

On 25 November 2009 the Australian Competition Tribunal (Tribunal) made orders varying the Australian Energy Regulator’s (AER) *TransGrid transmission determination 2009–10 to 2013–14* by:

- determining the weighted average cost of capital (WACC) to be based on an August–September 2009 averaging period for the 10-year bond rates. This results in increasing the nominal vanilla WACC for TransGrid to 10.05 per cent from 8.79 per cent
- increasing the controllable operating expenditure allowance for TransGrid by \$14 million to \$706 million (\$2007–08).

The adjusted WACC and operating expenditure allowance has the effect of increasing the maximum allowed revenues for TransGrid during the 2009–10 to 2013–14 regulatory control period. In accordance with the Tribunal’s decision, the AER has set out below updated calculations of the operating expenditure allowance and maximum allowed revenues for TransGrid (including other relevant calculations) in the AER’s final decision for the TransGrid transmission determination dated 28 April 2009 (2009 final decision).

Table 1 sets out the updated WACC for the next regulatory control period and replaces tables 3 and 4.6 of the AER’s 2009 final decision.

Table 1: AER conclusion on TransGrid’s WACC parameters

Parameter	AER conclusion
Risk-free rate (nominal)	5.86%
Risk-free rate (real) ^a	3.30%
Expected inflation rate	2.47%
Debt risk premium	2.99%
Market risk premium	6.00%
Gearing	60%
Equity beta	1.00
Nominal pre-tax return on debt	8.85%
Nominal post-tax return on equity	11.86%
Nominal vanilla WACC	10.05%

(a) The real risk-free rate was calculated using the Fisher equation.

Table 2 sets out the updated allowance for benchmark equity raising costs associated with forecast capital expenditures for the next regulatory control period and replaces table 5.11 of the AER's 2009 final decision. The allowance has changed because the calculations depend on the cash flows (based on the amended building blocks).

Table 2: AER conclusion on TransGrid's benchmark equity raising cost (\$m, nominal)

Cash flow analysis	AER final decision (total)	Notes
Dividends	436.9	Set to distribute imputation credits assumed in the PTRM
Dividends reinvested	131.1	30% of dividends paid
Cost of dividend reinvestment plans	1.3	Dividends reinvested multiplied by benchmark cost (1%)
Capex funding requirement	2580.8	This is the forecast capex funding requirement (not the capex value that includes a half year WACC adjustment)
Debt component	1397.9	Set to equal 60% of RAB increase (not capex)
Equity component	1182.9	Residual of capex funding requirement and debt component
Retained cash flows available for reinvestment	1186.3	Includes dividends reinvested
External equity requirement	-3.4	Equal to equity component less retained cash flows
External equity raising cost	-0.1	External equity requirement multiplied by benchmark direct cost (2.75%)
Total equity raising cost	1.2	Sum of dividend reinvestment plan cost and external equity raising cost
Total equity raising cost (\$2008-09)	1.3	To be added to the RAB at the start of the next regulatory control period

Note: Negative figures in some years of the regulatory control period have a net impact on the total amount calculated for the 5-year regulatory control period.

Tables 3 and 4 set out the updated forecast operating expenditure allowance for the next regulatory control period and replace tables 5.12 (and table 4) and 5.13 respectively of the AER's 2009 final decision.

Table 3: AER conclusion on TransGrid's forecast opex allowance (\$m, 2007–08)

	2009–10	2010–11	2011–12	2012–13	2013–14	Total
TransGrid's revised proposed controllable opex	128.5	138.4	142.7	152.5	155.7	717.8
Debt raising costs	3.7	4.0	4.3	4.7	5.0	21.7
Equity raising costs ^a	1.1	1.9	3.0	3.8	3.8	13.6
Network support costs	21.5	6.0	6.0	6.0	6.0	45.5
Self insurance	2.2	2.2	2.2	2.2	2.2	11.0
TransGrid's total opex	157.1	152.5	158.2	169.1	172.7	809.6
AER controllable opex	127.3	137.3	140.9	149.3	150.7	705.5
Debt raising costs	1.9	2.1	2.2	2.4	2.6	11.2
Equity raising costs ^b	–	–	–	–	–	–
Network support costs	21.5	6.0	6.0	6.0	6.0	45.5
Self insurance	1.8	1.8	1.8	1.8	1.8	9.2
AER total opex allowance	152.6	147.2	151.0	159.5	161.1	771.5

Note: Totals may not add up due to rounding.

