



**Decision to replace the
framework and approach
paper for TransGrid
Regulatory control period
commencing 1 July 2018**

December 2015

© Commonwealth of Australia 2015

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Corporate Communications, Australian Competition and Consumer Commission, GPO Box 4141, Canberra ACT 2601 or publishing.unit@acc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: (03) 9290 1444
Fax: (03) 9290 1457

Email: AERInquiry@aer.gov.au

Contents

Contents.....	3
1 Introduction.....	4
1.1 .AER requirements to amend or replace the F&A	4
1.2 .Our decision to replace the F&A.....	5
Appendix A – Request from TransGrid	7

1 Introduction

The framework and approach (F&A) is the first step in a process to determine efficient prices for electricity services. We use the F&A to indicate, amongst other things, which incentive schemes we will apply under the National Electricity Rules (rules). It also facilitates early public consultation and assists TransGrid to prepare its revenue proposal.

TransGrid is a licensed, regulated operator of the monopoly high voltage electricity transmission network in NSW. The network comprises the poles, wires and transformers used for transporting high voltage electricity from remote generators to population centres. TransGrid designs, constructs, operates and maintains the transmission network for NSW electricity consumers. TransGrid's current four year regulatory control period concludes on 30 June 2018.

Diagram 1 provides an overview of the reset process for TransGrid for the regulatory control period commencing on 1 July 2018. Stakeholder consultation occurs throughout the process.

Diagram 1: TransGrid reset process



1.1 AER requirements to amend or replace the F&A

We are at the first stage in the TransGrid reset process. As part of this stage, the AER is required to consult on whether the current F&A paper for TransGrid (published in January 2014) should be amended or replaced. This is a three step process set out in clause 6A.10.1A(c) of the National Electricity Rules (NER). That clause provides that:

- no later than 32 months before the end of the current regulatory period the service provider may request the AER in writing to make an amended or replacement F&A
- no later than 31 months before the end of the current regulatory period the AER must publish a notice inviting submissions on whether it is necessary or desirable to amend or replace an F&A paper (the 'first F&A notice')
- no later than 30 months before the end of the current regulatory period the AER must publish a notice (the 'second F&A notice') that:
 - states that the AER will make an amended or replacement F&A in respect of matters specified in a request from a service provider
 - includes a copy of TransGrid's request to make an amended or replacement F&A
 - states whether the AER will make an amended or replacement F&A in respect of any matter other than those raised by the service provider, and if so, the reasons why we consider it necessary or desirable to make an amended or replacement F&A.

TransGrid wrote to us on 26 October 2015 requesting updates to the F&A to reflect current versions of incentive schemes. A copy of TransGrid's request is at appendix A.¹

On 13 November 2015 we issued the first F&A notice under the rules² inviting submissions from stakeholders on whether it is necessary or desirable to amend or replace the current F&A for TransGrid. Submissions closed on 4 December 2015. We did not receive any submissions in response to our invitation.

We are required to issue a second F&A notice for TransGrid no later than 30 months before the end of the current regulatory period, being 31 December 2015.

1.2 Our decision to replace the F&A

We have decided to replace the F&A we published for TransGrid in January 2014.³ In accordance with the rules, we intend to publish a replacement F&A by 31 July 2016.⁴ We will consult on a replacement F&A in early 2016.

The replacement F&A will address the matters requested in TransGrid's letter. TransGrid requested that we update references to the service target performance incentive scheme (STPIS) to the version applicable at the commencement of the next regulatory control period.⁵

The replacement F&A will also set out our proposed approach, including some general updates, on the application of the following:⁶

- STPIS
- expenditure efficiency benefit sharing scheme (EBSS)
- capital expenditure sharing scheme (CESS)
- expenditure forecast assessment guideline, and
- whether depreciation will be based on forecast or actual capital expenditure in updating the regulatory asset base.

This second F&A notice must also state whether we will make an amended or replacement F&A paper in respect of any matter other than any matters referred to in a request from a service provider.⁷ We did not receive any submissions in response to our first F&A notice.

TransGrid's letter noted that there is a substantial period of time between our decision to amend or replace the F&A and the start of the next regulatory control period in 2018.⁸ For

¹ As required under NER, cl. 6A.10.1A(c)(3)(ii).

² NER, cl. 6A.10.1A(c)(2). The notice was published on 13 November 2015. A copy is available at <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/transgrid-determination-2018-22/initiation>

³ NER, cl. 6A.10.1A(c)(3).

⁴ NER, cl. 6A.10.1A(e).

⁵ TransGrid, *Letter to the AER re: Update to framework and approach paper for next regulatory control period*, 26 October 2015.

⁶ NER, cl. 6A.10.1A(6).

⁷ NER, cl. 6A.10.1A(c)(3)(iii).

this reason, our F&A will refer to the version of the scheme applicable to TransGrid at the commencement of the relevant regulatory control period. We will consult with TransGrid and interested stakeholders on the feasibility of implementing any further updates to schemes that might occur.

