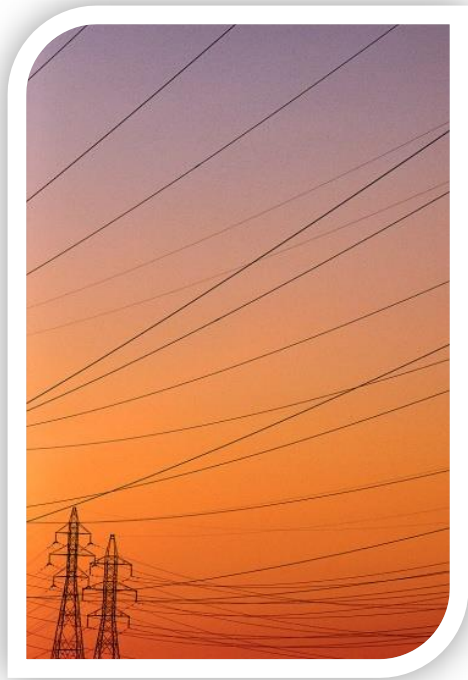


The Australian Energy Regulator



TransGrid draft decision 2018-23

Predetermination conference

10 October 2017

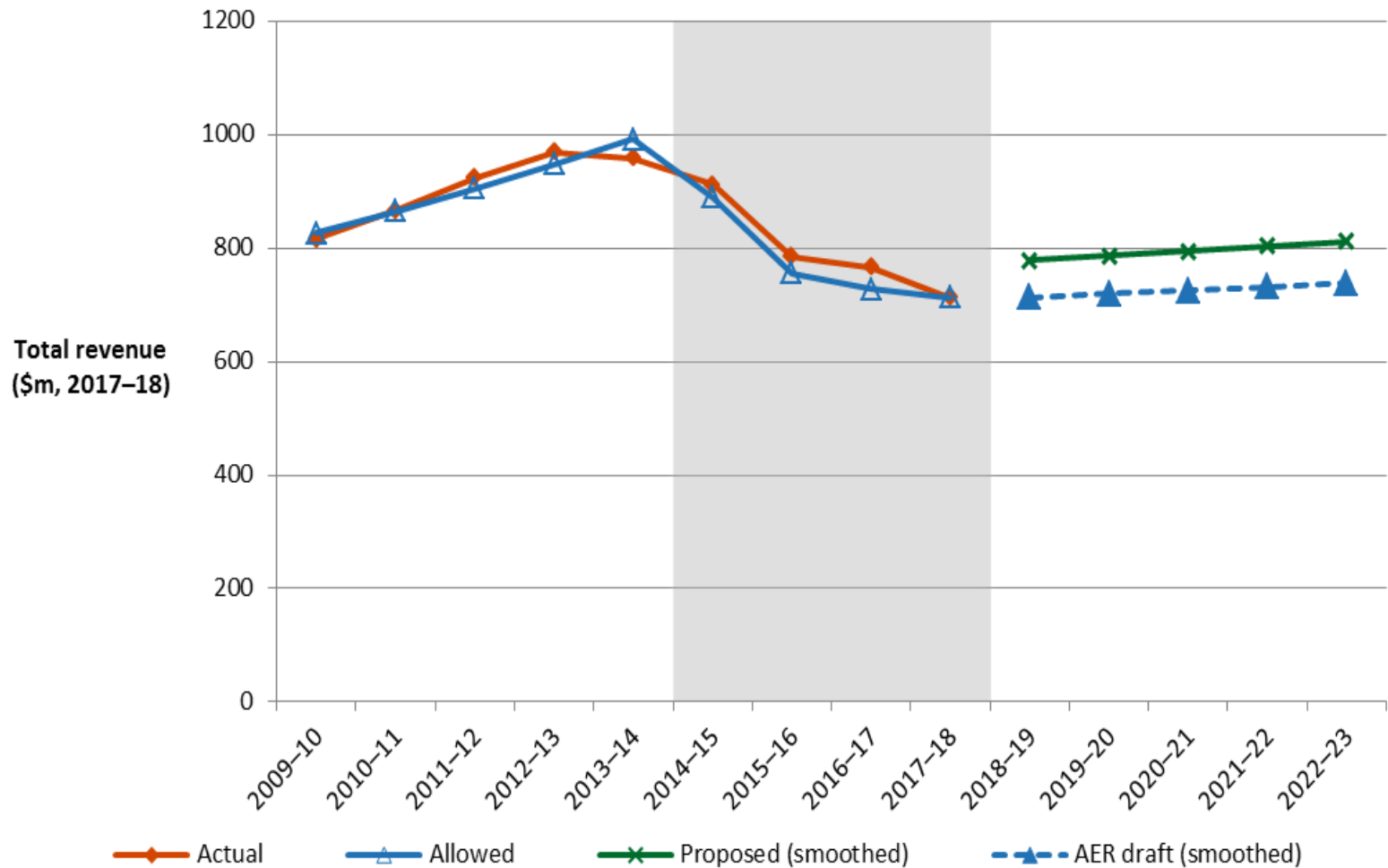
Agenda

Time	Item
2:00 pm	Registration
2:15 pm	AER presentation of its draft decision (30 mins)
2:45 pm	TransGrid Presentation (30 mins)
3:15 pm	Consumer Challenge Panel (CCP) presentation (30 mins)
3.45 pm	Q&A (30 mins)
4.15 pm	AER: Next steps

