
Submission to the *Australian Energy Regulator*
Draft Decision – Transgrid Transmission
Determination 2023 to 2028 and Transgrid
Revised Revenue Proposal 2023-2028

Consumer Challenge Panel
Sub-panel 25

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The authors recognise the traditional owners of the lands on which Transgrid and the Australian Energy Regulator (AER) operate, as well as the lands on which this report has been prepared. We pay our respect to the elders of these nations, past and present, along with their emerging leaders.

We advise that to the best of our knowledge this submission does not disclose any confidential material.

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1 Overview

Despite the adjustments made to its engagement strategy, Transgrid's consumer engagement fell short of the expectations outlined in the *Better Resets Handbook*, current industry good practice, and the standards expected of a nationally significant Transmission Network Service Provider (**TNSP**).

The cascading effects of commencing its consumer engagement too late, and with insufficient breadth and depth, continued to adversely impact Transgrid's post-lodgement engagement. Transgrid's engagement program was also made more difficult because of:

- the quantum of matters it did not accept from the AER's Draft Decision,
- the complexity of new additional expenditure in its Revised Revenue Proposal, and
- the novel issues that were discussed very late in the process.

This submission focuses on Transgrid's customer engagement regarding its new additional expenditure. We raise concerns about the robustness of information provided to customer representatives and the quality of engagement that took place. Many important issues were unresolved at the end of the engagement process or deferred for further discussion. Consequently, the AER will need to make difficult and precedent-setting decisions without the benefit of a robust customer view on many matters raised in the Revised Revenue Proposal.

Finally, we recommend that the AER adjusts its practices to limit the types of new expenditure that can be introduced in a revised Regulatory Proposal.

2 Background

The Consumer Challenge Panel Sub-panel 25 (**CCP**) was appointed in November 2021 and previously provided written advice to AER in May 2022 on Transgrid's Initial Revenue Proposal. The focus of this submission is the effectiveness of Transgrid's engagement activities with their customers since submitting their initial Revenue Proposal, and how this engagement is reflected in the Revised Revenue Proposal submitted to the AER on 2 December 2022. In assessing the effectiveness of Transgrid's engagement activities, the CCP is guided by the AER's *Better Resets Handbook: Towards Consumer Centric Network Proposals* (**Better Resets Handbook**).

Transgrid's initial Revenue Proposal was criticised for aspects of its consumer engagement. In response, Transgrid implemented several changes to its engagement strategy including altering the membership of the Transgrid Advisory Committee (**TAC**) and engaging KPMG to support its engagement.¹² KPMG facilitated six Deep Dive Workshops between Transgrid and the TAC, and 5 additional meetings were held as part of Deep Dive 6 between 18 October and 14 November 2022. The CCP observed most of the engagement between Transgrid and the TAC.³ The TAC includes 18

¹ For more detail on improvements in the post-lodgement phase see KPMG, *Stakeholder Engagement Report*, Prepared for Transgrid, 29 November 2022 p15

² Transgrid, *2023-28 Revenue Proposal-Phase 2 (post-lodgement) Stakeholder Engagement Plan*, 25 July 2022 p3

³ KPMG, *Stakeholder Engagement Report*, Prepared for Transgrid, 29 November 2022 p49

people from 17 organisations. Transgrid also commissioned KPMG to undertake a survey of 1375 end consumers between 19-30 September 2022.

Several very significant shifts in the external macro- and micro-economic environment occurred since Transgrid's initial Revenue Proposal including sharp increases in interest rates, inflation and electricity prices. In addition, there have been several regulatory changes that have directly impacted Transgrid's Revised Revenue Proposal.

The AER's *Draft Decision Transgrid Transmission Determination 2023 to 2028 (Draft Decision)* was published on 30 September 2022.

Transgrid's Revised Revenue Proposal does not accept many aspects of the AER's Draft Decision, including in relation to the Forecast Repex, Forecast Non-network ICT capex, Contingent Projects and Cyber and Critical Infrastructure Security step change. The Revised Revenue Proposal delivers an operating cost (**opex**) forecast that is 14.3% higher than the AER's Draft Decision and a capital investment (**capex**) forecast on regulated projects of \$1.644B, 20% higher than that of the Draft Decision.

