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Our Ref: 53444

20 May 2015

Mr Peter McIntyre
Chief Executive Officer
TransGrid
180 Thomas Street
SYDNEY NSW 2000

Dear Mr McIntyre

Correcting errors in TransGrid Transmission determination 2015–16 to 2017–18

Through discussions with TransGrid in early May 2015, we have identified an error in the TransGrid transmission determination 2015-16 to 2017-18 (the transmission determination). The forecast asset disposal numbers (which we accepted) have been incorrectly allocated in the revenue modelling. They should be allocated to the 'Minor plant, motor vehicles & mobile plant (2014-18)' asset class, rather than the 'Business IT (2014-18)' asset class.

The revenue difference that would result from correcting this error is set out at table 1 – attached to this letter.

We have sought legal advice about how to correct this error. As a result, we have decided not to revoke and substitute the transmission determination at this time.

We still intend to correct the error mentioned above as soon as practicable, in accordance with clause 6A.15 of the National Electricity Rules. We anticipate this would occur no earlier than the latter of:

- A. the commencement of the next regulatory control period (1 July 2015); and
- B. once any appeal in relation to the transmission determination is resolved.

As a result of our decision, the period for making an application for review of our decision does not change.

If you have any queries on this matter please contact Lynley Jorgensen on (03) 9290 1437.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paula Conboy', written in a cursive style.

Paula Conboy
AER Chair

Table 1: Revenue difference from correcting error

	2014–15	2015–16	2016–17	2017–18	Total
Return on capital	415.7	421.2	435.4	443.94.0	1716.23
Regulatory depreciation ^a	98.3	113.63	128.47.7	113.04.8	453.34.0
Operating expenditure	174.2	177.1	186.2	183.5	720.9
Efficiency benefit sharing scheme (carryover amounts)	21.6	13.9	16.1	12.7	64.2
Net tax allowance	17.1	18.8	32.6	33.0	101.5
Annual building block revenue requirement (unsmoothed)	726.9	744.62	798.77.9	786.04.9	3056.24.0
Annual expected MAR (smoothed)	845.4	735.44.7	730.329.6	725.34.6	3036.44.3
X factor (%)	n/a ^b	15.0344% ^c	3.00% ^d	3.00% ^d	n/a

Source: AER analysis.

- (a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.
- (b) TransGrid is not required to apply an X factor for 2014–15 because we set the 2014–15 MAR in this decision consistent with the placeholder MAR approved in the transitional determination. We have set the 2014–15 MAR equal to TransGrid's placeholder MAR (\$845.4 million) for 2014–15. The MAR for 2014–15 is around 11.6 per cent lower than the approved MAR (\$934.2 million) in the final year of the 2009–14 regulatory control period (2013–14) in real terms, or 9.5 per cent lower in nominal terms.
- (c) Applying the X factor for 2015–16 and the actual CPI of 1.72 per cent in accordance with the annual revenue adjustment formula set out in the transmission determination, the MAR for 2015–16 is \$730.629.9 million.
- (d) The X factor will be revised to reflect the annual return on debt update.