SUBMISSION

TRANSGRID 2023-2028 REVENUE DETERMINATION
20 JANUARY 2023

Energy Users Association of Australia

INTRODUCTION

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.

As large energy users, our members are highly exposed to movements in both gas and electricity prices and have been under increasing financial stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

The EUAA have been long-standing members of the Transgrid Advisory Council (TAC) and have attended a majority of the sessions run by Transgrid to engage on the 2023-2028 Revenue Proposal. It is important to recognise that the TAC is not a consumer panel, being made up of a number of stakeholder groups including consumers, generators, developers and more recently academics and a selection of industry association representatives. These groups do not always agree and at times consumer advocates believe that views being expressed by some of these representatives does not benefit the long-term interests of consumers nor do they represent consumer preferences.

REVISED APPROACH TO ENGAGEMENT

As a long-standing member of the TAC, the EUAA have enjoyed an open and productive relationship with Transgrid and have observed a level of engagement on BAU issues that has allowed us to better understand the day to day challenges of the company.

In our earlier submissions we were critical of the approach of Transgrid to this current revenue determination process, believing it to fall somewhere between consult and involve on the IAP2 Spectrum of Public Participation. We observed that while traditionally this was not an uncommon approach, progressively it is not best practice or fit for purpose in such a dynamic environment.

We are encouraged that Transgrid have listened to these concerns and embarked on a revised engagement approach between their draft and final proposals. During this time Transgrid worked with stakeholders (including TAC members) to better understand critical areas of the draft revenue proposal that requiring further investigation, seeking our views on a number of issues including cyber and critical infrastructure opex, ISP preparatory activities, Capex – augex assumptions, non-network ICT and existing contingent project assumptions.

Transgrid also engaged in specific deep dive sessions at the request of TAC members (i.e. several on existing contingent projects) where they allowed a robust conversation to take place. All of this represented an improvement from the previous engagement, albeit from a low base. Importantly, Transgrid engaged specifically with consumer advocate members of the TAC to work through the issues most important to them and we hope this brings a far greater emphasis of "consumer outcomes" to the final determination.

Our previous advice to Transgrid also suggest a much stronger feedback loop that gives stakeholders a clear indication of how their input has been taken into account and what impact it has had on the proposal. Equally, stakeholders should be informed of where their input has not been taken into account and why. We did see improvement in this area as well.

So, while there has been some welcome improvement in engagement practices associated with the current revenue re-set and we recognize the significant effort of a number of individuals within Transgrid who demonstrated a genuine effort to engage, we feel that more progress is required to move Transgrid towards the top of the stakeholder engagement league table. More broadly, there is still a strong feeling amongst a number of stakeholders that the key issues that will drive future TUOS charges remain largely off the table.

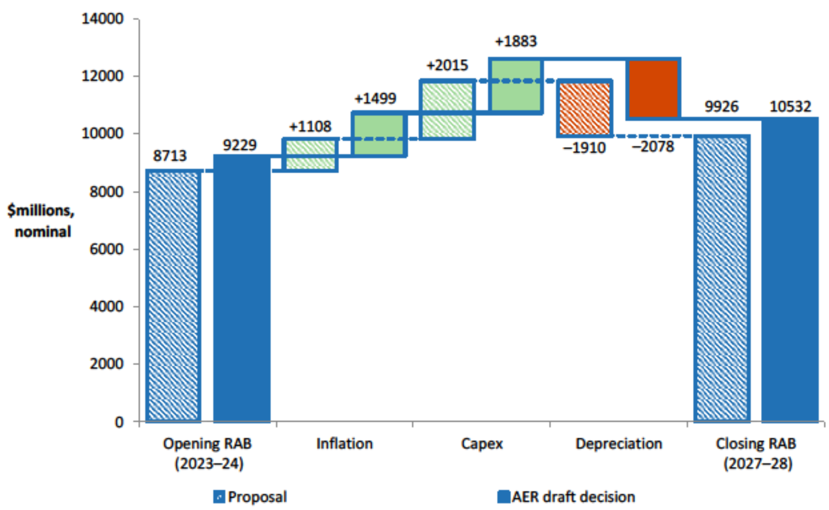
As we highlighted in our previous submission, the most striking aspect of the engagement to date, including recent engagement, was not what was included but what was not included in the engagement process, with many ISP and REZ contingent projects seemingly “out of scope”. While technically this can be justified, a very strong desire was expressed by many TAC members that significant improvement is required in this area if we are to achieve even a mild level of comfort in the proposed future capex requirements and revenue proposals.

AER DRAFT DETERMINATION AND TRANSGRID RESPONSE

We are pleased to see that Transgrid have accepted many of the recommendations made by the AER in their draft determination. Some AER recommendations such as debt raising costs and forecast inflation result in an increase in allowable revenue and represent the reality of an increasingly high cost environment. These areas will continue to be of great concern to stakeholders given the enormous capex requirements of future ISP and REZ development that will impact the Transgrid RAB in years to come.

Given the likely increase in the number and value of contingent projects and the general trajectory of costs, the forecast RAB (below) is likely to be higher than anticipated.

Figure 6 Key drivers of changes in the RAB over the 2023–28 period – Transgrid's proposal compared with the AER's draft decision ($ million, nominal)



Source: Transgrid, *2023–28 Post-tax revenue model*, January 2022; AER, *2023–28 Draft decision – PTRM*, September 2022.

