

# Transgrid 2023–28 Electricity Transmission Revenue Proposal

# AER welcome and introductions

Warwick Anderson

# Agenda

Time (AEDT)	Item
10:00 – 10:05am	AER welcome and introductions
10:05 – 10:25am	AER
10:25 – 10:45am	Consumer Challenge Panel (CCP25)
10:45 – 10:55am	Transgrid Advisory Council (TAC)
10:55 – 11:15am	Transgrid
11:15 – 11:50am	Questions and answers session
11:50 – 12:00pm	AER next steps and closing

# About this process

- AER exists to ensure energy consumers are better off, now and in future.
  - We regulate electricity networks in all jurisdictions, except WA.
  - Our primary role is in setting the maximum revenue that network businesses can recover from users of their networks.
  - Our goal is to make decisions that ensure consumers pay no more than necessary for safe and reliable energy.
- Regulated electricity network businesses must periodically apply to the AER to assess their revenue requirements (typically every five years).
  - Transgrid is one of seven electricity transmission businesses that the AER regulates by determining revenues over a five-year period.

# Our determination for Transgrid

- Transgrid operates and manages the high voltage electricity transmission network in NSW/ACT, connecting generators, distributors and major end users.
- In this determination process, the AER will:
  - set the maximum allowed revenue Transgrid can recover from consumers for the provision of electricity network services
  - approve a pricing methodology which prescribes how that revenue is recovered.

# AER overview of Transgrid's revenue proposal

Eric Groom

# Context: Transgrid's proposal and the bigger picture

- Transgrid's revenue allowance forms the major component of its transmission charges for the five-year period.
  - We are currently at the start of a 15-month process.
  - The expected outcomes can change between now and the final decision:
    - if we do not accept elements of the proposal
    - as a result of updates to market variables.
  - So revenue and bill impacts discussed today are indicative only.
- Revenue can also change during the five-year period.
  - Driven by triggered contingent projects, actionable ISP projects, NSW REZ projects, cost pass through events.
- So Transgrid's 2023-28 proposal should be considered in that context.

# Delivering improved outcomes for consumers

- Genuine, high quality consumer engagement is essential to ensuring Transgrid's proposal is driven by consumer preferences, and at a price that is affordable and efficient.
- Our framework for considering consumer engagement in network revenue determinations is set out in the Better Resets Handbook:
  - nature of engagement
  - breadth and depth of engagement
  - clearly evidenced impact.
- Used in conjunction with our technical analysis, the framework for our regulatory decision making allows us to place weight on the outcomes of the engagement activities undertaken by Transgrid to assist in providing an overall assessment of a proposal.



# Transgrid's engagement approach

- Transgrid's approach focused on three objectives:
  - understanding and addressing consumers' priorities and preferences
  - taking a consumer centric approach to its operations
  - being open and transparent.
- Transgrid sought input from its consumers on a draft Stakeholder Engagement Plan in May 2021.
- Transgrid's engagement approach centred around the Transgrid Advisory Council (TAC) – deeper engagement from June 2021.
- Included independent online qualitative and quantitative research to explore, prioritise, test consumer priorities and preferences.
- Transgrid self-assessed against the Better Resets Handbook.

