

Transgrid Advisory Council Meeting summary

3 November 2021

Attendees

| | | | |
|-------------------------------------|--|--------------|---------------------|
| Location: | Via Webex due to COVID travel restrictions 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 Christiaan Zuur, Director Energy Transformation, Clean Energy Council Craig Memery, Program Director, Energy + Water Consumers' Advocacy, PIAC 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 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 Alex Wonhas, Chief System Design and Engineering Officer, AEMO Andrew Blakers, ANU Centre for Sustainable Energy Systems</p> | | |
| Transgrid attendees: | <p>Brian Salter, Acting CEO Kasia Kulbacka, Executive Manager, Network Planning & Operations Craig Stallan, Executive Manager, Delivery Chris Pemberton, Executive Manager Corporate Services Jeff Forrest, Acting CFO Stephanie McDougall, Head of Regulation Robert Alcaro, Regulatory Manager Russell Morris, Chief Information Officer John Howland, Manager Network Planning Bronwyn Rosser, Industry and Stakeholder Engagement Advisor 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 Rick Francis, Board member Stasha Prnjatovic, Board member</p> | | |
| AER observers | Members of AER capex team | | |
| Ausgrid observer | Marlene Garcia , Ausgrid Regulatory Manager | | |
| Apologies | <p>Gavin Dufty, Manager Policy and Research, St Vincent de Paul Maria Cahir, Senior Manager, Sales and Business Development, Tesla Iain Maitland, Energy Advocate, NSW Ethnic Communities Council Panos Priftakis, Regulation Manager, Snowy Hydro</p> | | |

Meeting summary

1. 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 thanked TAC members for feedback received on the preliminary proposal released on 5 October and responded to several issues raised including the need to clearly present the customer benefits of Transgrid's proposal. The CEO acknowledged the importance of Transgrid's social licence as it enters a phase of construction, discussed the decision to include a single price outcome rather than a range of price outcomes that reflect planning uncertainty, and acknowledged the importance of incorporating both project costs and benefits into the proposal.

The CEO also provided an update on the VNI West project.

2. Customer and other stakeholder outcomes 2023-28

Transgrid's Head of Regulation, Stephanie McDougall, gave a presentation on customer and other stakeholder outcomes that result from Transgrid's preliminary proposal.

Discussion:

- **Resilience** – TAC members requested clarification of the term 'resilience'. Transgrid explained that:
 - Resilience means that our network continues to provide a safe, secure and reliable supply during more frequent extreme climate driven events.
 - We have not included costs in our 2023-28 expenditure forecast relating to resilience because we will undertake this work as part of our ongoing condition based replacement.
 - It was agreed that there is a lack of clarity in the NEM for the term 'resilience'.
- **Fault levels** – Members asked for granular information about fault levels that were driving compliance issues in the southern parts of Transgrid's network. Members were referred to Transgrid's Annual Transmission Planning Report. Transgrid confirmed that fault limits and thermal ratings were independent, and increasing fault levels did not mean that equipment in this part of the network was reaching its thermal limits.
- **Equity issues** – Members noted that the causer pays principle should apply to investment to address fault limits and congestion resulting from the energy transition. TAC members do not consider it is equitable for all customers to pay for this investment. Transgrid explained that it must apply the pricing principles (i.e. costs recovery) set out in the NER and therefore cannot resolve the equity issues of 'who pays how much' as part of its Revenue Proposal. Transgrid, however supports a review of the pricing principles in light of the ongoing changes to the NEM. Stakeholders noted that equity issues would impact the energy transition and that equity issues would get harder to solve as the energy transition progresses.

3. Price and Revenue sensitivity

Transgrid's Head of Regulation, Stephanie McDougall, presented on price and revenue sensitivities to changes in key building blocks.

Discussion:

- Stakeholders noted the sensitivity analysis was indicative.

- Stakeholders identified that widespread concern about price increases is an opportunity for AEMO and Transgrid to explain what is happening to prices. They also noted the importance of explaining costs particularly when benefits are hard to calculate.

4. Overview of ISP process

Dr Alex Wonhas, Chief System Design and Engineering Officer at AEMO, gave a presentation on AEMO's methodology for building the Integrated System Plan (ISP). The draft ISP will be released on 10 December 2021.

Discussion:

- **Cost / benefit analysis** - AEMO confirmed it uses local TNSP cost estimates for project cost estimation, augmented with its own cost database.

ISP considers the same benefits as RIT-T: fuel cost savings (enabling more renewables and sharing generation between regions) and competition benefits. AEMO consultation on competition benefits closes on 14 Nov 2021 (see link to [AEMO consultation](#)).

AEMO acknowledged the difficulty in predicting competition benefits which relies on predicting market behaviour. TAC members were concerned about the impact of State Government's actions on the calculation of competition benefits, and the potential for market resource allocation to be undermined.

