

TRANSMISSION PLANNING AND INVESTMENT (TPIR) REVIEW

PUBLIC FORUM – STAGE 2 FINAL REPORT
(SHORT-TERM REFORMS)

3 NOVEMBER 2022

AEMC

Agenda

1. Purpose of today's presentation
2. Overview of the Review
3. Stage 2 final report recommendations (near-term reforms)
4. Q&A
5. Next steps

ACKNOWLEDGEMENT OF COUNTRY

INTRODUCTION AND WELCOME

Danielle Beinart— A/EGM Networks and Technical

Purpose of today's presentation



AEMC staff will provide an update on the delivery of the Review and its key stages



AEMC staff will provide an overview of the final recommendations for Stage 2 of the Review



Forum participants will be invited to ask questions in a dedicated Q&A session

Housekeeping

- All participants are currently in 'listen-only' mode
 - Moderators can switch your mic/video on if you specifically request it
- Asking questions
 - Use the Q&A button on the bottom of your screen
 - Questions will be answered at a dedicated Q&A session
 - We will try to answer all questions, but will prioritise questions with most 'upvotes'
- Presentations from today will be posted on our website after the webinar, along with a recording of the forum

Before we start, an important notice: Compliance with Competition Law

The attendees must not discuss, or reach or give effect to any agreement or understanding which relates to:

- Pricing
- Targeting markets or customers
- Tendering processes
- Boycotting other parties
- Sharing competitively sensitive information
- Breaching confidentiality obligations

Each entity must make an independent and unilateral decision about their commercial positions.