Transgrid's Revised Revenue Proposal includes the following new additional expenditure:

- System Security Roadmap (capex \$88.2M and opex \$47.6M)
- AEMO directions to install Phasor Measurement Unit installation and address a Network Support and Control Ancillary Services (NSCAS) shortfall in the Coleambally region (\$16.1M)
- A new customer connection request from Essential Energy (\$15.3M)
- Investments required by the recently completed RIT-T for North West Slopes area (Augex \$9.3M) and line 86 (Repex \$11.8M)⁴
- NSW Government Strategic Benefit payments to landholders (\$31M)⁵

In addition, Transgrid's Revised Revenue Proposal includes the following new provisions:

- A new "non-network option" cost pass through event to address the risks associated with procuring technically compliant and timely non-network solutions for the Bathurst Orange Parkes area project and the North West Slopes area project.⁶
- Four new contingent projects with a total indicative cost of **\$471.9M**
 - System Security Roadmap (\$107.8M)
 - North West Slopes stage 1 (\$132.8M)
 - North West Slopes stage 2 (\$132.8M)
 - Supply to Bathurst, Orange, and Parkes (\$107.8M)⁷

⁴ Network support costs paid to proponents of non-network solutions are recovered through opex costs, under pass through provisions in the Rules see Transgrid, *Revised Revenue Proposal*, 2 December 2022 p3

⁵ Transgrid, *Revised Revenue Proposal*, 2 December 2022 pp10, 96-97

⁶ *ibid* p152

⁷ *ibid* p164

3 Approach to Engagement

3.1 Engagement with the Transgrid Advisory Committee

The changes enacted to Transgrid's engagement strategy following the submission of its initial Revenue Proposal were readily apparent to the CCP. For example, we observed:

- Transgrid and the TAC co-designed the topics for the Deep Dive workshops.
- Detailed records of the workshops were captured that included the range of questions, challenges and perspectives put forward by TAC members.
- TAC members were correctly identified as either consumer representatives, direct connect customers, financial investors, industry advocates or expert advisers in workshop notes.
- Transgrid was able to engage some of its Board and executive team to attend the workshops.
- Except for Deep Dive 6, TAC members were provided with summaries of the engagement outcomes for each workshop and given an opportunity to respond to the summaries.
- Transgrid appeared more open to TAC members expressing their views and making information requests.

However, Transgrid continued to experience the cascading effects of commencing its consumer engagement too late and with insufficient breadth and depth.

There were large amounts of complex material that stakeholders needed to explore with Transgrid. The Revised Revenue Proposal includes eight separate reports from KPMG on aspects of Transgrid's engagement; KPMG's report summarising Deep Dive 6 alone runs to over 50 pages. Engagement with the TAC often commenced from a first principles basis because there hadn't been sufficient engagement earlier in the process.

Some meetings, particularly in the latter part of the engagement phase, were scheduled at short notice. The Deep Dive Workshops and associated meetings typically included no more than one third of the TAC's 18 members.⁸ TAC members were sometimes present for just part of the meeting, leaving as little as two or three members actively participating in important discussions. Efforts were made to reach out to TAC members individually for input, but this approach meant that the benefits of the iterative process were lost.

The engagement with TAC often raised important questions but sometimes lacked the time to reflect fully on the answers. We recognise the difficult situation faced by the TAC in navigating the sheer volume of information. This is reflected in the following TAC member comments from Deep Dive 3:

Customer Advocates commented that they needed further information regarding this project to provide meaningful feedback. One Customer Advocate explained that many stakeholders on the TAC don't have the time to review each stage of the RIT-T and rely on forums from Transgrid to provide the input where they can. However, if they are being asked to provide an opinion, then they need to investigate at a deeper level.⁹

During Deep Dive 6 we observed that TAC members were not provided with sufficiently objective and accurate briefing material to enable informed discussion on complex and contentious topics,

⁸ KPMG, *Stakeholder Engagement Report*, Prepared for Transgrid, 29 November 2022 p48

particularly regarding non-network solution risk mitigation and the Service Target Performance Incentive Scheme (STPIS). At times, matters of fact were in dispute and the CCP observed that orderly and respectful meeting procedures were not adhered to. These factors combined meant that Transgrid put unreasonable pressures on a small number of key TAC members.

