

# Annual revenue adjustment decision

**Transgrid – Waratah Super Battery –  
System Integrity Protection Scheme Service  
component**

Made under the Electricity Infrastructure  
Investment Act 2020 (NSW)

**June 2023**

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## Overview

On 30 March 2023, Transgrid submitted to the AER a revenue adjustment proposal in relation to its SIPS Service determination.<sup>1</sup> The SIPS Service is part of the Waratah Super Battery (WSB) project.

The AER made the SIPS Service determination for Transgrid under the *Electricity Infrastructure Investment Act 2020 (NSW)* (EII Act) on 14 December 2022.<sup>2</sup> The determination sets out a quarterly schedule of payments to Transgrid for the 5.5 year project term of the SIPS Service. The determination included 12 adjustment events/mechanisms that allow for annual changes to the schedule of payments over the project term.

Transgrid's revenue adjustment proposal seeks to update the schedule of payments for the SIPS Service determination to reflect the occurrence of *adjustment event 1: change in foreign exchange rate*. The proposal would result in a reduction in the amount payable to Transgrid over the project term of [REDACTED], around 7 per cent of the total amount payable.

We are satisfied that the conditions for application of *adjustment event 1: change in foreign exchange rate* have been met and that Transgrid has accurately applied the adjustment to calculate a revised schedule of payments. On this basis, our decision is to approve the negative adjustment amount.

The AER has considered the confidentiality claims made by Transgrid in relation to its revenue adjustment proposal. For this decision we have redacted the calculation and amount of the adjustment, as well as the total and annual amounts payable to Transgrid for the SIPS Service. However, we will publish the total and annual amounts payable for the SIPS Service and Paired Generation Services in aggregate once we have made our determination for Paired Generation Services.

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<sup>1</sup> <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/waratah-super-battery-project-%E2%80%93-sips-battery-service-contestable/update>

<sup>2</sup> <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/waratah-super-battery-project-%E2%80%93-sips-battery-service-contestable/final-decision>

# 1 Introduction

This section sets out the AER’s role in assessing revenue adjustment applications from network operators and provides information on Transgrid’s application.

## 1.1 Overview of the framework

The AER was appointed as a Regulator under the EII Act in November 2021. A key function for us under Division 3 of Part 5 of the EII Act is to determine amounts payable to Network Operators selected to carry out network infrastructure projects. These amounts are to be set out in a schedule of payments.

Our determinations may include provision for the adjustment of any amount in the schedule of payments, including the timing or circumstances of when an adjustment must be carried out.<sup>3</sup> All adjustments must be carried out in accordance with our Revenue determination guideline for NSW contestable network projects (Guideline)<sup>4</sup> and, for a revenue determination made as a result of a competitive assessment process, any adjustment provisions must be consistent with the contractual arrangements the Network Operator entered into as required under a relevant authorisation.<sup>5</sup>

## 1.2 Waratah Super Battery Project

On 14 October 2022, the NSW Minister for Energy published an Order directing Transgrid as the Network Operator to carry out the WSB project.<sup>6</sup>

As part of the WSB project, a System Integrity Protection Scheme (SIPS) Service is to be provided by a battery energy storage system with minimum capacity of 700 megawatts (MW) and 1,400 megawatt hours (MWh).

EnergyCo (as the appointed Infrastructure Planner for the WSB project) conducted a competitive assessment process for the SIPS Service and selected Akaysha Energy (Akaysha) as the successful tenderer. Transgrid subsequently contracted with Akaysha to provide the SIPS Service for a period of 5.5 years.

In December 2022, the AER determined the amounts payable to Transgrid for the SIPS Service which, in turn, Transgrid will pay to Akaysha (SIPS Service determination).<sup>7</sup> The amounts payable were set out in a schedule of payments and reflected the outcome of the competitive process. The SIPS Service determination commences on 1 July 2023.

The SIPS Service determination included 12 adjustment events/mechanisms that could result in adjustments to the schedule of payments over the project term.

