

26/10/2015

Chris Pattas
Australian Energy Regulator
Level 38, 360 Elizabeth Street
Melbourne, VIC 3000

Dear Chris

Update to Framework and approach paper for next regulatory control period

TransGrid's current regulatory control period ends on 30 June 2018, accordingly TransGrid has commenced preparation for the next revenue proposal due to be submitted to the AER in January 2017. The AER issued TransGrid's Framework and approach paper for the current regulatory control period on 31 January 2014.

Clause 6A.10.1A(c)(1) of the National Electricity Rules requires TransGrid no later than 32 months before the end of the regulatory control period to request the AER to make any amendments or replace the Framework and approach paper as required. TransGrid has noted minor updates to the current Framework and approach paper are required to ensure it is applicable to the upcoming regulatory control period and reflects current versions of the regulatory incentive schemes, accordingly an update is requested.

Timeframe

The new framework and approach paper should apply to the forthcoming revenue determination for TransGrid, for the regulatory control period commencing 1 July 2018.

Service Target Performance Incentive Scheme

The current Framework and approach paper applies all components of version 4.1 of the service target performance incentive scheme (STPIS) to TransGrid for the current regulatory control period. TransGrid believes that it would be appropriate for the AER to apply all components of version 5 of the STPIS, published 17 September 2015, and corrected 1 October 2015 for the next regulatory control period.

Efficiency Benefit Savings Scheme

TransGrid expects the AER will continue to apply version 2 of the Efficiency Benefit Sharing Scheme (EBSS), as described in the Explanatory Statement Efficiency Benefit Sharing Scheme for Electricity Network Service Providers, November 2013 and as currently reflected in TransGrid's Framework and approach paper. This continues to be the current version of the EBSS and TransGrid supports its continued application to TransGrid in the next regulatory control period.

Capital Expenditure Savings Scheme

The current Framework and approach paper applies version 1 of the capital expenditure sharing scheme (CESS), as described in the capital expenditure incentive guideline published by the AER 29 November 2013. This continues to be the current version of the CESS and TransGrid supports its continued application to TransGrid in the next regulatory control period.

Updates to Incentive Schemes

TransGrid notes that there is still a substantial period of time between this date and the start of the next regulatory control period. Subject to actual timing of any further updates to the STPIS, CESS or EBSS, it may be appropriate for a future version to be applied. TransGrid proposes this be considered by the AER in consultation with TransGrid, subject to the timing of the update and the feasibility of implementing the new arrangements.

Small Scale Incentive Scheme.

The National Electricity Rules provide an opportunity for the AER to develop small-scale incentive schemes to test innovative approaches to incentives. The AER have not yet developed any such schemes. We request that in the event that the AER develops such a scheme, that any intention to apply such a scheme be set out in the Framework and approach paper. In the case where a scheme is developed and not set out in the Framework and approach paper, TransGrid requests that the AER consults with TransGrid on the feasibility of applying the scheme to the upcoming regulatory control period.

Expenditure Forecast Assessment Guidelines

TransGrid's current Framework and approach paper applies the current version (version 1) of the Expenditure Forecast Assessment Guidelines, effective since 29 November 2013. Unless a further update is made to the guidelines prior to the start of the regulatory control period TransGrid recognises that it would be procedurally appropriate for the AER to apply these Guidelines to the next regulatory control period. Nevertheless, TransGrid maintains concerns as set out in its last regulatory proposal and revised proposal, with the AER's current benchmarking methodology and forecasting methodology for operating expenditure. TransGrid supports the use of benchmarking as an investigative tool which may be able to highlight areas for further exploration and assessment. However, as identified by the AER, the ability to draw conclusions about relative efficiency from benchmarking transmission networks in Australia is limited.¹ TransGrid would welcome any opportunity to engage with the AER with a view to further mature the AER's methodology.

Depreciation

TransGrid supports the application of forecast depreciation to establish the opening regulated asset base commencing 1 July 2018. This is consistent with the application of the CESS applied to TransGrid in the current regulatory control period.

¹ See AER (2014), Annual Transmission Benchmarking Report, November 2014, p.17; AER (2015) Draft Annual Transmission Benchmarking Report, September 2015, p.16.

TransGrid is pleased to make this first step in its upcoming revenue determination process with the AER. This step is particularly important as it facilitates early public consultation and will assist TransGrid to prepare its revenue proposal. If you would like to discuss any matter raised in this letter further, please contact Nicola Tully on (02) 9284 3120.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Tony Meehan', with a large loop at the end.

Tony Meehan
Executive General Manager / Business Growth and Revenue