Despite Transgrid's willingness to schedule more workshops, the short timeframe meant there was not a lot of opportunity to 'thrash out' the issues and reach meaningful consensus with TAC members. We consider that there was a missed opportunity to look deeper into the nature of consumer concerns and how or why they arose. This perhaps speaks to an engagement culture that was under time-pressure and focussed on 'ticking the boxes', rather than a values-focused commitment to genuinely partner with consumers.

Finally, we also note that the CCP did not observe any processes to declare or manage conflicts of interest among TAC members.

3.2 Engagement outcomes

The CCP has concerns about the way in which Transgrid's engagement has been represented in its Revised Revenue Proposal.

For example, Transgrid have stated that their engagement with TAC was at the 'Empower' end of the International Association of Public Participation (IAP2) Spectrum.¹⁰ Under the IAP2 principles, the 'Empower' level involves the goal of placing the final decision making in the hands of the public, with a promise to the public to "*implement what you decide*" (see Appendix 1). The CCP did not observe engagement which could be characterised at the 'Empower' level of the IAP2 Spectrum.

KPMG's Stakeholder Engagement report offers a different perspective stating that:

Transgrid sought to demonstrate overall engagement at the 'Involve' and 'Collaborate' level of the IAP2 Spectrum of Public Participation, with some topics targeted at the 'Inform' and 'Consult' levels of engagement.¹¹

Transgrid's engagement with the TAC typically identified a diversity of views through open discussion then summarised by the Independent Facilitator in a broad statement with careful caveats, which was provided to the TAC for feedback (except for Deep Dive 6). The model did not include a structure that enabled a single TAC position to be determined, although sometimes there was a high degree of alignment among members who were present.

This nuance can be challenging in engagement processes. It presents a risk that some stakeholder statements are cherry-picked as evidence of stakeholder support when the stakeholder landscape is in fact much more complex. There is some evidence that this has occurred in Transgrid's interpretation of a TAC position on an issue. For example, Transgrid have reported the TAC members views on Repex as:

Resolve efficient level of Repex with AER given the technical nature of the investment.¹²

However, meeting notes identify a range of TAC member views, including one view that the Draft Decision should be accepted, subject to addressing any material errors.¹³

¹⁰ Transgrid, *Revised Revenue Proposal*, 2 December 2022 p27. See also pp1, 13, 24, 26, 31, 36, 57 and 59

¹¹ KPMG, *Stakeholder Engagement Report*, Prepared for Transgrid, 29 November 2022 p17

¹² Transgrid, *Revised Revenue Proposal*, 2 December 2022 p69

¹³ KPMG, *Stakeholder Engagement Report: Deep Dive Workshop 6*, 20 October 2022 p21

Transgrid also states that:

This Revised Revenue Proposal fully aligns with the views of the TAC.¹⁴

For reasons identified above, the CCP is not able to endorse this statement. However, we do accept that there is evidence that demonstrates the impact of consumer engagement on the Revised Revenue Proposal.

Finally, there were some aspects of Transgrid's Revised Revenue Proposal that came as a surprise to the CCP and, we assume, to Transgrid's stakeholders too. Some of these positions are likely to be welcomed by consumer advocates, but other aspects of the Revised Revenue Proposal will give rise to yet more questions. This is not an ideal situation. This may be another example of the cascading effects of the time pressures affecting Transgrid's consumer engagement.

3.3 Customer focus

The new expenditure items, both capital expenditure and operating costs, were discussed at length in the Deep Dive Workshops. In these discussions, Transgrid often took the position that the costs were 'unavoidable' and 'we are required to do this; it is not our decision'. The CCP believes this position could have been paired with a much clearer position on how the requirements would be delivered as efficiently as possible in the long-term interests of consumers, and with Transgrid demonstrating a commitment to affordability, efficiency, prudent scope and governance.

Overall, we were left with the feeling that a focus on prioritising the interests of customers was not evident deeper into the business. While cost, potential reductions, financial diligence and efficiencies were raised by the TAC, it is hard to see where and how Transgrid has effectively and systematically translated that deeper customer sentiment into the Revised Revenue Proposal.