# Key stakeholder issues

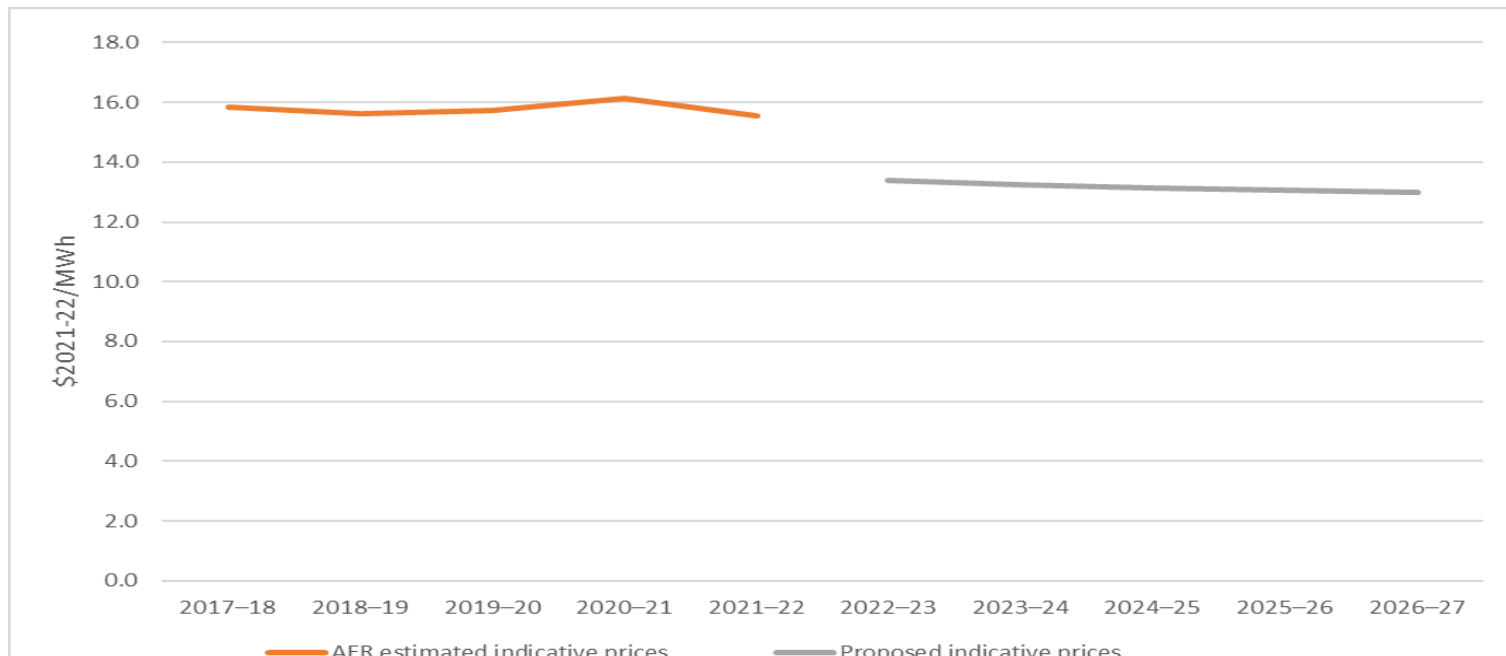
- Key themes from Transgrid's consumer engagement are:
  - affordability
  - safety, security and reliability
  - rapid localised demand growth
  - energy transition
  - technology and innovation.

# Assessment of outcomes

- AER has published an issues paper to help stakeholders in their initial considerations of Transgrid's proposal.
- Our initial observations are presented on the following slides.
- Stakeholders can assist our process by providing their views on these observations, or any other aspects of Transgrid's proposal.
- Stakeholder submissions that articulate consumer preferences, address issues in a revenue proposal, and provide evidence and analysis, strengthen our decision-making process.