It was noted that an over-supply of generation would lead to a reduction in the price of wholesale energy, but that the requirement for energy storage was likely to be underestimated.

- **Single large project** - There was support for HumeLink, VNI West and PEC to be considered as one large project in terms of social licence, equipment supply and supply risks, while also cautioning against 'double counting' the benefits. Stakeholders applauded the coordinated planning taking place in the NEM, but questioned whether it was time to coordinate 'doing'. Transgrid confirmed it is actively looking at ways to reduce costs and manage risks across all three projects. There are likely to be economies of scale in relation to project delivery, but this needs to be weighed up with risks of market concentration.
- **Skills** - The adequacy of Australia's skilled resources to deliver the large amount of infrastructure planned in the NEM, and in the economy more broadly, was discussed. It is estimated that the cost of the energy transition was in the order of \$100 billion and that transmission contributed approximately 20% of total. Stakeholders agreed it is important to consider the skills base in Australia, the ramp-up of skills required and identify any subsequent gap, as well as the need for projects to be sequenced so as not to exacerbate any skill shortage which might lead to higher costs. Reference was made to the recent [Infrastructure Market Capacity report](#) by Infrastructure Australia highlighting a large skills gap.
- **Allocation of costs** - Who pays for transmission investment for the energy transition is a key issue. Asking customers to pay would add a substantial amount to bills. Would the cost be as significant if generators paid? The NSW Government's recent announcement that generators would pay to access REZs was discussed.

Leaving building transmission lines to the market rarely works due to mis-alignment of project timing and project financing between contributing parties. Some TAC members argued the market needs the overarching support of an independent third party / government to invest. Transgrid is well placed to deliver access to transmission, and as experienced provider, is likely to do so for least cost.

- **Forum** – Consumer advocates confirmed that they are most interested in the allocation of cost and risk. The AEMC’s transmission investment review was identified as being a good forum in which to raise issues of cost allocation and user pays.

5. ICT

Russell Morris, Chief Information Officer, provided an overview of Transgrid’s proposed ICT investments for the 2023-28 period.

Discussion:

- Transgrid confirmed that the ICT investment program was driven by an assessment of risks and was built through bottom-up analysis.
- **Longevity** – the move to cloud-based systems breaks the cycle of large system wide changes, and removes the risks of enterprise wide system changes. Ultimately, cloud-based systems are seen as a more efficient model.
- **Future costs** - ICT capex was predicted to fall in future, and opex costs would likely rise as cloud-based services are expensed. This would remove the lumpiness of ICT expenditure seen historically.

6. Non-network investments

John Howland, Manager Network Planning, provided an update on Transgrid’s proposed non-network investments for the 2023-28 period.

Discussion:

- **Non-network solution at Broken Hill** – Transgrid confirmed it had sought independent advice as to longevity of diesel generators used to support Broken Hill supply, and noted the cost of the preferred option incorporated cost of maintenance and refurbishment.

Some stakeholder concern that Rules were forcing a retrograde step and did not support the innovation needed for the future NEM. Transgrid confirmed its support for ongoing Rule changes where Rules were seen to thwart innovation.

7. Feedback on preliminary proposal

TAC members were invited to comment specifically on elements of the regulatory proposal.

Discussion:

- **Capex** - TAC members are concerned that during the period, there will be other capex that is approved through the Contingent Projects and Actionable ISP process which will be additional to the capex included in the Reset, and hence the Reset does not capture all the costs that will be incurred over this period. However, TAC members confirmed their support for capex where it is justified and also efficient: “net zero at an efficient cost, not net zero at any cost.”
- **Opex step changes** – TAC members agreed that step changes appeared to be in line with what they had seen in other recent regulatory proposals.
- **Price forecast** – consumer advocates asked to have RAB forecasts and price impacts with contingent projects, ISP and REZ projects included. Advocates are not looking for someone to blame, rather they are looking for some foresight around future prices. Transgrid confirmed that rough estimates could be provided and that the draft 2022 ISP would provide more information about potential future capex.

- **Depreciation** – Transgrid confirmed that there was limited flexibility to make changes to depreciation profiles to take account of assets within a class that may be more exposed to environment-related condition deterioration.
- **General comments** – Need consistent treatment of costs and benefits in the proposal – either both excluded, or both included. Tone of the document could be improved to invite greater engagement.

Actions

1. Invite AEMC to talk about transmission pricing
2. Invite Professor Robin Batterham, Energy Transition Hub, to speak about cost of energy transition.
3. Invite AEMO to talk about the draft 2022 ISP, once it is available.

Meeting close

Meeting closed at 12:15pm.

The next TAC meeting will be held on Wednesday 1 December 2021, 9:30-12:00pm.