4 Issues in engagement

4.1 End-consumer survey

The *Better Resets Handbook* encourages the use of multiple channels of engagement, noting that "no single avenue of engagement is perfect" and that all formats are "suited to certain types of issues and have their downside"¹⁵. This is reflected in the TAC members' views of the KPMG commissioned end-consumer survey which are summarised as follows:

There are mixed views on the end consumer survey, with some stakeholders outlining that while it's important to seek consumer views, the proposed approach has limitations.¹⁶

The CCP considers that it is best practice to co-design direct customer engagement with customer representatives. It is also an opportunity to work with stakeholders at the upper end of the IAP2 spectrum, which is encouraged in the *Better Resets Handbook*. Following the CCP's suggestion, the end-consumer survey was put on the agenda of Deep Dive 3 and – once again prompted by the CCP – TAC members were provided with the draft survey questions following that meeting.

¹⁴ Transgrid, *Revised Revenue Proposal*, 2 December 2022 p138

¹⁵ AER, *Better Resets Handbook*, December 2021 p15

¹⁶ KPMG, *Stakeholder Engagement Report: Deep Dive Workshop 5*: 26 September 2022 p6

The CCP observed significant TAC member reservations about the purpose and usefulness of the end-consumer survey.¹⁷ As a result of the engagement with the TAC, Transgrid confirmed that the purpose of the survey was limited to re-confirming customer priorities and made the following commitment:

*Transgrid confirmed it would not use the research to justify additional spending or test specific investments, but rather to test outcomes and priorities of end-consumers.*¹⁸

The findings of the survey, which confirmed the previously reported customer priorities remain valid, are reported in the Revised Revenue Proposal.¹⁹ The survey results are, however, also cited as evidence in support of Transgrid's Repex, Non-network ICT capex and Cyber and critical infrastructure expenditure.²⁰ The CCP considers that this is not in keeping with the commitments made to the TAC during consultation. As such, the CCP considers that the survey should not be relied upon as evidence in support of the position Transgrid has adopted on these matters in its Revised Revenue Proposal.

The Revised Revenue Proposal also states that:

*The survey results were factored into the TAC's position on the key issues arising from the AER's Draft Decision.*²¹

However, the CCP is not aware of the survey results being provided to the TAC during the engagement phase, and not prior to Deep Dive Six when discussions about the AER's Draft Decision took place.

4.2 System Security Roadmap

In the Revised Revenue Proposal, Transgrid has nominated the need for a capital investment of \$88.2M and an opex step change of \$47.6M - totalling \$135.8M - to improve its planning, system operation capability and contingency response as the complexity of the power network increases.

Transgrid bases much of this investment proposal on a report by US-based company PowerRunner which presents a more quantitative view of the investment needs and benefits.

(a) Eligibility for consideration

The AER's Draft Decision is silent on the System Security Roadmap and notes that any new expenditure proposal from Transgrid should:

*...be limited to externally driven changes that Transgrid was not in a reasonable position to respond to at the time of its initial proposal.*²²

The external justification provided for the System Security Roadmap expenditure is 1) AEMO's NEM Engineering Framework Initial Roadmap published in December 2021 and 2) AEMO's ISP published in 2022.

The AEMO publications are part of a larger body of work that has been anticipating the impact of the energy transition on system security over a long period time. It does not appear that either of AEMO's publications specifically bind, require or obligate Transgrid to undertake this investment. We note that

¹⁷ For further detail see KPMG, *Stakeholder Engagement Report: Deep Dive Workshop*, 6 September 2022, p9

¹⁸ KPMG, *Stakeholder Engagement Report: Deep Dive Workshop 5*, 26 September 2022 p10

¹⁹ Transgrid, *Revised Revenue Proposal*, 2 December 2022 p1

²⁰ *ibid* p4

²¹ *ibid* p31

²² AER, *Draft Decision Transgrid Transmission Determination 2023 to 2028*, 30 September 2022 p1

Transgrid's Energy Vision also documents the system security impacts of the energy transition in a series of scenarios.