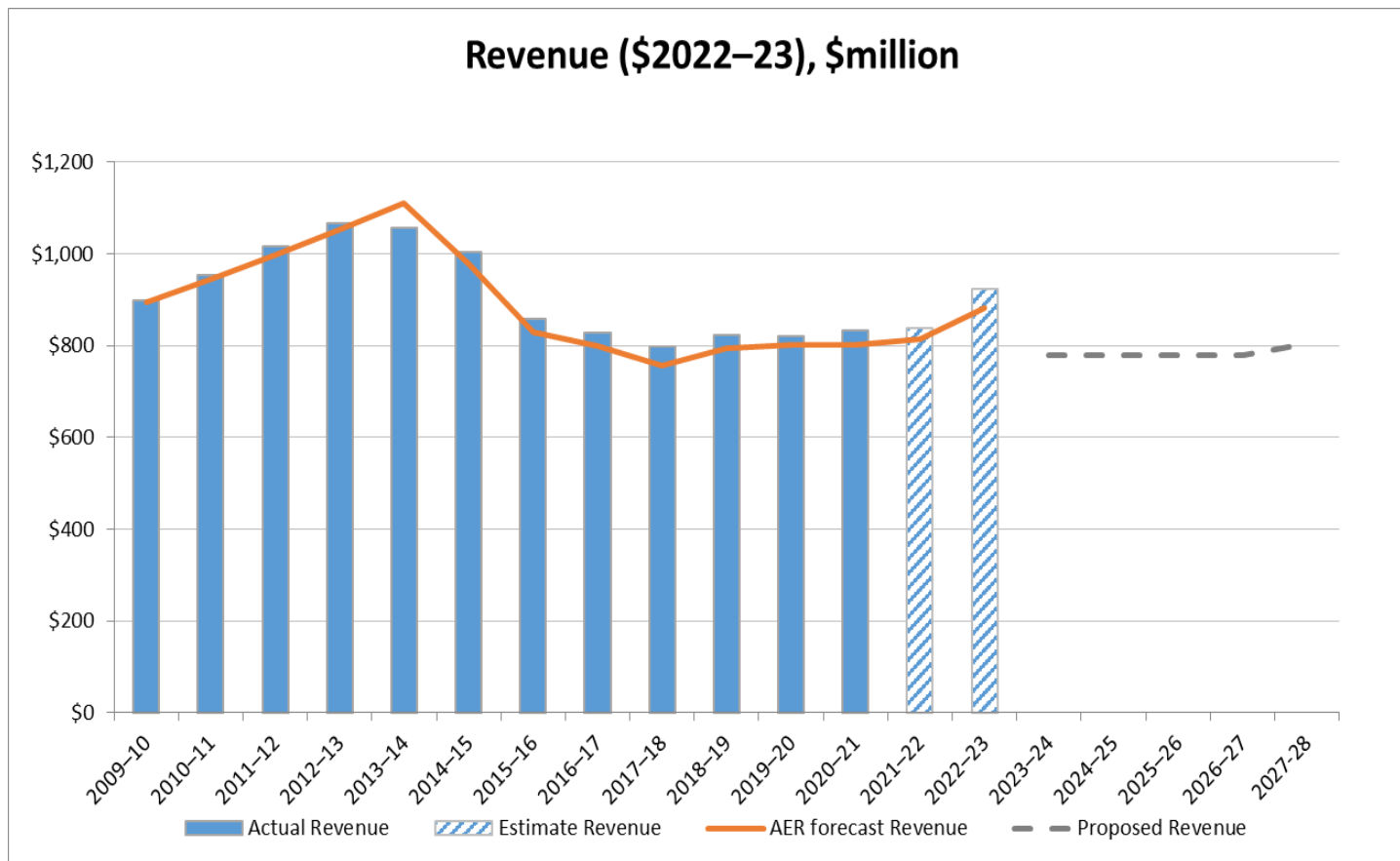
# Bill impacts

- Transgrid's proposed revenue translates to an estimated 11.5% decrease in average transmission charges in 2023-24, followed by average annual increases of 2.9% over the next four years (nominal).
- The estimated impact of this on NSW/ACT electricity bills (nominal) is:
  - For residential consumers: \$17 decrease in 2023-24, followed by average annual increases of \$4 over the next four years
  - For small businesses: \$62 decrease in 2023-24, followed by average annual increases of \$15 over the next four years.



