

# **Transgrid 2024-29 Revenue Proposal Waratah Super Battery (non-contestable elements)**

**Jim Cox, AER Board member & Deputy Chair  
NSW REZ Branch  
Public Forum - Tuesday 18 July 2023**

## **Acknowledgement of Country**

We wish to acknowledge the Traditional Custodians of the land we are meeting on today.

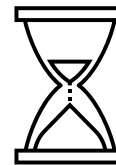
We pay our respects to them and their cultures and to their Elders past, present and emerging. We acknowledge their continuing connection to the land, sea and community.

We would also like to acknowledge and welcome any Aboriginal and Torres Strait Islander people who are attending today's event.



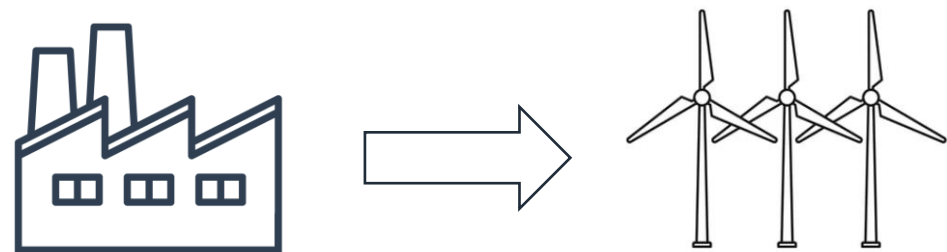
# Agenda

- **Context**
  - The NSW Roadmap
  - Role of the AER
  - Waratah Super Battery Project
- **The Revenue Proposal**
  - Overview
  - Elements for stakeholder consideration
  - Total expenditure & revenue
  - Financeability proposal
  - Proposed Adjustment Mechanisms
  - Proposed Incentive Schemes
- **Next Steps**
- **Have your say**
- **Transgrid Presentation**
- **Consumer Challenge Panel Discussion**
- **Questions**



# NSW Electricity Infrastructure Roadmap

- The Roadmap is a plan to transition the energy network in NSW away from a reliance on fossil fuels for energy generation to renewable sources.
- *Electricity Infrastructure Investment Act 2020 (NSW)* (the EII Act) was passed to enable the Roadmap.
- The EII Act facilitates the appointment of Network Operators to deliver infrastructure projects.
  - Network Operators are either selected from a competitive assessment process (a contestable process)
  - Or they are specifically directed (a non-contestable process)
- Once a Network Operator is selected, Network Operators do not have discretion on what they must deliver (ie, the project), or when.