The CCP asks the AER to consider whether System Security Roadmap meets the eligibility threshold for inclusion in its final determination. This issue was not explored during Transgrid's engagement with the TAC.

(b) Engagement with TAC

Transgrid raised their concerns about the difficulties in managing a network of increasing complexity and a greater penetration of renewable energy sources and storage, noting:

To operate a complex, modern power system, we need new tools, training and more people.²³

In the Revised Revenue Proposal, Transgrid notes the System Security Roadmap is required to improve their capability in planning and operating their developing network.

Transgrid raised this issue with their TAC as early as May 2022, however it was only discussed in significant detail in TAC Deep Dives 2 and 5. The TAC discussions in meetings 2 and 5 in this issue were detailed and considered, and raised several useful issues for Transgrid to consider, including:

- Should those creating the complexity should pay in the first instance?
- How new technologies are integrated into existing technology and whether these integration challenges and costs have been considered?
- Acknowledging the drivers of complexity outlined by Transgrid, however questioning many of the PowerRunner model inputs and assumptions.
- It is important to have context on all options available to Transgrid within the System Security Roadmap.

Transgrid acknowledged the feedback and advised that it was based predominantly on PowerRunner's report and responded to the queries with further explanation where appropriate.

In general, both the TAC and the CCP are sympathetic to the need to further develop network planning and operational capability as the network generation profile changes. While not explicit, our observation is that the TAC remains uneasy about the nature of the business case and how this significant investment is in the long-term interest of consumers. A more relatable narrative to better illustrate the risks, benefits and justification in terms of energy consumers was requested.

The meetings did not seem to effectively resolve the TACs concerns. We believe that concerns remain about:

- the overlap of responsibilities,
- evidence of Transgrid's commitment to address this need prudently and efficiently, and
- the accuracy of assumptions that underpin the justification.
- illustrate the risks, benefits and justification in terms of energy consumers was requested.

AEMO's *NEM Engineering Framework* identifies a need for more collaboration and consultation to identify the best fit for the NEM's future engineering needs. This suggests that it may be more prudent,

²³ Transgrid, *Revised Revenue Proposal*, 2 December 2022 p97

and in the best interests of customer, to allow the AEMO process to continue to run its course. Any needs identified by AEMO during the regulatory period could met through cost pass through provisions.

The CCP would also like to raise a concern regarding the PowerRunner report. In our analysis of the Revised Revenue Proposal, we note that Transgrid relies heavily on the report from PowerRunner, a US-based company that appears, from their website, to provide high-end IT solutions to utilities related to network modelling and operations. While we make no comment about the quality or accuracy of the PowerRunner advice, we do not believe this important matter of possible conflict or commercial interest was raised with the TAC in the interest of transparency regarding the modelling or cost justification / business case relied on by TransGrid.

4.3 Non-network solutions – risk mitigation

Transgrid’s decision to adopt non-network solutions for the recently completed RIT-Ts was widely welcomed by stakeholders as an innovative, low-cost approach. However, Transgrid’s concerns about their ability to procure cost-efficient, technically compliant and timely non-network solutions led them to include novel risk mitigation strategies (a new contingent project and new cost pass through events) in their Revised Revenue Proposal.

The risk mitigation strategies were the most contentious issue that arose during Deep Dive 6 and absorbed a considerable amount of TAC meeting time. TAC members agreed that it was important to encourage and support the adoption of non-network solutions but there was not consensus on if, and how, the risks to Transgrid associated with the technology should be managed.

While non-network solutions for TNSPs are anticipated (and encouraged) under the National Electricity Rules, we understand this situation is novel for a regulatory determination. During Deep Dive 6, Transgrid sought stakeholder views on its approach to this risk mitigation issue. Engagement was hampered by having just weeks to engage with this novel issue.

The CCP considers that engagement on this issue was rushed and suffered from a lack of objective information. The *Better Resets Handbook* explains that networks are expected to ensure that consumers are equipped with “accurate and unbiased information necessary to meaningfully participate”²⁴. It was Transgrid’s responsibility to ensure the TAC was provided with the information it needed to engage with the new contingent project and new cost pass through mechanism. The CCP’s observations of Deep Dive 6, and specifically meetings 4,5 & 6, demonstrated a failure to adequately equip consumer representatives with information about:

- the nature of Transgrid’s risks,
- how this risk ought to be shared between customers and the TNSP, and
- how the Rules applied in this situation.