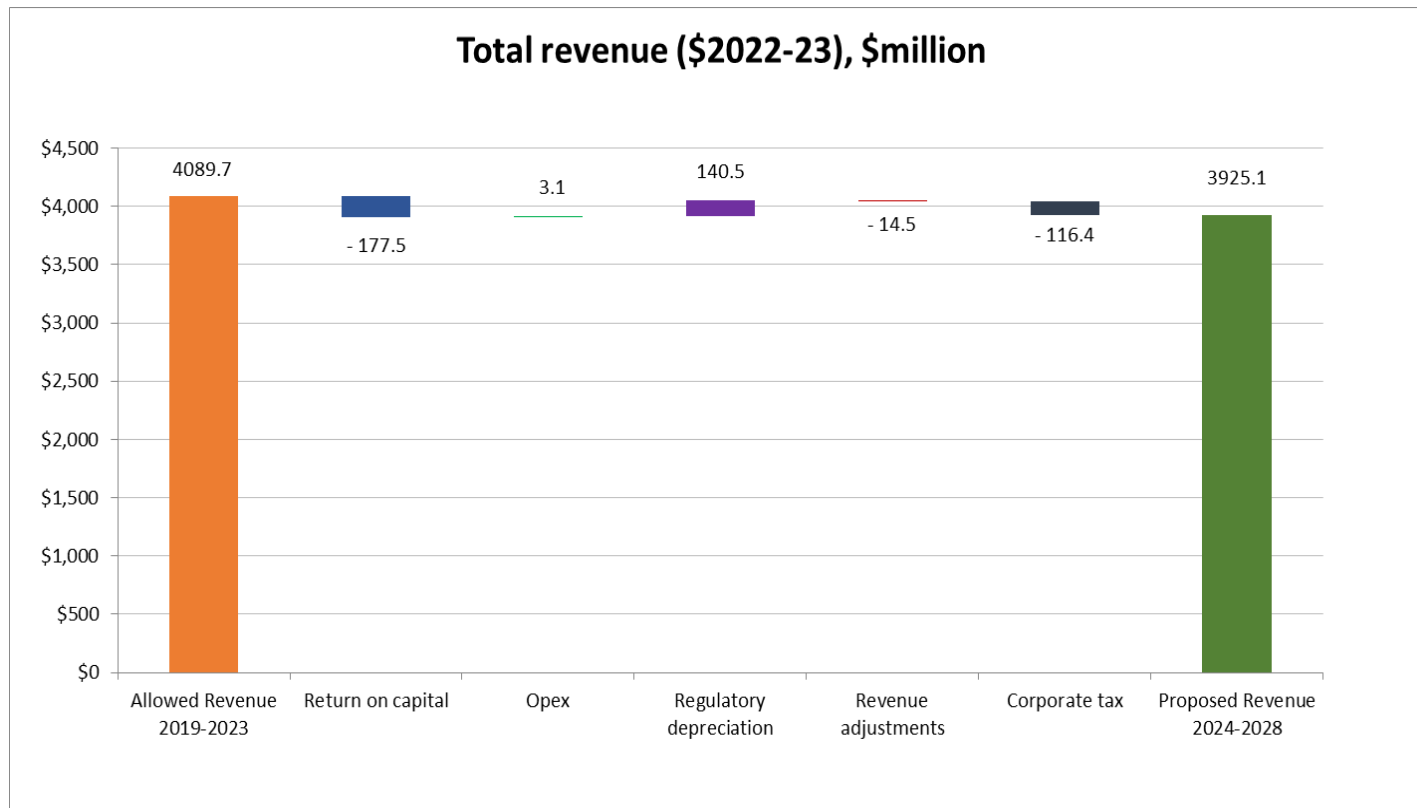
# Total revenue

- Proposed 2023–28 revenue of \$3,925.1m (\$2022–23, unsmoothed) is 4% lower than approved 2018–23 revenue.