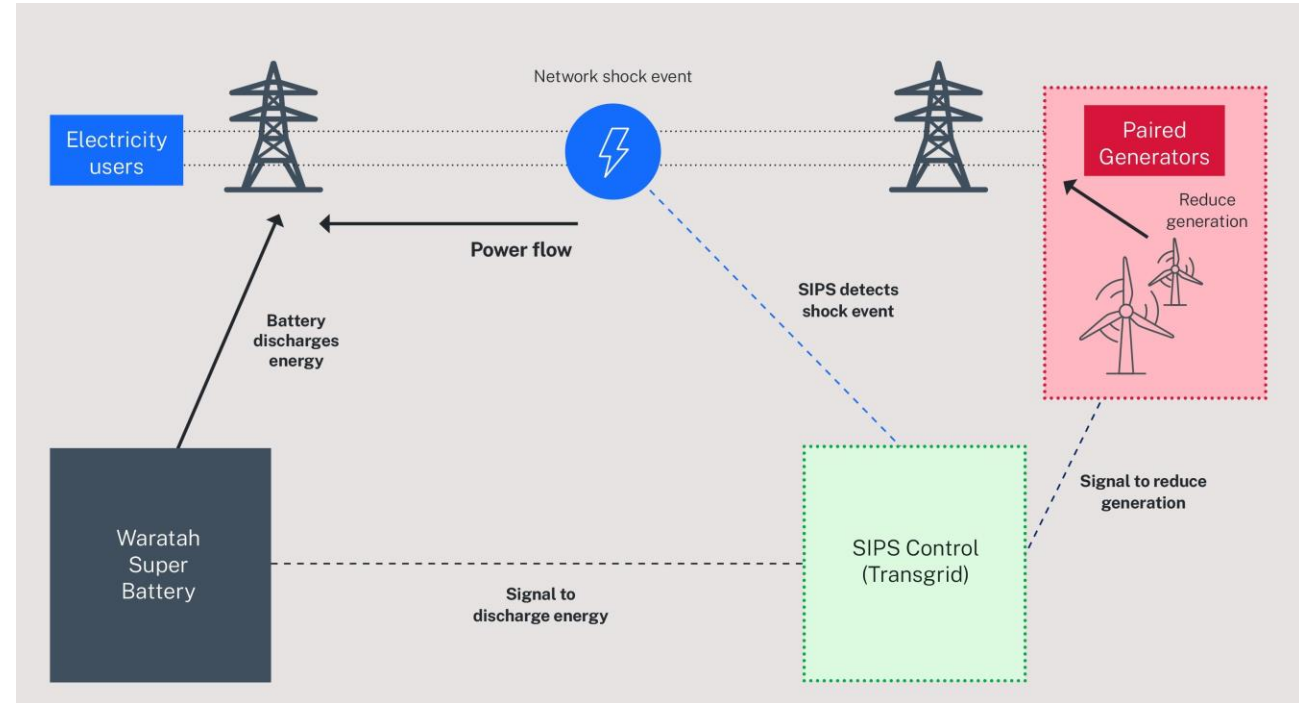
# Role of the AER

- The AER exists to ensure energy consumers are better off, now and in the future. We are the regulator for electricity networks in every state and territory in Australia (except WA) – we have the same purpose as always.
- The NSW Government Appointed us to the role of regulator under the EII Act.
- **Differences** in our role and how we perform our functions under the EII framework compared to the NER:
  - Revenue Determinations are on project basis (EII) vs portfolio basis – many projects (NER)
  - The standard timeframe for a revenue determination is 6 months – for non-contestable projects (EII) vs 15 months under the NER
  - We assess the prudence of how the project is delivered (EII) vs the prudence of the project (NER)
- Our process is evolving to accommodate the shorter time frames, and won't necessarily align with the normal processes we use under the NER.
  - We aren't publishing an issues paper
  - Our process for making revenue determinations largely mirrors the NER Chapter 6A (with modifications)



