

Network Support Event – 2014/15 Regulatory Year Written Statement Pursuant to Clause 6A.7.2 of the National Electricity Rules for a Determination by the AER to Pass Through a Network Support Pass Through Amount

TransGrid considers network support from non network sources on an equal footing with network alternatives. Where it is prudent and cost efficient to do so, TransGrid procures network support from non network sources. In this regard, TransGrid sought and was allowed network support payments of \$6 million per annum (\$2007/08) in total between 2010/11 and 2013/14 in its 2009 to 2014 Revenue Determination.

The network support allowance had been approved for two projects:

- Reactive power capability
- Import Capability from Snowy.

The network support arrangements proposed were ultimately not required within the last revenue period. Further details on the reasons are part of the explanatory material (pages 2-4 of the application). No network support allowances or payments were applicable to 2014/15.

Clause 6A.7.2 of the National Electricity Rules (Rules) requires TransGrid to seek a determination by the Australian Energy Regulator (AER) within 60 business days of the end of the regulatory year to pass through to transmission network users a network support pass through amount if there is a difference between the amount of network support payments and the amount allowed for network support payments.

The network support payment included in TransGrid's Maximum Allowable Revenue (MAR) for the 2013/14 regulatory year was \$6,973,792.57 (\$Dec2013). No network support allowance was included as part of TransGrid's MAR for 2014/15 regulatory year.

Under the AER guidelines for determining a network support pass through amount, costs that are incremental solely as a consequence of the network support event are to be taken into account. TransGrid has not identified any such costs for the 2014/15 period.

Invoices to TransGrid's customers for a particular month are not collected until the following month. It follows that the June 2014 network support amount of \$582,432.70 was not collected till July 2014. As such, the portion of the June 2014 revenue collected that was attributable to network support is going to be passed through as part of this application. As no allowances were made for in 2015/16, and as no costs were incurred in this period, only the instance of accrued payment for June 2014 specific for network support is relevant to this application. Hence a negative network support event has occurred.

Factors relating to the time cost of money need to be taken into account to determine a network support pass through amount, for the one year while this application is processed and for half a year while the pass through amount is included in transmission prices and passed through to transmission network users. In its final Revenue Determination for TransGrid for 2014-18, the AER allowed TransGrid a WACC of 6.75%¹. The WACC of 6.75% has been used as the time cost of money for 2015/16 and also for 2016/17.

As such, taking the WACC in the transitional determination as a proxy for the time cost of money and after applying escalation, the network support amount from 2014/15 period to be passed through back to customers is \$647,869.10 (\$Dec 2016).

¹ AER, *Rate of Return Fact Sheet, April 2015*.

The methodology used by TransGrid to calculate the network support pass through amount is shown in the explanatory material attached below. The formulae used can be verified from the attached spreadsheet with the application.

Since no network support payment was made in the 2014/15 regulatory year, TransGrid is not required to engage an independent qualified expert to certify network support costs for 2014/15 regulatory year.

In line with previous such applications and discussions with the AER, this notice is on a cash basis.

Explanatory Material

Network support pass through costs and receipts

The network support pass through amount has been determined using the methodology provided by the AER. Figure 1 below summarises the network support pass through calculations.

Assumptions:

1. All payments and receipts in a month are deemed to have been made or received on the last day of that month.

Figure 1 Network Support Pass Through calculations

	\$AU
Forecast revenue	
Forecast revenue for network support (\$Dec 2014) (Note 3)	\$ 582,432.70
<i>Adjustment: Forecast revenue for network support (\$Jun 2015)</i>	\$ 587,413.22
Actual payments	
Actual network support payment (\$Jun 2015)	\$ -
<i>Difference (over recovery)</i>	\$ 587,413.22
Interest on the difference (over recovery) (Note 1,2)	\$ 60,455.88
2014–15 negative pass through amount (\$Dec 2016)	\$ 647,869.10

Note:

1. The 2015/16 WACC in accordance with the final revenue determination was 6.75%
2. WACC for 2016/17 is assumed to be the same as determined for 2014/15 as part of the revenue determination, i.e.6.75%.
3. The network support allowance collected was escalated to June 2015 dollars in a manner consistent with the guidelines and the previous network support pass through submissions by TransGrid.
4. The CPI used is December to December, consistent with a distribution network pricing related Rule change by the AEMC. This resulted in TransGrid requiring using Dec-Dec CPI in its pricing calculations
5. 2014/15 CPI used was the Dec-Dec CPI of 1.72%.

Please see attached spreadsheet for details of the calculation.

Details of the network support event

Allowance

TransGrid's 2008/09 to 2013/14 revenue determination had an allowance for network support of \$6.0M (\$2007/08) for the Reactive Power Capability and Import Capability from Snowy projects in the 2013/14 regulatory year. This amount is equivalent to \$6,989,192.46 (\$Dec 2013) with CPI escalations for 2013/14, or \$582,432.70 for June 2014.

