ACCC Pre-Determination Conference

Supplementary Draft Revenue Cap Decision for TransGrid

Presentation by TransGrid's

Acting Chief Executive – Kevin Murray

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Presentation Outline

- TransGrid obligations and performance
- Review of the Commission's Supplementary Draft Decision
- Challenges facing TransGrid
- Issues with the Supplementary Draft Decision
- Summary of key changes needed in final revenue cap decision

TransGrid Obligations

- NSW State Owned Corporations Act and National Electricity Code are both important
- Responsibilities include:
  - Safety
  - Environment
  - Reliability
  - Supporting the wholesale electricity market
  - Efficient cost of service

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Key Achievements to Date

- Reliable delivery system – including reinforcement of the Sydney area transmission
- High levels of equipment availability (> 99.7%)
- Low and stable transmission charges (about 5% of end use charges)
- Proven commitment to developing economic interconnection – QNI, SnowVic, SNI

The Commission's Draft Decision

- Provides for capital investment of $932 million – this is comparable to the past
- Recognises the need for continuing levels of asset replacement expenditure - $275 million
- $450 million for smaller 'customer driven' projects
- Recognises possible need for $930 million expenditure on major augmentation projects
- Some improvements in the incentive framework

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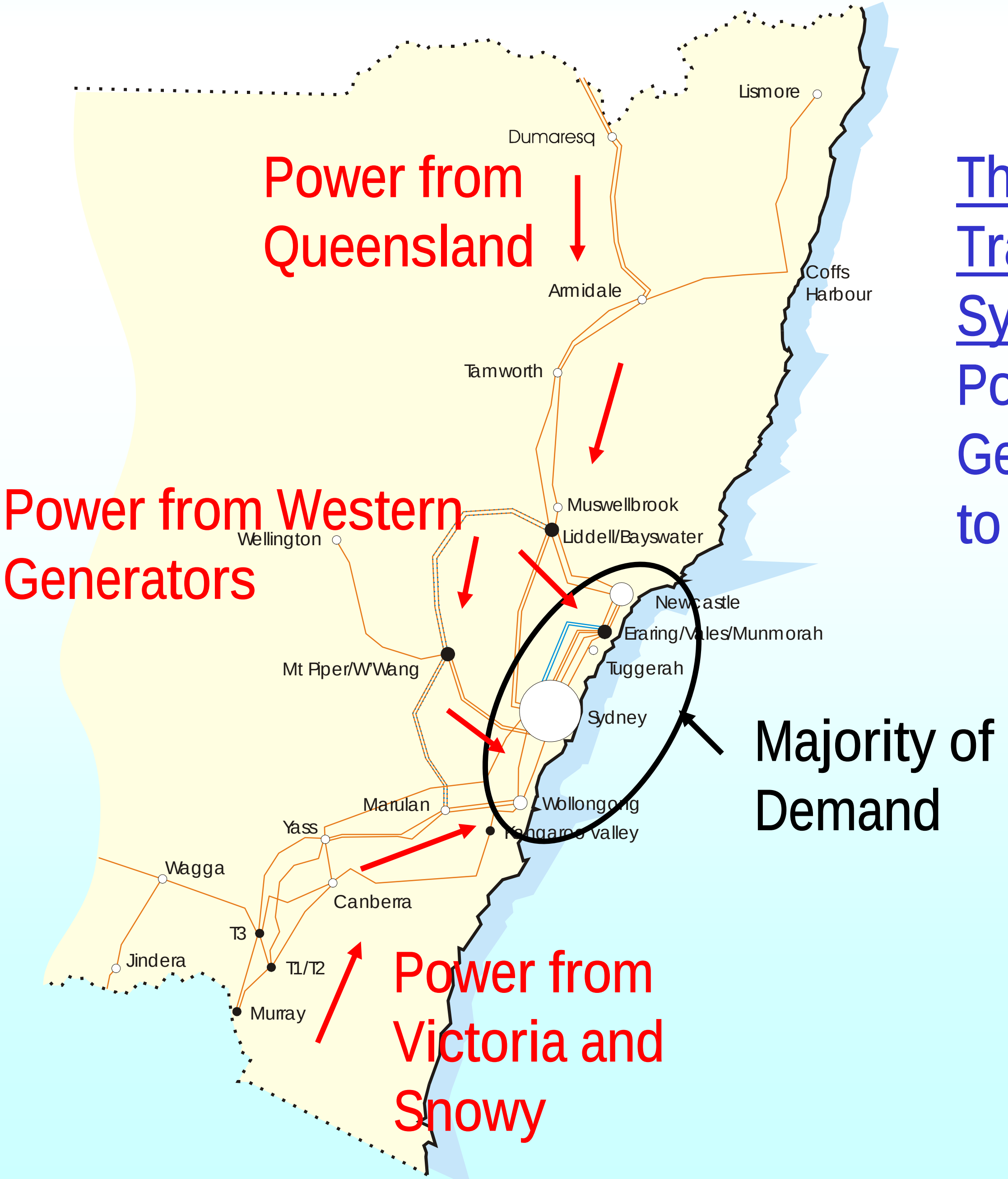
Challenges Facing Transmission System Development in New South Wales

- An increasing number of major and system critical substations approaching the end of their normal lives.
- Continuing, and, in some areas, accelerating rates of growth in peak demand for electricity largely due to:
  - Population growth
  - Smaller households
  - Economic performance
- Future issues with the main interconnected system.

  (The system that takes power from interstate, and from NSW generators to the Sydney Newcastle Wollongong area.)



The NSW Main Transmission System Delivers Power from Generation Sources to Major Load Areas

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NSW Transmission Challenges (Ctd)

- Emerging limits on the main interconnected system.
- Uncertainty about the timing and location of future generation.
- Long and increasing lead times for network developments, particularly major transmission lines.

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Ex-Ante Targets Should be Higher

- The PB Associates' efficiency factor is unjustified and contrary to the evidence - $40 million impact
- There is no adjustment process for input cost movements above CPI
- Projects have been excluded from the ex-ante provisions that should have been included

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Too Much Expenditure 'Excluded'

- No provision for developing the 500kV 'ring'– even though PB Associates agree it is needed in next 3 -10 years!
- Funding required for progressive development of the ring:
  - One or more major components of the 'ring' needed
  - Fix fault levels and open up more development options
  - Reduce lead times on new line options
  - Pay for grid support and/or DSM
  - As much as $200 million this regulatory period is probably justifiable

Issues With Excluded Projects Regime

- The prospect of administrative delays while ‘excluded’ project applications are processed
- Unclear definitions of the ‘triggers’ for an ‘excluded’ project request
- The high levels of uncertainty that revenue adjustments can occur following project approval

Draft Decision A Good Start But Need to:

- Reinstate TransGrid's 6.8 % cost calibration factor
- Bring around $ 200 million of excluded project expenditure into the ex-ante spending provisions
- Support Code change proposals that enable the proposed 'within period' revenue cap adjustments
- Clarify and improve the pre-defined 'triggers' for seeking approval of excluded project expenditure
- Provide incentives, or more 'pass throughs', for:
  - DSM,
  - generator support options, or
  - new customer connections

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