - Network Operators are paid by the Scheme Financial Vehicle from amounts collected through a jurisdictional scheme obligation.



Regulatory framework: contestable vs. non-contestable



Policy context behind non-contestable framework

- Consistent with the EII Regulation, in developing this Guideline we have sought to:
 - maintain consistency with NER Chapter 6A, NER guidelines, incentive schemes and models to the extent appropriate.
 - enable the EII Act framework to adapt as rule changes to the national framework are made by the AEMC or changes to the applicable NER guidelines, incentive schemes or models are made by us.
 - ensure we have a clear basis to apply an approach that is consistent with the equivalent NER Chapter 6A rules when making or administering revenue determinations under the EII Act.
 - support continuous improvement by maintaining flexibility for us to adjust aspects of the framework over time in response to market developments and as we, the Infrastructure Planner, Consumer Trustee and Network Operators gain more operational experience implementing the EII Act framework.
 - substantially replicate Chapter 6A of the NER to provide clarity and certainty for Network Operators and investors in network infrastructure projects.

Non-contestable framework: What's in?

Our Guideline must deal with:

- a. The building block approach
- b. The regulatory asset base
- c. Return on capital
- d. Depreciation
- e. The estimated cost of corporate income tax
- f. Forecast operating expenditure (opex)
- g. Forecast capital expenditure (capex)
- h. Reopening of a revenue determination for capex
- i. Network support pass through
- j. Cost pass through.

Non-contestable framework: What's out?

Matters that must not form part of the non-contestable regulatory framework:

- a. Pricing – Roadmap costs are recovered through the annual contribution determination.
- b. Benchmarking reports – benchmarking forms part of our assessment tools however we must not conduct benchmarking analysis or develop benchmarking reports of network infrastructure projects authorised or directed under the EII Act.
- c. Ring-fencing arrangements – form part of the non-contestable regulatory framework but under the EII Regulation are to be contained in separate guidelines.
- d. Shared assets – newly constructed single piece of infrastructure.
- e. The X-factor – contribution determination includes a smoothing mechanism, removing the need for an X-factor.
- f. Small-scale incentive schemes – The AER does not have this incentive scheme.
- g. Demand management innovation allowance mechanism – does not form part of the authorisation or direction to develop and construct a network infrastructure project.
- h. Contingent projects – as above.
- i. Transmission consultation procedures – consultation timing and processes are at the discretion of the AER to fit with the constrained timelines for non-contestable revenue determinations. AER will endeavour to maximise consultation opportunities.
- j. Removal of assets from the regulatory asset base – excluded as no optimisation of assets.

Key changes from the National Electricity Rules

- Transmission efficiency test (TET)
- Depreciation
- **126 business days** to make revenue determination
- Key terminology
- Information notice rather than a RIN
- Transferring REZ infrastructure to the NER

Submissions and related matters

- Submissions on draft guideline to REZ@aer.gov.au by COB on **13 January 2023**.
- Waratah Super Battery non-contestable revenue proposal
 - Due from Transgrid by 31 March 2023.
- Related EII guidelines – s. 42 of the EII Regulation
 - Confidentiality guideline
 - Set standards about the legal and functional separation and monitor compliance with those standards
 - Cost allocation between regulated activities and other activities
 - This suite of guidelines completed by Q2 2023.