We are also pleased to see that Transgrid agree with the AER recommendations that reduce potential capex of $720.8M made up of the following (that includes consumer reasoning for their exclusion):

- Removing contingent projects totalling $528.0 million with a strong desire for Transgrid to pursue non-network solutions or recover costs from other market participants who are driving the need for augmentation
- Removing four Augex projects totalling $25.9 million, for which there is uncertainty regarding the forecast load growth or net economic benefits
- Reducing Repex projects for secondary systems, transformer renewals and palisade gates by $15.1 million (although other aspects of Repex are still disputed)
- Removing two property and fleet sustainability measures totalling $3.8 million as we believe that is a corporate responsibility/benefit not directly related to consumer outcomes
- Reducing insurance premium opex step change by $16.1 million from $30.0 million to $13.8 million
- Removing ISP preparatory activity step change of $2.9 million as we believe this is a business development expense not directly related to consumer outcomes

Transgrid have identified three areas where they disagree with the AER recommendations being:

1. Forecast Repex
2. Forecast Non-network ICT capex, and
3. Cyber and critical infrastructure security opex step change.

Our general view on each is:

1. Given the technical complexity we requested a joint session involving the AER, Transgrid and the TAC so that TAC members can gain a better understanding of the issues, costs and benefits. To the best of our knowledge, this has not occurred. We would be concerned that Forecast Repex is increasing over time due to the more complex nature of an energy system with the connection of multiple, highly dispersed assets. We would see additional costs associated with this transition to be recovered from other market participants in the first instance as a more equitable outcome.
2. Once again noting the technical complexity of the issue we suggested a joint session as described above. Depending on the outcome of that session we could support Transgrid's overall approach however given this type of expenditure is being driven by rapid changes to network operation we wonder if these costs should be recovered from other market participants (such as new generators).
3. We support the view of the AER and trust that benchmarking undertaken by them clearly identifies what a what is prudent and efficient.

We note that Transgrid have welcomed the AER's Draft Decision approving programs that will support the energy transition in the 2023-28 period by:

- relieving network congestion to enable additional generation from low-cost and low-emission sources, and
- installing voltage control devices in southern NSW, north west NSW and Greater Sydney to maintain voltage levels within prescribed limits as minimum demand falls due to the increased uptake of household solar photovoltaic (PV) generation.

Transgrid state that

> *"These programs are essential as network congestion and constraints prevent prospective renewable generation projects."*

Many customer advocates are becoming increasingly frustrated at the approach to managing emerging network and market issues that come about due to the behaviour of market participants or nature of new technology.

Congestion management is one such issue where the ESB has been working with a range of stakeholders to deliver a market based approach to congestion management where a causer pays principle is pursued. This has been rejected by a number of market participants who could be considered "causers".

Under the existing approach, reflected above, consumers will continue to pay to resolve issues created by others. We do not believe this is an efficient allocated of risk and costs.

FUTURE COSTS

A major component of Transgrid's costs over the coming period and beyond stem from construction of ISP Projects – Project Energy Connect (PEC), HumeLink, Sydney Ring Road and NSW REZ and various other contingent projects.

As the AER rightly points out on page 9 in their September 2022 draft decision:

> *"In considering the potential outcomes of this determination process, however, it is important to remember that over the 2023–28 period there are several additional mechanisms under the NER that may operate to increase or decrease Transgrid's approved revenue. These could include projects defined by the Australian Energy Market Operator (AEMO) as necessary to action its Integrated System Plan (ISP)."*

While the CPA approved costs for PEC ($(17/18)1.82b and the Early Works CPA expenditure of $(17/18)321m for Humelink are now included in, no other ISP costs are. Also only one of eight proposed standard contingent projects are included and none of four major projects undergoing RIT-T evaluation are included.

The indicative costs of these excluded projects total over $8b, representing a near doubling of the Transgrid RAB:

Category/Project	$m (2021/22)
Contingent projects	$2,091
RIT-T projects	$275
ISP projects Humelink (excluding early works) Sydney Ring New England REZ Total	 $2,994 $880 $1,905 $8,145

We also note that the ISP costs are shown in the ISP as ±50% and recent experience suggests the costs are much more likely to increase significantly.

The expectation that cost will be significantly higher than expected for these future projects is validated by this AER draft determination that states on page 6:

> *"In addition to these changes, movements in market variables in recent months, such as interest rates, bond rates and expected inflation, are key factors in explaining the difference in total revenue between approved under this draft decision and Transgrid's proposal for the 2023–28 period. These market variables are currently acting to increase the return on Transgrid's regulatory asset base. Updates for these movements are a standard part of our determination process and will be made, again, in Transgrid's upcoming revised proposal and our final decision. Their impact, at the time of this decision, is to increase total revenue by $550.0 million (13.1%) compared with Transgrid's proposal."*

Clearly these external factors will have a profound impact on future contingent projects, driving higher costs and TUOS charges as a result. It is important that Transgrid (and indeed the entire industry) and governments begin to have a clear eyed conversation with stakeholders (and the community more broadly) about the cost of the transition and where these costs are likely to increase above exiting expectations. This can be very instructive for governments, guiding them to not only the areas that may need additional support but the nature of that support as the seek to minimise costs increases.

As we have stated previously, there is a sense that deep engagement on these contingent projects is "out of scope" and therefore something of a foregone conclusion. Clearly there is strong political and corporate momentum around these projects and the regulatory approval process seems to reflect this. We continue to counsel Transgrid that community and customer social licence remain their biggest issue and that failure to manage either or both will lead to additional costs and delays.

Thank you for the opportunity to make a submission. We would be happy to discuss these issues further if required.

Kind regards,

[redacted]

Andrew Richards
Chief Executive Officer