Transgrid

ABN 70 250 995 390

180 Thomas Street, Sydney
PO Box A1000 Sydney South
NSW 1235 Australia
T (02) 9284 3000
F (02) 9284 3456

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Dr Kris Funston
Executive General Manager
Australian Energy Regulator
GPO Box 3131, Canberra ACT 2601

Dear Dr Funston

Consultation on updating the AER Expenditure Forecast Assessment Guidelines

Transgrid welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) consultation on updating the Expenditure Forecast Assessment (EFA) Guidelines, published on 28 June 2024. We understand this process is to determine how the AER should have regard to emissions reduction in assessing capital and operating expenditure forecasts.

Transgrid operates and manages the high voltage electricity transmission network in NSW and the ACT, connecting generators, distributors and major end users. Transgrid is continually monitoring and maintaining our assets to ensure the safety and reliability of our transmission network and to maximise the contribution of our assets to government emissions reduction targets, by connecting diverse and low-cost renewable generation and storage assets.

We support the emissions reduction objective in the national energy objectives. Flow on emissions reduction related regulatory updates, such as being considered through this consultation, are important to ensure effective coordination across the energy industry to support achievement of government net zero targets and secure social licence through the transition. Transgrid broadly supports the AER's proposed approach to updating the EFA guidelines and the areas of consideration for the associated emissions reduction guidance intended to provide more detailed information on the AER's implementation approach.

Transgrid strongly recommends that market bodies and governments proactively engage with stakeholders on the development of the longer-term Value of Emissions Reduction (VER), that we understand will replace the existing interim VER by June 2026. This work is required to ensure that the VER is set in a manner that encourages network related emissions reduction expenditure. This will ensure the broader body of emissions reduction objective regulatory reform achieves the intended purpose of contributing to achievement of jurisdictional emissions reduction targets.

We have provided feedback in the attached submission and look forward to further engagement. If you have any questions, please feel free to contact me or Sam Martin at Sam.Martin@Transgrid.com.au.

Yours faithfully

Monika Moutos, General Manager, Regulation and Policy

Transgrid submission

We welcome the opportunity through this consultation to comment on the AER's proposed approach to updating the EFA guidelines. We provide key areas of feedback below.

EFA guidelines

The AER's EFA guidelines set out the process, techniques and associated data requirements for setting efficient expenditure for network businesses. At a high level, the AER considers the existing EFA guidelines as largely fit for purpose to accommodate inclusion of emissions reduction assessments.

Transgrid supports the minor updates across the EFA guidelines to adjust for emissions reduction related expenditure assessments and support the AER's approach on how assessments would occur as:

- AER expect the NSP to provide information to explain the driver of the investment and how it will achieve emission reduction targets through the supply of prescribed transmission services.
- In conjunction with related assessment processes described in the Guideline, the AER will have particular regard to factors such as the:
  - efficiency of costs, including the calculation methodology, input drivers and assumptions
  - quality and veracity of data sources and assumptions, including basis for input values, accounting methodologies and emission factors
  - links with incentive schemes and relevant policies.

Transgrid proposes no other required changes to the guidelines.

Emissions reduction guidance note

Transgrid supports the AER developing a related emissions reduction guidance intended to provide more detailed information on the AER's implementation approach of assessing emissions reduction expenditure.

Transgrid provides its feedback on the initial list of issues raised by the AER in the table below.

Issue and AER position	Transgrid feedback
What expenditure can be proposed? AER notes that its initial position is that when proposing emissions reduction expenditure, a business must establish that capex or opex is required to provide a regulated service.	Transgrid considers that to support the achievement of the government emissions reduction targets, and to align with the intent of the AEMC's harmonising changes to the NER, the AER's assessment on whether expenditure can be proposed should be focused on whether the expenditure is 'related', rather than 'required', to providing regulated services. This ensures a business can explore as many opportunities as possible (limited to those related to providing the regulated service) to contribute to meeting emissions reduction targets. If the AER maintains its initial position, then there is a risk that networks are limited in their ability to contribute to jurisdictional emissions reduction

