



TransGrid

TransGrid Advisory Council Meeting Summary

19 August 2021

1. TAC Meeting attendees

Date	19 August, 2021
Venue	Via WebEx due to COVID lockdowns in NSW, Vic, ACT
Time	9.00am – 11.00am
Chairperson	Brian Salter, Acting CEO

TransGrid attendees:	<p>Brian Salter, Acting CEO TransGrid Kasia Kulbacka, Exec Manager Network Planning & Operations Craig Stallan, Exec Manager - Delivery Stephanie McDougall, Head of Regulation John Howland, Manager Infrastructure Planning Robert Ephraums, Industry & Stakeholder Engagement Advisor Bronwyn Rosser, Stakeholder Engagement Advisor Catherine O'Neill, Stakeholder Engagement Lead</p>
TransGrid Advisory Council attendees	<p>Andrew Richards, Chief Executive Officer, Energy Users Association of Australia Craig Memery, Team Leader, Energy + Water Consumers' Advocacy Program, PIAC Kim Woodbury, COO, City of Sydney Tennant Reed, Principal National Policy Advisor, Australian Industry Group Dev Tayal, Business Development, Tesla Panos Priftakis, Regulation Manager, Snowy Hydro Sam Fyfield, General Manager – Grid & SCADA, Goldwind Stacey Sleeman, Chief Financial Officer, Tomago Aluminium Matt Stocks, ANU Centre for Sustainable Energy Systems, Australian National University Michael Ottaviano, Partner, ERM Advisory Scott Young, Executive Director, Commonwealth Bank of Australia Alex Wonhas, Chief System Design and Engineering Officer, AEMO Christiaan Zuur, Director Energy Transformation at Clean Energy Council</p>
AER (observers)	<p>Slavko Jovanovski, Director Networks, AER Members of AER capex team</p>
Apologies:	<p>Gavin Dufty, Manager Policy and Research, St Vincent de Paul Lynne Gallagher, Chief Executive Officer, Energy Consumers Australia Maria Cahir, Business Development, Tesla Iain Maitland, NSW Ethnic Communities Council Andrew Blakers, ANU Centre for Sustainable Energy Systems, Australian National University</p>

2. Meeting summary

2.1 Welcome and Introductions

TransGrid's Acting CEO, Brian Salter welcomed members of the TAC and members of the AER to the third TAC meeting discussion on TransGrid's regulatory reset (2023-28).

The CEO noted the challenging times in which to prepare a regulatory proposal and the heightened sense of urgency to transform Australia's energy market away from fossil fuels.

The August meeting has been designed to address issues raised by TAC members.

2.2 Rate of Return

TransGrid's Head of Regulation, Stephanie McDougall gave a presentation on the current review of the Rate of Return Instrument (RORI). This process of review by the AER is a public process and will continue until December 2022. TAC members are encouraged to participate in this process.

Discussion:

- > Understanding how TransGrid's actual weighting of debt and equity compared to the benchmark weighting used by AER will help TAC members understand whether TransGrid is currently receiving a higher or lower rate of return compared to the benchmark.
- > TAC members highlighted that the rate of return was different to the profile of returns, and it is important the two issues are not conflated.
- > Agree that cross-checks used by AER need to be fair and reasonable and that AER must compare like-with-like in terms of the risk profile of comparator firms in other jurisdictions.
- > TAC members recommended TransGrid hold a Deep Dive on RORI, particularly on equity beta and international comparisons.

Actions:

1. TransGrid to schedule a Deep Dive on RORI, likely in early 2022 once the RORI process has progressed further.
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2.3 Risk and Uncertainty

Stephanie McDougall, TransGrid's Head of Regulation, presented on the mechanisms within the National Electricity Rules designed to manage risk and uncertainty in forecasting expenditure.

Discussion:

> **Insurance costs:**

- TAC members acknowledged that insurance premiums were rising and that customers would pay higher costs as a result. A question was raised as to whether it is time to consider alternatives to insurance such as passing through the cost of rebuilding damaged network or seeking government underwriting.
 - TransGrid will seek a step-change for higher cost of insurance premiums, and confirmed that it was fortunate in being able to obtain full insurance coverage. Costs will be presented as part of TransGrid's opex forecast and estimate of step changes.
 - TransGrid confirmed its focus is on prioritising safety and ensuring events such as bush fires do not occur as a result of its operations.
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- TAC members noted insurance costs were rising around the world due to rising re-insurance costs. A challenge is to find an equitable approach, while not masking market signals.

