



# INFORMATION

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## Accommodating financeability in the regulatory framework

### We have published a consultation paper seeking your feedback

On 8 June 2023, the Australian Energy Market Commission (AEMC) published a consultation paper in response to a rule change request from the Honourable Chris Bowen MP, Commonwealth Minister for Climate Change and Energy (the Minister). The rule change seeks to address financeability challenges for Transmission Network Service Providers (TNSPs) in relation to actionable Integrates System Plan (ISP) projects.

We are seeking stakeholder submissions on the consultation paper, by **14 July 2023**.

### Context

Australia is undergoing a transformational shift to net zero. A key feature of this transformation is the replacement of centralised thermal generation with decentralised renewable generation.

There is broad consensus that transmission is a critical enabler for the transition to net zero, both in the National Electricity Market (NEM) and the economy more broadly. This transition will require an unprecedented level of investment in, and build of, transmission infrastructure to deliver power from renewable generation and energy storage to consumers, and to deliver infrastructure quickly.

The scale of transmission investment required, coupled with the speed of the energy transition, presents unique opportunities and challenges for the existing regulatory framework. This framework was developed and has evolved over a period of incremental growth of the grid where the framework was weighted to minimise the risk of overbuilding, rather than the current required pace of step-change growth set out in the Australian Energy Market Operator's (AEMO) ISP.

The scale and pace of investment required for the transition to net-zero raises questions as to whether actionable ISP projects will be financeable, and this is the topic of the rule change request. In this context, financeability refers to the ability of TNSPs to efficiently raise capital to finance their activities.

### Overview of the Ministers' rule change request

The Minister considers that there is a foreseeable risk that financeability challenges could arise for actionable ISP projects, which may impact the timely and efficient delivery of these major transmission projects. This is because:

- TNSPs may face challenges in raising capital to proceed with ISP projects
- the existing revenue framework is not sufficiently flexible to address financeability challenges that may arise in future.

The Minister's view reflects the conclusions set out recently by the Commission in Stage 2 of its Transmission Planning and Investment Review (TPIR).

To address the risk faced by TNSPs, the Minister submitted a rule change request on 11 April 2023 that seeks to do the following.

- Introduce greater flexibility in the revenue-setting framework in the National Electricity Rules (NER) to vary the depreciation profile of assets that form part of an actionable ISP project. This reflects our recommended solution in TPIR.
- Allow TNSPs to recover depreciation of biodiversity offset costs on an as incurred basis. We did not raise this solution in TPIR.

- Clarify the treatment of depreciation for asset classes, including biodiversity offsets. We did not raise this solution in TPIR.

The Minister expects that, if the proposed solution is implemented to allow depreciation profiles for assets that form part of actionable ISP projects to be varied, it would be the primary mechanism that TNSPs use to address their financeability concerns. Up until recently, TNSPs have sought alternative methods to address their financeability concerns. These methods have included sourcing concessional finance from the Commonwealth Government, for example through the Rewiring the Nation (RTN) program.

### Related rule change process

The Commission is separately considering a rule change request from the Minister on *Concessional Finance for Transmission Network Service Providers*. That rule change request relates to amending the NER to enable the AER to take into account how any financial benefits that may arise from concessional financing of transmission infrastructure are shared between consumers and TNSPs.

### Background on financeability of actionable ISP projects

Financeability challenges for TNSPs may arise from the way that cash flow is impacted by large investments in ISP projects relative to their existing Regulatory Asset Bases (RABs), over a short period. If TNSPs are unable to adapt their capital structures sufficiently quickly, this could negatively impact some financial metrics that are used to assess their creditworthiness.

In our TPIR Stage 2 final report, we concluded that there was currently no clear evidence of financeability issues with specific projects or TNSPs. However, we recognised that successive ISP iterations could see the timing of major transmission projects moved forward or bunched in a way that creates a risk of financeability issues arising in the future.

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