Contact Officer: Lynley Jorgensen
Contact Phone: (03) 9290 1437
Our Ref: 53444

3 July 2015

Mr Peter McIntyre
Managing Director
TransGrid
180 Thomas Street
SYDNEY NSW 2000

Dear Mr McIntyre

**Revocation and substitution of the AER's April 2015 final decision**

We are writing to advise you that the AER has revoked its final determination for TransGrid
for the regulatory control period 1 July 2015 to 30 June 2018, which was published on
30 April 2015 ('the determination'), and substituted a revised determination.[1]

We wrote to you on 20 May 2015 and advised that a material error or deficiency in the April
determination had been brought to our attention. Specifically, the forecast asset disposal
numbers (which our final decision accepted) were incorrectly allocated in the revenue
modelling. They should have been allocated to the 'Minor plant, motor vehicles & mobile
plant (2014-18)' asset class, rather than the 'Business IT (2014-18)' asset class.

Under clause 6A.15(a) of the NER, the AER may revoke a transmission determination where
there has been a material error or deficiency of one or more of the following kinds:

    (1) a clerical mistake or an accidental slip or omission;
    (2) a miscalculation or misdescription;
    (3) a defect in form; or
    (4) a deficiency resulting from the provision of false or materially misleading
    information to the *AER*.

For the purposes of clause 6A.15(a), the AER is satisfied that the error identified above is
material and would come within the scope of a 'clerical mistake or an accidental slip or
omission' or a 'miscalculation or misdescription'.

In our letter of 20 May we advised that the AER would correct the error in accordance with
clause 6A.15 of the NER once the 2014–18 regulatory control period had commenced (or
when any appeal had been resolved).

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[1]     AER, *TransGrid Final decision 2015–18*, 30 April 2015.

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The AER has now revoked the determination under clause 6A.15 of the NER and substituted a new determination. The difference between the two is set out in table 1.

**Table 1:        Difference between the revoked and substituted determinations**

| | 2014–15 | 2015–16 | 2016–17 | 2017–18 | Total |
|---|---|---|---|---|---|
| Return on capital | 415.7 | 421.2 | 435.4 | 443.9 440.0 | 1716.23 |
| Regulatory depreciation[b] | 98.3 | 113.63 | 128.47.7 | 113.01.8 | 453.31.0 |
| Operating expenditure | 174.2 | 177.1 | 186.2 | 183.5 | 720.9 |
| Efficiency benefit sharing scheme (carryover amounts) | 21.6 | 13.9 | 16.1 | 12.7 | 64.2 |
| Net tax allowance | 17.1 | 18.8 | 32.6 | 33.0 | 101.5 |
| Annual building block revenue requirement (unsmoothed) | 726.9 | 744.62 | 798.77.9 | 786.04.9 | 3056.24.0 |
| **Annual expected MAR (smoothed)** | **845.4** | **735.44.7** | **730.329.6** | **725.34.6** | **3036.44.3** |
| X factor (%) | n/a[a] | 15.0311%[c] | 3.00%[c] | 3.00%[c] | n/a |

Source:    AER analysis.

(a)        Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.

(b)        TransGrid is not required to apply an X factor for 2014–15 because we set the 2014–15 MAR in this decision consistent with the placeholder MAR approved in the transitional determination. We have set the 2014–15 MAR equal to TransGrid's placeholder MAR ($845.4 million) for 2014–15. The MAR for 2014–15 is around 11.6 per cent lower than the approved MAR ($934.2 million) in the final year of the 2009–14 regulatory control period (2013–14) in real terms, or 9.5 per cent lower in nominal terms.

(c)        Applying the X factor for 2015–16 and the actual CPI of 1.72 per cent in accordance with the annual revenue adjustment formula set out in the transmission determination, the MAR for 2015–16 is $730.629.9 million.

(d)        The X factor will be revised to reflect the annual return on debt update.

This letter and amended final decision documents have been published on our website. If you have any queries on this matter please contact Lynley Jorgensen on (03) 9290 1437.

Yours sincerely

Chris Pattas
General Manager, Networks
AER