

# AER

# Determination

Amendment of Transgrid's 2023–28 Revenue  
Determination for Humelink Early Works Stage 1  
Part 1 Contingent Project  
1 July 2023 to 30 June 2028

July 2023

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## Contents

<b>1</b>	<b>Amendment of Transgrid’s 2023–28 revenue determination for Humelink early works stage 1 part 1 contingent project .....</b>	<b>4</b>
1.1	Background .....	4
1.2	Amendment of the 2023–28 revenue determination.....	5
	<b>Glossary.....</b>	<b>8</b>

# 1 Amendment of Transgrid's 2023–28 revenue determination for Humelink early works stage 1 part 1 contingent project

On 17 August 2022, we made a determination on Transgrid's Humelink early works stage 1 part 1 contingent project application. Under clause 6A.8.2(n) of the National Electricity Rules (NER), we must amend Transgrid's 2023–28 revenue determination published in April 2023 for the incremental revenue mainly based on the approved capital expenditure (capex) as determined for Transgrid's Humelink early works stage 1 part 1 contingent project.<sup>1</sup>

This document sets out our approach to amending Transgrid's 2023–28 revenue determination by incorporating the Humelink early works stage 1 part 1 contingent project determination, the incremental revenues to be recovered and the resulting impact on indicative customer bills.

## 1.1 Background

Humelink is a transmission upgrade connecting the Snowy Mountains Hydroelectric Scheme to Bannaby, expanding transmission capacity in southern New South Wales. The project is identified as a necessary upgrade for the National Electricity Market in the Australian Energy Market Operator's (AEMO) Integrated System Plan.

In our August 2022 determination on Transgrid's Humelink early works stage 1 part 1 contingent project application, we approved a total forecast capex amount of \$321.9 million (\$2017–18) to be incurred over seven years from 2017–18 to 2023–24 across three regulatory control periods (see Table 1.1). We noted that the revenue Transgrid would recover in the 2023–28 regulatory control period (period) was an indicative amount that would be updated following our final decision on Transgrid's 2023–28 transmission determination. At that time, we applied a number of placeholder estimates to model the incremental revenues. We noted these values would be amended once our final decision on the 2023–28 determination was made. The amendment process, however, would not involve amending the capex approved in the Humelink early works stage 1 part 1 contingent project determination.<sup>2</sup>

On 28 April 2023, we published our final decision on Transgrid's transmission determination for the 2023–28 period. Consistent with the requirements of the NER, the contingent project assessment for Humelink early works stage 1 part 1 was outside the scope of the 2023–28 determination and therefore the approved costs were excluded from that determination.

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1 This is due to the submission date for Humelink early works stage 1 part 1 contingent project application falling within the final 90 business days of the penultimate year of the 2018–23 regulatory control period. As a result, clause 6A.8.2(n) requires us following our Transgrid's 2023–28 final determination to amend that final determination for this stage 1 part 1 contingent project determination.

2 AER, *Determination – Humelink Early Works Contingent Project*, August 2022, pp. 17–18.

## 1.2 Amendment of the 2023–28 revenue determination

Within 6 months following the making of the final decision on Transgrid's 2023–28 revenue determination we must amend that revenue determination for the approved costs and update the placeholder estimates used in the August 2022 contingent project determination.<sup>3</sup> This includes the 2022–23 CPI and the approved forecast rate of return for the 2023–28 period set out in our final decision on Transgrid's 2023–28 determination.

Although the amendment process does not involve amending the approved capex amount in real dollar terms for the contingent project determination,<sup>4</sup> we note that Transgrid has underspent by \$13.5 million (\$2017–18) or \$15.8 million (\$2022–23) between year 1 (2018–19) and year 4 (2022–23) in the 2018–23 period. Consistent with the requirement of the NER,<sup>5</sup> we have included the unspent capex amount in the first year (2023–24) of the 2023–28 revenue determination so that the total approved capex amount in real terms for this contingent project remains the same.

Table 1.1 shows our determination of capex for the Humelink early works stage 1 part 1 contingent project for the period from 2017–18 to 2023–24. It compares the capex in this amended 2023–28 revenue determination (in \$2017–18 and \$2022–23) with the approved capex (in \$2017–18) set out in the August 2022 contingent project determination.

**Table 1.1 AER's determination of capex for Humelink early works stage 1 part 1 contingent project and updates to capex in the amended 2023–28 revenue determination (\$ million)**

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	Total
<b>AER's determination in Aug 2022</b>	2014–18 regulatory period	2018–23 regulatory period					2023–28 regulatory period	
\$2017–18	0.4	0.6	8.6	15.6	44.6	188.8	63.2	<b>321.9</b>
<b>Amended AER's determination in July 2023</b>	Actual	Actual	Actual	Actual	Actual	Estimate	Forecast	
\$2017–18	0.4	0.6	8.5	15.7	31.1	188.8	76.7	<b>321.9</b>
\$2022–23	0.4	0.7	9.9	18.3	36.3	220.3	89.5	<b>375.6</b>
		Included in RFM					Included in PTRM	

Source: AER analysis.