OPENING REMARKS

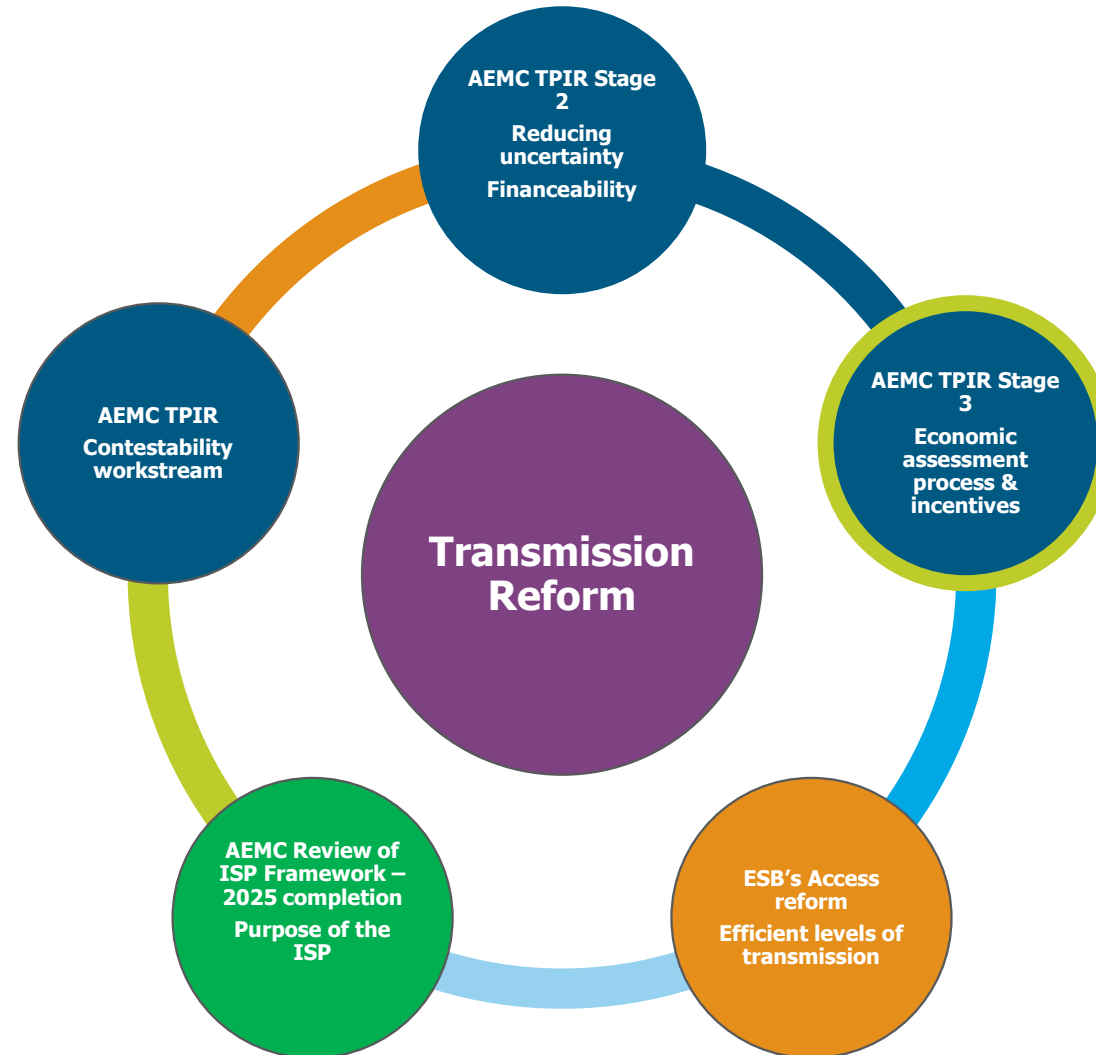
Anna Collyer – Chair

OVERVIEW OF THE REVIEW



Alisa Toomey – Acting Director

The stage 2 final report is part of a larger body of work to support the transition to net zero through the efficient use and delivery of transmission infrastructure



To implement the recommendations rule changes and updates to AER guidelines are required



The Commission's final TPIR recommendations do not automatically amend the National Electricity Rules (NER) given this is a Review process.



If a rule change request is submitted to the AEMC in relation to one of the issues considered as part of Stage 2 the Commission can then commence the rule change process. The AEMC cannot change the rules without a rule change request being received.



If a rule change proponent submits a rule change request based on this Review, the AEMC could fast-track the rule-making process if the rule change is based on a conclusion of the review or follow the standard timeframe:

- Under a **fast-track process**, the AEMC publishes a draft rule determination without the need for a consultation paper (as consultation has already occurred during the Review process). If new substantive issues arise or the issue is very controversial, additional consultation may be necessary. The AEMC can make a rule within around 4 months under such a fast-track process, assuming no new substantive issues arise.
- Under a **standard process**, the AEMC publishes a consultation paper and a draft rule determination. If new substantive issues arise or the issue is very controversial, additional consultation may be necessary. The AEMC can make a rule within around 6 months under such a standard process.

STAGE 2 FINAL REPORT - RECOMMENDATIONS

SOCIAL LICENCE

Alisa Toomey – A/Director

We recommend additional guidance be provided on **recovery of social licence costs**

The Commission considers there are several opportunities for additional guidance to be provided in the Rules and by the AER in its guidelines

This additional guidance will clarify the arrangements that support TNSPs in carrying out activities that build and maintain community acceptance of major transmission projects



The Commission recommends that the AER provide additional guidance to stakeholders regarding how the costs associated with building and maintaining social licence for major transmission projects should be **considered and assessed** as part of the regulatory process.

This includes guidance on:

- the consideration and assessment of costs associated with social licence activities in the RIT-T
- the AER's approach to the assessment of efficient costs under the different cost recovery avenues, and
- the application of cost pass-throughs for unexpected and unavoidable costs, including those incurred under jurisdictional planning and environmental approval processes.

It is **critical** that TNSPs are clear on which social licence costs are recoverable and the mechanism for recovering those costs

We recommend additional guidance be provided on **TNSP engagement with local communities**



The Commission recommends that the AER provide additional guidance to stakeholders around its **expectations** on TNSPs regarding engagement and consultation with local communities and other stakeholders affected by major transmission projects at key stages in the planning process.

This includes guidance on:

- the definition of “credible option” as it relates to the requirement for a credible option to be implemented in sufficient time to meet the identified need, and
- the AER’s expectations on TNSPs to engage and consult with local communities and other stakeholders affected by major transmission projects at key points in the planning process, including the RIT-T stage.

It is **critical** that TNSPs and other stakeholders critical to building and maintaining social licence are clear on when engagement and consultation on a major transmission project is of most value



Further, the Commission recommends changes be made to the Rules to ensure that the expectations on TNSPs to engage and consult local communities and other affected stakeholders at key points in the planning process are consistent for all major transmission projects identified through the ISP - that is, for REZs, future ISP projects and actionable ISP projects.

These changes include:

- expanding the definition of “preparatory activities” to include engagement and consultation with local councils, local community members and other relevant community stakeholders
- expanding the definition of “interested party” as it applies to the RIT-T consultation procedures for actionable ISP projects to include local councils, local community members and other relevant community stakeholders, and
- extending the expectations currently in place on jurisdictional planning bodies (JPBs) in respect of engagement and consultation for REZs to also apply to engagement and consultation undertaken by TNSPs in respect of future and actionable ISP projects

FINANCEABILITY

Rupert Doney – Senior Adviser

We recommend the framework should have the flexibility to vary depreciation for actionable ISP projects if financeability issues arise

Financeability refers to the ability of TNSPs to efficiently raise capital to finance their activities.

