

TransGrid's Revenue Cap Application – indicative revenue stream

On 26 September 2003, TransGrid submitted to the ACCC its application for the reset of its revenue cap for the regulatory period commencing 1 July 2004. A copy of TransGrid's application is available on the website. To assist the Commission in its consideration of the application, interested parties are invited to comment on the issues relating to the determination of an appropriate revenue cap for TransGrid. The closing date for submissions is **Friday, 30 January 2004**.

TransGrid has declined to provide the ACCC with its proposed revenue allowance for the regulatory period commencing 1 July 2004. The ACCC considers that for interested parties to make informed submissions TransGrid's proposed building block inputs should be translated into a forecast revenue stream. Based on TransGrid's proposed building block inputs, the ACCC has modelled TransGrid's total revenue. The information outlined below should be read in conjunction with TransGrid's application.

A summary of the results is presented below:

Table 1: Asset Base roll forward, 2004/5-2008/09 (\$ million, nominal)

	2003/04**	2004/05(f)***	2005/06(f)	2006/07(f)	2007/08(f)	2008/09(f)
Opening asset base	2309.44	3047.39	3233.96	3457.46	3741.92	3993.12
Capital expenditure	370.42	247.14	290.34	358.10	326.88	320.42
Economic Depreciation*	(47.12)	(60.56)	(66.85)	(73.63)	(75.69)	(82.12)
Closing asset base	2632.74	3233.96	3457.46	3741.92	3993.12	4231.41

Notes: (f) forecast

*Economic depreciation is calculated by the ACCC's model. TransGrid have proposed two methods for calculating remaining asset lives (see Attachment 9 of TransGrid's application), NERA's estimate of average remaining lives and an alternative approach to estimate average remaining lives. TransGrid have adopted NERA's approach in its application. Please note that depending on what method of calculating asset lives is used it will have an affect on the depreciation profile.

**ACCC, NSW and ACT Transmission Network Revenue Caps: Decision 1999/00-2003/04.

***TransGrid's proposed opening asset base at 1 July 2004 includes the Snowy assets.

Table 2: Total Revenue, 2004/05-2008/09 (\$ million, nominal)

	2003/04*	2004/05(f)	2005/06(f)	2006/07(f)	2007/08(f)	2008/09(f)
Return on capital	236.03	261.46	277.47	296.65	321.05	342.60
Return of capital	47.12	60.56	66.85	73.63	75.69	82.12
Operating expenses	107.95	129.08	135.11	141.43	148.10	155.12
Working Capital**		0.90	0.94	0.99	1.03	1.08
Estimated taxes payable less value of franking credits	15.31	21.93	25.11	28.80	33.00	40.99
Raw Revenue	(7.66)	0	0	0	0	0
	398.76	473.93	505.49	541.50	578.87	621.91

Notes: (f) forecast

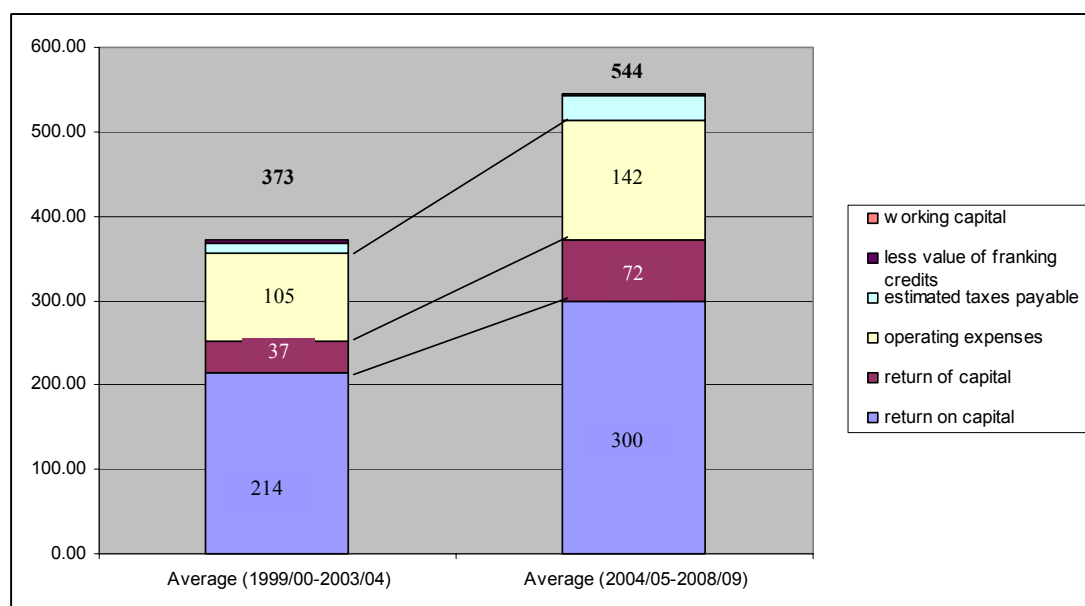
*ACCC, NSW and ACT Transmission Network Revenue Caps: Decision 1999/00-2003/04.