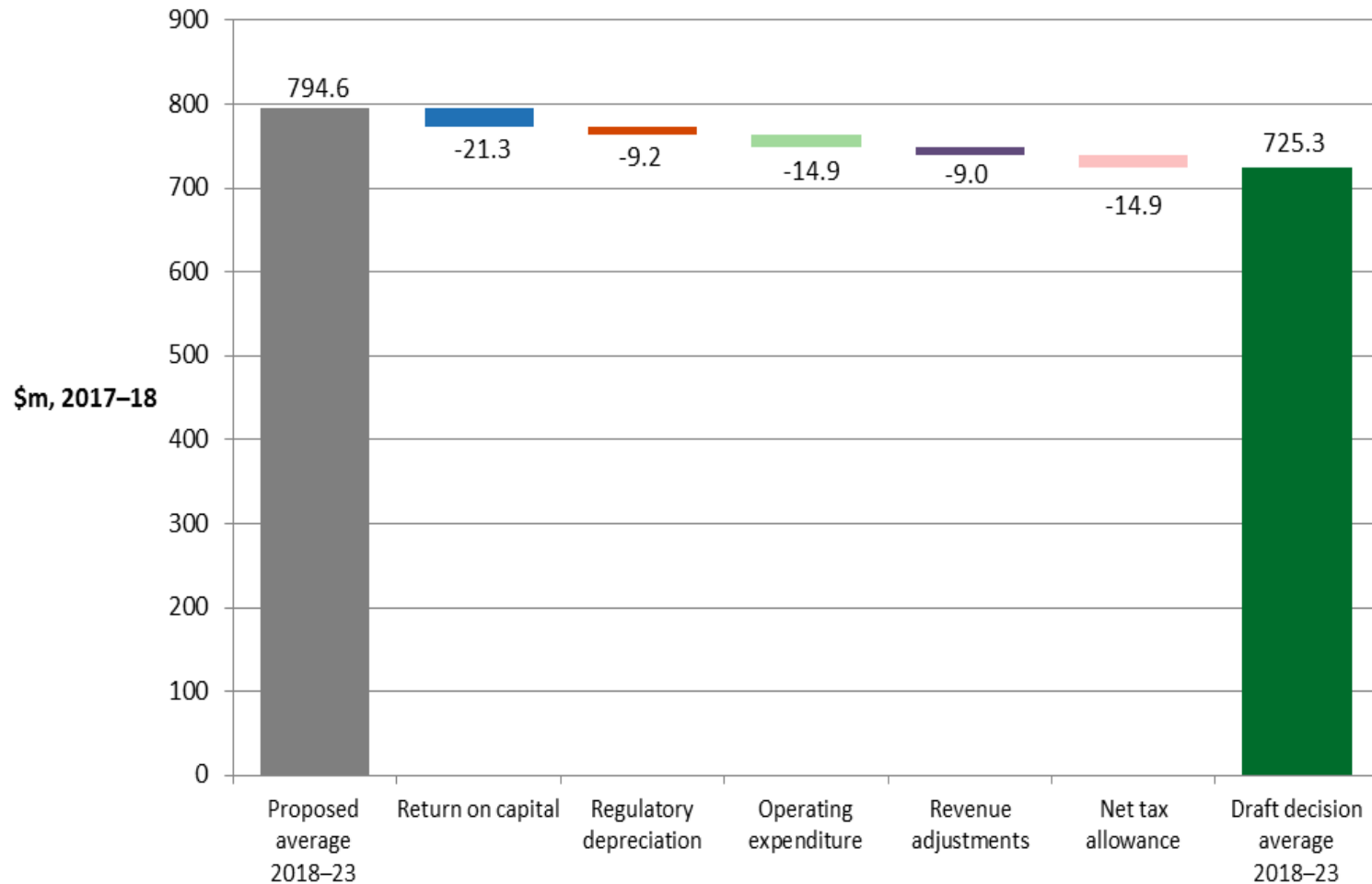
Overview

- On 27 September the AER released its draft decision for TransGrid
- This presentation:
 - Provides a summary of the decision
 - Explains outcome in the current regulatory period
 - Discusses the main issues of difference, in particular Powering Sydney's Future and TransGrid's asset replacement program

What is our draft decision?