Whilst there is currently no clear evidence of financeability issues, successive ISP iterations could see major transmission works moved forward or bunched in a way that creates a risk of financeability issues arising in the future.



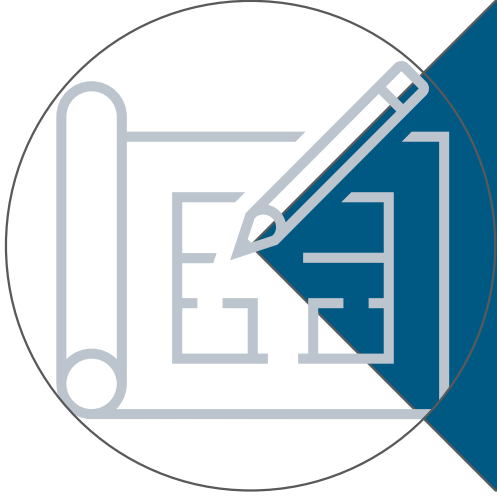
Accordingly we think the revenue setting framework would benefit from more flexibility to address the risk that financeability challenges may prevent ISP projects from progressing in a timely manner.



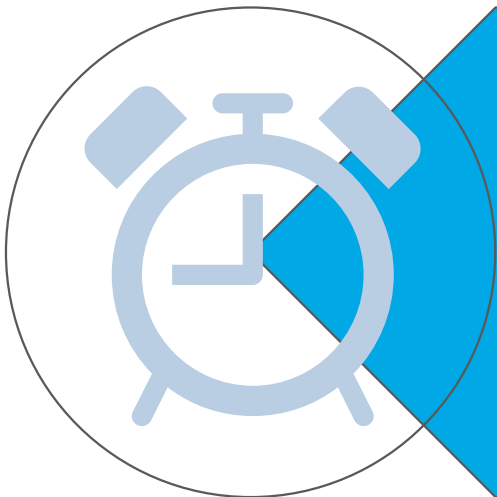
To address this issue, the Commission's final recommendation is that:

- (i) the AER should have explicit discretion to vary the depreciation profile for an actionable ISP project on a case-by-case basis following a request for amendment from a TNSP, and
- (ii) the NER should include a set of principles to guide the AER's approach when determining requests to amend the depreciation profile.

The recommended reforms can be implemented in a timely manner once a rule is made



We recommend that the AER be able to make decisions to vary depreciation based on the depreciation principles in the NER, which can then be supplemented with more detailed information in an AER guidance note



To facilitate investment certainty, we recommend a two-step process:

1. TNSPs will be able to submit an initial request for accelerated depreciation pre-CPA lodgement. This will provide TNSPs and investors with an indication of the bounds of any depreciation adjustment
1. The AER will make its final depreciation decision concurrently with the CPA decision.

EARLY WORKS

Viashin Govender – Adviser

We recommend additional guidance on the meaning of early works

- Stakeholders find it difficult to distinguish between preparatory activities and early works
- The term 'early works' is used inconsistently across regulatory documents
- To improve clarity, the Commission recommends the below description of early works:



Early works are activities that **commence prior to the construction of the preferred option**, with the purpose to

- 1) improve the accuracy of cost estimates, and/or
- 2) to ensure that a project can be delivered within the time frames specified by the most recent ISP.



The Commission recommends that the AER update any references to early works in its guidelines to be consistent with the above description. Following this, AEMO's use of early works in the publication of the ISP and other documents should be consistent with the updated AER guidelines.

We consider that the existing regulatory arrangements appropriately manage uncertainty regarding cost recovery for preparatory activities and early works



Preparatory activities

TNSPs can include forecast expenditure for preparatory activities in TNSPs revenue proposals.

Further, the existing cost pass-through mechanism can be applied to recover the costs of preparatory activities, where there is a risk of material unforeseen increases to the cost of preparatory activities.

As such, no further principles or prescription is needed.



Early works

The existing CPA process is appropriate to recover the cost of early works. A TNSP may submit a separate CPA for costs related to early works, prior to submitting a CPA for the total costs of a project.

It may be beneficial for the AER to provide further guidance on how it balances efficiency and timeliness in the assessment of early works expenditure and what information TNSPs should provide to aid the AER in its assessment.