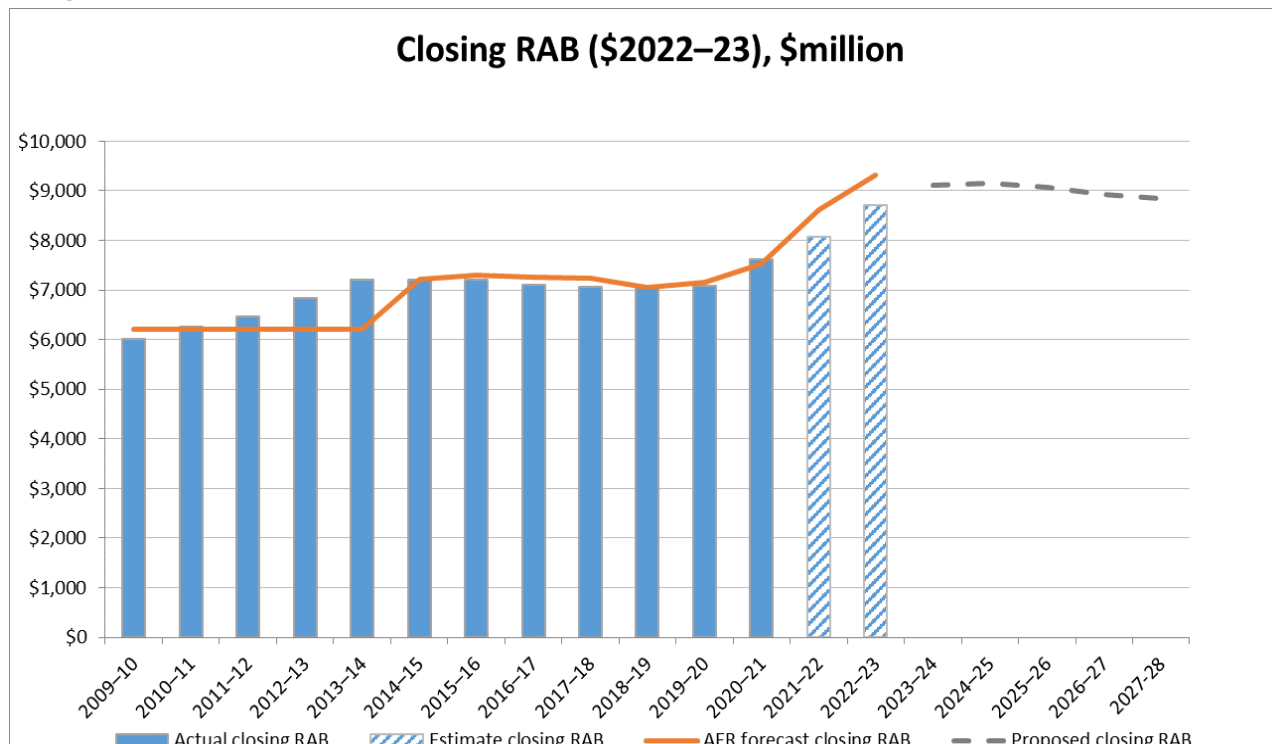
# Building blocks

- Lower 2023-28 real revenue compared to 2018-23 driven by:
  - major capital projects in 2018–23 (AEMO’s ISP: higher RAB/depreciation)
  - offsetting impact of lower return on capital (lower rate of return/capex)
  - application of the AER’s 2018 tax review (lower tax).



