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Contact Officer: Jacquie Shannon
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13 February 2024

Mr Andrew McAlpine
Head of Compliance, Corporate
Transgrid

Sent by email to: [REDACTED]

Dear Mr McAlpine

Re: Application by Transgrid for a waiver from the Transmission Ring-fencing Guideline – back-up generation for Broken Hill

Thank you for your application of 30 November 2023 for a waiver from clause 3.1(b) of the Ring-fencing Guideline for Electricity Transmission (the Guideline), to allow Transgrid to continue to own and operate generation assets for back-up supply to Broken Hill. We note that Transgrid revised its application on 17 January 2024 to propose a specific end date for this waiver.

Transgrid's Proposal

The AER notes that Transgrid operates under a licence granted by the NSW Minister for Energy under NSW legislation. That licence includes a condition that Transgrid must maintain a high minimum reliability of supply to Broken Hill customers.

The application explains that Transgrid currently satisfies that licence condition by owning and operating two gas turbines in Broken Hill that run on diesel fuel. Transgrid also explains that currently there is no suitable alternative source for this back-up generation.

Transgrid applied for a relevant waiver from the legal separation provisions under clause 3.1(b) of the Guideline. Transgrid has sought the waiver for five years from 1 March 2024.

AER Assessment and Decision

We note that, separately, Transgrid has undertaken a program of work to replace the current generation assets with new technology. To date this has included completing a regulatory investment test (RIT-T) with public consultation and publication of a Project Assessment Conclusions Report in May 2022.

The RIT-T process concluded that the preferred option is for Transgrid to replace its existing generation with new technology to be owned and operated by a third-party from 2027. In addition, it concluded that the preferred interim solution is for Transgrid to continue owning,

operating and maintaining its existing generation assets. Transgrid has applied for a waiver period of 5 years to allow for a suitable changeover period as the new generation technology solution is commissioned and proven.

Under the Guideline clause 5.3.2, before granting a waiver the AER must have regard to the National Electricity Objective (NEO), the potential for a TNSP to engage in cross-subsidisation of services and whether the costs of compliance with the Guideline outweigh the benefit to consumers of that compliance. For this application, the AER has considered whether the RIT-T process already undertaken by Transgrid has addressed the requirements of the NEO and the costs and benefits of the proposed waiver. In addition, Transgrid has provided information in relation to the allocation of costs for this generation and the controls already in place in relation to discrimination.

The AER has decided to grant a waiver of Transgrid's obligation to comply with clause 3.1(b) of the Guideline from 1 March 2024 to 28 February 2029 to allow Transgrid to continue to own and operate its existing generation assets used for back-up supply to Broken Hill, whilst it transitions to new back up generation arrangements.

In granting this waiver, the AER notes the existing back up generation assets are not eligible to participate in the electricity wholesale market. As such, there are limited risks to competition associated with Transgrid owning and operating these assets.

The AER expects Transgrid to comply with the Guideline in all other circumstances, and in all other respects.

Transgrid is required by clause 5.7 of the Guideline to include this waiver on its waiver register, which must be publicly available on Transgrid's website.

Yours sincerely

A solid black rectangular box used to redact the signature of Jarrod Ball.

Jarrod Ball
AER Board Member

Sent by email on: 13.02.2024