It remains unclear if either the contingent projects or the cost pass through event are compliant with the Rules. For example, the proposed cost pass through event contains elements that may be within the control Transgrid.

²⁴ AER, *Better Resets Handbook*, December 2021 p13

We also note that the detail of both measures was not available to the TAC, and therefore has not been the subject of engagement. This includes key issues such as the way the cost pass through event has been defined and the triggers for the contingent projects.

The CCP also notes that Transgrid did not identify these risk issues during the Stakeholder Forum on 12 October 2022, although it did signal that a new contingent project would be proposed to address Stage 2 of the North West Slopes project.

The CCP considers that it was probable that Transgrid would adopt a non-network solution as a result of one of the RIT-Ts underway. As such, Transgrid could have anticipated its desire to address its project risks and commenced engagement on the potential risk mitigation measures earlier in the process.

The AER's approach to this issue will set a new precedent. Stakeholders clearly expressed a view that innovative, low-cost non-network solutions should be encouraged and supported in the regulatory process. In a separate process to the final decision, the CCP encourages the AER to publish a note to assist electricity networks, consumer groups and advocates to understand how risks associated with non-network solutions would be treated under the National Electricity Rules.

4.4 Cybersecurity

Transgrid has maintained its initial cybersecurity costs in the Revised Revenue Proposal, including a \$25M step change in cyber and critical infrastructure security. This issue was discussed with the TAC in Deep Dive 5. Transgrid focussed on the fact that concept of cybersecurity was not foreign for consumers, yet the costs to establish and maintain a necessary level of security within Transgrid was difficult to determine without a detailed knowledge of the current situation and systems. Transgrid maintained the position that the funding was required to achieve SP-3.

However, we believe that the engagement with the TAC did not focus on the actual reasons the AER had reduced the allowed expenditure in the Draft Decision. For instance, the AER stated:

... we consider that Transgrid has provided a compelling case for it to target achievement of the AESCSF SP-3 maturity level. However, Transgrid has provided no business-related reason for having slowed its security enhancement program in the remainder of the current RCP, deferring it from this period and planning to ramp it again from the beginning of the next RCP. We conclude that Transgrid should have continued its program throughout the current RCP at a rate sufficient to achieve SP-2 by June 2023, or possibly sooner.²⁵

and

(we) found that Transgrid had higher-than-average expenditure for these costs in its base year compared to its average spend in the 2018–23 period and did not deduct the correct estimates for amount already included in its base opex when calculating the step change.²⁶

We see no evidence that these concerns were brought to the attention of the TAC in Deep Dive 5.

We note the detailed report from Deloitte commissioned by Transgrid to address the AER's concerns. However, the CCP believes that the any support attributed to the TAC for the expenditure on cybersecurity would have been more robust if the issue of alleged delayed expenditure and

²⁵ Transgrid, *Revised Revenue proposal*, 2 December 2022 p48

²⁶ AER, *Draft Decision Transgrid Transmission Determination 2023 to 2028*, 30 September 2022, Attachment 6 p23

inefficiencies had been brought to their attention, and advice sought regarding an appropriate response.

4.5 Project Deliverability

Transgrid has contended that its proposed capex delivery program is 'routine' and states:

While we acknowledge these concerns [by the AER and the TAC regarding deliverability], we believe they are misplaced.²⁷

The CCP acknowledges the detailed information that Transgrid has provided in their *Deliverability Plan*. However, we believe Transgrid misunderstood the nature of our concerns.

Our concerns arose from external supply chain risks and the associated high risk of project delays and cost overruns as other states also have aggressive, once-in-a-lifetime transmission investment plans that will place significant demands on the national availability of skilled labour and materials.

Transgrid could have taken a much more conciliatory approach that acknowledges and addresses these concerns from a national perspective. We would have welcomed a response framed in terms of how the risk of negative consumer impacts could be avoided, or managed if they arise, in such a dynamic environment.

We had also expected the *Deliverability Plan* to provide a more detailed analysis of Transgrid's current and projected internal capacity in the context of a major uplift in capital works.