**TransGrid have applied for Working Capital over the regulatory period, which it presents in real terms. TransGrid have proposed for each year of the regulatory period, that the allowance for Working Capital is determined by the following formula:

Working Capital Allowance= Working Capital (page 150 of Application) * Nominal Vanilla WACC * Inflation rate

The figure below compares TransGrid's average current revenue allowance (1999/00-2003/04) against the average revenue allowance proposed by TransGrid for the period 2004/05 to 2008/09. The figure is for illustrative purposes only.

Figure 1: Building block comparison of revenues (\$m, nominal)



TransGrid’s Application

TransGrid’s revenue application identifies, among others, the key revenue drivers as:

- Capital Expenditure – To meet continuing load growth requirements including the increasing importance of the summer peak.
- Operational Expenditure – In order to operate and maintain the transmission infrastructure taking into consideration, among others, public safety and environmental requirements.

In its application TransGrid state that efficient capital and operational expenditure programs are important in maintaining existing levels of reliability.

Please refer to TransGrid’s application located on the ACCC’s website for more details on its revenue reset determination.

Revenue path and demand forecast

The Commission acknowledges that the National Electricity Code requires the Commission to set the maximum allowable revenue and not transmission prices. However, for illustrative purposes only the Commission has outlined the impact that TransGrid’s proposed revenue cap application will have on nominal prices.

In summary, the increase in total revenue converts to an average increase in revenue of approximately 51 per cent from the last regulatory period (1999/00 – 2003/04) to the upcoming regulatory period (2004/05 – 2008/09). Further, the increase in revenue converts to an average increase in the price path of approximately 32 per cent from the last regulatory period (1999/00 – 2003/04) to the upcoming regulatory period (2004/05 – 2008/09).

A summary of the results is presented below:

Table 3A: Revenue and price path, 1999/00 – 2003/04 (nominal)

	1999/00	2000/01	2001/02	2002/03	2003/04
Raw Revenue	329,630,000	339,360,000	352,250,000	385,940,000	398,760,000
% change in revenue		2.95%	3.80%	9.56%	3.32%
*MWh	63,655,000	65,834,000	66,283,000	68,360,000	71,190,000
Prices **(Revenue/MWh)	5.18	5.15	5.31	5.65	5.60
% change in price		-0.46%	3.10%	6.24%	-0.79%

*Source: NEMMCO, Statement of Opportunities, 2002 and 2003

**Note: The price figures do not take into account the offset from the Settlement Residual Accounts, hence, the actual prices could be somewhat lower.

Table 3B: Revenue and price path, 2004/05 – 2008/09 (nominal)

	2004/05(f)	2005/06(f)	2006/07(f)	2007/08(f)	2008/09(f)
Raw Revenue	473,934,593	505,494,694	541,500,587	578,874,802	621,914,934
% change in revenue	18.85%	6.66%	7.12%	6.90%	7.44%
*MWh	73,340,000	75,030,000	76,790,000	78,550,000	80,360,000
**Prices (Revenue/MWh)	6.46	6.74	7.05	7.37	7.74
% change in price	15.37%	4.26%	4.67%	4.51%	5.02%

*Source: NEMMCO, Statement of Opportunities, 2002 and 2003

**Note: The price figures do not take into account the offset from the Settlement Residual Accounts, hence, the actual prices could be somewhat lower.