

Draft decision: TransGrid 2018–23

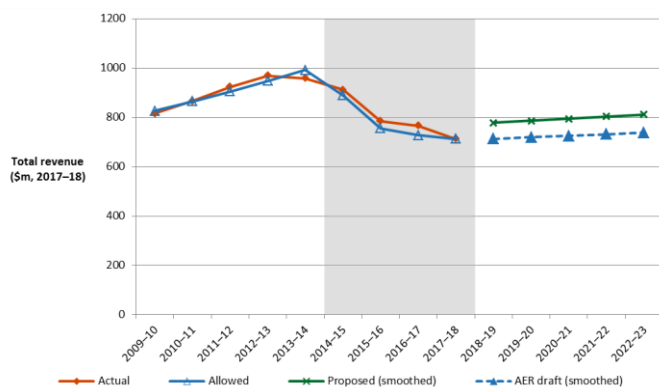
We have made a draft revenue decision for TransGrid, the electricity transmission network operator in New South Wales and the Australian Capital Territory. Our draft decision allows TransGrid to recover \$3910 million (\$nominal) from its customers over five years commencing 1 July 2018.

Overview

We, the Australian Energy Regulator (AER), regulate the revenues of TransGrid by setting the maximum allowed revenue it may recover from its customers.

Our draft decision allows for a small, gradual increase in TransGrid's revenue in from July 2018 over the 2018–23 financial years (the next period).

TransGrid's past and proposed total revenue and AER draft decision revenue allowance (\$million, 2017–18)



Our draft decision allows TransGrid to recover \$3910.0 million (\$ nominal) in the next period. This is an 8.4 per cent reduction from TransGrid's proposed revenue recovery of \$4269.8 million (\$ nominal).

The key point of difference between our draft decision and TransGrid's proposal is forecast capital expenditure (capex). Capex refers to TransGrid's investment acquire or upgrade its fixed assets (such as its lines and transformers).

In most other areas we have largely accepted TransGrid's proposal however, we have made a number of small adjustments that result in a lower revenue requirement

Capital expenditure

TransGrid has proposed a 42 per cent increase in capex from its average capex in the current period to \$1638 million (\$2017–18). Our draft decision capex allowance is \$992.2 million (\$2017–18).

We have not accepted TransGrid's proposed capex because we are not currently satisfied that all of TransGrid's forecast capex needs to proceed in the next period. Our reduction includes TransGrid's proposed 'powering Sydney's future'

project. Based on the information available, we consider that the project will not be needed until after 2023.

It is important to note that the capital expenditure we allow TransGrid could change in our final decision. Our draft decision also provides flexibility for a five additional projects to proceed if certain conditions eventuate. The uncertainty associated with these projects is reflected in the range of current costs estimates being between \$543 million and \$2.3 billion. These estimated costs have not been included in the allowable revenue recovery and therefore are not factored into our estimated impact on customer bills.

Estimated impact on customer bills

The revenue we determine affects the transmission component of a customer's electricity bill. Transmission charges may make up approximately 11 per cent of the bill for typical residential customers in NSW and the ACT.

We estimate that under our draft decision the average annual residential electricity bill in the first year of the 2018–23 period would be 0.5 per cent higher than the current 2017–18 level (in nominal terms).

Next steps

TransGrid has indicated that it will submit a revised regulatory proposal which is due 1 December 2017. We will assess this proposal and it could lead to significant differences between our draft and final decision.

Stakeholders may make written submissions on our draft decision and TransGrid's revised proposal by 12 January 2018. Our final decision is due for release by the end of April 2018.

More information on TransGrid's proposal, our draft decision and how to make a submission is on our website: www.aer.gov.au.