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15 December 2017

Mr Andrew Kingsmill

Regulatory Expenditure Manager | Revenue Strategy & Business Diversification

TransGrid

By email ([andrew.kingsmill@transgrid.com.au](mailto:andrew.kingsmill@transgrid.com.au))

Dear Mr Kingsmill

### **Proposed revocation and substitution of TransGrid transmission determination 2014-2018**

On 30 April 2015 the Australian Energy Regulator (AER) made its transmission determination for TransGrid for the regulatory control period 1 July 2014 to 30 June 2018.<sup>1</sup> This was revoked and substituted on 3 July 2015 under clause 6A.15 of the NER.<sup>2</sup>

Subsequent to making the determination, in the merits review of Victorian Electricity and ACT Gas decisions the Australian Competition Tribunal (ACT) became aware of an inflation estimation error impacting each of the AER's determinations on review in this process.<sup>3</sup> The Tribunal noted the error in each of its decisions and stated it left it to the AER to determine the appropriate response to its error.<sup>4</sup>

The estimation error identified by the Tribunal in the above proceedings is also reflected in the AER's 3 July 2015 TransGrid determination for its 2014-18 regulatory control period. This is a mathematical calculation error that impacts the TransGrid transmission determination for 2014-2018.

The mathematical error results from an incorrect geometric average calculation undertaken on the annual inflation rates. In the final decision the geometric average is calculated using percentage numbers (e.g. 2.5% is expressed as 2.5). The correct approach is to calculate the geometric average using 1 + rate values (e.g. 1 + 2.5% (or 0.025) equals 1.025).

<sup>1</sup> AER, *TransGrid Final decision 2014-2018*, 30 April 2015

<sup>2</sup> AER, letter from Chris Pattas to Peter McIntyre advising TransGrid of the revocation and substitution of the AER's April 2015 final determination, 3 July 2015; <https://www.aer.gov.au/system/files/AER%20-%20Letter%20to%20TransGrid%20advising%20of%20revocation%20and%20substitution%20-%20July%202015.pdf>

<sup>3</sup> File Nos: ACT 3, 4, 5, 6, 7, 8 of 2016; <http://www.competitiontribunal.gov.au/current-matters/tribunal-documents>

<sup>4</sup> For example, see ACT, Application by ActewAGL Distribution [2017] ACompT 2, 17 October 2017, p i – iii.

Under clause 6A.15 of the NER, the AER may revoke a transmission determination where there has been a material error or deficiency of one or more of the following kinds:

- (1) a clerical mistake or an accidental slip or omission;
- (2) a miscalculation or misdescription;
- (3) a defect in form; or
- (4) a deficiency resulting from the provision of false or materially misleading information to the AER.

For the purposes of clause 6A.15(a), we consider the error identified above is material and would come within the scope of a 'clerical mistake or an accidental slip or omission' or a 'miscalculation or misdescription'.

The AER, therefore, considers it appropriate to revoke the determination under clause 6A.15 of the NER and substitute it with a new determination. The substituted determination may only vary from the prior determination to the extent necessary to correct the relevant material error or deficiency. The revenue difference that would result from correcting the error is set out at Table 1.<sup>5</sup>

**Table 1 Revenue impact in nominal net present value (unsmoothed) terms of the correction of inflation rates**

Determination	Inflation Rate (input for PTRM)		NPV Unsmoothed (\$m, Nominal)			
	Final Decision	Corrected Value	Final Decision	Corrected Value	Difference (\$)	Difference (%)
TransGrid 2014-18	2.38%	2.42%	2582.069888	2573.740045	8.329843	0.323647%

Subject to consideration of any submissions on our proposal, we intend to make a determination to correct the identified error set out above under clause 6A.15 of the NER by no later than 1 March 2018.

If you wish to provide a submission in response to this letter, please respond by no later than 1 February 2018.

If you have any queries on this matter please contact me on (03) 9290 1956.

Yours sincerely



Esmond Smith

Director

AER Network Finance and Reporting

<sup>5</sup> Calculated in 2013/14 dollars using the 2017-18 return on debt update PTRM.