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<sup>3</sup> EII Regulation 51(1), (2)(a).

<sup>4</sup> See <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/revenue-determination-guideline-for-nsw-contestable-network-projects/final-decision>

<sup>5</sup> EII Regulation 51(2), (3).

<sup>6</sup> See [https://gazette.legislation.nsw.gov.au/so/download.w3p?id=Gazette\\_2022\\_2022-473.pdf](https://gazette.legislation.nsw.gov.au/so/download.w3p?id=Gazette_2022_2022-473.pdf).

<sup>7</sup> See <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/waratah-super-battery-project-%E2%80%93-sips-battery-service-contestable>.

### 1.3 Transgrid’s application

On 30 March 2023, Transgrid submitted to the AER a revenue adjustment proposal for the SIPS Service determination.

The proposal seeks an adjustment to the schedule of payments to reflect the occurrence of *adjustment event 1: change in foreign exchange rate*.<sup>8</sup> This adjustment event requires the schedule of payments to be updated to reflect any difference between the AUD/USD exchange rate at the date of contract close and the assumed exchange rate included in the contractual arrangements between Transgrid and Akaysha. This is a once off adjustment that must be applied in the first annual adjustment review following contract close.

Transgrid submits that on the date of contract close, being 14 December 2022, the relevant AUD/USD exchange rate was [REDACTED]. This rate is higher than the assumed rate in the contractual arrangements between Transgrid and Akaysha of [REDACTED]. On this basis, Transgrid is seeking a reduction in the payments it receives over the 5.5 year period [REDACTED] (table 1).

**Table 1: Total and annual amounts payable (\$m, nominal)**

Year	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Annual payment in revenue determination	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proposed annual adjustment amount	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Revised annual payment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

### 1.4 Structure of the decision

This document sets out our assessment and decision on whether an adjustment event has occurred, the adjustment amount, the changes required to the schedule of payments as a result of the adjustment, and our reasons for the decision.

The decision is structured as follows:

- Section 2 sets out our decision on Transgrid’s revenue adjustment proposal.
- Section 3 outlines the relevant regulatory requirements that we have had regard to, and our assessment approach.

<sup>8</sup> Adjustment events are set out in section 7.4.1 of the SIPS Service determination.

- Section 4 sets out our reasons for the decision.
- Section 5 sets out our position on confidentiality of the decision.

## 2 Decision

Based on our consideration of all the matters set out in this decision, we determine that Transgrid's revenue adjustment proposal, submitted on 30 March 2023, establishes that the trigger for *adjustment event 1: change in foreign exchange rate* has occurred. Transgrid's proposal accurately calculates the adjustment to be applied to the schedule of payments for the SIPS Service determination resulting from the adjustment event. Our assessment against the requirements of the adjustment event and our guideline is summarised in section 4.

Our decision is to approve a negative adjustment amount of [REDACTED] to the schedule of payments, around 7 per cent of the total amount payable. The adjustment is allocated across the quarterly payments to Transgrid as set out in table 2.



Decision – Annual adjustment for SIPS Service Determination – 2023–24 – Transgrid

**Table 2: Total and quarterly amounts payable – seasonal sculpted core service (\$, nominal)**

Service quarter	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025	Dec 2025	Mar 2026	Jun 2026	Sep 2026	Dec 2026	Mar 2027	Jun 2027
Payment date						█	█	█	█	█	█	█	█	█	█	█
Annual payment in revenue determination						█	█	█	█	█	█	█	█	█	█	█
Annual adjustment amount						█	█	█	█	█	█	█	█	█	█	█
Revised annual payment						█	█	█	█	█	█	█	█	█	█	█

Service quarter	Sep 2027	Dec 2027	Mar 2028	Jun 2028	Sep 2028	Dec 2028	Mar 2029	Jun 2029	Sep 2029	Dec 2029	Mar 2030	Jun 2030	Total
Payment date	█	█	█	█	█	█	█	█	█	█	█	█	
Annual payment in revenue determination	█	█	█	█	█	█	█	█	█	█	█	█	█
Annual adjustment amount	█	█	█	█	█	█	█	█	█	█	█	█	█
Revised annual payment	█	█	█	█	█	█	█	█	█	█	█	█	█

