

3 December 2020

Ms Merryn York  
Acting Chair  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Via online submission

Dear Ms York

### **RE Financeability of Integrated System Plan Projects**

TasNetworks welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) consultation on rule change requests from TransGrid and ElectraNet on Financeability of Integrated System Plan (**ISP**) Projects.

TasNetworks is the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider and Jurisdictional Planner in Tasmania, and is also the proponent for Marinus Link, a proposed new interconnector between Tasmania and Victoria. The focus in all of these roles is to deliver safe, secure and reliable electricity network services to Tasmanian and National Electricity Market (**NEM**) customers at the lowest sustainable prices. Therefore, TasNetworks supports efforts to ensure actionable ISP projects are financeable.

TasNetworks has contributed to and supports Energy Networks Australia's (ENA) submission and would like to make several further comments with a particular focus on the Tasmanian context.

The 2020 ISP identifies actionable projects which are forecast to cost between \$8.1 and \$15.1 billion over the period 2022-32. When compared to the current transmission regulatory asset bases of \$21.4 billion these projects clearly represent a significant investment in the NEM. TransGrid and ElectraNet, as proponents of the first actionable ISP projects to progress, have identified that the current economic regulatory framework in the National Electricity Rules can lead to significant financing issues with the ISP projects. The current regulated revenue recovery mechanism delays revenue recovery for a project by compensating the TNSP for inflation by indexing the Regulation Asset Base (**RAB**) and recognising capital expenditure for depreciation purposes on a commissioned basis. Whereas, this proposal is to establish an annual building block revenue requirement for actionable ISP projects that removes

indexation of the RAB and requires that depreciation be calculated on capital expenditure on an 'as incurred', as opposed to 'as commissioned', basis.

TasNetworks expects financeability to be a common problem for large ISP projects, including Marinus Link. Financeability however is unlikely to be the only barrier to ISP project progression. In the Marinus Link Project Assessment Draft Report<sup>1</sup>, TasNetworks identified the 'who pays' question as an outstanding issue to be resolved for the project to proceed. The recently released Marinus Link Supplementary Analysis Report<sup>2</sup> highlighted that for a number of stakeholders, a key concern is that the current transmission pricing arrangements would result in Tasmanian customers paying a disproportionate share of project costs when compared to the distribution of project benefits across the NEM regions. TasNetworks' primary concern is to ensure that the transmission pricing arrangements deliver fair and reasonable outcomes for customers in each region. A solution is being sought by Marinus Link that better matches the costs borne by each region with benefits received.

TasNetworks supports the Financeability of ISP Projects rule change requests as a practical and balanced solution that enables realisation of the demonstrated net market benefits of the ISP projects. However, we recognise that the resolution of financeability increases charges to customers in the near-term, bringing forward revenue will lead to higher charges earlier (offset by lower charges into the future). We would seek to ensure that all alternative solutions that minimise customer price impact have been considered, including Commonwealth support for financing and use of financial market products, for example extending tenure of debt or swapping floating for fixed debt.

Should these rule changes be approved as participant derogations, TasNetworks supports Energy Networks Australia (**ENA**) in proposing that the arrangements applied as participant derogations should be an option available to all large renewal ISP projects that face the same problem. In widening the application, TasNetworks would expect an understanding to be sought for each ISP project of the customer impact from changing the revenue recovery profile.

With a high level of regulatory reform underway, careful and holistic consideration should be given to inter-relationships and the impact other regulatory activity may have on the efficacy of the proposed rule changes. In particular, TasNetworks would highlight the AEMC's upcoming Transmission Investment Review and the Australian Energy Regulator's Review of the Treatment of Inflation 2020. Should the participant derogations be agreed, the Transmission Investment Review may be an appropriate forum to address how agreed principles relating to financeability would be available more broadly to projects that share the problem. Consideration should be given to the impact that the outcome of the Review of the Treatment of Inflation may have on the financeability benefit realised from the rule change proposal to remove indexation from the RAB for actionable ISP projects.

For more information or to discuss this submission, please contact TasNetworks' Regulation Leader, Chantal Hopwood, at [Chantal.Hopwood@tasnetworks.com.au](mailto:Chantal.Hopwood@tasnetworks.com.au).

Yours sincerely

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<sup>1</sup> Project Marinus, [RIT-T Project Assessment Draft Report](#)

<sup>2</sup> Project Marinus, [Regulatory Test for Transmission Supplementary Analysis Report](#)



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