(a) The proposed equity raising cost allowance does not include an estimate for retained earnings. TransGrid's cash flow modelling provided with its revised revenue proposal PTRM calculated total equity raising costs of \$38 million (\$2007–08).

(b) The AER will allow TransGrid to amortise a total of \$1.3 million (\$2008–09) for benchmark equity raising costs associated with forecast capex for the next regulatory control period.

Table 4: AER conclusion on TransGrid's controllable opex allowance (\$m, 2007–08)

	2009–10	2010–11	2011–12	2012–13	2013–14	Total
AER controllable opex allowance (draft decision)	128.4	135.7	139.5	147.9	149.9	701.3
TransGrid's revised proposed controllable opex	128.5	138.4	142.7	152.5	155.7	717.8
Adjustment for labour escalators	–1.2	–1.1	–1.8	–3.1	–4.9	–12.2
Adjustment for revised capex forecast ^a	–	–	–	–	–	–0.1
AER adjusted controllable opex	127.3	137.3	140.9	149.3	150.7	705.5

Note: Totals may not add up due to rounding.

(a) Rounded to zero. Updates arising from the AER amendments to the capex allowance set out in chapter 3.

Table 5 sets out the updated forecast controllable operating expenditure for the efficiency benefit sharing scheme to apply over the next regulatory control period and replaces table 6.7 of the AER's 2009 final decision.

Table 5: AER conclusion on TransGrid's controllable opex for EBSS purposes (\$m, 2007–08)

	2009–10	2010–11	2011–12	2012–13	2013–14
Total forecast opex	152.6	147.2	151.0	159.5	161.1
Adjustment for debt raising costs	1.9	2.1	2.2	2.4	2.6
Adjustment for self insurance costs	1.8	1.8	1.8	1.8	1.8
Adjustment for insurance costs	5.5	5.9	6.3	6.7	6.9
Adjustment for superannuation costs	6.0	6.0	6.0	5.9	5.7
Adjustment for non-network alternatives	22.6	7.1	7.1	7.1	7.1
Forecast opex for EBSS purposes	114.7	124.3	127.5	135.6	137.0

Note: Totals may not add up due to rounding.

Table 6 sets out the updated forecast regulatory depreciation allowance for the next regulatory control period and replaces tables 6 and 7.2 of the AER's 2009 final decision.

Table 6: AER conclusion on TransGrid's regulatory depreciation allowance (\$m, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14	Total
Straight-line depreciation	179.0	191.7	193.6	215.9	238.6	1018.7
Less: inflation adjustment on RAB	104.4	116.5	126.8	140.5	153.1	641.3
Regulatory depreciation	74.6	75.2	66.8	75.4	85.5	377.5

Table 7 sets out the updated forecast roll forward of the regulatory asset base for the next regulatory control period and replaces table 9.3 of the AER's 2009 final decision.

Table 7: AER roll forward of TransGrid’s regulatory asset base (\$m, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14
Opening RAB	4217.5	4706.8	5123.2	5677.3	6186.2
Net capital expenditure	563.9	491.5	621.0	584.2	448.1
Straight-line depreciation	-179.0	-191.7	-193.6	-215.9	-238.6
Inflation adjustment on opening RAB	104.4	116.5	126.8	140.5	153.1
Closing RAB	4706.8	5123.2	5677.3	6186.2	6548.8

Note: The straight-line depreciation less the inflation adjustment on the opening RAB provides the regulatory depreciation building block allowance.

Table 8 sets out the updated forecast net tax allowance for the next regulatory control period and replaces table 9.4 of the AER’s 2009 final decision.

Table 8: AER modelling of net tax allowance (\$m, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14	Total
Tax payable	48.1	50.7	49.8	56.3	62.6	267.6
Less: value of imputation credits	24.1	25.4	24.9	28.1	31.3	133.8
Net tax allowance	24.1	25.4	24.9	28.1	31.3	133.8

Note: Totals may not add up due to rounding.

Table 9 sets out the updated annual building block revenue requirement for the next regulatory control period and replaces table 9.5 of the AER’s 2009 final decision.

Table 9: AER final decision on annual building block revenue requirement (\$m, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14	Total
Return on capital	423.8	473.0	514.8	570.5	621.7	2603.9
Regulatory depreciation	74.6	75.2	66.8	75.4	85.5	377.5
Opex allowance	162.1	160.3	168.5	182.5	188.9	862.3
Opex efficiency allowance ^a	5.8	4.7	5.8	2.5	-3.0	15.7
Net tax allowance	24.1	25.4	24.9	28.1	31.3	133.8
Annual building block revenue requirement (unsmoothed)	690.5	738.6	780.8	859.0	924.3	3993.2

(a) An allowance for opex efficiency resulting from the carry forward mechanism applied in the current regulatory control period.