### 3 Relevant regulatory requirements and assessment approach

Revenue determinations under the EII Act may include provision for adjustment of any amount included in the determination.<sup>9</sup> The adjustment provision may specify the time or circumstances in which the adjustment must be carried out.<sup>10</sup>

Adjustments must be carried out in accordance with our Guideline issued under EII Regulation 47, and for a contestable revenue determination, the underlying contractual arrangements.<sup>11</sup>

Our SIPS Service determination set out 12 adjustment events/mechanisms that may result in adjustment to the amount payable to Transgrid in relation the SIPS Service component of the WSB project. For each adjustment event/mechanism, the determination sets out:<sup>12</sup>

- a description of the adjustment
- how the adjustment is to be applied to the revenue determination, including how the schedule of payments is to be adjusted
- timing of the adjustment
- a formulaic description of the adjustment calculation.

Our Guideline sets out our process for assessing annual adjustment proposals from a Network Operator, including the timing of those proposals and our assessment decisions.<sup>13</sup>

A revenue adjustment proposal must include evidence supporting the proposed adjustments, including details of any inputs into the adjustment calculation.

We require network operators to provide all relevant information required for the AER to assess the proposed adjustment at least 63 business days prior to the start of the regulatory year in which the adjusted revenue will first apply.

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<sup>9</sup> EII Regulation 51(1).

<sup>10</sup> EII Regulation 51(2).

<sup>11</sup> EII Regulation 51(3).

<sup>12</sup> AER, SIPS Service determination, Appendix D: Revenue adjustments.

<sup>13</sup> AER, Revenue determination guideline for NSW contestable network projects, section 7.5.

## 4 Reasons for determination

The sections below set out the reasons for our decision.

### 4.1 Adjustment event

We must decide whether an adjustment event has occurred.

For *adjustment event 1: change in foreign exchange*, the relevant event is the AUD/USD exchange rate on the date of contract close differing from the assumed exchange rate included in the contractual arrangements between Transgrid and Akaysha. The assumed exchange rate is [REDACTED].

Contract close for the contractual arrangements between Transgrid and Akaysha occurred on 14 December 2022. The actual exchange rate is to be calculated as the average AUD/USD exchange rate published by Bloomberg [REDACTED]. The Bloomberg published exchange rate for that period of time is set out in table 3.

**Table 3: AUD/USD exchange rate**

Time (AEDT)	AUD/USD exchange rate
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

As the actual AUD/USD exchange rate on the date of contract close ([REDACTED]) is higher than the assumed rate in the contractual arrangements between Transgrid and Akaysha, we consider the trigger for application of *adjustment event 1: change in foreign exchange* has occurred.

## 4.2 Timing of Transgrid’s application

Transgrid is required to submit an annual Revenue Adjustment Proposal to us no later than 63 business days before the start of each regulatory year.<sup>14</sup>

A revenue adjustment proposal for *adjustment event 1: change in foreign exchange* can only be submitted as part of the first annual revenue adjustment proposal following the date of contract close for the contractual arrangement between Transgrid and Akaysha.<sup>15</sup>

Transgrid’s revenue adjustment proposal for the 2023–24 regulatory year meets these requirements as:

- the annual revenue adjustment proposal submission date of 30 March 2023 is 63 business days before the start of the 2023–24 regulatory year
- the proposal is the first annual revenue adjustment proposal following contract close on 14 December 2022.

Our Guideline sets an indicative timeframe for us to make a revenue adjustment decision of 42 business days from receipt of the revenue adjustment proposal. For this proposal, that date is 1 June 2023.

Transgrid supported a delay in us making our adjustment decision until later in June.



## 4.3 Assessment of the adjustment amount

Our SIPS Service determination sets out the formula for calculating the adjustment to the annual service charge following the occurrence of *adjustment event 1: change in foreign exchange*.



