

Transitional decisions: TransGrid and Transend 2014-15

We have made transitional decisions for the principal transmission network operators in New South Wales and Tasmania. Our transitional decisions set out the placeholder revenue allowances and application of the regulatory framework for TransGrid and Transend for the transitional regulatory control period from 1 July 2014 to 30 June 2015. Ultimately, the placeholder revenue allowances will be replaced by the revenue allowances we approve in our full determinations to be published by 30 April 2015.

Overview

We are Australia's national energy market regulator responsible for the economic regulation of all electricity transmission networks in eastern and southern Australia.

TransGrid and Transend are the principal transmission network service providers (TNSP) in New South Wales (NSW) and Tasmania, respectively. They own and operate the 'towers and lines' that deliver electricity from generators to consumers in cities and towns. Under the National Electricity Law (NEL) and National Electricity Rules (NER), we periodically assess the revenue requirements of the TNSPs.

Our transitional decision provides that:

- TransGrid will be able to recover a revenue allowance of \$845.4 million (\$nominal) for 2014-15, which is 9.1 per cent lower than proposed.
- Transend will be able to recover a revenue allowance of \$205.1 million (\$ nominal) for 2014-15, which is 4.8 per cent lower than proposed.

What are placeholder revenue determinations?

The revenue determination process involves the TNSPs submitting revenue proposals, which include the proposed costs of efficiently operating the network businesses over a forecast period (typically for a five year forecast period). The network businesses are also required to propose other matters such as their proposed approach to network pricing.

The revenue determination process for the NSW and Tasmanian transmission network businesses was due to be completed in 2014 for TransGrid and Transend. However, the process was delayed so consumers would receive the benefit of the new network rules that were finalised by the AEMC in 2012 and to enable the AER to focus on developing and applying the Better Regulation guidelines under the new

rules. Consequently, the regulatory control period has been separated into

- the transitional regulatory control period (1 July 2014 - 30 June 2015); and
- the subsequent regulatory control period (1 July 2015 - 30 June 2019).

We are required to make placeholder determinations for the one year transitional period (2014-15) for TransGrid and Transend. In this shortened process we are required to approve the expected revenue allowance and other matters (e.g. application of incentive schemes) for the transitional year. The placeholder allowance for the transitional year will be replaced by the revenue allowance the AER approves in the full determination.

The AER will commence a full determination process in June 2014 and make its full determinations by 30 April 2015. This will establish the revenue allowances for TransGrid and Transend for the whole regulatory control period from 1 July 2014 to 30 June 2019. In the full determinations, the AER will take into account for the subsequent regulatory control period any difference between the placeholder revenue allowance for the transitional year and the revenue allowance for the transitional year that is established in the full determination process. The AER will carry out this work under the new NER which incorporates the Better Regulation guidelines.

We consider that our approach for the placeholder determination should not, in any way, be taken as an indication of our assessment of the full proposals in which a true up of revenue for the transitional regulatory control period will be conducted. The approach and conclusions in these determinations are only for the purposes of making the required assessment we must make for this transitional regulatory control period under the transitional rules.

Our approach to the transitional revenue determinations

TransGrid and Transend were required to submit an indicative range of revenue requirements and other relevant information for the purposes of this transitional determination. We are required to make a high level assessment of the proposed revenue estimate, having regard to the fact that it is an estimate based on indicative cost inputs and that any adjustments will be made to the allowed revenue cap for the transitional year in our full determination.

Our decision to approve or not approve the proposed revenue allowance for the transitional regulatory control period requires us to form a view about the expected movement of prices not just for the transitional year but from 2013 to 2014, 2014 to 2015 and so on until 2019.

Our transitional decisions have not accepted the revenue proposals submitted by TransGrid and Transend. While we have adopted most of the cost inputs provided by the businesses in making our assessment, we have not accepted the indicative rate of return proposed by the businesses. Specifically we have had significant regard to our rate of return guideline and market information and trends in making our decision. Given the significance of the rate of return in calculating revenue, small changes in the rate of return can have significant implications for prices.

The allowed rate of return is a forecast of the return that a network business requires to attract investment in the network. We published our rate of return guideline in December 2013. Our rate of return guideline sets out how we determine the return that electricity and gas network businesses can earn on their investment.

Indicative impact on average annual electricity charges

The NER do not require us to establish the transmission price changes for a revenue determination of a TNSP. Although we assess the TNSPs' proposed pricing methodologies, actual transmission charges established at particular connection points are not determined by us. The TNSPs establish the transmission charges in accordance with their approved pricing methodologies and the NER.

However, we can estimate some indicative average transmission price impacts flowing from our decisions for the transitional year. We have applied this analysis to typical annual electricity charges of residential and business customers in NSW and Tasmania, respectively. In NSW, transmission charges represent approximately 7 per cent on average of a typical customer's electricity bill. In Tasmania, the proportion is higher at about 14 per cent.

We expect that our decisions, other things being equal, will reduce the average residential customer electricity charges in NSW and Tasmania. This is because we estimate that these decisions will result in lower transmission charges in 2014-15 compared to the TNSPs' proposals. If these lower transmission charges were passed through to end customers, the average residential electricity charges in NSW and Tasmania for 2014-15 could be expected to reduce by around \$4 and \$20, respectively. In comparison, if the businesses proposals were accepted by us, the average

charge in NSW for 2014-15 would increase by approximately \$12 and the average charge in Tasmania for 2014-15 would decrease by approximately \$5.

Table 1 shows the estimated impact of our decision for the transitional regulatory control period and the TNSPs' proposals on the average residential customer's electricity charges in NSW and Tasmania.

Table 1 AER's estimated impact of transitional decision on the average residential customer electricity charges in NSW and Tasmania for 2014-15

Annual bill (\$nominal)	Average annual charge	Impact on annual charge—TNSP	Impact on annual charge—AER
Weighted average residential annual charge for NSW	\$2227	\$12 (or 0.5%)	-\$4 (or -0.2%)
Weighted average residential annual charge for Tasmania	\$2256	-\$5 (or -0.2%)	-\$20 (or -0.9%)

Source: AER, IPART, OTTER. Based on typical annual usage of 6500 kWh in NSW and 8800 kWh in Tasmania.

Similarly, the average small business customer charges in NSW and Tasmania for 2014-15 could be expected to reduce by about \$6 and \$34, respectively. In comparison, if the TNSPs' proposals were accepted by us, the average charge in NSW for 2014-15 would increase by approximately \$19 and the average charge in Tasmania for 2014-15 would decrease by approximately \$9.

Table 2 shows our estimated impact of our decision for the transitional regulatory control period and the TNSPs' proposals on the average business customer's electricity charges in NSW and Tasmania.

Table 2 AER's estimated impact of transitional decision on the average small business customer electricity charges in NSW and Tasmania for 2014-15

Annual bill (\$nominal)	Average annual charge	Impact on annual charge—TNSP	Impact on annual charge—AER
Weighted average business annual charge for NSW	\$3584	\$19 (or 0.5%)	-\$6 (or -0.2%)
Weighted average business annual charge for Tasmania	\$3782	-\$9 (or -0.2%)	-\$34 (or -0.9%)

Source: AER, IPART, OTTER. Based on typical annual usage of 10 MWh in NSW and 11 MWh in Tasmania.

The TNSPs may seek to recoup some shortfalls in revenue that are below the approved revenue allowance from the current period in future prices. Any decision by the TNSPs to recover some of this revenue in 2014-15 would affect prices for customers independently of our decision.

More information

The transitional decisions are available on our website at <http://www.aer.gov.au/node/23137> and <http://www.aer.gov.au/node/23140>.