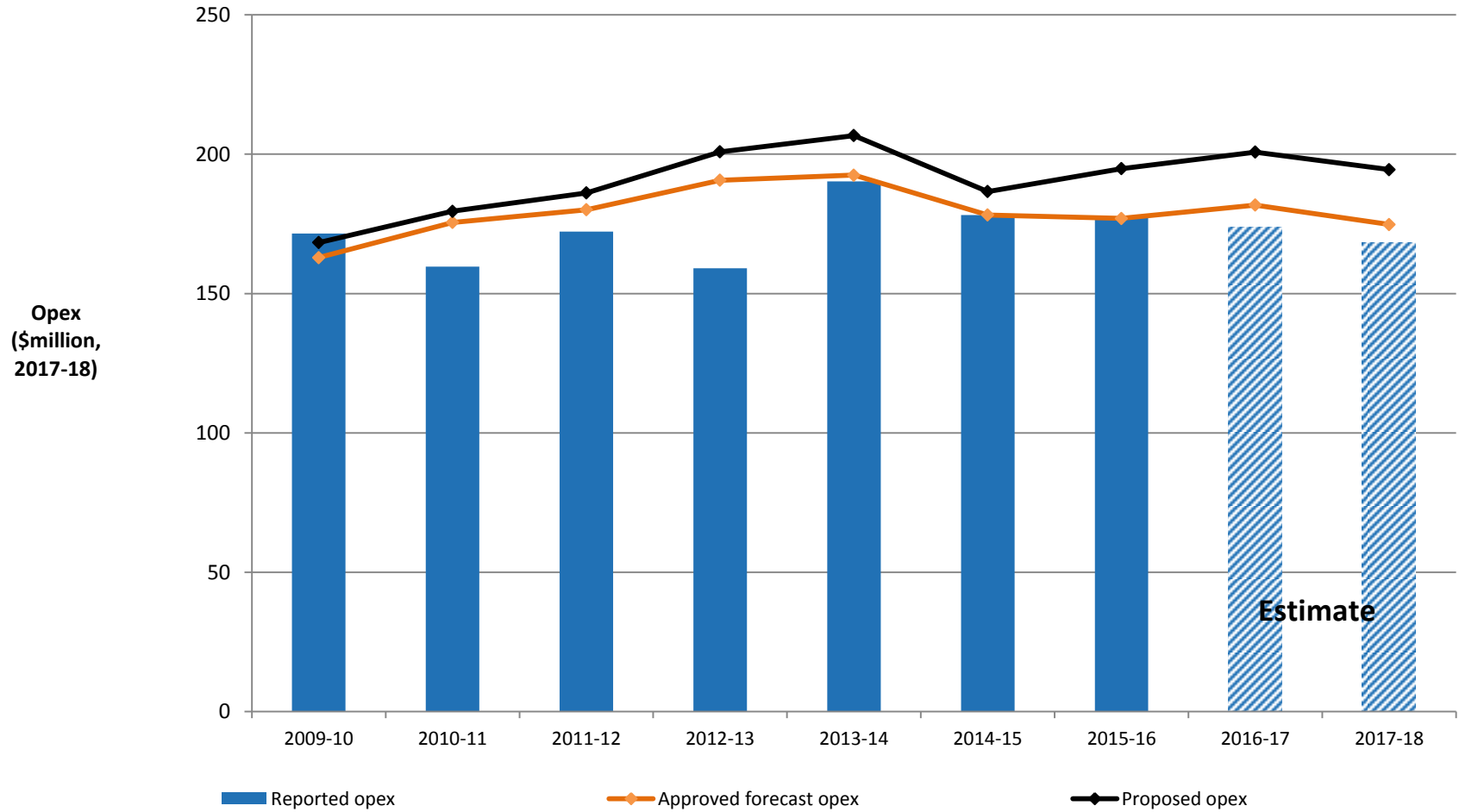
How do we differ from TransGrid?



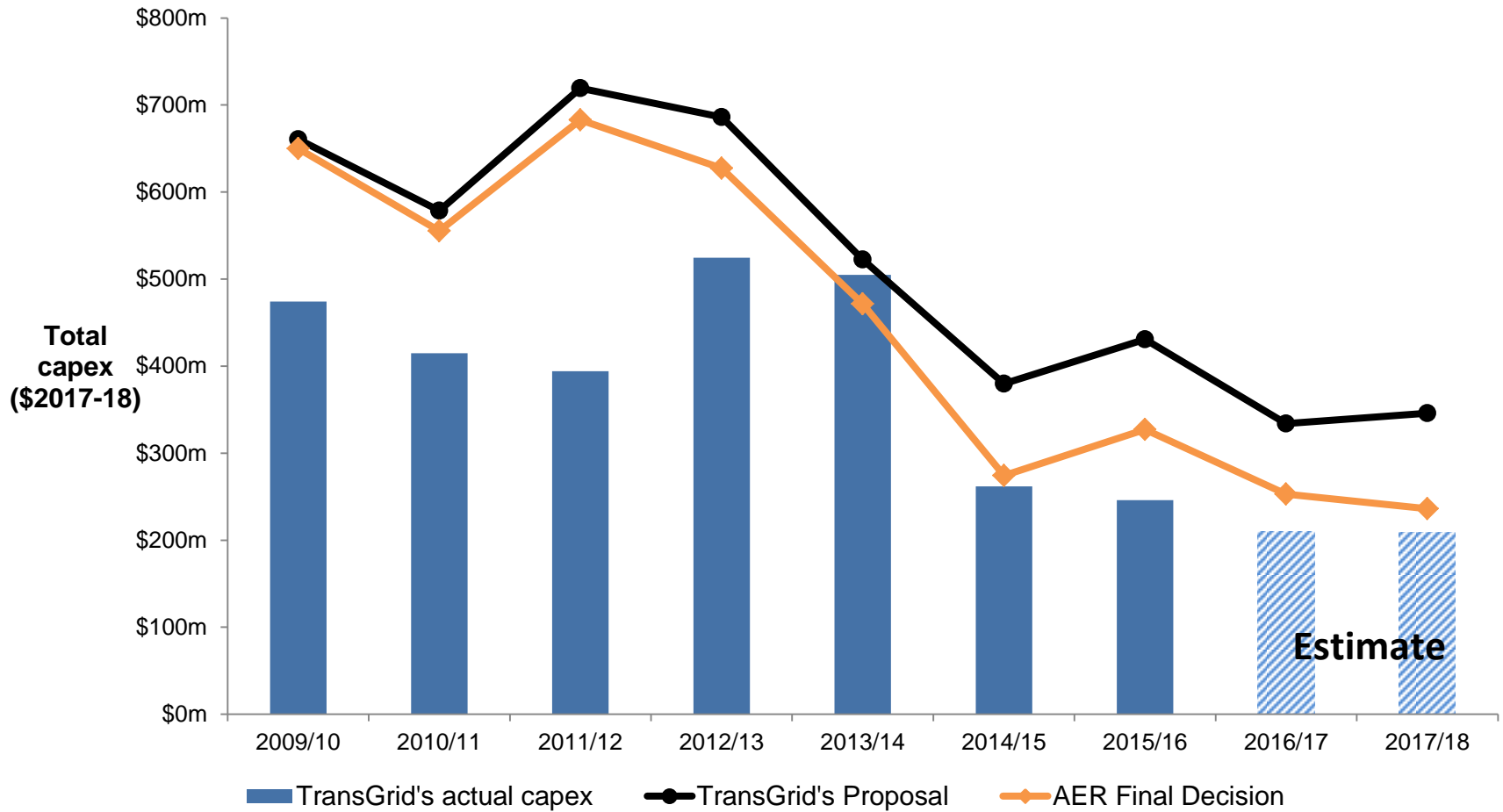
How do we differ from TransGrid?

