

Transgrid Advisory Council Meeting Summary

5 October 2021



1. Attendees

Location:	Via Webex due to COVID lockdowns in NSW, Vic and ACT		
Chairperson:	Brian Salter, Acting CEO	Time:	9:30-12:00pm
Attendees:			
Transgrid Advisory Council Members	<p>Andrew Richards, CEO, Energy Users Association of Australia Thea Bray, Policy Officer, Energy + Water Consumers' Advocacy, PIAC Gavin Dufty, Manager Policy and Research, St Vincent de Paul Brian Spak, Director, Energy System Transformation, Energy Consumers Australia Kim Woodbury, COO, City of Sydney Tennant Reed, Head of Climate, Energy and Environmental Policy, Ai Group Panos Priftakis, Regulation Manager, Snowy Hydro Sam Fyfield, General Manager – Grid & SCADA, Goldwind Stacey Sleeman, Chief Financial Officer, Tomago Aluminium Michael Ottaviano, Partner, ERM Advisory Scott Young, Executive Director, Commonwealth Bank of Australia</p>		
Transgrid attendees:	<p>Brian Salter, Acting CEO Transgrid Kasia Kulbacka, Executive Manager, Network Planning & Operations Stephanie McDougall, Head of Regulation John Howland, Manager Infrastructure Planning Lance Wee, Head of Asset Management Suzanne Westgate, Workplace and Facilities Manager Bronwyn Rosser, Industry and Stakeholder Engagement Advisor Sophie Dowling, CEO Associate Catherine O'Neill, Stakeholder Engagement Lead</p>		
Transgrid Board members (observers)	<p>Warren Mundy, Board member Charles-Eduard Mariolle, Board member Sally McMahon, Board member</p>		
AER observers	Members of AER capex team		
Apologies	<p>Alex Wonhas, Chief System Design and Engineering Officer, AEMO Christiaan Zuur, Director Energy Transformation at Clean Energy Council Craig Memery, Program Director, Energy + Water Consumers' Advocacy, PIAC Lynne Gallagher, Chief Executive Officer, Energy Consumers Australia Maria Cahir, Senior Manager, Sales and Business Development, Tesla Iain Maitland, Energy Advocate, NSW Ethnic Communities Council Dev Tayal, Business Development, Tesla Andrew Blakers, ANU Centre for Sustainable Energy Systems</p>		

2. Meeting summary

Welcome and introductions

Transgrid's Acting CEO, Brian Salter, welcomed members of the TAC and AER staff to the TAC meeting to discuss Transgrid's revenue reset (2023-28).

The CEO noted two 'out of session' TAC meetings that were held on 14 and 29 September on HumeLink and Transgrid's Energy Vision respectively. Important feedback was received in both sessions, specifically the social licence required to build for the energy transition, and the importance of refining cost estimates and calculating benefits without duplication.

The CEO referred to Transgrid's recent announcement to upgrade the capacity of Project EnergyConnect (PEC) between Dinawan and Wagga Wagga from 330kV to 500kV. The upgrade costing \$180m was announced to future-proof a key part of the transmission network and avoid the need to duplicate the line at a later date.

The CEO noted that Transgrid would share its initial forecasts for the 2023-28 period with TAC at this meeting and a preliminary proposal will be released publicly for feedback today.

3. Preliminary Revenue Proposal – Customer outcomes and operational challenges

Transgrid's Head of Regulation, Stephanie McDougall, gave a presentation on the customer outcomes and operational challenges encapsulated in Transgrid's Preliminary Revenue Proposal which was released on 5 October 2021 for stakeholder consultation.

Discussion:

- **Project EnergyConnect (PEC)** – Discussions confirmed that \$103m (of total \$180m) would be used to fund the expanded build and the remaining funds used for community engagement and to secure additional easements. The recovery of these funds has not been finalised, and may come via approval of VNI West ISP project or via the NSW Roadmap.
- **System strength rule change** – Stakeholders raised concerns around who will pay for system strength services – customers or generators. Transgrid confirmed that AEMO will require TNSPs to provide system strength as a service to the grid and costs would be subject to a pass through. Transgrid also confirmed that system strength projects were included as a contingent project within the preliminary revenue proposal and that the pricing principles for system strength will be determined by the AEMC through the current review. Stakeholders were keen to ensure causer pays principle is applied.
- **Interaction with NSW Government Electricity Infrastructure Roadmap** – Stakeholders asked about the interaction between Transgrid's capex (passed through to transmission bills) and the NSW Government's Roadmap (passed through to distribution bills) and if there was potential for any crossover or competing RABs. Transgrid noted that it has included the NSW REZs as contingent projects for now in its Revenue Proposal and will update this based on the NSW regulatory framework once published.
- **Non-network solutions** – Stakeholders confirmed their interest in learning more about non-network solutions included in Transgrid's preliminary proposal, including the solution proposed for back-up supply to Broken Hill. Transgrid confirmed that contracts for existing non-network services

would come to an end at the end of the current regulatory period, and advised that should new contracts be struck, costs would be incorporated into the forecast.

- **Impact of shared assets** – Stakeholders confirmed their interest in understanding the impact of Transgrid’s non-regulated business and how it has been taken into account in the preliminary revenue proposal. Transgrid confirmed that the AER’s shared asset guidelines have been applied in the 2023-28 forecast and that its Revenue Proposal does not include costs for non-regulated services.