Table 10 sets out the updated maximum allowed revenues and X factors for the next regulatory control period and replaces table 9.6 of the AER's 2009 final decision.

Table 10: AER final decision on the maximum allowed revenue (\$m, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14	Total
MAR (smoothed)	678.4 ^a	734.2	794.5	859.8	930.5	3997.3
X factor (%)	n/a	-5.61	-5.61	-5.61	-5.61	n/a

(a) The MAR to be recovered in 2009–10 is based on the AER's October 2008 draft determination of \$678.4 million. As TransGrid has based its transmission prices on the MAR in the draft determination, as it is entitled to do pursuant to clause 6A.24.4(b) of the NER, the actual amount to be recovered by TransGrid in 2009–10 is \$678.4 million. The difference between the amount of \$678.4 million that TransGrid will actually recover and the amount that TransGrid is entitled to recover as a result of the Australian Competition Tribunal's decision (being \$690.5 million) is recovered over years 2 to 5 of the regulatory control period. The net present value (discount rate equal to the vanilla WACC of 10.05%) of the smoothed MAR for the five years in table 10 is the same as the net present value of the unsmoothed annual building block revenue requirements in table 9 (i.e. \$2981.4 million) which reflects the implementation of the Tribunal's decision on cost of capital, and includes an adjustment for defect maintenance operating expenditure.

Tables 9 and 10 replaces table 11 of the AER's 2009 final decision.

Figure 1 shows the updated revenue path for the next regulatory control period (both smoothed and unsmoothed) in nominal and real terms (\$2008–09) and replaces figure 9.1 of the AER's 2009 final decision.

Figure 1: Revenue path from 2008–09 to 2013–14 (\$m)

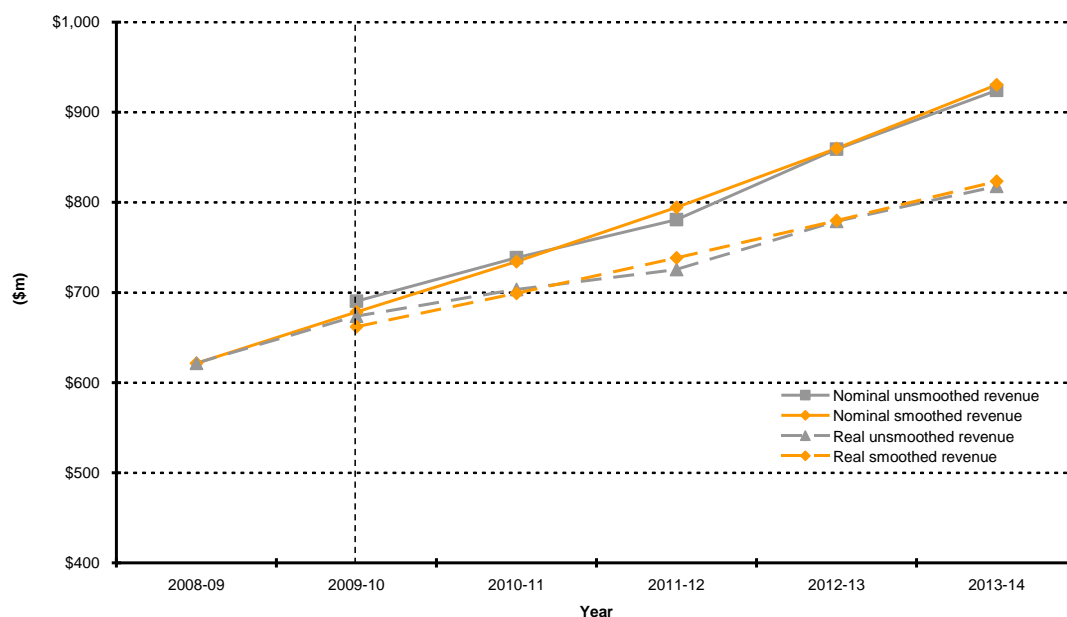


Figure 2 shows the updated average price path for the next regulatory control period in nominal and real terms (\$2008–09) and replaces figure 9.2 of the AER’s 2009 final decision.

Figure 2: Price path from 2008–09 to 2013–14 (\$/MWh)

