

Level 17, Casselden
2 Lonsdale Street
Melbourne Vic 3000

23 July 2020

Mr Paul Italiano
Chief Executive Officer
TransGrid

By email [REDACTED]

Dear Mr Italiano

Re: Contingent project application for Project EnergyConnect

I am writing in response to your letter of 29 June 2020 submitting TransGrid's contingent project application for Project EnergyConnect.

We acknowledge that this contingent project application is a significant milestone for TransGrid and Project EnergyConnect, and reflects the time and effort that has gone into progressing this significant project to this stage.

The AER has decided that it cannot at this time commence the formal contingent project determination process under clause 6A.8.2 of the National Electricity Rules (NER). This is because TransGrid's application does not meet the pre-requisites for the decision making process under the NER to commence, as it:

- does not contain a forecast of capital expenditure which TransGrid considers is reasonably required for the purpose of undertaking the contingent project, as required by clause 6A.8.2(b)(3) of the NER, and
- is subject to a claim of confidentiality, over its entirety, that means that the application is not capable of being published in accordance with clause 6A.8.2(c) of the NER.

In the remainder of this letter I explain our reasons for not commencing the determination process at this time, and the critical next steps towards completing the regulatory assessments for Project EnergyConnect.

Why we have not commenced a contingent project determination at this time

Under clause 6A.8.2(b)(3) of the NER, a contingent project application must include:

- a forecast of the total capital expenditure for the contingent project
- a forecast of the capital and incremental operating expenditure, for each remaining regulatory year which TransGrid considers is reasonably required for the purpose of undertaking the contingent project
- an estimate of the incremental revenue likely to be required in each remaining regulatory year of the current regulatory period.

If the AER is satisfied that the trigger event has occurred, we must determine the amount of capital and incremental operating expenditure, for each remaining regulatory year, we consider is reasonably required for the purpose of undertaking the contingent project. Before making a determination, the AER is required under clause 6A.8.2(c) of the NER to publish the application and invite written submissions.

We recognise, as you state in your letter, that TransGrid has submitted its application at this time to meet its contractual obligations in accordance with its early works agreement with the South Australian Government. This timing means that TransGrid is part-way through the tender process for the New South Wales component of Project EnergyConnect. TransGrid acknowledges that the forecast capital expenditure in the contingent project application is likely to substantially change when it completes the tendering process. This suggests that TransGrid does not consider the forecast of expenditure in the application reflects the costs that are reasonably required to undertake the project.

We note that TransGrid has requested its application remain confidential in its entirety. While we recognise the commercial sensitivities of TransGrid's ongoing competitive tender process, the confidential nature of the submissions means that the AER cannot publish the application on its website and seek written submissions until it is practicable to do so. This may not be the case until TransGrid has finalised its tender process and is able to submit a sufficiently transparent public application.

I also note that the AER has not yet received a contingent project application from ElectraNet in relation to the South Australian component of Project EnergyConnect. We are working with ElectraNet as it seeks to finalise updated modelling of project benefits and confirm the project continues to provide a net benefit to the market. We understand that ElectraNet will not submit a contingent project application until it has completed its updated modelling, and the AER has reviewed the outcomes of that updated modelling.

We therefore expect that we will be able to commence the contingent project determination processes in relation to Project EnergyConnect when:

- TransGrid has completed its procurement and contracting process to the point at which it can submit final expenditure forecasts which reflect the costs reasonably required to undertake the project, and its application is suitable for public consultation
- ElectraNet completes its revised cost benefit modelling and submits its contingent project application with similarly finalised expenditure forecasts.

This will allow us to assess complete applications that reflect final forecasts of expenditure requirements, and consult on both proposals and consider them together. This will provide stakeholders with visibility over total project costs and improve stakeholder confidence in, and engagement with, the process.

The critical path towards completing the regulatory assessment process

We acknowledge the significant stakeholder interest in this project and the desire to finalise regulatory approvals as efficiently as possible. To provide regulatory predictability and guide stakeholder engagement, we have put together a timetable of the necessary steps and stakeholder inputs required to finalise the regulatory approval processes for Project EnergyConnect by the end of this year. This is provided as an attachment to this letter.

The critical path towards completion of the regulatory assessment process by the end of this year relies upon:

- ElectraNet completing and submitting updated cost benefit modelling to the AER for review by 7 August 2020

- TransGrid and ElectraNet's final contingent project applications being complete in all respects and containing no unexpected issues or material information gaps by mid-September, specifically:
 - containing all information required under 6A.8.2(b) of the NER, including final estimates of required capital and operating expenditure for the project
 - being suitable for publication in accordance with clause 6A.8.2(c) of the NER
 - providing supporting documentation that justifies the prudence and efficiency of all proposed costs, including the detailed project scope of works and basis of estimation for all project cost components, as well as evidence of the procurement, tender assessment and contracting process, the scope and basis of tendered costs, and the terms of negotiated contractual arrangements.
- no new material issues arising in submissions to our public consultation process on the contingent project applications
- co-operation, responsiveness and flexibility from all parties throughout the review process.

This timeframe for regulatory assessment is tight, but AER staff will strive to ensure these conditions and the proposed timetable are met. We will work together with TransGrid and ElectraNet over the coming months to help ensure that the applications, when submitted, are complete and provide meaningful opportunities for input from all stakeholders. We will also conduct as much preliminary analysis as possible on the material submitted by TransGrid on 29 June 2020, as well as engaging with TransGrid on its ongoing tender process. This should enable us to fast track the process for assessing the applications when they are formally submitted in September.

Please contact me at [REDACTED] or on [REDACTED] should you have any questions.

Yours sincerely

[REDACTED]

Clare Savage
Chair
Australian Energy Regulator

CC:
ElectraNet
Transgrid

Attachment — Regulatory approval timeline for Project EnergyConnect

Milestone	Responsible Party	Date
ElectraNet engages with stakeholders on updated cost-benefit modelling, including consulting on variable heat rate assumptions	ElectraNet	July 2020
ElectraNet submits updated cost-benefit modelling to the AER which is consistent with the inputs and assumptions from the 2020 ISP, including any requested supporting information.	ElectraNet	7 August 2020
AER pre-lodgement engagement with TransGrid and ElectraNet on expenditure estimates	AER TransGrid ElectraNet	July–August 2020
ElectraNet submits draft contingent project application to AER for feedback on completeness and supporting documentation	ElectraNet	24 August 2020
AER completes its review of ElectraNet's modelling update and informs ElectraNet of its decision	AER	Early September 2020
ElectraNet and TransGrid submit final and complete contingent project applications	TransGrid ElectraNet	14 September 2020
AER publishes contingent project applications and request for submissions	AER	16 September 2020
Close of submissions on contingent project applications	Stakeholders	7 October 2020
AER information gathering and analysis, including information requests and meetings with TransGrid and ElectraNet	AER TransGrid ElectraNet	October 2020
Final date for responses to information requests or public submissions to AER	TransGrid ElectraNet	30 October 2020
AER assessment and decision making process	AER	November–December 2020
AER makes contingent project determinations	AER	End December 2020