- Our main point of difference is capital expenditure (capex)
 - Current (2014-18) capex is \$230m per annum
 - TransGrid proposes \$328m per annum. This is a 42% increase (\$million, 2017–18)
 - AER forecast is \$198m per annum. This is 39% lower than proposed (\$million, 2017–18)
- Other than this our draft decision is not substantially different from TransGrid's

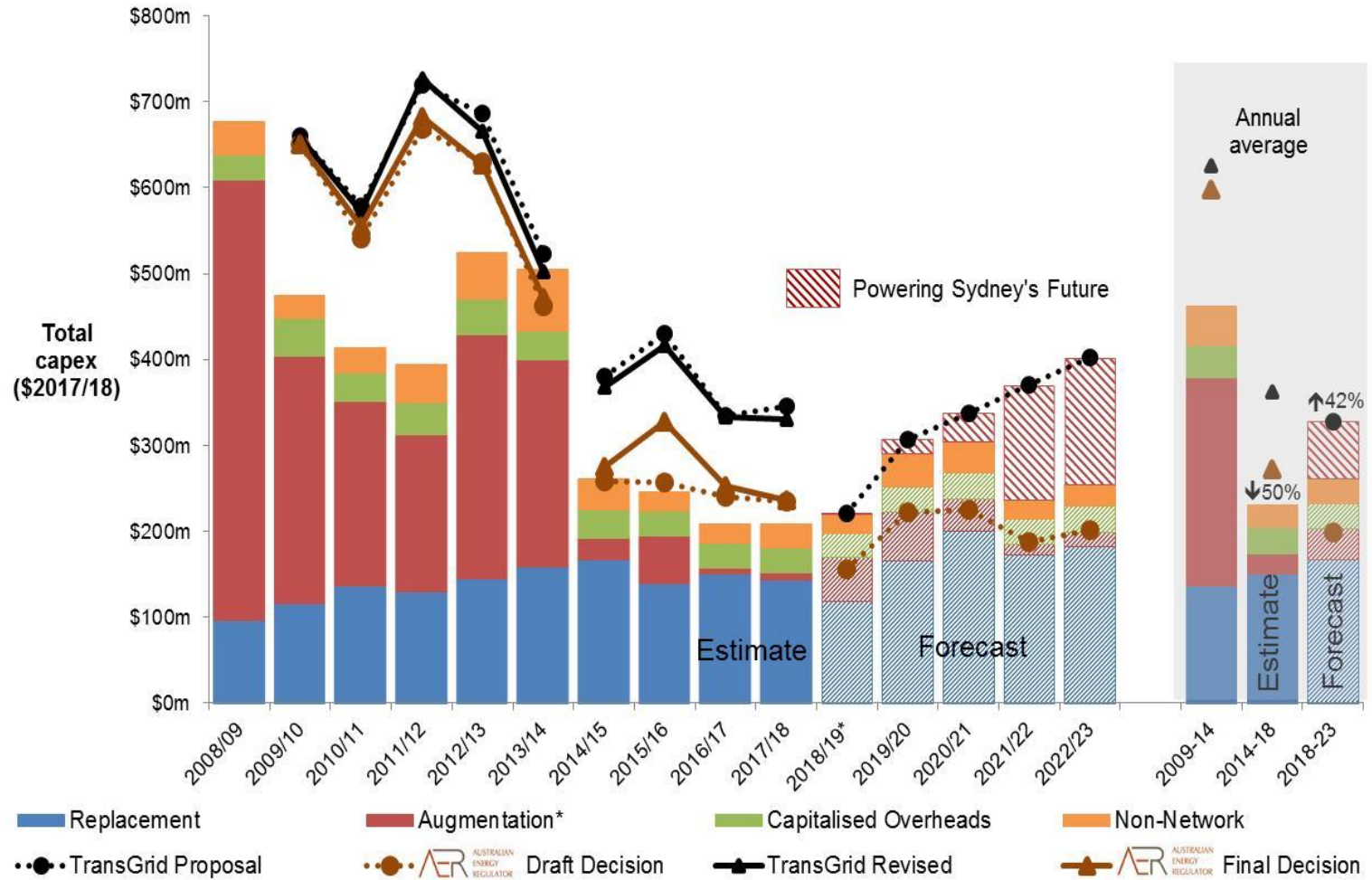
TransGrid's past opex



TransGrid' past capex



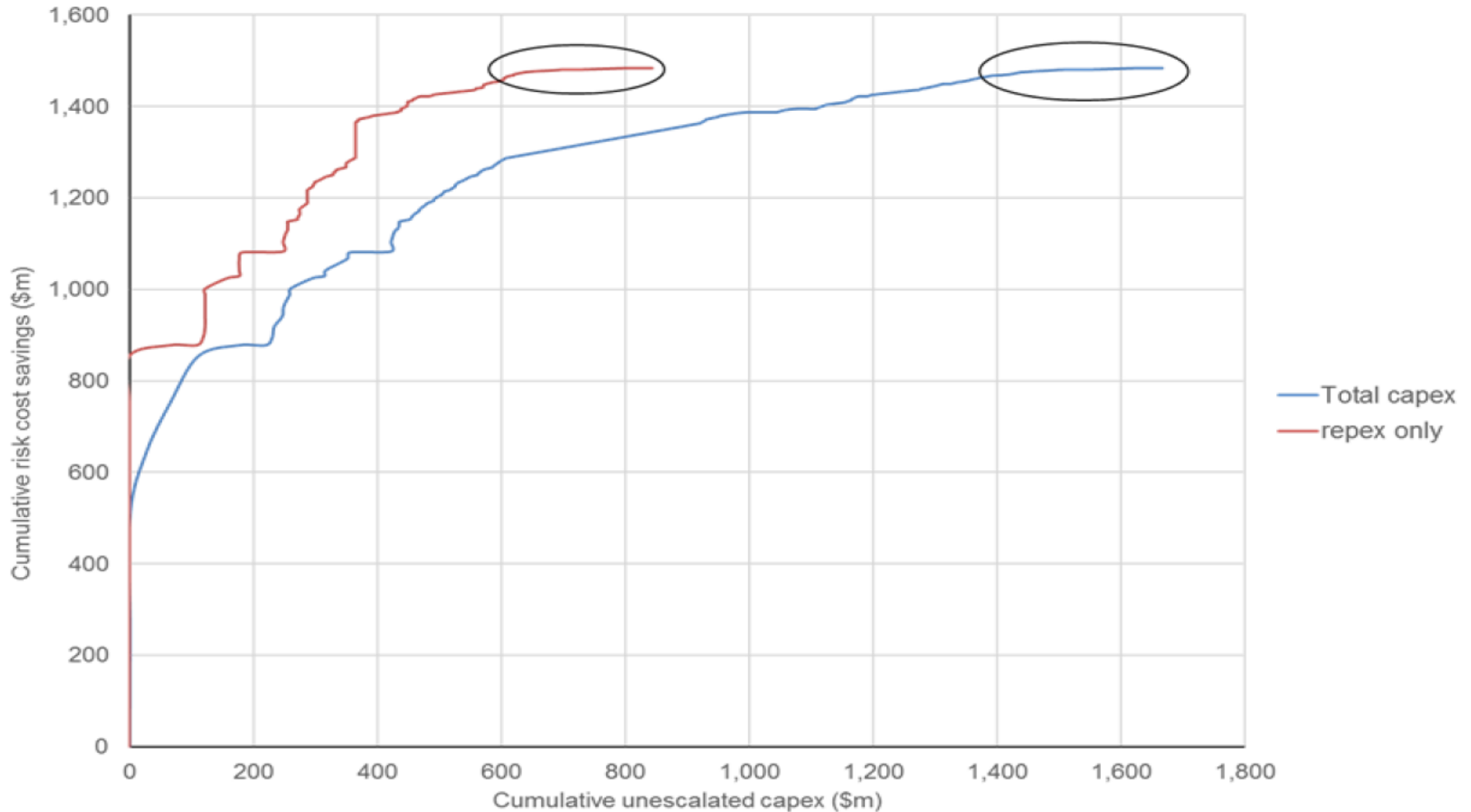
Our draft capex forecast



Replacement capex

- TransGrid has enhanced its asset management and risk management process
- Issues with input assumptions such as future demand and the impact of asset failure
- Our analysis suggests that TransGrid is overly risk averse
 - TransGrid has assessed risks of asset failure based on worst case events and worst case consequences
 - Limited analysis of optimal investment timing
 - Limited capex portfolio optimisation

