

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 supports the pursuit of net zero targets and fully understands that this transition means our energy system will gradually move away from a centralised generation fleet to one that is highly dispersed. This will require appropriate levels of grid augmentation along with deployment of new technology to replace the services previously supplied by synchronous generation that are not provided by non-synchronous generation that will make up a majority of new energy supply.

Network service providers find themselves at the bleeding edge of these changes and as a result are undergoing a significant transformation. This means that the conversations with stakeholders need to be much broader than it has been in the past. This is especially so during a revenue determination process where just speaking about the AER building block approach means that many of the substantive issues, and potential future costs (i.e. contingent projects, impacts of impending rule changes) are likely to have far greater impact on consumer costs.

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 with the TAC on the 2023-2028 Revenue Proposal. The EUAA also presented the consolidated views of a number of TAC consumer representatives at an AER public forum on 4 April where we shared our views on the engagement by Transgrid over the preceding 6 months.

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.

To remain consistent with the National Electricity Objective, the focus must always be on what is in the long-term interests of consumers. Therefore, we suggest in future that Transgrid clearly identify the preferences of individual stakeholder groups, with an emphasis on consumers, rather than attempting to present a wholistic TAC view. We also suggest a broadening of the consumer stakeholder representation of the TAC, especially as it relates to revenue re-sets and other consultations that result in significant increases in consumer energy bills.

The AER issues paper published in March 2022 seeks the views of stakeholders on a range of topics ranging from quality of engagement through to more technical aspects of the Transgrid proposal such as depreciation, capex, opex and corporate income tax. During the past 6 months Transgrid have sought our views on these issues but more often than not consumer advocates do not have the resources to examine many of the more technical issues to a depth that would give us enough confidence to provide an informed view. It also appears that the consultation started later than others we have experienced, while the Consumer Challenge Panel (CCP) involvement was also later than what we would have expected. This has hindered consumer advocates from being able to engage in more detail with the proposal.

Therefore, while consumer advocates need to understand a level of detail we will continue to rely on the AER to perform the in-depth technical analysis of the Transgrid revenue proposal to ensure it is prudent and efficient and is in the long-term interests of consumers.

With this in mind, we are able to provide a general view on the reasonableness of what is being proposed and in particular if it is consistent with the proposals of other TNSP's. We can also offer a view on the quality of engagement so far. This submission will elaborate on the key themes and issues discussed at the 4 April public forum and suggest some improvements that Transgrid could pursue as they continue to engage with stakeholders in the months leading up to the submission of the final revenue proposal in November 2022.

It should also be recognised that more than any other network service provider, Transgrid find themselves in the eye of the energy transition storm. While this does create significant opportunities for the company it also means many new challenges are emerging such as escalating project costs (likely to be even greater given global issues), social license and the cumulative impact of regional infrastructure and the realisation that a new level and type of human and system resource is now required.

While all energy industry participants are facing similar challenges, they are heightened for Transgrid given their central role in the AEMO ISP and NSW Energy Infrastructure RoadMap. This should not be used as an excuse for delivering less than what is expected. While we see that Transgrid have recognised these challenges, it is taking time for the company to adjust.

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. Their engagement with the TAC on issues such as disaster management, maintenance of system security and minor grid augmentation is generally very good. The network vision exercise was also a very constructive way to engage with the TAC and other stakeholders on some of the future challenges faced by the company.

If we were to assess the performance of this BAU engagement against stages of the IAP2 Spectrum Of Public Participation, it would be somewhere between consult and involve. Their approach to the Powering Sydney's Future (PSF) project set a high standard of engagement, co-design and stakeholder collaboration and it was hoped this would be the new benchmark by which other projects would be based. If we were to assess the performance of PSF against stages of the IAP2 Spectrum Of Public Participation, it would be towards the collaborate stage, which is an outstanding achievement.

IAP2 SPECTRUM OF PUBLIC PARTICIPATION



Unfortunately, over the last 18 months many stakeholders have observed some significant gaps emerging in the continuity and quality of engagement. Undoubtedly COVID has made it difficult to replicate much of the positive engagement work of the past but we also sense that staff turnover, potential resource constraints and the emergence of the “super-size” projects such as Project Energy Connect and Humelink appear to have put significant strain on the company and impacted its ability to maintain the PSF benchmark. All of this may explain why the engagement approach appears to have “regressed” after such a positive PSF experience. It is encouraging to hear that Transgrid are aware of these issues and have committed to taking steps to move back to an approach more consistent with a PSF level of stakeholder engagement.