4. Preliminary Revenue Proposal – forecast expenditure, revenue and prices

Transgrid’s Head of Regulation, Stephanie McDougall, gave a presentation outlining the forecasts in the Preliminary Revenue Proposal.

Discussion:

- **Compliance driven projects** were discussed including how minimum demand would trigger projects within the forecast period. Transgrid confirmed that the preliminary forecast contained shunt reactors at Beaconsfield and voltage works at Darlington Point, Balranald and in the Shoalhaven. Stakeholders encouraged Transgrid to work with distributors to ensure that there was proper coordination of network stability works and investment was not duplicated in transmission and distribution parts of the grid. Transgrid noted AEMO’s system requirements (separate from ESOO and ISP) would be released in December and would indicate which network stability projects would be required in the 2023-28 forecast period.
- **Issues for further discussion** - Stakeholders noted the following issues for further discussion with TAC:
 - **ICT** – initial estimate appears high compared to recent TNSP proposals
 - **Capitalised overheads**
 - **Shared assets** – impact on regulated revenue
 - **Non-network solutions** including Broken Hill
- **Asset replacement** – Transgrid confirmed that assets are replaced based on their condition. Most assets are replaced close to end of life when they are close to zero or fully depreciated or actually costing Transgrid money (negative value) when replaced.
- **Highlight customer value in the proposal** - Stakeholders noted the forecasts were presented for a regulator rather than customer audience. They encouraged Transgrid to review its presentation of its revenue proposal to ensure that the value for customers was highlighted i.e. better asset utilisation, improved productivity, high levels of reliability maintained, network risks reduced, prices reduced.
- **Price sensitivity** – Stakeholders were interested to see the price sensitivity to increased capital forecasts (i.e. inclusion of \$540m of capex currently subject of RIT-T). Transgrid noted that the largest impacts on price came from RORI/WACC and new treatment of tax. The RORI is still being developed.
- **Price outcomes** – TAC members were interested to see price outcomes for transmission charges as well as end customer bills when large ISP projects are included in the RAB over the next 10 years (two regulatory periods). Stakeholders were also interested in understanding how the transmission portion of the bill changes over time, and if there is a risk of “cost shifting” (between parts of the supply chain) rather than actual cost reduction. Stakeholders emphasised that it was

important for customers to understand what they were getting for the service they are paying for. Transgrid explained that in order to understand the impact on the total bill, transmission cost increases as well as wholesale cost savings from these projects need to be considered. Transgrid, however, does not currently have information on the wholesale cost savings – this will be determined by AEMO as part of its ISP. Stakeholders countered that customers are being asked to make a ‘leap of faith’, and that if the wholesale market produced costs that were too low to sustain new entrants, customers would be asked to pay for a safety net.

- **Narrative** – Stakeholders highlighted potential conflict in the proposal narrative and narrative put forward by Transgrid in the AEMC Transmission Planning Review / HumeLink discussion which suggests that revenues need to rise in order to support financeability of future investment.
- **Cost estimates for contingent projects** – Transgrid confirmed that the costs included in the proposal for contingent projects were previously published costs sourced from NSW Government or AEMO and would be updated when more refined estimates were published. It was noted that the mechanism for delivery and cost recovery for REZ projects had not yet been finalised. Should the NSW framework confirm that the costs of these projects will be recovered under the NSW framework, then Transgrid will remove the NSW REZs from its Revenue Proposal.
- **Incentive payments** – Transgrid confirmed it was likely to receive a small incentive penalty under the Capital Efficiency Sharing Scheme (CESS) as a result of capex deferral from PEC given the delivery date for PEC is now 2024-25.

Actions:

1. Transgrid to add list of topics nominated by TAC members to November TAC agenda for discussion.
2. Transgrid to review proposal narrative in light of comments on financeability of future investments.
3. Transgrid to provide price sensitivity modelling for TAC showing impacts of different drivers on transmission prices i.e. capex, WACC, tax.
4. Transgrid to show impact on RAB of ISP projects and transmission price outcomes over 10 year period.

5. Customer research

Catherine O’Neill, Stakeholder and Engagement Lead, provided an update on Transgrid’s customer research. Phase 2 findings were presented and Forethought’s report was circulated to TAC members. TAC members were invited to attend a discussion on 7 Oct 2021 to workshop topics for Phase 3 of the study.

Discussion:

- **Willingness to pay findings** – Caution should be applied to using these findings in support of investment because customers have not specified their preference for where in the energy supply chain investment should be targeted, nor whether their willingness to pay has a temporal element (i.e. is time bounded). Stakeholders also cautioned that willingness to pay or lack of willingness may not be the same as preferences because a willingness to pay is heavily influenced by a customers’ capacity to pay.
- **Cost allocation** – The allocation of costs to different types of customers is an important consideration for the NEM (i.e. there is potential for business customers to be allotted a greater portion of costs than residential customers, and some customers can afford to invest in technology and limit their exposure to total network costs).

- **Collaboration with DNSPs on research** – Stakeholders advised that NSW DNSPs are conducting research on similar topics. There is potential for interpretation of findings to conflict between studies. Encourage collaboration between Transgrid and NSW distributors.

Meeting close

Meeting closed at 11:50am.

The next TAC meeting will be held on Wednesday 3 November 2021, 9:30-12:00pm.