Capex – risk v cost trade off



Powering Sydney's Future

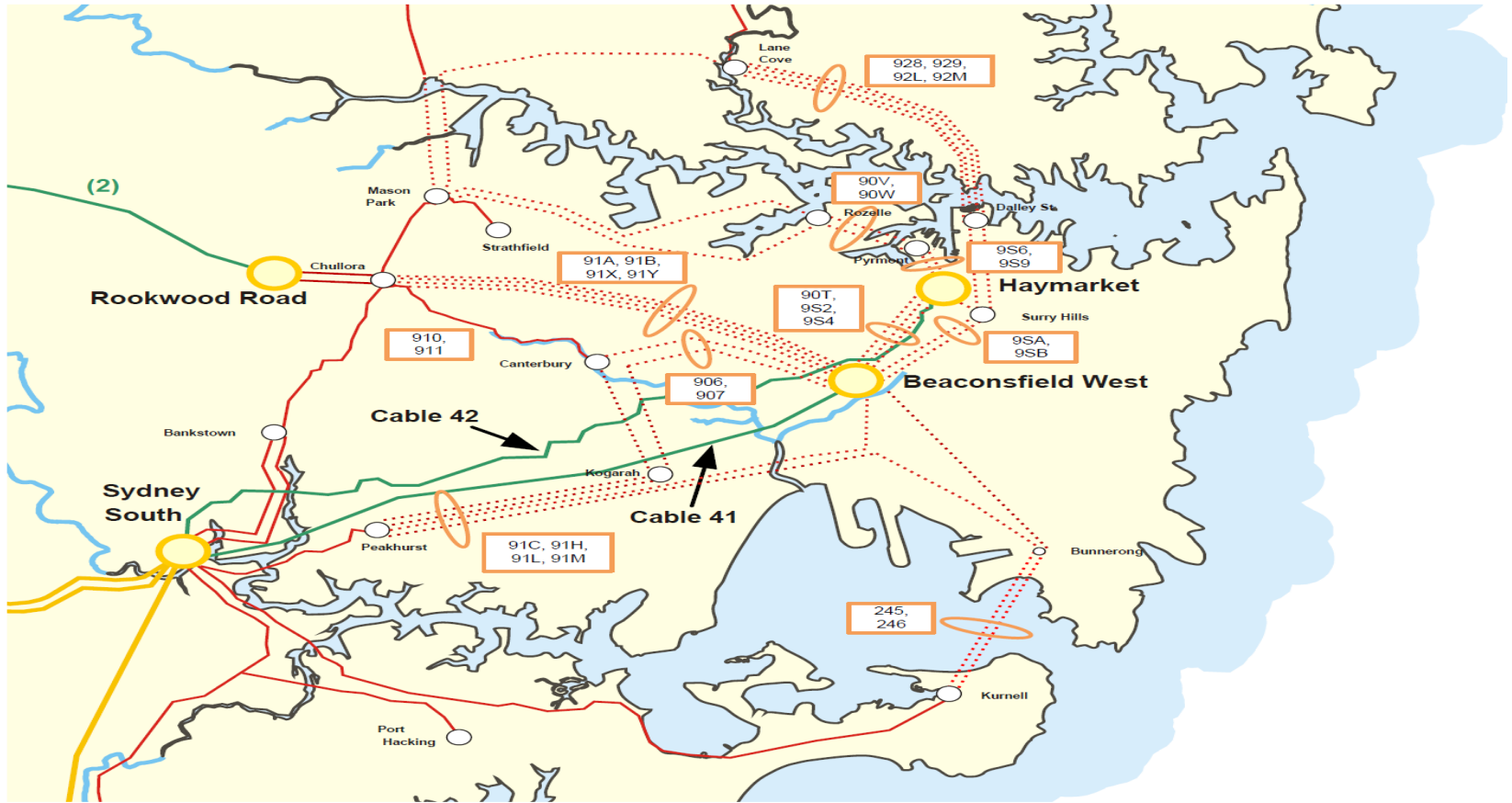


Figure 2 – Network Supplying Sydney CBD and Inner Metropolitan Area

Powering Sydney's Future

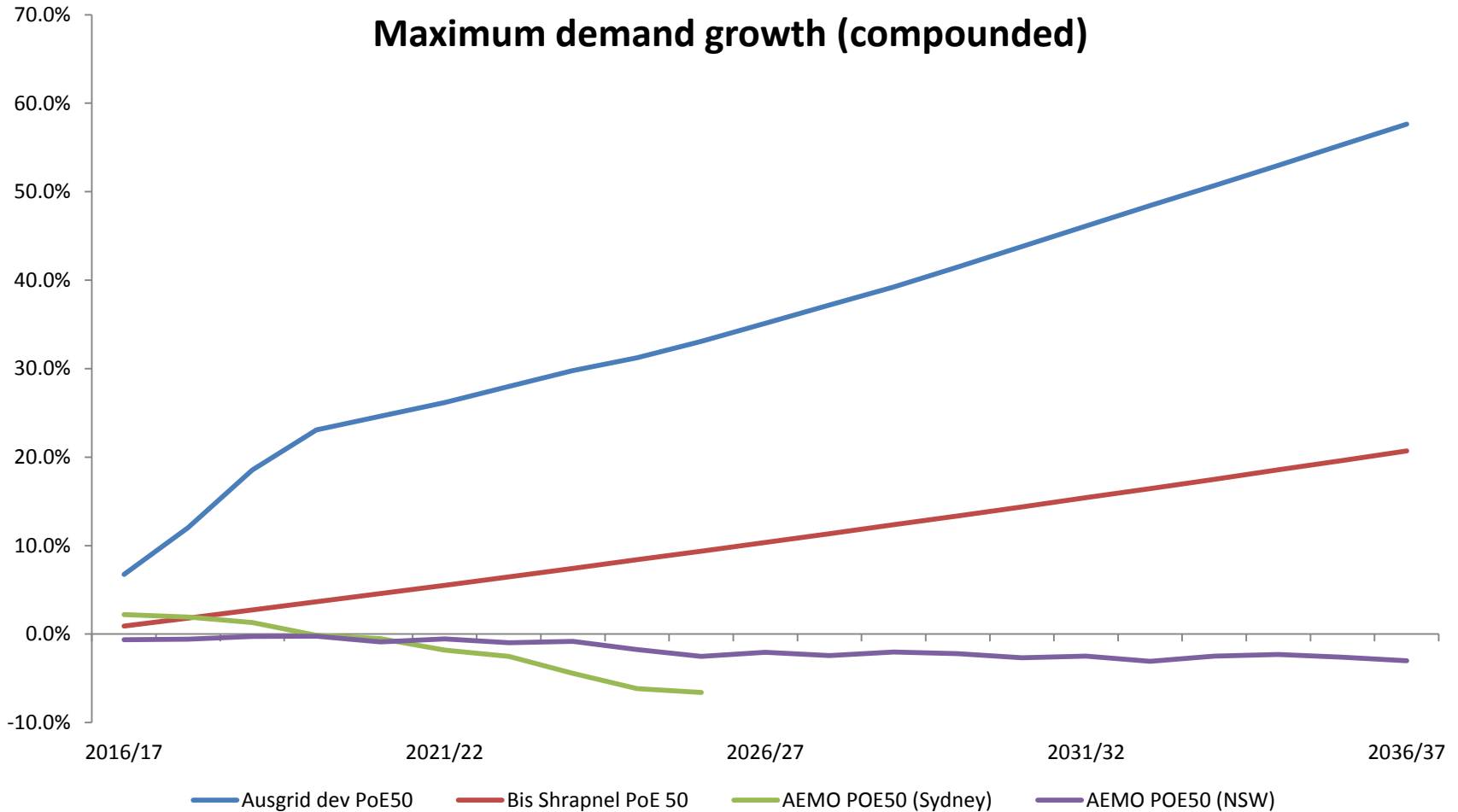
PSF addresses future supply risks to Sydney's CBD

