Transgrid

2023-28 Revenue Proposal

4 April 2022

People. Power. Possibilities.

Our 2023-28 Revenue Proposal

- On 31 January 2022, Transgrid submitted its Revenue Proposal for the 1 July 2023 to 30 June 2028 (2023-28) regulatory period to the AER.
- The 2023-28 regulatory period will be one of profound change in the Australian energy market as governments commit to decarbonisation.
- We are grateful to our customers and other stakeholders for actively participating in the preparation of our Revenue Proposal. Involvement from our customers and other stakeholders has come in various forms:

1. Transgrid Advisory Council (TAC)

Monthly TAC meetings:

- Deep dive discussions – topics nominated by TAC members
- Feedback discussions on research
- One-on-one TAC feedback sessions.

2. Independent customer research

- Qualitative research – underlying needs and attitudes towards energy
- Quantative research – customer hierarchy of preferences
- Test key elements of the Preliminary Proposal.

3. Preliminary Revenue Proposal

- Published on 5 October
- Two deep dives with TAC
- Tested in customer focus groups
- Sought feedback from directly connected customers and other stakeholders.

Outcomes for customers

We will deliver five priority outcomes identified through extensive consultation and engagement with our customers and our TAC:

1. Affordability

Customer savings:

- $19.55 p.a. residential
- $73.05 p.a. small business

2. Safety, security and reliability

We will invest to:

- Maintain network risk
- Maintain reliability
- Enhance cyber and physical security
- Increase climate resilience

3. Serve rapid load growth

We will invest to meet rapid demand growth in

- Western Sydney
- North west Sydney
- The North West Slopes, and
- Central and far west NSW

4. Support the transition

We will invest:

- $22m to relieve congestion
- $34.7 m in voltage control.

We will deliver ISP and NSW Government REZ if AEMO and the NSW Government determine they are needed

5. Support technology and innovation

We have not included any specific innovation expenditure in our forecasts

We will continue to engage with customers about innovation initiatives and whether they should be reflected in our Revised Revenue Proposal.

Snapshot of our proposal

- Our Revenue Proposal contains, amongst other things, forecast capex, opex, revenues and prices for the 2023-28 period

Capex

2018-23: $1,346m (estimated)
2023-28: $1,369m

$23m or 1.7%

Opex

2018-23: $942m (estimated)
2023-28: $1,015m[1]

$47m or 5.0%*

RAB

2023-24: $8,713 m (Nominal)
2027-28: $9,926 m (Nominal)

$1,213m

WACC

2018-23: 6.2% p.a
2023-28: 4.7% p.a

~1.5% p.a

Revenue[2]

2018-23: $4,094m
2023-28: $3,925m

$169m or 4%

Prices

$19.55 or 13.4% - Households -

73.05 or 13.4% - small business

Expressed in $Real 2022-23 unless stated

Notes: 1. Excluding debt raising cost of $26m 2. Annual Building Block revenue Requirement

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Our forecast capex

We plan to spend $1.4[1] billion in total capex (excluding pre-approved capex) to maintain:

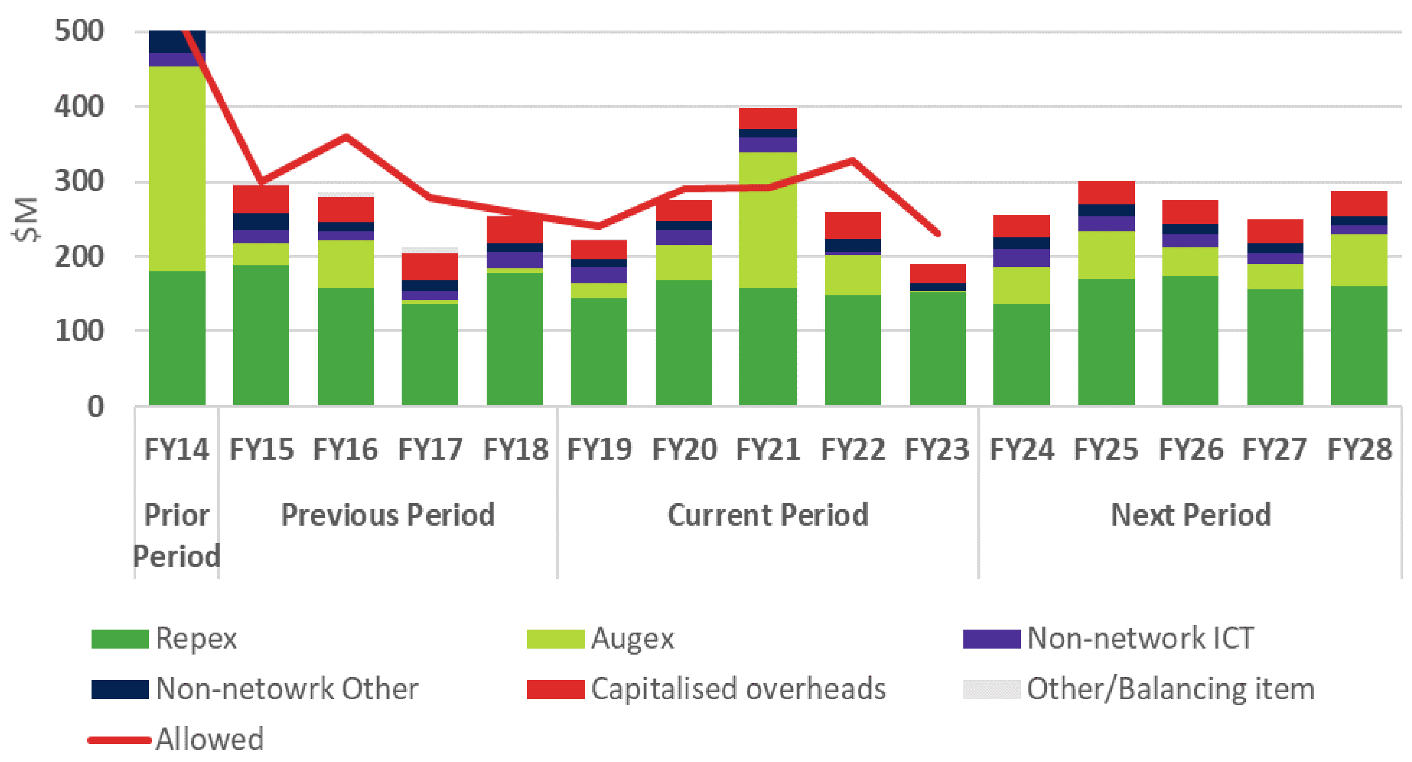
- a safe, secure, reliable and resilient network that supports the transition and increased localised demand
- our network risk index and reliability at current levels over the 2023-28 period.

This is $23.0 million or 1.7 per cent higher than our estimated capex of $1,345.6 million (excluding expenditure on ISP Projects[2]) for the 2018-23 regulatory period.

Our forecast capex excludes:

1. Project in the NSW Electricity Infrastructure Roadmap
2. Projects in AEMO's ISP
3. Projects currently undergoing a RIT-T
4. Contingent projects
5. Projects to ready our network for 100% renewables by 2025
6. Real material cost escalation and COVID costs

Forecast capex for the 2023-28 period, excluding pre-approved forecast capex, ISP Projects and NSW Electricity Infrastructure Roadmap projects ($M, Real 2022-23)



Notes: **1**. Excluding pre-approved capex for Project EnergyConnect. In May 2021, the AER published its Determination for Project EnergyConnect, which approved total capex of $2,008.0 million for the 2018-23 regulatory period. Project delays mean that the delivery date is now anticipated to be 2024-25. As a result, we expect to spend $532.8 million of the approved capex for this Project (pre-approved forecast capex) in the 2023-28 period. We will add this pre-approved capex to our forecast for the first two years of the 2023-28 period. **2.** Excluding our expenditure of $1,769.2 million on actionable ISP Projects approved by the AER as contingent projects for the 2018-23 regulatory period (i.e. Project EnergyConnect, QNI minor and VNI minor)

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Indicative network costs for major Augex projects undergoing RIT-T