We may raise other matters in the F&A in addition to those listed above, where we consider early stakeholder input might be useful.⁹

The positions we set out in our F&A are not binding on us or TransGrid.¹⁰ This means that it is open to TransGrid to propose a different position, on matters set out in the F&A, during the determination process. If our position changes from that set out in the F&A, we will provide clear reasons.

⁸ TransGrid, *Letter to the AER re: Update to framework and approach paper for next regulatory control period*, 26 October 2015, p. 2.

⁹ NER, cl. 6A.10.1A(g).

¹⁰ NER, cl. 6A.10.1A(f).

Appendix A – Request from TransGrid



PO Box A1000
Sydney South
NSW
1235

26/10/2015

Chris Pattas
Australian Energy Regulator
Level 38, 360 Elizabeth Street
Melbourne, VIC 3000

Dear Chris

Update to Framework and approach paper for next regulatory control period

TransGrid's current regulatory control period ends on 30 June 2018, accordingly TransGrid has commenced preparation for the next revenue proposal due to be submitted to the AER in January 2017. The AER issued TransGrid's Framework and approach paper for the current regulatory control period on 31 January 2014.

Clause 6A.10.1A(c)(1) of the National Electricity Rules requires TransGrid no later than 32 months before the end of the regulatory control period to request the AER to make any amendments or replace the Framework and approach paper as required. TransGrid has noted minor updates to the current Framework and approach paper are required to ensure it is applicable to the upcoming regulatory control period and reflects current versions of the regulatory incentive schemes, accordingly an update is requested.

Timeframe

The new framework and approach paper should apply to the forthcoming revenue determination for TransGrid, for the regulatory control period commencing 1 July 2018.

Service Target Performance Incentive Scheme

The current Framework and approach paper applies all components of version 4.1 of the service target performance incentive scheme (STPIS) to TransGrid for the current regulatory control period. TransGrid believes that it would be appropriate for the AER to apply all components of version 5 of the STPIS, published 17 September 2015, and corrected 1 October 2015 for the next regulatory control period.

Efficiency Benefit Savings Scheme

TransGrid expects the AER will continue to apply version 2 of the Efficiency Benefit Sharing Scheme (EBSS), as described in the Explanatory Statement Efficiency Benefit Sharing Scheme for Electricity Network Service Providers, November 2013 and as currently reflected in TransGrid's Framework and approach paper. This continues to be the current version of the EBSS and TransGrid supports its continued application to TransGrid in the next regulatory control period.

Capital Expenditure Savings Scheme

The current Framework and approach paper applies version 1 of the capital expenditure sharing scheme (CESS), as described in the capital expenditure incentive guideline published by the AER 29 November 2013. This continues to be the current version of the CESS and TransGrid supports its continued application to TransGrid in the next regulatory control period.

Updates to Incentive Schemes

TransGrid notes that there is still a substantial period of time between this date and the start of the next regulatory control period. Subject to actual timing of any further updates to the STPIS, CESS or EBSS, it may be appropriate for a future version to be applied. TransGrid proposes this be considered by the AER in consultation with TransGrid, subject to the timing of the update and the feasibility of implementing the new arrangements.

Small Scale Incentive Scheme.

The National Electricity Rules provide an opportunity for the AER to develop small-scale incentive schemes to test innovative approaches to incentives. The AER have not yet developed any such schemes. We request that in the event that the AER develops such a scheme, that any intention to apply such a scheme be set out in the Framework and approach paper. In the case where a scheme is developed and not set out in the Framework and approach paper, TransGrid requests that the AER consults with TransGrid on the feasibility of applying the scheme to the upcoming regulatory control period.

Expenditure Forecast Assessment Guidelines

TransGrid's current Framework and approach paper applies the current version (version 1) of the Expenditure Forecast Assessment Guidelines, effective since 29 November 2013. Unless a further update is made to the guidelines prior to the start of the regulatory control period TransGrid recognises that it would be procedurally appropriate for the AER to apply these Guidelines to the next regulatory control period. Nevertheless, TransGrid maintains concerns as set out in its last regulatory proposal and revised proposal, with the AER's current benchmarking methodology and forecasting methodology for operating expenditure. TransGrid supports the use of benchmarking as an investigative tool which may be able to highlight areas for further exploration and assessment. However, as identified by the AER, the ability to draw conclusions about relative efficiency from benchmarking transmission networks in Australia is limited.¹ TransGrid would welcome any opportunity to engage with the AER with a view to further mature the AER's methodology.

Depreciation

TransGrid supports the application of forecast depreciation to establish the opening regulated asset base commencing 1 July 2018. This is consistent with the application of the CESS applied to TransGrid in the current regulatory control period.

¹ See AER (2014), Annual Transmission Benchmarking Report, November 2014, p.17; AER (2015) Draft Annual Transmission Benchmarking Report, September 2015, p.16.

TransGrid is pleased to make this first step in its upcoming revenue determination process with the AER. This step is particularly important as it facilitates early public consultation and will assist TransGrid to prepare its revenue proposal. If you would like to discuss any matter raised in this letter further, please contact Nicola Tully on (02) 9284 3120.

Yours faithfully



Tony Meehan
Executive General Manager / Business Growth and Revenue