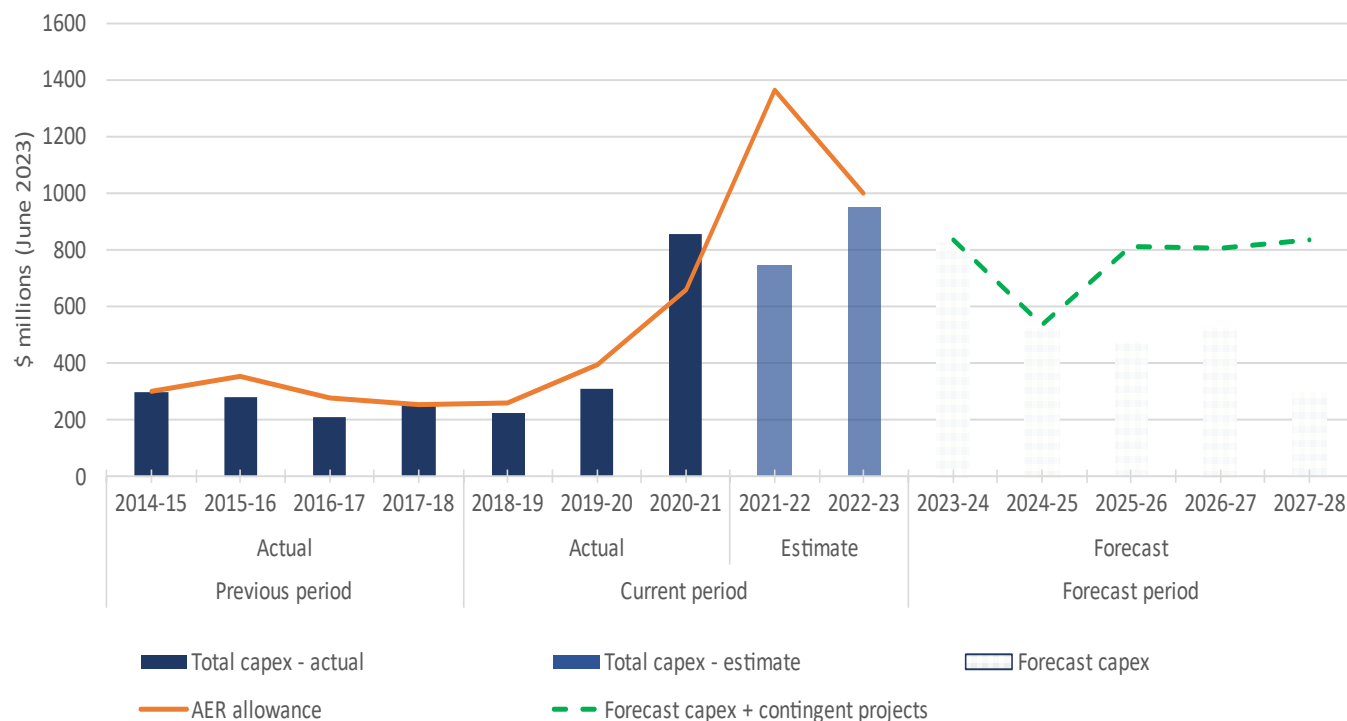
# RAB and depreciation

- Proposed end-period RAB of \$9,925.8m (nominal) for 2023-28 is \$1,212.9m higher than for 2018-23.
  - Driven by residual capex from Project EnergyConnect being spent in first year of 2023-28.
- Proposed depreciation of \$743.3m (\$2022–23) for 2023–28 is \$140.5m (23.3%) higher than for 2018–23.
  - Driven by RAB growth in last two years of 2018–23 and first year of 2023–28, exacerbated by Transgrid’s lower forecast inflation for 2023–28.



# Capital expenditure

- Transgrid's proposed capex of \$1,368.5m for 2023–28, which is 2% higher than actual/estimated capex for 2018–23.
- Transgrid's proposed capex is driven by augmentation capex of \$253.6m (17% lower), replacement capex of \$797.6m (4% higher), non-network capex of \$158.3m (26% higher), contingent projects of \$1,175.9m, and capitalised overheads of \$159m.