> **Climate change:**

- TransGrid confirmed it used a combination of ex-ante and ex-post measures to manage climate change risk. The forecast includes expenditure to support asset resilience to climate change, but where a 1/100 year event occurs, costs will be recovered via pass-through mechanism. TransGrid confirmed its intention to monitor events to determine whether low probability events are becoming more frequent over time.
- TransGrid confirmed its intention to seek localised climate data to review likely climate impact on its assets in specific locations to better target remedial actions where required.
- The TAC discussed the gap in the regulatory framework in relation to climate change. Neither decarbonisation nor society's expectations are included in the National Electricity Objective, and the investment tests remain an economic test where these factors are treated as externalities.
- TransGrid noted a renewed sense of urgency for climate change risk to be addressed, and acknowledged the need for a 'just transition'. TAC members noted that the same issues are being discussed in large industries all over Australia.

> **Contingent projects & ISP projects**

- The TAC discussed TransGrid's current list of non-ISP contingent projects and the total value of those projects. TransGrid noted that cost estimates will be refined in coming months.
- TAC members noted that HumeLink, a large ISP project has reached the PACR stage and requested an opportunity to discuss the project in future detail. Members raised questions about modelling of benefits, specifically, the interaction between HumeLink and PEC and the benefits of each given the integrated nature of these projects. Members also questioned whether parts of the project are better aligned to generators rather than network expenditure. One member noted a "feeling of disempowerment" in relation to the cost and scope of ISP projects given their importance to various governments.
- TAC members praised AEMO's recent use of a cap on expenditure for ISP projects to indicate that above a nominated level of expenditure, the project is no longer the preferred option.
- TAC discussed potential for greater costs for projects to be borne by a jurisdiction than benefits within that jurisdiction.

Actions:

2. TransGrid to host a Deep Dive session on HumeLink. AEMO to attend to provide context for ISP, particularly VNI West.

2.4 Project cost development

Stephanie McDougall, TransGrid's Head of Regulation, presented TransGrid's practice for estimating project costs, specifically for 'business as usual' replacement and augmentation projects.

Discussion:

- > TAC members praised TransGrid's transparency in providing information about how project costs are developed and how risks are taken into account.
- > ISP project costs were discussed and concerns raised about the potential for project costs to be 'low-balled' at initial stages of project approval, and found to be higher in later stages of project development.
- > TransGrid acknowledged it had been subject to criticism regarding accuracy of project cost estimates and was working to improve estimation processes including:
 - Use Global Institute of Cost Engineering recommended methodologies;
 - Benchmark costs with recent projects

- Obtain independent estimates at each investment gate as a check for internal estimates.
- > AEMO representative confirmed that the ISP process is investing more in early stages of cost estimation and will include classification of uncertainty to highlight potential variation of cost estimates for projects in future ISPs.
- > TAC noted substantial project costs are driven by government regulations particularly biodiversity offsets and cost of easements and land. An ongoing area of concern is the difficulty in benchmarking the “human element” (eg. engagement, land acquisition) which can have a significant impact on project time and cost.

Actions:

3. TransGrid to host a further discussion on how TransGrid is improving its cost estimates.

2.5 Broken Hill Supply RIT-T

Kasia Kulbacka, TransGrid’s Executive Manager - Network Planning and Operations provided an update on TransGrid’s proposed supply solution for Broken Hill which is currently the subject of a RIT-T, with a PADR due to be released soon for consultation.

Discussion:

- > TAC discussed the project and confirmed support for innovation.
- > TransGrid confirmed that it would seek external funding to bridge the gap between the cost of the compressed air solution and the cheapest fossil fuel solution.
- > Concerns were raised by some TAC members about the reliability of the proponent of the solution and the resulting risk for customers who could bare the impact if the solution is less reliable or more expensive than forecast. There were also concerns about the availability of data about the carbon savings of the proposed solution.

Actions:

4. TransGrid to host a separate discussion on Broken Hill PADR and more broadly, on how customers can be protected through commercial arrangements in relation to solutions involving innovation / de-carbonisation.

2.6 Meeting close