<sup>3</sup> NER, cl. 6A.8.2(n).

<sup>4</sup> AER, *Determination – Humelink Early Works Contingent Project*, August 2022, pp. 17–18.

<sup>5</sup> NER, clause 6A.6.7(i).

We have used Transgrid's 2023–28 final determination models as the basis for incorporating the Humelink early works stage 1 part 1 contingent project determination. As part of this process, we have marked up relevant input amendments to the asset base roll forward model (RFM), post-tax revenue model (PTRM), depreciation tracking module and capital expenditure sharing scheme (CESS) model. These amended models are published alongside this amended Transgrid 2023–28 revenue determination for the Humelink early works stage 1 part 1 contingent project.

Table 1.2 shows Transgrid is to recover \$95.1 million (\$ nominal) or 2.0% in additional revenues (smoothed) from customers as compared to our final determination for Transgrid's total revenue over the 2023–28 period published in April 2023. Because Transgrid's transmission pricing for the first year (2023–24) of the 2023–28 period has been set, its recovery of the incremental revenue for this contingent project commences in the second year (2024–25) of this period.<sup>6</sup> As a result of recovering these incremental revenues, we estimate that the transmission component of an indicative residential electricity bill in New South Wales would increase by \$3 per annum over the remaining four years of the 2023–28 period.

**Table 1.2 Incremental revenue calculation – AER's amendment of Transgrid's revenue determination for Humelink early works stage 1 part 1 contingent project vs. Transgrid's 2023–28 revenue determination published in April 2023 (\$million, nominal)**

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Return on capital	16.9	22.7	23.3	23.9	24.5	111.3
Regulatory depreciation <sup>a</sup>	–8.5	–5.0	–5.0	–4.9	–4.9	–28.2
Operating expenditure <sup>b</sup>	0.2	0.2	0.2	0.2	0.2	1.0
Revenue adjustments <sup>c</sup>	6.0	1.0	1.1	1.1	1.1	10.3
Net tax amount	0.8	–0.8	–0.7	–0.6	–0.5	–2.0
Annual building block revenue requirement (unsmoothed)	15.4	18.1	18.9	19.6	20.5	92.4
<b>Annual expected MAR (smoothed)</b>	<b>0.0</b>	<b>20.9</b>	<b>22.7</b>	<b>24.7</b>	<b>26.7</b>	<b>95.1</b>
Increase to annual expected MAR (smoothed) %	n/a	2.2%	2.4%	2.5%	2.6%	2.0%

Source: AER analysis.

- (a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening regulatory asset base.
- (b) Includes debt raising costs.
- (c) Includes revenue adjustments from the efficiency benefit sharing scheme, the capital expenditure sharing scheme, shared assets decrement and the demand management innovation allowance mechanism.

Table 1.3 shows that after incorporating the Humelink early works stage 1 part 1 contingent project into Transgrid's 2023–28 revenue determination, we determine a total annual building

<sup>6</sup> NER, cl. 6A.8.2(n)(1).

block revenue requirement for Transgrid of \$4,957.4 million (\$ nominal, unsmoothed), total expected maximum allowed revenue of \$4,946.4 million (\$ nominal, smoothed), and the X factors for the 2023–28 period.

**Table 1.3 AER's amendment of Transgrid's revenue determination for Humelink early works stage 1 part 1 contingent project – annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factor (\$million, nominal)**

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Annual building block revenue requirement (unsmoothed)	864.4	946.7	1,006.9	1,064.6	1,074.8	4,957.4
<b>Annual expected MAR (smoothed)</b>	<b>924.0</b>	<b>951.0</b>	<b>986.5</b>	<b>1,023.3</b>	<b>1,061.6</b>	<b>4,946.4<sup>a</sup></b>
X factors <sup>b</sup>	n/a <sup>c</sup>	0.00%	–0.79%	–0.79%	–0.79%	n/a

Source: AER analysis.

- (a) The estimated total revenue cap is equal to the total annual expected MAR.
- (b) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.
- (c) Transgrid is not required to apply an X factor for 2023–24 because we set the 2023–24 MAR in our final determination. The MAR for 2023–24 is equal to the MAR for 2022–23 in real terms, or 2.9% higher in nominal terms.

## Glossary

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Capex	Capital expenditure
CESS	Capital expenditure sharing scheme
CPI	Consumer price index
DMIAM	Demand management innovation allowance mechanism
EBSS	Efficiency benefit sharing scheme
MAR	Maximum allowed revenue
NER	National Electricity Rules
PTRM	Post-tax revenue model
RAB	Regulatory asset base
RFM	Roll forward model