On 25 November 2009 the Australian Competition Tribunal (Tribunal) made orders varying the Australian Energy Regulator's (AER) *Transend transmission determination 2009–10 to 2013–14* by establishing an August–September 2009 averaging period to determine the 10-year bond rates in the weighted average cost of capital (WACC). This results in increasing the nominal vanilla WACC for Transend to 10.00 per cent from 8.80 per cent.

The adjusted WACC has the effect of increasing the maximum allowed revenues for Transend during the 2009–10 to 2013–14 regulatory control period. In accordance with the Tribunal's decision, the AER has set out below updated calculations of the maximum allowed revenues for Transend (including other relevant calculations) in the AER's final decision on the Transend transmission determination dated 28 April 2009 (2009 final decision).

Table 1 sets out the updated WACC for the next regulatory control period and replaces tables 4[1] and 5.6 of the AER's 2009 final decision.

Table 1: AER conclusion on WACC parameters

Parameter	Transend revised proposal	AER conclusion
Risk–free rate (nominal)	4.66%	5.80%
Risk–free rate (real)		3.24%
Expected inflation rate	1.94%	2.47%
Debt risk premium	3.86%	3.01%
Market risk premium	6.00%	6.00%
Gearing	60%	60%
Equity beta	1.00	1.00
Nominal pre–tax return on debt	–	8.81%
Nominal post–tax return on equity	–	11.80%
Nominal vanilla WACC	9.38%	10.00%

1 Note that table 4 of the AER's 2009 final decision did not show the Transend revised proposal column.

Table 2 sets out the updated allowance for benchmark equity raising costs associated with forecast capital expenditures for the next regulatory control period and replaces table 6.12 of the AER's 2009 final decision. The allowance has changed because the calculations depend on the cash flows (based on the amended building blocks).

Table 2: AER conclusion on benchmark equity raising cost allowance for Transend ($m, nominal)

Cash flow analysis	AER final decision (total)	Notes
Dividends	103.1	Set to distribute imputation credits assumed in the PTRM
Dividends reinvested	30.9	30% of dividends paid
Cost of dividend reinvestment plans	0.3	Dividends reinvested multiplied by benchmark cost (1%)
Capex funding requirement	640.3	This is the forecast capex funding requirement (not the capex value that includes a half year WACC adjustment)
Debt component	322.0	Set to equal 60% of RAB increase (not capex)
Equity component	318.3	Residual of capex funding requirement and debt component
Retained cash flows available for reinvestment	315.8	Includes dividends reinvested
External equity requirement	2.6	Equal to equity component less retained cash flows
External equity raising cost	0.1	External equity requirement multiplied by benchmark direct cost (2.75%)
Total equity raising cost	0.4	Sum of dividend reinvestment plan cost and external equity raising cost
Total equity raising cost ($2008–09)	0.4	To be added to the RAB at the start of the next regulatory control period

Note: Negative figures in some years of the regulatory control period have a net impact on the total amount calculated for the 5-year regulatory control period.

Table 3 sets out the updated forecast roll forward of the regulatory asset base for the next regulatory control period and replaces table 9.4 of the AER's 2009 final decision.

Table 3: AER roll forward of Transend's regulatory asset base ($m, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14
Opening RAB	951.4	1093.9	1237.1	1318.9	1404.2
Net capital expenditure	168.7	170.9	104.6	112.7	115.2
Inflation adjustment on opening RAB	23.5	27.1	30.6	32.6	34.8
Straight-line depreciation	–49.8	–54.7	–53.4	–60.0	–65.6
Closing RAB	1093.9	1237.1	1318.9	1404.2	1488.5

Note: The straight-line depreciation less the inflation adjustment on the opening RAB provides the regulatory depreciation building block allowance.

Table 4 sets out the updated forecast net tax allowance for the next regulatory control period and replaces table 9.6 of the AER's 2009 final decision.

Table 4: AER modelling of net tax allowance ($m, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14	Total
Tax payable	9.7	11.2	12.7	14.0	15.3	63.0
Less: value of imputation credits	4.8	5.6	6.4	7.0	7.7	31.5
Net tax allowance	4.8	5.6	6.4	7.0	7.7	31.5

Note: Totals may not add up due to rounding.

Table 5 sets out the updated annual building block revenue requirement for the next regulatory control period and replaces table 9.7 of the AER's 2009 final decision.