1. Increasing maximum demand
2. Deterioration of existing oil filled Ausgrid cables

AER review suggests reliability risks are overstated

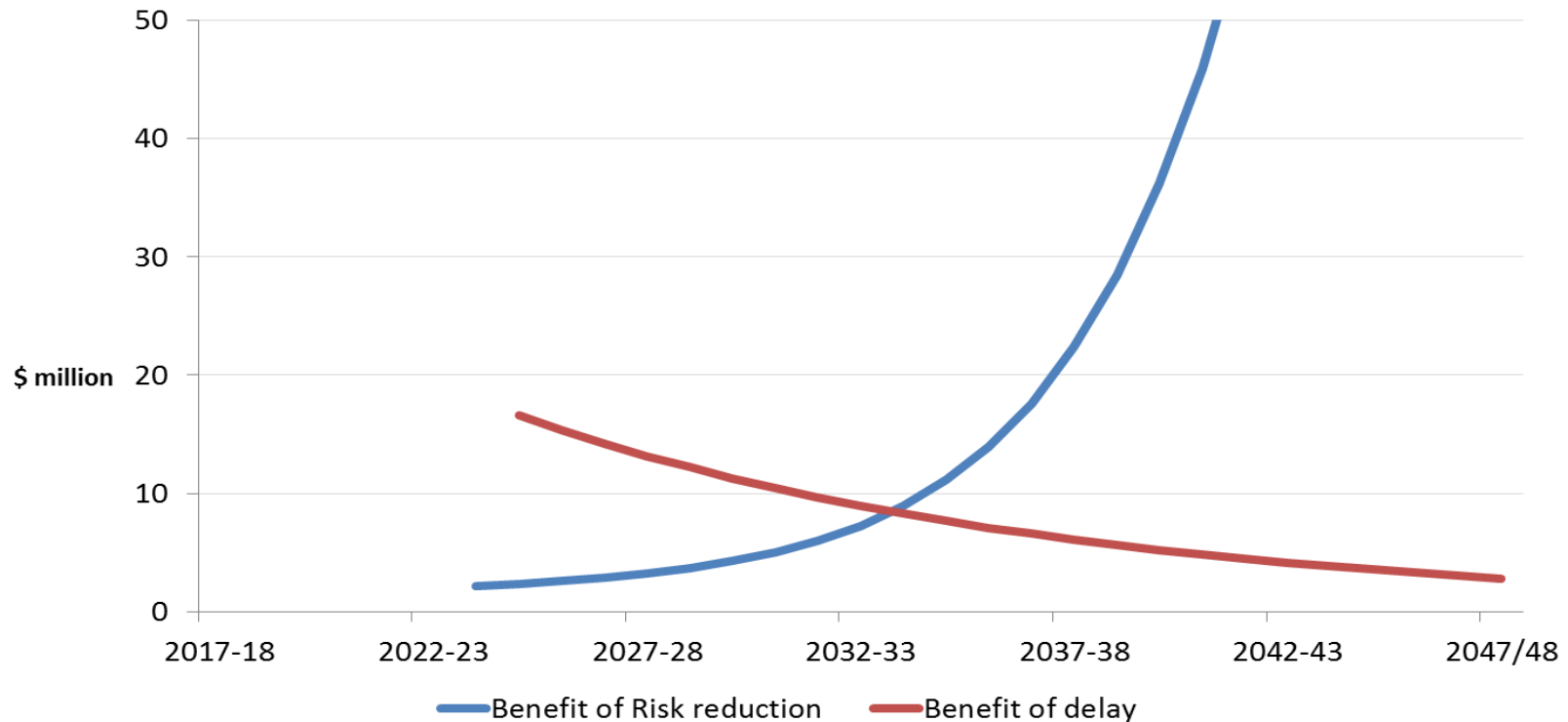
- TransGrid demand projections are higher than alternatives
- Projected cable outage rates seem overstated
- AER draft decision sets up PSF as a contingent project. This allows TransGrid to come back with a proposal once it is more developed.