As for the 2023-2028 revenue determination. We consider the engagement process was largely at the inform/consult end of the IAP2 spectrum. Traditionally, not an uncommon approach, but progressively not best practice or fit for purpose in such a dynamic environment. We can confirm that Transgrid did cover the key aspects of their 2023-2028 revenue proposal, focusing on the main elements of the AER building block approach. This is an expected minimum. If we were to suggest improvements to this building block approach would be to do more work with stakeholders earlier on in the process to clearly explain what the building blocks are and how they fit into the revenue determination process. It appeared that a level of knowledge was assumed.

We would 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.

The AER Better Resets Handbook, released in December 2021, begins to address a number of these issues and it would be useful for Transgrid to step stakeholders through this and clearly demonstrate how their approach aligns with it. We also see a greater role for the AER in this and encourage them to be more than passive observers (but accept this is their current role) in the revenue reset process, especially as it relates to increasing stakeholder understanding and therefore improving their ability to engage in the revenue proposal detail.

Perhaps the most striking aspect of the engagement to date (and initial revenue proposals seen by the TAC) was not what was included but what was not included in the engagement process. While appreciative of the need for Transgrid to go through the elements of the revenue proposal (the building blocks), TAC members had expressed concerns that much of what will drive future costs was excluded. Unfortunately, when questions were raised by consumer representatives, they were more often than not “parked” and not dealt with in any meaningful way.

Heightening these concerns, TAC members have been left underwhelmed by the engagement on key projects such as PEC¹ and more recently Humelink². These will be treated as Contingent Projects and therefore were not originally part of the revenue proposal consultation despite the fact that costs associated with both PEC (construction) and Humelink (early works) will start to flow through to the Transgrid RAB during the 2023-2028 period. Many TAC members felt this was a significant oversight.

There are key learnings here for Transgrid, other Network Service Providers and the AER that the approach to stakeholder engagement must evolve with the changing environment to ensure consumers are being engaged on the issues that are most likely to have the greatest impact on them. It has become clear that a BAU approach to revenue resets (and stakeholder engagement in general) where the sole focus is on the building blocks is no longer fit for purpose.

OBSERVATIONS OF THE DRAFT REVENUE PROPOSAL

The revenue proposal identifies an opening RAB of \$8.7B and future cap-ex of ISP projects to be \$8.9B. We can also see the NSW Energy Infrastructure Road Map adding substantially more cap-ex in coming years. It is not inconceivable to envisage the Transgrid RAB increasing 3-fold in the coming 10-15 years. Therefore, we view the 2023-28 revenue proposal as something of the calm before the approaching storm.

Given this, both capex and opex that was originally included in the revenue proposal does not accurately reflect what many believed will be the future likely cost to consumers, given the significant number of contingent projects likely to be incorporated over the 2023-2028 period. Therefore, the headline “savings” outlined by Transgrid (Figure 5 and Figure 6) must be seen as somewhat unreliable given they exclude what can reasonably be considered as certain future increases and both capex and opex associated with contingent projects.

However, it is encouraging to see that after direct feedback from the TAC, Transgrid have included the potential impact of a range of contingent projects in the revenue proposal submitted to the AER (Figure 7 and Figure 8), although we understand the capital costs assume the mid-point of potential costs. We would strongly suggest that using mid-point capital cost estimates will dramatically underestimate the final capital cost of future projects (both PAC and Humelink have suffered from significant cost increases from original estimates).

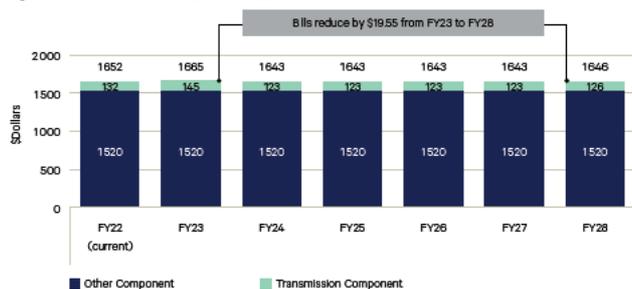
Stakeholders (TAC included) will watch this very closely over the coming months and will require Transgrid, the AER and AEMO to provide clarity for stakeholders of the true final cost of these capital-intensive projects.

¹ While we recognise that Transgrid were not the project proponent, most of the costs will be borne by NSW energy users and therefore a greater level of engagement had been sought but not facilitated.

² There had been little engagement with the TAC on the Humelink project. It was not until TAC members requested more detailed briefings were they provided. These briefings lacked substance and at that stage key decisions had already been made meaning stakeholders were left feeling marginalised.

We strongly suggest that Transgrid provide a reasonable range of potential costs and translate these into possible bill impacts. This would provide consumers and policy makers with far greater understanding of anticipated future costs and go some way to building trust between Transgrid and its key stakeholders. Of course, we will continue to rely on Transgrid to deliver projects at least cost and for the AER to make assessments as to the prudent and efficient nature of these investments so as to deliver net market benefits.