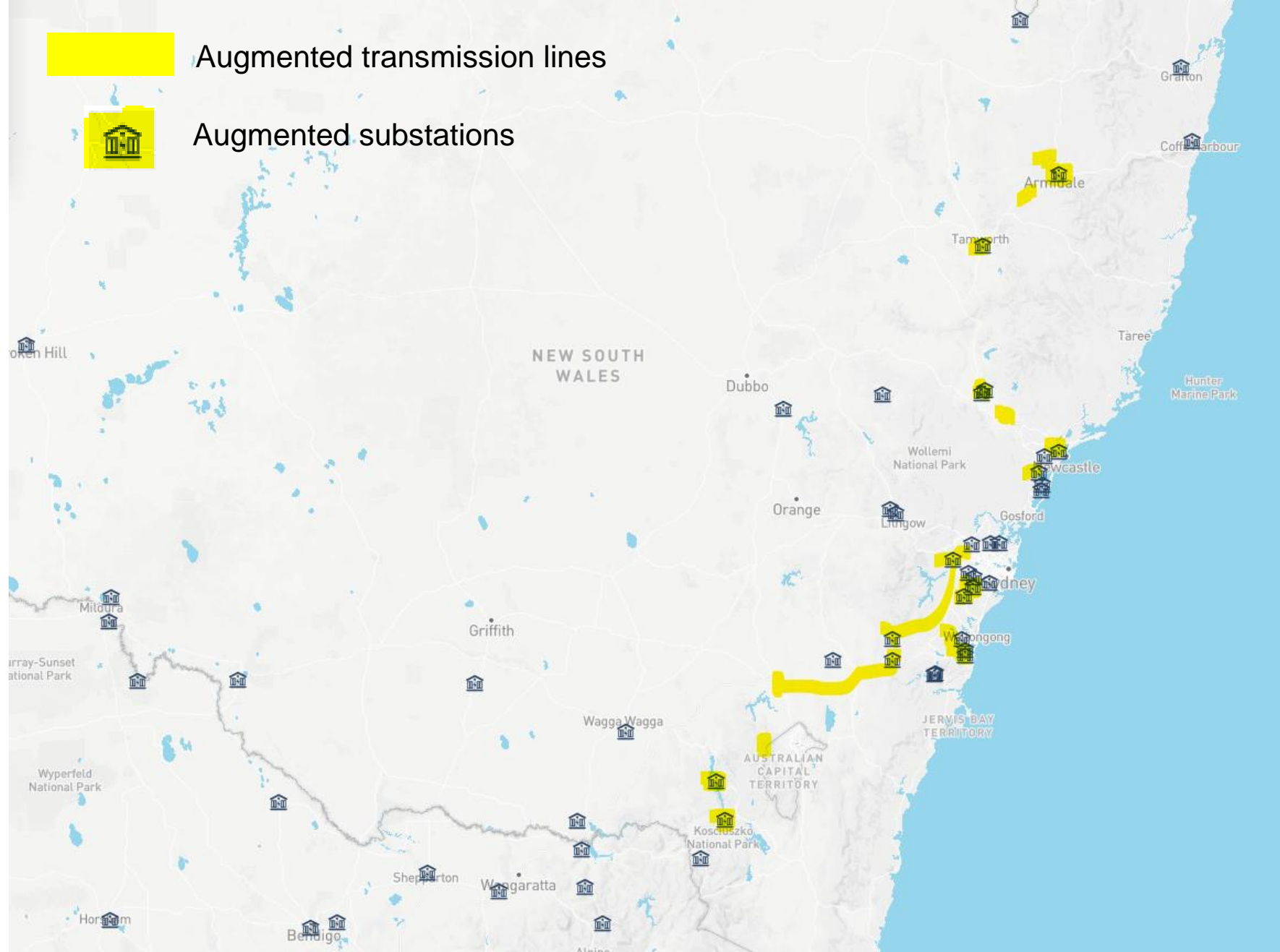
# Waratah Super Battery Project

- The project addresses the shortfall in power generation caused by the early closure of the Eraring power station.
- It consists of 4 components:
  - Battery Service
  - Paired Generation Services
  - System Integrity Protection Scheme (SIPS) control service
  - Network Augmentations.
- The first three components address the risks associated with the higher transfer capacity.
- The Network Augmentations allow the higher transfer capacity.



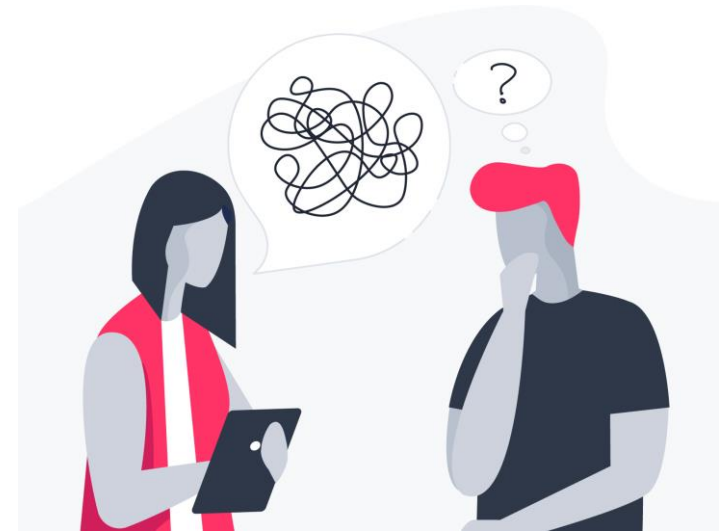
# Revenue Proposal: Overview

- Network Augmentations to transmission lines:
  - Bannaby to Sydney West
  - Yass to Marulan
- Upgrades to 22 substations
- Implementation of SIPS control system
- Contract obligations for Network Operator Role



# Elements for comment and feedback

- We don't have set positions on elements of the proposal yet, but we are aware of areas that will attract more analysis and assessment efforts than others and feedback would be helpful.
  - The proposed approach to depreciation, which is driven by a financeability assessment
  - The proposed adjustment mechanisms
  - The proposed approach to the incentive schemes
  - Transgrid's stakeholder engagement
- Submissions close 25 July 2023.
- May address the above features or any others.