5 The broader environment

Transgrid has embraced the Federal government's position that "*there is no transition without transmission*"²⁸. In the Revised Revenue Proposal Executive Summary, Transgrid highlights its critical role in the delivery of many of the major projects within AEMO's Integrated System Plan and System Reliability Plan, and the NSW Government Energy Roadmap.

At times, the TAC discussion drifted into challenging discussion regarding the merits and impacts of these state and national initiatives.

In the current environment, the AER and consumer stakeholders require a 'dual view' of the Revenue Proposal – one as the ring-fenced Revenue Proposal itself, and the other as a component of the overall transmission development that Transgrid will be required to deliver. The total cost impacts to consumers of the energy transition have been mapped out in the Revised Revenue Proposal.

The CCP was hoping that Transgrid could identify synergies and efficiency benefits arising from Transgrid's forthcoming investments outside the Revenue Proposal. We encourage the AER to consider whether incentive schemes should be tightened to reflect any efficiency benefits accruing to Transgrid as a result of these investments which will take place during the regulatory period.

²⁷ Transgrid, *Revised Revenue proposal*, 2 December 2022 p12

²⁸ *ibid* pii

6 CCP reflections on new expenditure in revised Revenue Proposals

The National Electricity Rules include the following provisions for a TNSP to submit a revised Revenue Proposal as part of the regulatory determination process:

6A.12.3 (a) In addition to making such other written submissions as it considers appropriate, the TNSP may, not more than 45 business days after the publication of the draft decision submit to the AER:

1. a revised Revenue Proposal; ...

6A.12.3 (b) A TNSP may only make the revisions referred to in paragraph (a) so as to incorporate the substance of any changes required, or to address matters raised in, the draft decision.²⁹

The AER's Draft Decision states

*In addition to future updates to market variables, Transgrid now has the opportunity to respond in a revised proposal that incorporates the substance of the changes required by, and addresses matters raised in, this draft decision. Transgrid has also signalled that it may propose new expenditure and seek further increases to its proposed forecast capex and opex. **We consider these should be limited to externally driven changes that Transgrid was not in a reasonable position to respond to at the time of its initial proposal.***³⁰

This broad remit has enabled Transgrid to submit around \$700M of new expenditure and new contingent projects in its Revised Revenue Proposal. While the 18 members of the TAC have had the opportunity to confidentially discuss this expenditure with Transgrid, most of the new expenditure proposals have not had the benefit of wider public scrutiny. Interested parties do not have an opportunity to test these proposals in a Public Forum. Some of this new expenditure includes complex and novel issues which would benefit from expert assistance but the six-week consultation period over the Christmas holiday period is not conducive to meaningful public scrutiny.

The CCP is concerned that the current approach to new expenditure is not in line with the intent of the National Electricity Rules.

The CCP recommends that the AER adopt tighter principles in future draft decisions about what new expenditure may be introduced in a revised Revenue Proposal. For example, new additional expenditure could be limited to matters that would otherwise be eligible for a cost pass through defined event. This approach would incentivise NSPs to include all proposed expenditure in their initial Revenue Proposals, while keeping the process operationally efficient and maximising opportunity for public scrutiny of all NSP expenditure.

²⁹ National Energy Rules accessed at <https://energy-rules.aemc.gov.au/ner/434> on 12/1/2023

³⁰ AER, *Draft Decision Transgrid Transmission Determination 2023 to 2028*, 30 September 2022, p1 emphasis added

Appendix 1 – IAP2 Public Participation Spectrum

IAP2'S PUBLIC PARTICIPATION SPECTRUM



The IAP2 Federation has developed the Spectrum to help groups define the public's role in any public participation process. The IAP2 Spectrum is quickly becoming an international standard.

INCREASING IMPACT ON THE DECISION

	INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
PUBLIC PARTICIPATION GOAL	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	To obtain public feedback on analysis, alternatives and/or decisions.	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.	To place final decision making in the hands of the public.
PROMISES TO THE PUBLIC	We will keep you informed.	We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.	We will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.

International Association for Public Participation, *Quality Assurance Standard: For Community and Stakeholder Engagement*