Table 5: AER final decision on annual building block revenue requirement ($m, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14	Total
Return on capital	95.2	109.4	123.8	131.9	140.5	600.8
Regulatory depreciation	26.3	27.7	22.8	27.4	30.8	135.0
Opex allowance	50.9	52.9	53.8	57.7	58.8	274.0
Opex efficiency (glide path) allowance[a]	0.0	0.0	0.0	0.0	0.0	0.0
Net tax allowance	4.8	5.6	6.4	7.0	7.7	31.5
Annual building block revenue requirement (unsmoothed)	177.2	195.6	206.7	224.1	237.8	1041.3

(a) An allowance for opex efficiency resulting in the current regulatory period.

Tables 6 and 6A[2] sets out the updated maximum allowed revenues and X factors for the next regulatory control period and replaces table 9.8 of the AER's 2009 final decision. Tables 5, 6 and 6A replace table 9 of the AER's 2009 final decision.

Table 6: AER final decision on the maximum allowed revenue ($m, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14	Total
MAR (smoothed)	177.2[a]	191.6	207.2	224.1	242.3	1042.5
X factor	n/a	–5.53 %	–5.53 %	–5.53%	–5.53 %	n/a

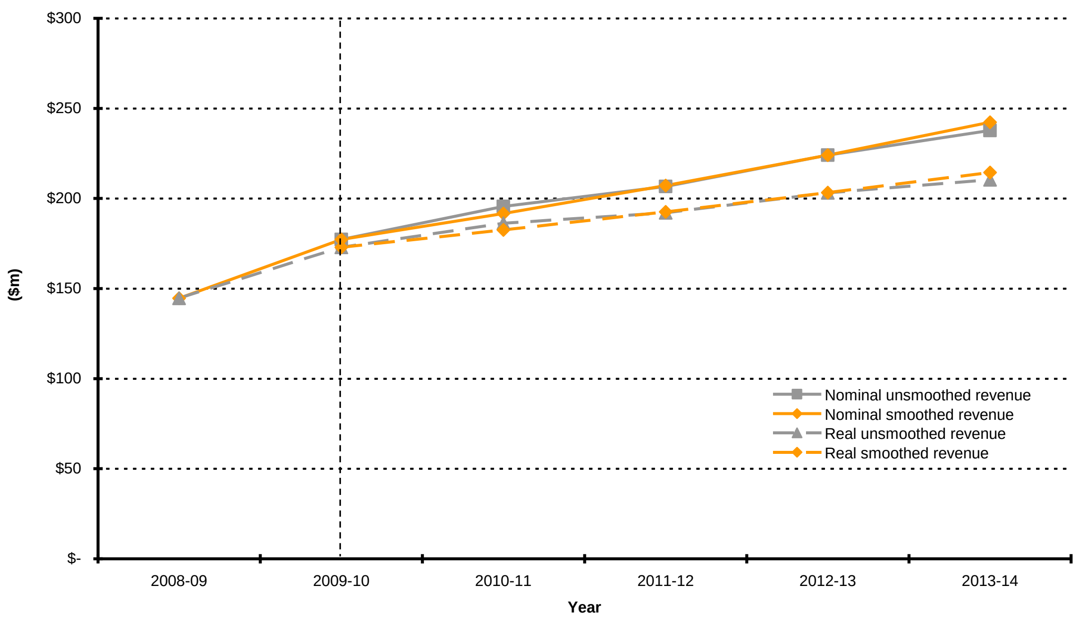
(a) The MAR to be recovered in 2009–10 is based on the AER's April 2009 determination of $164.70 million. The adjustment to the MAR in years 2 to 5 of the regulatory control period to recover the difference between the AER's April 2009 determination ($164.70 million) and what the MAR in 2009–10 should have been as a result of the Tribunal's decision ($177.21 million), being an amount of $12.51 million ($2009–10) is set out in table 6A.

Table 6A: Adjustment to the maximum allowed revenue for the 2009–10 under-recovery ($m, nominal)

	Difference betweem AER MAR and Tribunal determined MAR 2009–10	2010–11	2011–12	2012–13	2013–14
Annual MAR adjustment	12.51	3.95	3.95	3.95	3.95

Figure 1 shows the updated revenue path for the next regulatory control period (both smoothed and unsmoothed) in nominal and real terms ($2008–09) and replaces figure 9.1 of the AER's 2009 final decision.

Figure 1: Revenue path from 2008–09 to 2013–14 ($m)



[2] Note that the AER's 2009 final decision did not contain an equivalent table 6A.

Figure 2 shows the updated average price path for the next regulatory control period in nominal and real terms ($2008–09) and replaces figure 9.2 of the AER's 2009 final decision.

Figure 2: Price path from 2008–09 to 2013–14 ($/MWh)