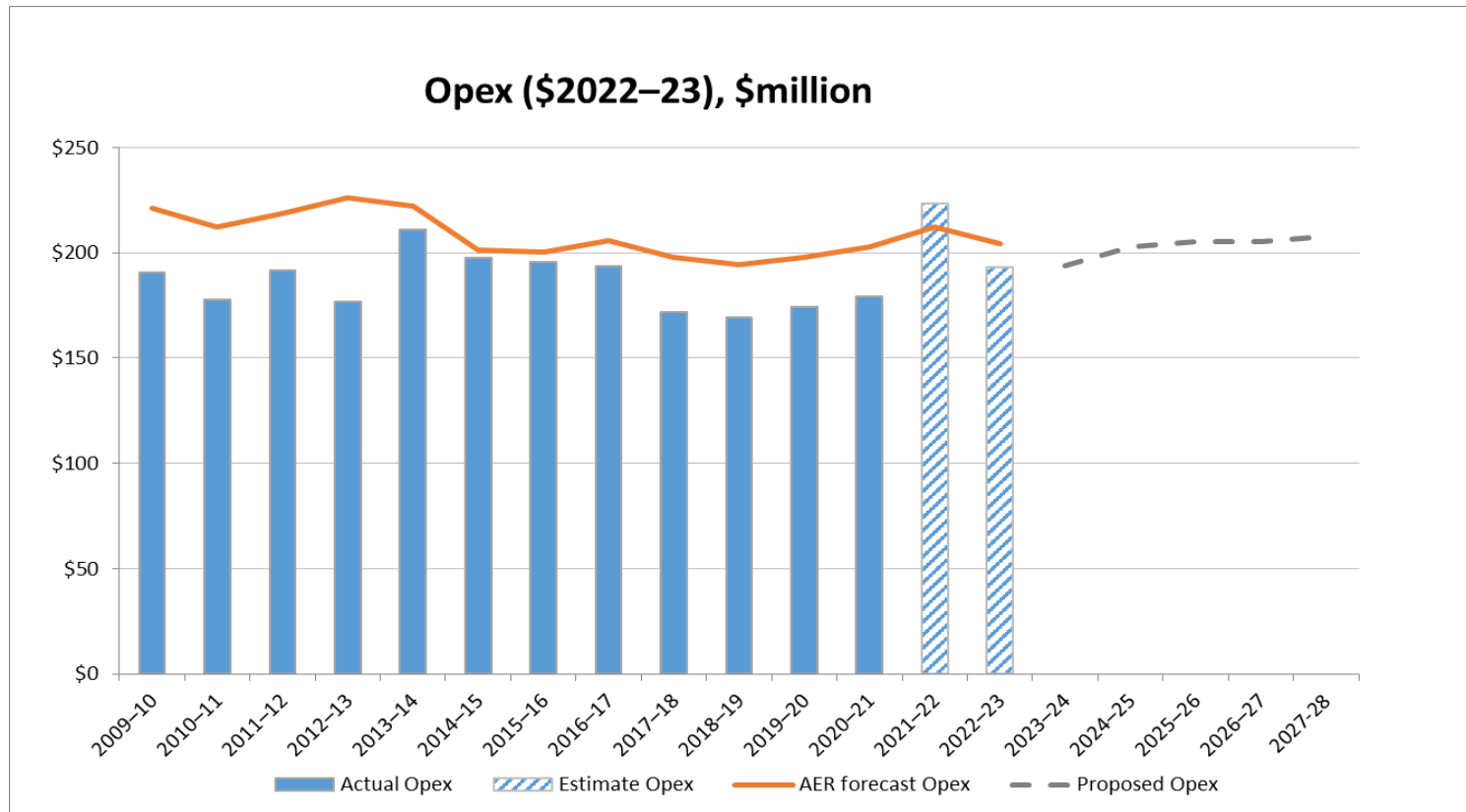


# Capital expenditure (cont.)

- A recurrent theme we observed at TAC meetings was that consumers want to understand the aggregate outcome for them from multiple reforms and processes that are on foot (AEMO's ISP projects, NSW REZ projects, Transgrid's 2023–28 proposal).
- We sought a clarification letter from Transgrid to shed more light on the estimated total cost for consumers (published with proposal).
- Transgrid's proposed capex of \$1,368.5m for 2023–28 excludes costs for Project EnergyConnect (\$532.8m). It also excludes four augmentation capex major projects (\$741.9m) due to current uncertainty and size of these projects, with updated information to be included in the revised proposal.
- We will assess proposed capex of \$2,643.2m for 2023–28, including the projects above, which is 14% lower than comparable actual/estimated capex for 2018–23.