- Four major Augex projects undergoing RIT-Ts.
- Costs not in capex forecasts because options and costs are uncertain –
- RIT-T will determine solution - could be network, non-network or some combination.
- Expect the RIT-Ts to be completed by July 2022.
- Costs of network solutions will be included in our Revised Revenue Proposal.
- Including indicative network costs would increase our capex forecast by $741.9 million to $2,110.4 million.
- Since publishing our Revenue Proposal, we have progressed these RIT-Ts

Indicative cost for major Augex projects undergoing RIT-T ($M, Real 2022-23)

Major Augex Projects	Indicative cost in Revenue Proposal	PADR network 2023-28 capex estimate	Driver	Next step
Managing risk on Transmission Line 86	331.1	Expected May 2022	Declining asset condition & market benefits	PADR expected May 2022
Improve stability in SW NSW[1]	127.1	127.1	Provide market benefits	PACR expected April 2022
Maintain reliability to North West Slopes	166.3	49.3	Forecast demand growth	PADR submissions due 7 April 2022
Maintain reliability to Bathurst Orange and Parkes (stage 1).	117.4	1.3	Forecast demand growth	PADR submissions due 7 April 2022
Total	**741.9**	**TBC**		

Notes: 1. This is a contingent project in the 2018-23 period. The PACR is expected in late March 2022/early April 2022. this will be followed by a Contingent Project Application in the 2018-23 period.

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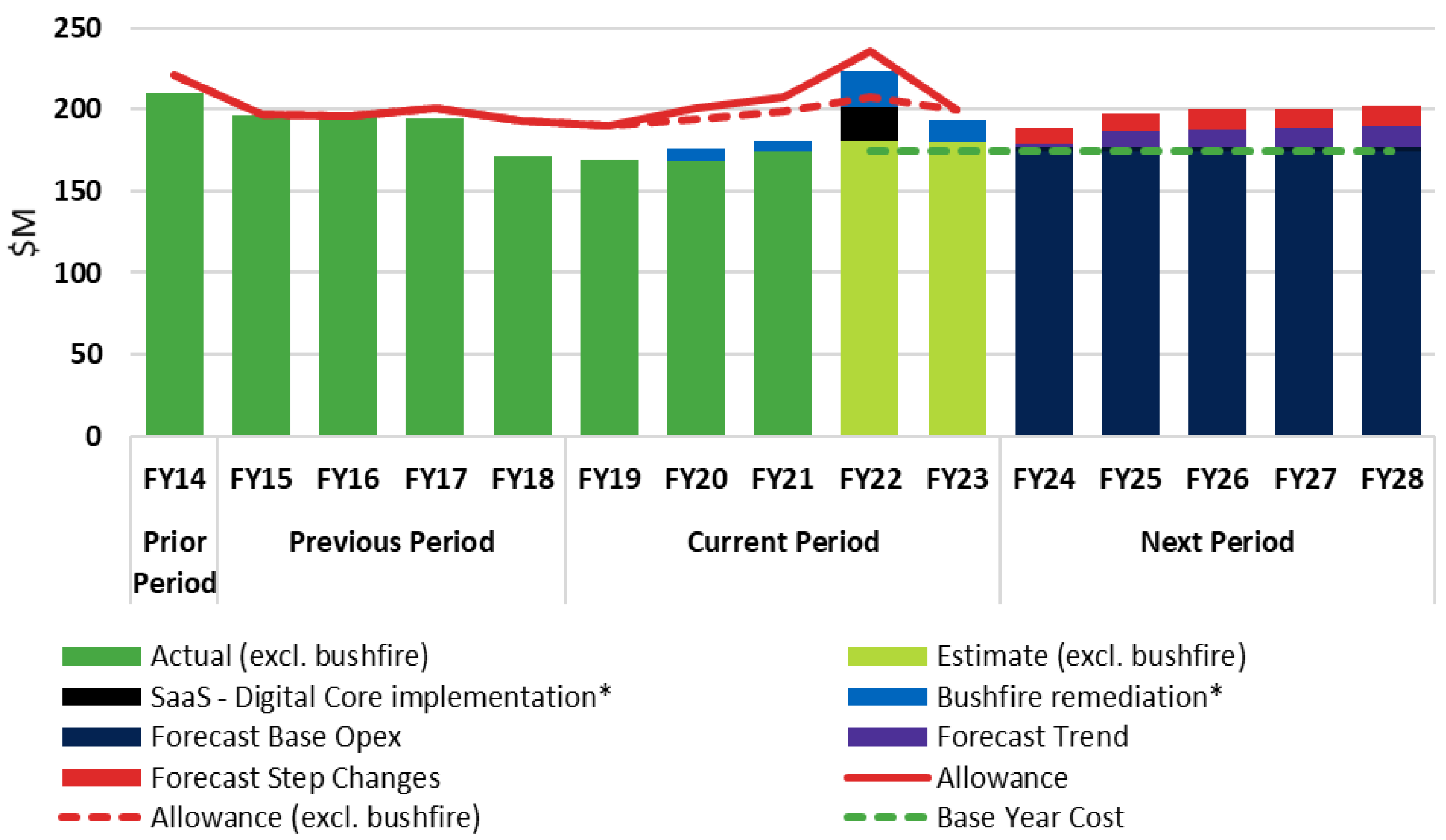
Our forecast opex