	targets, given emissions reduction activities and expenditure aren't necessarily required in providing prescribed transmission services. The AER should also have consideration to enabling expenditure related to emissions reduction activities, i.e. activities that do not directly contribute to emissions reduction but place a business and its stakeholders in a better position to assess emissions reduction expenditure investments. For example, this could be emissions reporting and governance related investments. It may also be valuable for the AER to set out in its guidance note a list of prudent activities that a network business should carry out in preparation of a revenue proposal to support the inclusion of emissions reduction related network expenditure. These activities could also cover off on how to effectively support stakeholder engagement on assessing the value of these investments, given it will be a new area of focus for interested stakeholders.
What emissions reductions are included? The AER note that proposed emissions reduction must have a material direct and commensurate reduction impact on the respective jurisdiction's total carbon account.	Transgrid strongly recommends the AER does not set an overly limiting materiality threshold on what emissions can be considered. The use of terminology of 'material', which in other contexts in the rules could mean as low as 1% of the total, in the context of a jurisdictions total emissions budget would likely result in no transmission related expenditure ever crossing this threshold. Transgrid considers that the AER should provide flexibility on what emissions are included in an assessment. Guidance in this area should not be binding, to allow for the needed flexibility and to properly account for the evolving practice and data sets related to quantifying greenhouse gas emissions. Materiality should be assessed in relation to whether the inclusion of an emissions benefit is expected to impact the identification of the preferred investment.
Emissions accounting. The AER note that it expects businesses to provide all relevant supporting information on emissions accounting, including a description and explanations of methodologies, inputs and assumptions used in the emissions reduction estimation process.	Transgrid agrees that the quantification or forecasting of emissions reduction is an important part of justifying expenditure under the capex and opex objectives. Transparency on this information is important, especially given the evolving nature of these assessments. The AER should consider engaging with AEMO on the value of establishing the inputs, assumptions and scenarios report (IASR) as a source of reputable data for calculating emissions. This should be focused not only on the proposed approach for estimating emissions in the 2026 ISP for AEMO but also wider data sets that can be used for RIT-Ts and emissions reduction related expenditure assessments (which may consider emissions at a greater level of granularity than the ISP). Transgrid supports guidance and worked examples on emissions accounting being provided in the AER's guidance note on the quantification of benefits associated with changes in Australia's greenhouse emissions. This guidance would support stakeholder engagement on emissions reduction related expenditure by providing clarity on reasonable approaches to estimating emissions and ensure networks are taking a consistent approach to this work.

Emissions scopes. The AER notes that carbon accounting may compromise broadly of both direct and indirect greenhouse gas emissions.	Transgrid strongly supports the AER providing clear guidance on the assessment of all scopes of emissions related to proposed expenditure – including with specific examples focused on the assessment of sulfur hexafluoride (SF6) emissions. This is important as the emissions references has been drafted in the rules to include all greenhouse gas emissions related to Australia's emissions reduction targets. Transgrid strongly considers that to align with the wording in the emission reduction objective – all emissions scopes should be included where they cover emissions that occurred in Australia. Hence, Australia should be considered the boundary on emissions for the AER's assessment of emissions related expenditure rather than setting a boundary based on emissions scopes 1, 2 or 3 in the AER's guidance note. Transgrid also strongly encourages the AER to provide guidance on estimating emissions changes in the wider economy given electrification across other sectors is expected to be a material driver of emissions reduction. This should include consideration of the use of imported materials, in which Australian emissions are zero, over domestically produced materials. Noting it would be perverse for the assessment of the emissions reduction class of market benefit to inhibit the ability to utilise lower emissions and locally sourced materials.
Incentive schemes and policies. The AER notes that service providers must face incentives consistent with the NEO, and not be over or under-compensated for activities related to emissions reduction. The AER notes that for the CESS, an undesirable scenario may arise if a more expensive but lower carbon intensive investment is approved at a determination stage, but the service provider ultimately invests in a cheaper, higher emission asset. Therefore, in this instance, the service provider would be rewarded for not investing in the asset that achieves higher emissions reduction.	Transgrid strongly disagrees with the AER's noted scenario given it suggests that a business would make an investment decision that isn't aligned with the requirements of the RIT-T and cost benefit analysis requirements under the rules for network expenditure. Transgrid supports the position that interactions with incentive schemes should be considered to ensure appropriate compensation.

END OF SUBMISSION