

Attachment 1

National Electricity Code Provisions and the Commission

The Code provides that the Commission is responsible for administering the regime under which the revenues of Transmission Network Service Providers ("TNSPs") are to be regulated (cl. 6.2.3).

Under cl 6.2.2, the regulatory regime must achieve certain outcomes which include:

- an efficient and cost-effective environment;
- an incentive based regime which:
 - -includes the equitable allocation between network users and owners of efficiency gains reasonably expected by the Commission to be achievable; and
 - -provides for, on a prospective basis, a sustainable commercial revenue stream which encompasses a fair and reasonable rate of return on efficient investment, given efficient operating and maintenance practices;
- the fostering of efficient investment, operation, maintenance and use of network assets;
- the recognition of pre-existing government policies on asset values, revenue paths and prices;
- the achievement of reasonable regulatory accountability, reasonable certainty and consistency in outcomes over time, and well-defined regulatory discretion.

The form of economic regulation applied to "prescribed services" is revenue capping (cl 6.2.3(b)). The Commission's role as regulator of those services is limited to determining the maximum allowed revenue ("MAR") for a period of not less than 5 years (cl 6.2.4(b)). TransGrid will calculate the network prices in accordance with Chapter 6, Part C of the Code.

In determining the MAR for TransGrid the Commission must have regard to certain matters set out in the Code. These include demand growth, service standards, expected operating, maintenance and capital costs, the weighted average cost of capital ("WACC"), potential efficiency gains, and a fair and reasonable risk adjusted return on investment (cl 6.2.4(c)). To assist the Commission and other stakeholders this Application includes sections that explicitly address each of these matters.

In accordance with S2.1 this Application is submitted to the Commission more than 8 months prior to the expiry of TransGrid's current revenue determination. The information contained in this Application has been provided in accordance with the information requirements set out in S10.1 and Appendix 3 of the Principles and conforms to the principles set out in Sections 2 to 5 of the Information Requirements Guidelines.

S2.2 provides that the Commission is to assess this Application against the objectives set out in cl 6.2.2 of the Code and the principles of best practice regulation: communication, consultation and predictability, whilst noting the need to maintain flexibility. As a procedural matter and as required by cl 6.2.6 of the Code, the Commission will publish full and reasonable details of the basis and rationale for the decision.

S10.2 summarises the basic information requirements so that the Commission may:

- determine the maximum allowable revenue cap;

- calculate key ratios and utilise analytical tools;
- assess the likely impact of the Commission's regulatory decisions on TransGrid's financial performance and position;
- assess the impact of related party transactions on TransGrid's financial performance and position;
- assess TransGrid's compliance with revenue cap determinations;
- conduct a public and transparent regulatory process.