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Kami Kaur
General Manager NSW REZ
Australian Energy Regulator
GPO Box 3131
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Dear Ms Kaur,

Ausgrid welcomes the opportunity to comment on the Australian Energy Regulator's (**AER**) Draft guidance note – Amendments to NER PTRM for EII determinations (**Draft guidance**).

Ausgrid generally supports the overall approach to use an existing PTRM and allow the network operator to make additions and amendments as necessary to meet the requirements of the Electricity Infrastructure Investment Act 2020 (NSW). This strikes a reasonable balance between using a model and methodology that is familiar to the market, and allowing flexibility to manage the revenue submission in a way that is appropriate to each business.

However, we note that use of the transmission model means capex is recognised on an as-incurred basis for return on asset and as-commissioned basis for depreciation. A nil opening RAB combined with the RAB indexation decrement on regulatory depreciation, means the regulatory depreciation building block will be negative until the asset is commissioned. This reduces revenues such that credit metrics for appropriately rated debt cannot be achieved.

The financeability of transmission projects has been and continues to be the subject of several reviews. We note that cl 6A.6.3(d) of EII Chapter 6A allows the AER to modify depreciation schedules to ensure that network operators are capable of efficiently obtaining finance to carry out the project. In its submission to the Draft NSW Transmission Efficiency Test and Revenue Determination Guideline, the ENA (supported by Ausgrid) reiterated that financeability is a key issue for funding the energy transition.

A rule change request by the Minister for Climate Change and Energy proposes that the AER should outline how depreciation should be applied to ensure financeability on actionable ISP projects under the NER; we note that AER expects to apply any changes resulting from that rule change to EII projects (if the rule is made). We look forward to engaging in that process, however our view is that the easiest starting point to help ensure financeability is for return of asset to be calculated on an as-incurred basis.

Regarding mechanics of the model, one component we suggest could be considered further is the removal of smoothing. The AER notes that labels and headings relating to revenue smoothing should be removed and that the smoothing mechanism should be disabled prior to submission. It also notes there are different ways to disable the smoothing, and that users

should be careful to not to disrupt the calculation of equity raising costs which features in the smoothing macro.

It seems that this is one aspect that could be standardised by the AER by making the adjustments and issuing an EII version of the PTRM. This would remove the risk of inadvertent error by businesses when making changes to the model. Further, as the changes need to be made for every submission, it would reduce the time to prepare the models for proponents and the time taken by the AER to review and ensure the model is functioning as intended.

If you have any questions about our submission, please contact Fiona McAnally [redacted].

Regards,

Alex McPherson
Head of Regulation