

12/05/2017

Mr Sebastian Roberts  
General Manager  
Australian Energy Regulatory  
GPO Box 520  
Melbourne Vic 3001

Dear Mr Roberts

### **AER Issues Paper – TransGrid electricity transmission revenue proposal**

TransGrid appreciates the opportunity to provide some brief observations and updates into the AER's revenue decision process for TransGrid.

TransGrid's revenue submission proposes real average annual price reductions for customers in the next regulatory period. The proposal reflects:

- new, more rigorous methods of forecasting capital expenditure and maintaining network infrastructure;
- current and future forecast efficiency savings are included in the operating expenditure forecast and aligns closely to the AER's forecasting methodology; and
- a WACC lower than the current AER approved rate, estimated using the AER's rate of return guidelines and updated for movements in market rates.

The AER's Issues Paper reflects much of TransGrid's revenue proposal accurately however TransGrid notes that the AER have chosen to represent actual and potential price changes arising over a fourteen year period in nominal terms, that is to say, the price trend includes the impact of inflation. TransGrid believes that this is not an appropriate or reasonable approach when comparing price trends over a number of years.

TransGrid notes that this 2018/19 to 2022/23 proposal reflects the third consecutive regulatory period of real reductions in average annual prices for customers.

Since lodging the revenue proposal in January 2017, NSW has experienced security of supply concerns that led to both voluntary and involuntary load shedding across the State to maintain system security. These events have led to a reappraisal of network reliability and security in the upcoming years and TransGrid now believes that the driver for some of the proposed contingent projects are more likely to be reliability driven within the next regulatory period.

TransGrid has started discussing this analysis with the AER, given this emerging requirement indicates the proposed triggers for the contingent projects should be modified to also contemplate a reliability driven trigger. The revised proposal will be the next formal opportunity for TransGrid to raise this change in requirement.

TransGrid also notes for completeness that the “Supply to Broken Hill” contingent project has been omitted from the AER’s summary of contingent projects in the published Issues Paper.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nicola Tully', with a long horizontal stroke extending to the right.

Nicola Tully  
**Acting Executive Manager / Strategy and Regulation**