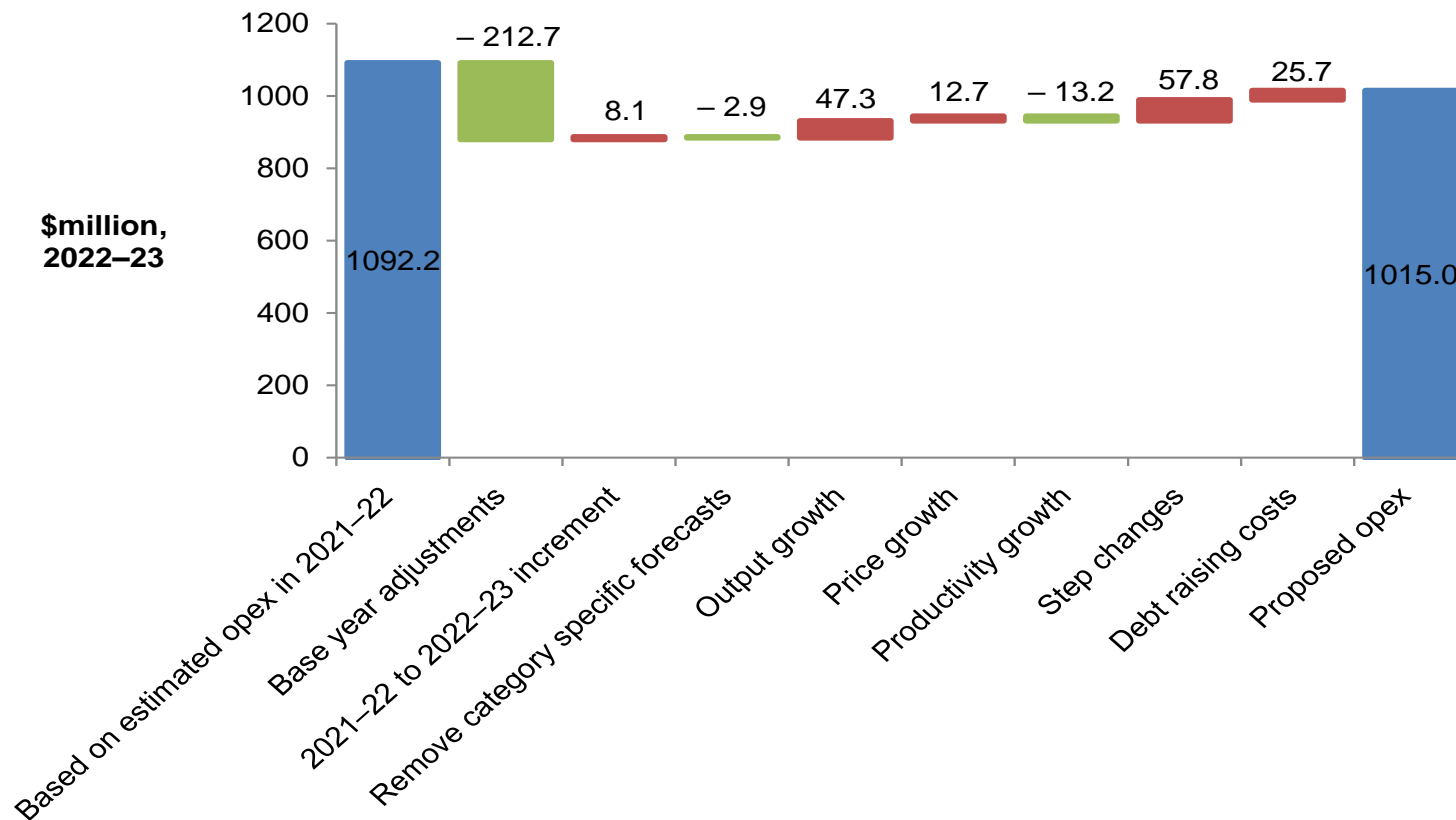
# Operating expenditure

- Proposed opex of \$1,015m (\$2022–23) for 2023–28.
  - \$65m more than actual/estimated opex for 2018–23
  - \$9m less than the approved opex forecast for the 2018–23 period.



# Operating expenditure (cont.)

- Key drivers:
  - Base year adjustments
  - Step changes (insurance, cyber/critical infrastructure, ISP preparations)
  - Output growth



# Schemes

- Transgrid proposes application of four schemes for 2023–28:
  - Efficiency benefit sharing scheme (EBSS)
  - Capital expenditure sharing scheme (CESS)
  - Service target performance incentive scheme (STPIS)
    - service component (SC) – Transgrid proposes to apply a different approach to set the performance target for large loss of supply events parameter under the SC of STPIS for 2023–28 at one event per year
    - market impact component (MC) – Transgrid notes that as the energy mix changes and new generation connect to parts of its network, network constraints are occurring more frequently, which raises challenges for Transgrid’s MIC performance.
  - Demand management innovation allowance mechanism (DMIAM).

# AER next steps



# Next steps

Milestone	Date
Transgrid submitted its proposal	31 January 2022
AER published its issues paper	28 March 2022
AER public forum on issues paper & proposal	4 April 2022
<b>Submissions closes on issues paper &amp; proposal</b>	<b>11 May 2022</b>
AER publishes its draft decision	September 2022
<b>AER predetermination conference on draft decision</b>	<b>October 2022</b>
Transgrid submits its revised proposal	November 2022
<b>Submissions due on draft decision &amp; revised proposal</b>	<b>January 2023</b>
AER publishes its final decision	April 2023

# How you can get involved

- Write a submission to the AER.
  - Stakeholder submissions are due by **11 May 2022**.
- Subscribe to the AER's website for updates:
  - <https://www.aer.gov.au/newsletter/subscribe>
- Contact the AER:
  - [TransGrid2023@aer.gov.au](mailto:TransGrid2023@ aer.gov.au)