Figure 5: Indicative household bill (\$, Real 2022-23)



Notes 1 The indicative bill uses average bill information published by the AER and AEMC and assumes that the non-transmission components of the bill stay constant in real dollars

Figure 6: Indicative small business bill (\$, Real 2022-23)

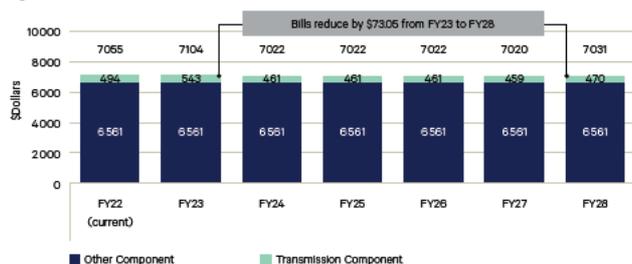
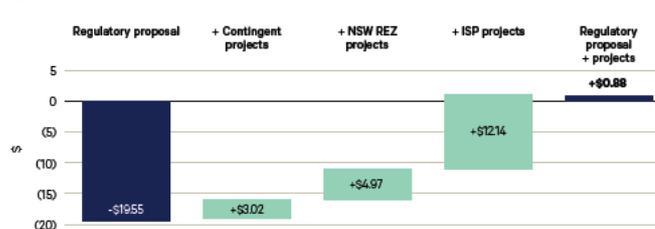
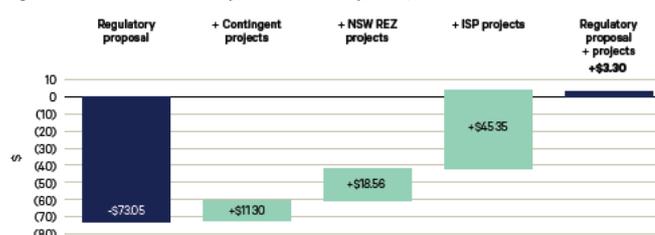


Figure 7: Residential bill impact – transmission component (\$, Real 2022-23)¹



Notes 1 The values do not sum exactly due to impact of equity raising costs 2 The estimated impact of adding the contingent NSW REZ and ISP projects is indicative 3 Values are estimated annual bills for residential customers

Figure 8: Small business customers bill impact – transmission component (\$, Real 2022-23)



Notes 1 The values do not sum exactly due to impact of equity raising costs 2 The estimated impact of adding the contingent NSW REZ and ISP projects is indicative 3 Values are estimated annual bills for small business customers

We are also encouraged by the letter Transgrid sent to the AER that provided more clarity on the manner in which Project Energy Connect will be incorporated into the RAB during the 2023-2028 period. This facilitated another layer of transparency but we do wonder why this information was not provided as a matter of course.

A genuine co-design process for stakeholder engagement would have revealed that consumers have a strong desire to better understand the impacts of what is coming and how it relates to the current and future revenue proposals. We understand this is difficult in such a dynamic environment but the journey to gain joint understanding, even if there is disagreement, is worthy in itself. We encourage the AER to also adjust their approach to include greater consideration of the issues that are keeping consumers awake at night.

Other general observations of the Revenue Proposal are as follows:

- If contingent projects are excluded, the proposal aims to deliver lower prices for NSW energy users, however we note that much of this comes from a lower cost of capital. This is consistent with other revenue proposals we have seen. The question remains, what to do when the interest rate cycle starts to turn? This question remains unanswered by all NSP's.
- The AER building block approach requires a fairly standardized approach by regulated networks. This does make it easier to benchmark performance and for advocates to understand the main elements of the proposal. The Better Resets handbook is also a useful resource.

- While we have not conducted detailed economic analysis of the proposal, nothing in the Transgrid revenue proposal jumps out as being significantly divergent from other revenue proposals we have seen. We will leave it to the AER to determine if costs are prudent and efficient.
- The Energy Vision process that has helped inform this proposal was viewed positively by many TAC members as it provided added context and clarity of future scenarios.
- The customer research was not viewed as positively. Research of this nature is becoming common and NSP's need to be wary of framing research so that it does not appear to be self-serving or used to justify a desired outcome.

Transgrid have begun a detailed engagement process around their System Security Roadmap where they are contemplating what would be required of them to manage a 100% instantaneous penetration of renewable energy by 2025. This is consistent with issues raised by AEMO as they prepare systems, processes' and people for what must be considered as a highly probably occurrence, if not by 2025 then certainly during the 2023-2028 revenue period.

We understand Transgrid will likely adjust their 2023-2028 revenue proposal to take into consideration the costs associated with managing this. We will participate in the process to ensure that appropriate, prudent and efficient actions are being taken and that we do not see an overlap of systems, resources and costs between AEMO and Transgrid (or other network service providers).

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

Kind regards,



Andrew Richards
Chief Executive Officer