FEEDBACK LOOP



Martina McCowan – Senior Adviser

We recommend changes to improve the workability of the feedback loop

Align the feedback loop with a draft or final ISP

- We recommend establishing an exclusion window for feedback loop requests between the publication of the final IASR and draft ISP
- Feedback loop requests are permitted at any other time in the ISP cycle
- To be given effect through amendments to the AER's CBA Guidelines

Allow the feedback loop and CPA processes to run concurrently

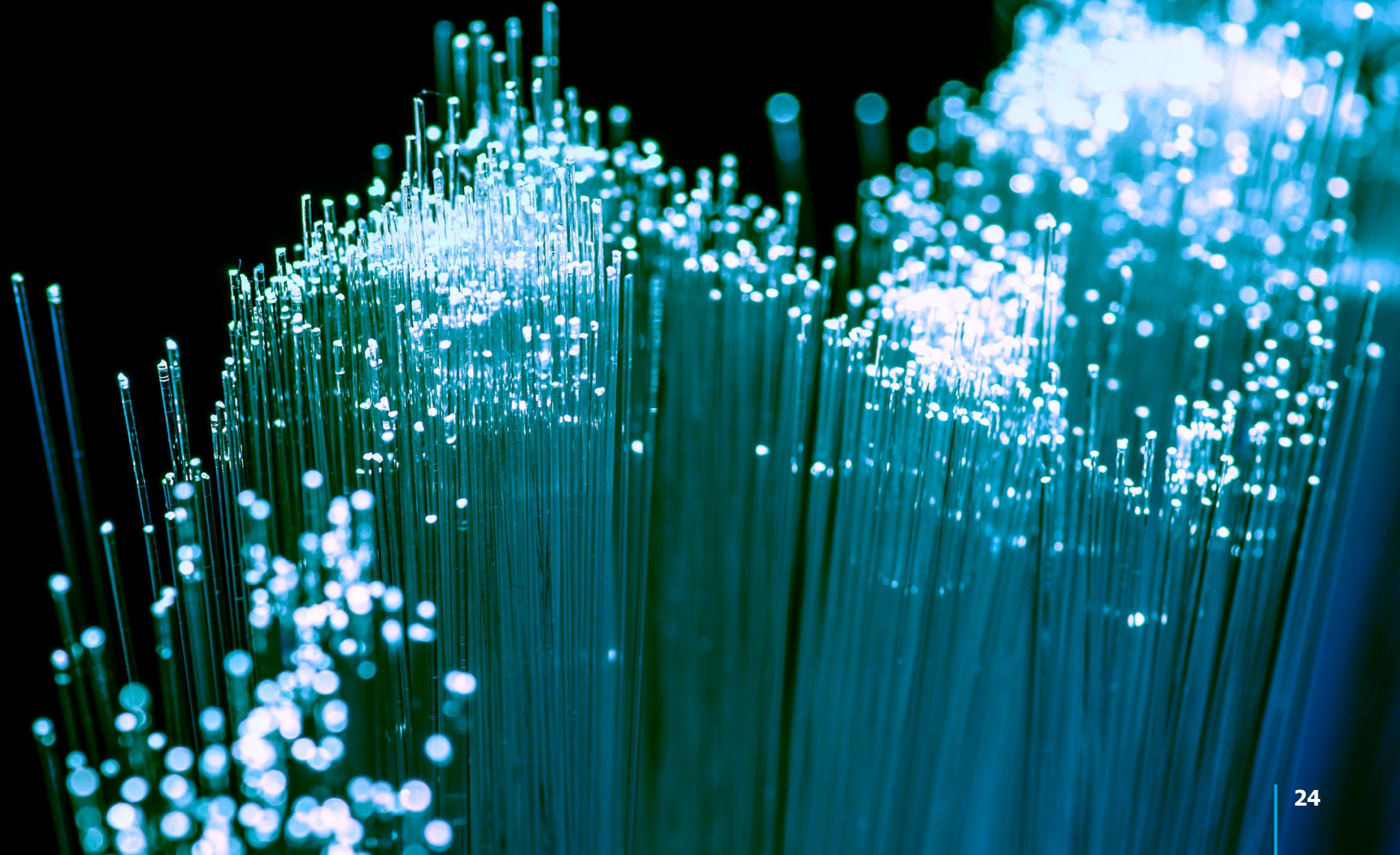
- Amending the NER to allow the feedback loop and CPA processes to run concurrently addresses concerns around the potential for delay due to the bunching of feedback loops around a draft or final ISP
- RIT-T proponents could still request the feedback loop prior to submitting a CPA – this change does not mandate that the two processes proceed concurrently

Place a timeframe on AEMO to complete the feedback loop

- We recommend to amend the NER so that:
 - AEMO has a 40-business day baseline to complete the feedback loop
 - AEMO can have an additional 60-business days if the assessment is particularly complex
 - The timeframe for AEMO to complete the feedback loop commences from the later of the request from the RIT-T proponent or the return of information following an information request from AEMO

QUESTIONS?