Payment

TransGrid made no network support payments in 2014/15 regulatory year.

Negative pass through event

TransGrid made no network support payments in 2014/15 regulatory year, which therefore is less than the allowance for network support collected during 2014/15: \$582,432.70. Hence, a negative network support event has occurred.

Recovery of network support amount

TransGrid recovered \$6,973,792.57 (\$Dec 2013) during the 2013/14 regulatory year. This includes a payment of \$582,432.70 for the invoice sent out for Jun-2013.

TransGrid had included \$6,989,192.46 (\$Dec 2013) for network support recovery in its 2013/14 TUOS charges. For the purposes of calculating a network support pass through amount it has been assumed that network support is recovered in 12 equal amounts of \$582,432.70 over the year.

In TransGrid's billing cycle, invoices for June 2014 month were sent to transmission network users and received in July 2014. This falls in the 2014/15 regulatory year.

TransGrid had no allowance for network support in 2014/15. Consequently, the payment for June 2014 of \$582,432.70 is being passed through as part of this application.

Transitional WACC Rate Used

The Weighted Average Cost of Capital (WACC) is used to take the time cost of money in to account. From the AER's procedural guidelines on preparing pass through application²:

“The time cost of money is based on the principle that a dollar is worth more, the sooner it is to be received, all other things being equal³. This is because if received today, a dollar can be invested and earn interest, making it more valuable than a dollar received in the future. The time cost of money is effectively an interest payment from the TNSP to its customers on a negative network support amount (over recovery) or an interest payment to the TNSP from its customers on a positive network support amount (under recovery).”

Section 6A.7.2 (i) (4) of the National Electricity Rules refers to “the time cost of money based on the *allowed rate of return* for the provider for the relevant *regulatory control period*”. TransGrid interprets the relevant regulatory control period to be from 1 July 2014 to 30 June 2018 for the purpose of this pass through application.

The WACC has been determined as 6.75% in the final revenue determination for TransGrid for 2015/16. TransGrid has used the 6.75% WACC for the 1.5 years between July 2015 and December 2016. This is because the money collected in 2013/14 is not due to be returned until 2015/16 as part of adjustment to the TUOS for the year. The period in question where interest needs to be returned by TransGrid to its customers is the 1.5 years between July 2015 and December 2016. This takes into

² Australian Energy Regulator, *Procedural guideline for preparing a transmission network support pass through application*, June 2011.

³ Peirson, Brown, Easton, Howard, Pinder, *Business Finance*, 9th edition (2006), p. 843.

consideration the fact that the TUOS is collected over 12 monthly instalments in 2016/17; hence, the interest is calculated to mid-point of 2016/17.

Network support project costs

This pass through application takes into account costs and receipts in the 2014/15 regulatory year associated with two separate network support projects. The projects are:

- Reactive power capability
- Import Capability from Snowy.

TransGrid made no network support payments for Reactive Power Capability or Import Capability from Snowy projects in the 2014/15 regulatory year.

A Rule change on Network Support and Control Ancillary Services (NSCAS) was determined by the AEMC in April 2011 and it came into effect in April 2012. The Rule change has changed the requirement of reactive power capability TransGrid may need to contract. The Request for Proposal (RFP) for the Reactive Power Capability project was postponed due to the Rule Change on NSCAS.

The Import Capability from Snowy project is a market driven project, contingent on new generation development in southern NSW. To end of June 2014, no network support related payments were made for this project. The target date for a solution in regards to capacity of the Snowy to NSW network would need to be determined by detailed market modelling.

Following are descriptions of the two projects, based on the description given in the draft revenue proposal for 2009 to 2014 and subsequent draft determination for 2009 to 2014.

Reactive Power Capability

TransGrid proposed to enter into network support arrangements from thermal power stations for reinforcement of supply to the Newcastle, Sydney and Wollongong area. This project was included in TransGrid's 2009/14 Revenue determination and \$3 million per annum (\$2007/08) was allowed by the AER for the four years from 2010/11 onwards.

Import Capability from Snowy

After completion of Uranquinty Power Station the load on four transmission lines in southern NSW was expected to increase such that generation in southern region was going to be constrained. To address the anticipated constraint, TransGrid proposed to operate a scheme that would trip adequate load in NSW as required, and trip generation south of Yass/ Canberra as required, both according to pre-made arrangements between TransGrid and appropriate participants. The participants in the scheme and associated payments were to be determined by a competitive tender process. This project was included in TransGrid's 1 July 2009 to 30 June 2014 Revenue Determination and \$3 million per annum (\$2007/08) was allowed by the AER for the four years from 2010/11 onwards.