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<sup>14</sup> AER, Revenue determination guideline for NSW contestable network projects, section 7.5.1.

<sup>15</sup> AER, SIPS Service determination, section 7.4.1.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

#### 4.4 Adjustment to schedule of payments

The revenue model provided as part of Transgrid’s revenue proposal for the SIPS Service (as amended during that process) applied the annual service charge agreed in the contractual arrangements between Transgrid and Akaysha to calculate a schedule of payments. [REDACTED]

[REDACTED]

Transgrid’s revenue adjustment proposal applies the updated annual service charges in the model to calculate a revised schedule of payments. We have reviewed the model provided by Transgrid and consider that it accurately calculates a revised schedule of payments based on the updated annual service charges.

The total adjustment to the schedule of payments is a reduction of [REDACTED] over the 5.5 year project term. The updated schedule of payments applies the adjustment across all quarterly payments for the project term. The updated annual service charge is allocated to each quarter on the same basis used to allocate the annual service charge in the original determination.

## 5 Confidentiality

The AER has considered the confidentiality claims made by Transgrid in relation to its adjustment proposal. Consistent with our SIPS Service determination, we accept that the schedule of payments, detailed information about the adjustment mechanisms and some contextual information over which confidentiality is claimed should be redacted in the public version of our decision. This information is considered commercial in confidence and disclosure may impact on future competitive assessment processes. However, we are of the view that the total and annual amounts payable to Transgrid for the contestable elements of the WSB project in aggregate should be published.

For this decision we have agreed to redact the total and annual amounts payable in the public version of the decision on the basis that we will publish total and annual amounts payable for the SIPS Service and Paired Generation Services in aggregate once we have made our determination for Paired Generation Services. We will also update these aggregate amounts should there be any further adjustments to them over the term of the WSB project. We consider this provides the transparency required by consumers, while protecting the confidentiality of competitively sensitive information. We note that Transgrid and EnergyCo have previously agreed to the AER publishing the aggregate amounts.



## Glossary

Term	Definition
AER	Australian Energy Regulator.
Competitive assessment process	The contestable process undertaken by the Infrastructure Planner to select a Network Operator for a Project or to select a person who will assist a Network Operator in carrying out all or part of a Project.
Contractual arrangement	Contracts that the Network Operator enters into as required under the Consumer Trustee’s authorisation or Minister’s authorisation or direction. This includes contracts made between the Infrastructure Planner and the Network Operator for carrying out a network infrastructure project under section 63(4)(a) of the EII Act. Contractual arrangements may also encompass any contracts between the Network Operator and a service provider selected by the Infrastructure Planner through a competitive assessment process to assist the Network Operator to carry out all or part of a Project.
EII Act	<i>Electricity Infrastructure Investment Act 2020</i> (NSW).
EII Regulations	Any regulations made under the EII Act.
Guideline	The <i>Revenue Determination Guideline for NSW contestable network projects</i> prepared and published by the AER in August 2022 as updated from time to time.
Minister	The New South Wales Minister for Energy
Network Operator	Means a person who owns, controls or operates, or proposes to own, control or operate, network infrastructure under the EII Act.
SIPS	System Integrity Protection Scheme
SIPS Service	A service capable of providing a guaranteed continuous active power capacity of at least 700 MW and a guaranteed useable energy storage capacity of at least 1400 MWh.
SIPS Service determination	AER, <i>Revenue Determination (Contestable), Transgrid – Waratah Super Battery – System Integrity Protection Scheme Service component</i> , December 2022.
Transgrid	NSW Electricity Network Operations Pty Limited (ACN 609 169 959) as trustee for NSW Electricity Networks Operations Trust (ABN 70 250 995 390), trading as Transgrid the Network Operator for the WSB project
Waratah Super Battery (WSB) project	The Waratah Super Battery project comprising contestable components (SIPS Service and Paired Generation Services) and non-contestable components (the SIPS control and communications system and network augmentations).