PFS – demand projections



PSF – optimal timing

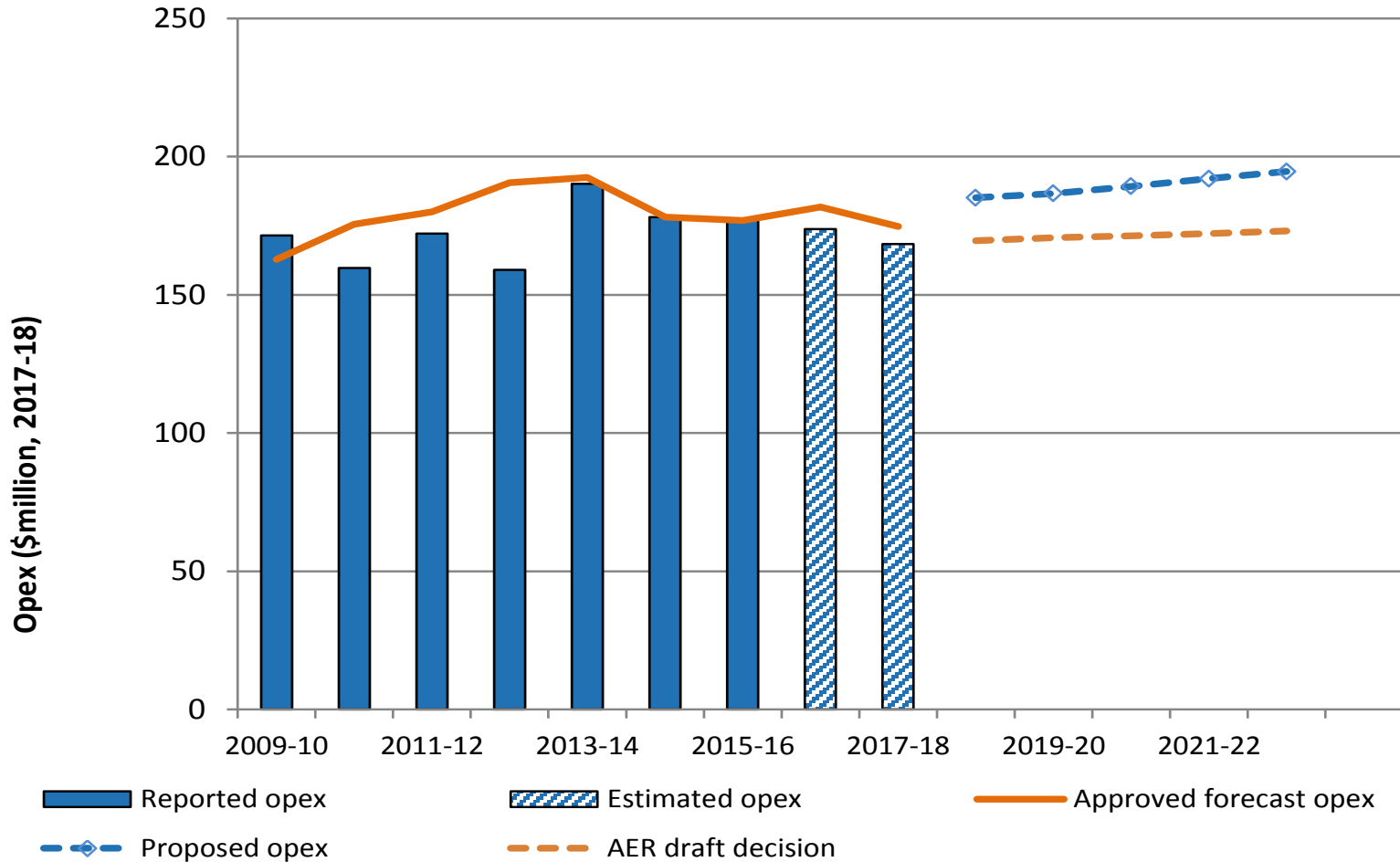
Based on information currently available, the optimal project timing is beyond the 2018-23 reset period



Snowy 2.0

- 'Snowy 2.0' will have significant implications for TransGrid's network if it goes ahead
 - TransGrid has flagged it needs flexibility to undertake additional investment if Snowy 2.0 goes ahead
 - The draft decision provides such flexibility through a contingent project
- We have encourage stakeholders to provide submissions on TransGrid's revised proposal on these developments

Operating expenditure



Operating expenditure

- There is a 7.9 per cent difference between our forecast and TransGrid's:
 - We have not accepted the \$37.3 million (\$2017–2018) step change proposed by TransGrid to manage trees outside of its easements
 - We have included a smaller step up in expenditure for TransGrid to manage its new IT license conditions
 - We have forecast an opex rate of change using our standard approach
 - We have calculated EBSS payments based on our standard approach

Return on investment

- TransGrid proposed a value of imputation credits of 0.25. We have applied a value of 0.4
 - This approach is consistent with the approach we have adopted in our recent decisions which have been upheld by the Full Federal Court
- TransGrid proposed a market risk premium of 7.5 per cent. We have applied a value of 6.5
 - This is also consistent with our recent decisions

Next steps

Task	Date
Revised revenue proposal due	1 December 2017
Submissions due	12 January 2018
AER release of final decision	No later than 30 April 2018

AER contact: TransGrid2018@aer.gov.au