# Total Revenue & Expenditure

- The revenue proposal for the non-contestable elements of the Waratah Super Battery project covers the period 2024-29.
- Includes pre-period costs necessary to deliver the project on time.

Building Block (\$m, 2023-24)	Value
Return on Capital	67.5
Return of capital	29.3
Operating expenditure	24.9
Revenue Adjustments	3.4
Corporate Income Tax	1.6
<b>Total</b>	<b>126.8</b>

Expenditure summary (\$m, 2023-24)	Pre-Period Costs	Forecast period - 2024-29	TOTAL
<b>Opex forecasts</b>	3.1	24.9	28.1
<b>Capex forecasts</b>	106.5	148.2	254.7
<b>Total expenditure forecast</b>	109.6	173.2	282.7

# Financeability

- ‘Financeability’ – ability to meet financing requirements and efficiently raise new capital.
- The EII Framework requires AER to consider modifying depreciation schedules for financeability.
  - Key assessment criteria: “reasonably necessary to ensure Network Operator can efficiently finance projects”
    - a. How do we assess if the project is financeable?
    - b. If there is a financeability problem, what adjustments should be made in response?
- Transgrid proposes a ‘financeability test’ to assess financing concerns with a project
  - Assesses 3 financial metrics (FFO/net debt, FFO ICR, gearing) for the WSB project.
  - For each year, identifies if there is a financeability issue and if so, calculates the additional cashflow required
- Transgrid has proposed financeability adjustments to its depreciation schedule by
  - depreciating capex on an ‘as incurred’ basis instead of ‘as commissioned’
  - assigning capex to a ‘financeability’ asset class with shortened asset life and custom depreciation profile (reflecting cashflow calculated by the ‘financeability test’ mechanism).
- Key questions:
  - WSB only cashflows vs Total Transgrid cashflow (including WSB)?
  - ‘Financeability test’ focuses on a limited number of financial metrics, what else do ratings agencies consider?

# Adjustment mechanisms

- Adjustment Mechanisms are options for a Network Operator to request to adjust the revenue they are allowed to collect from consumers within a regulatory period. Adjustments can be up or down.
- They tend to arise from events outside a Network Operators control and are usually subject to a materiality threshold (of a certain size).
- Transgrid have proposed:
  - 6 prescribed pass throughs (given to all NOs)
  - 4 nominated pass throughs (given in 23-28 determination)
  - 6 adjustment mechanisms (NEW)



# Incentive Schemes

- Only two of the AER's incentive schemes are in scope for application:
  - Efficiency Benefit Sharing Scheme (EBSS)
  - Capital Expenditure Sharing Scheme (CESS)
- The AER's preference is that incentives schemes always apply, except in exceptional circumstances.
- For large transmission projects we have discretion to not apply them or apply them with different sharing ratios.
- We take into consideration:
  - The incentive scheme proposal
  - The benefits to consumers & feedback
  - The size of the project
  - The degree of risk (forecasting and uncertainty)
  - Actions the Network Operator has taken

## AER Next Steps

Milestone	Indicative Dates
Revenue Proposal Received	30 June 2023
Public consultation period opens	7 July 2023
Public Forum	18 July 2023
Public consultation period ends	25 July 2023
AER publishes draft revenue determination	29 September 2023
AER holds a public forum	16 October 2023
Transgrid submits revised revenue proposal	9 November 2023
Submission on revised revenue proposal and draft determination close	24 November 2023
AER publishes final determination	22 December 2023

# How you can get involved

- Write a submission to the AER
  - Stakeholder submissions are open until COB 25 July 2023
  - Submit to [REZ@aer.gov.au](mailto:REZ@aer.gov.au)
- Subscribe to the AER's website for updates:
  - <https://www.aer.gov.au/newsletter/subscribe>
- Contact the AER:
  - [REZ@aer.gov.au](mailto:REZ@aer.gov.au)