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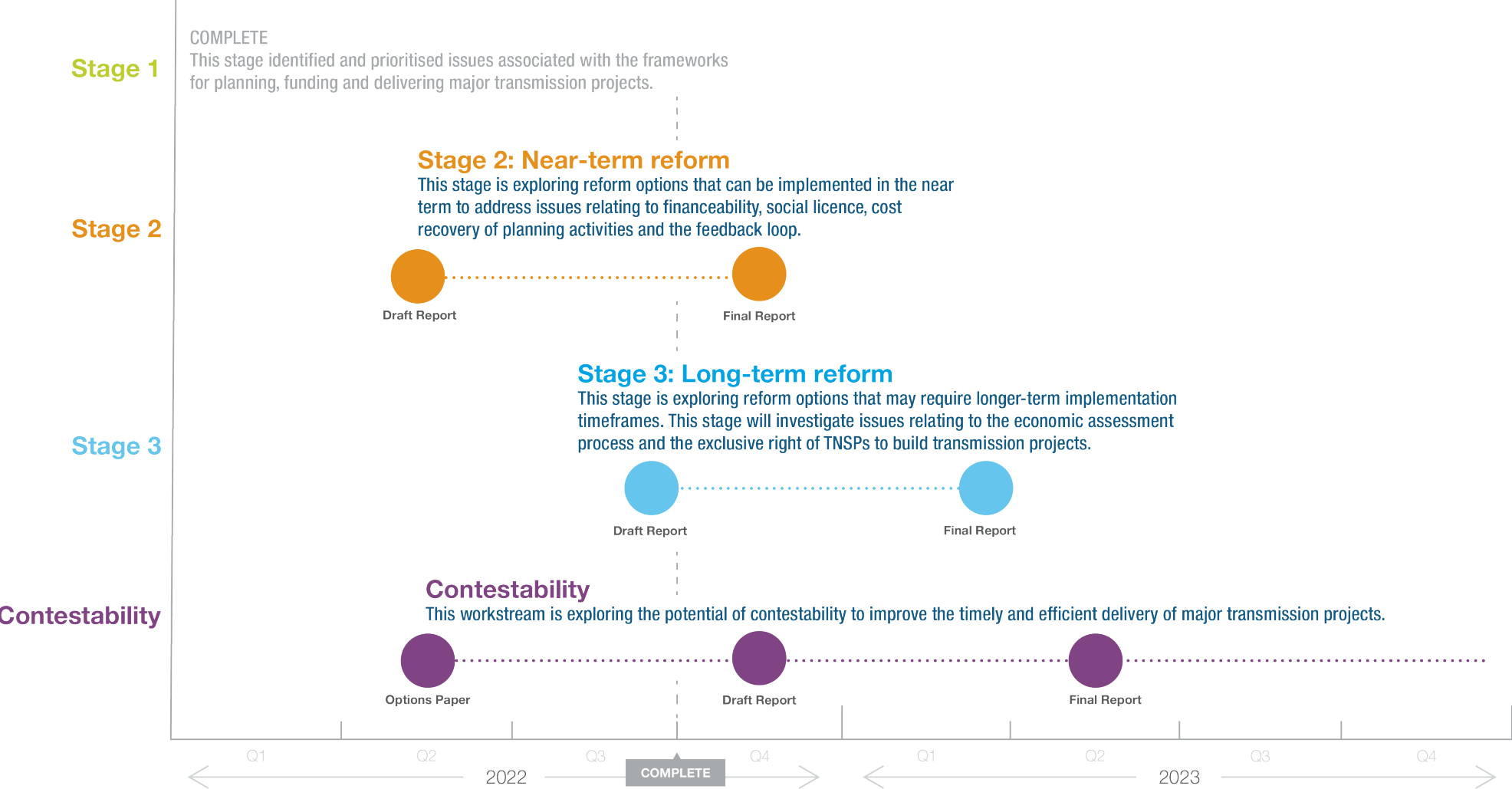


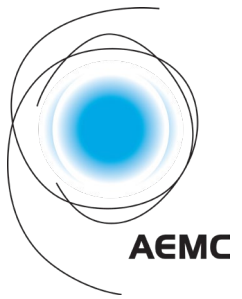
CLOSE AND NEXT STEPS

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Next steps

Timeline to progress the Review





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