We plan to spend $1.0 billion in total opex to provide a safe and reliable electricity supply, comply with new regulatory requirements, and promote affordability for customers. This is $47.1 million, or 5.0 per cent higher than our actual opex for the 2018-23 regulatory period.

Our forecast opex:

1. Applied the base-step-trend method
2. 2021-22 opex base year
3. Step changes for externally driven and material costs:
   - insurance premiums
   - cyber and critical infrastructure security, and
   - ISP preparatory activity
4. Positive productivity growth improvement of 0.5% p.a. – reduced opex by $14.3m

Historical and forecast opex, $M, Real 2022-23, excludes debt raising costs

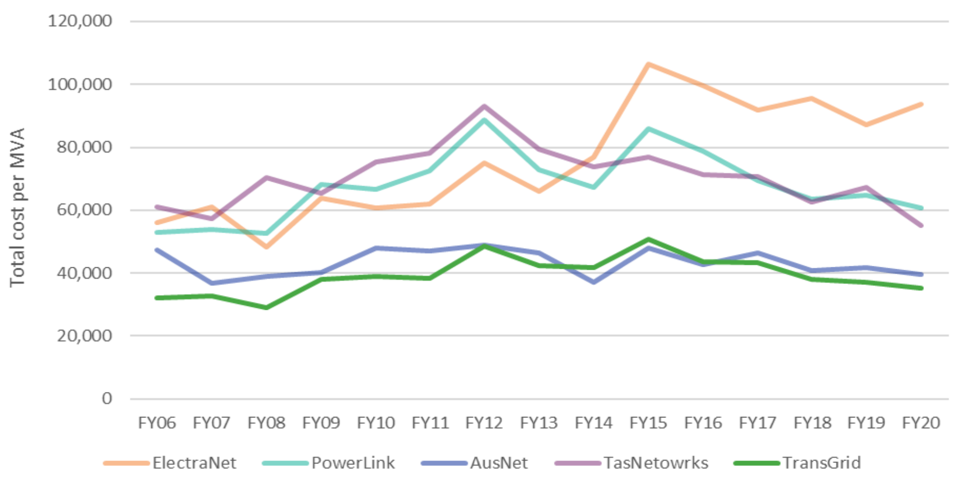


We benchmark strongly

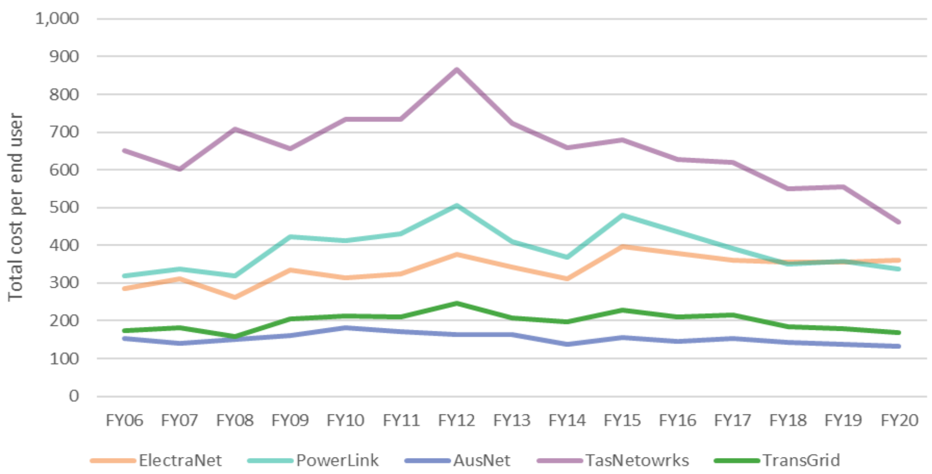
Our costs are efficient:

- Lowest cost – in total cost per MVA of maximum demand served.
- Second lowest – total cost per end user. We are 3.6% lower than in 2006
- Second lowest – total cost per circuit length (per kilometre), and
- Lowest cost – total cost per MWh of energy transported.

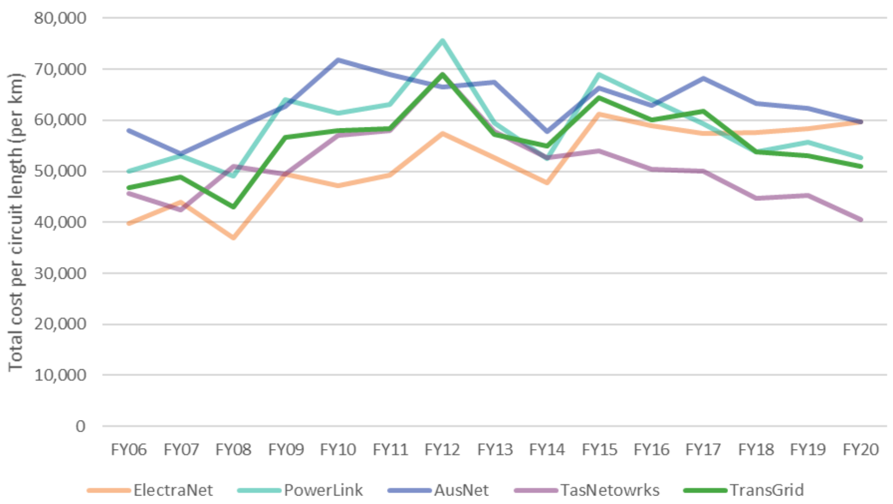
Total cost per MVA of demand served



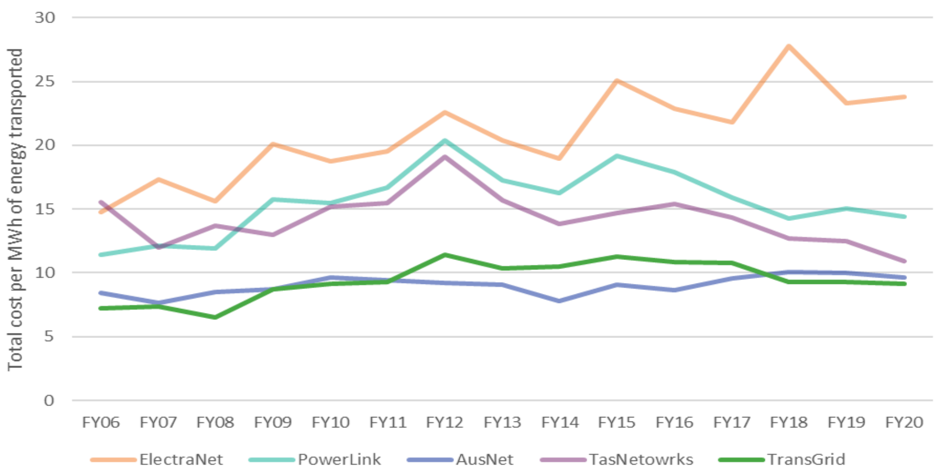
TNSP total cost per end user



Total cost ($) per circuit length (per km)



TNSP total cost per MWh of energy transported



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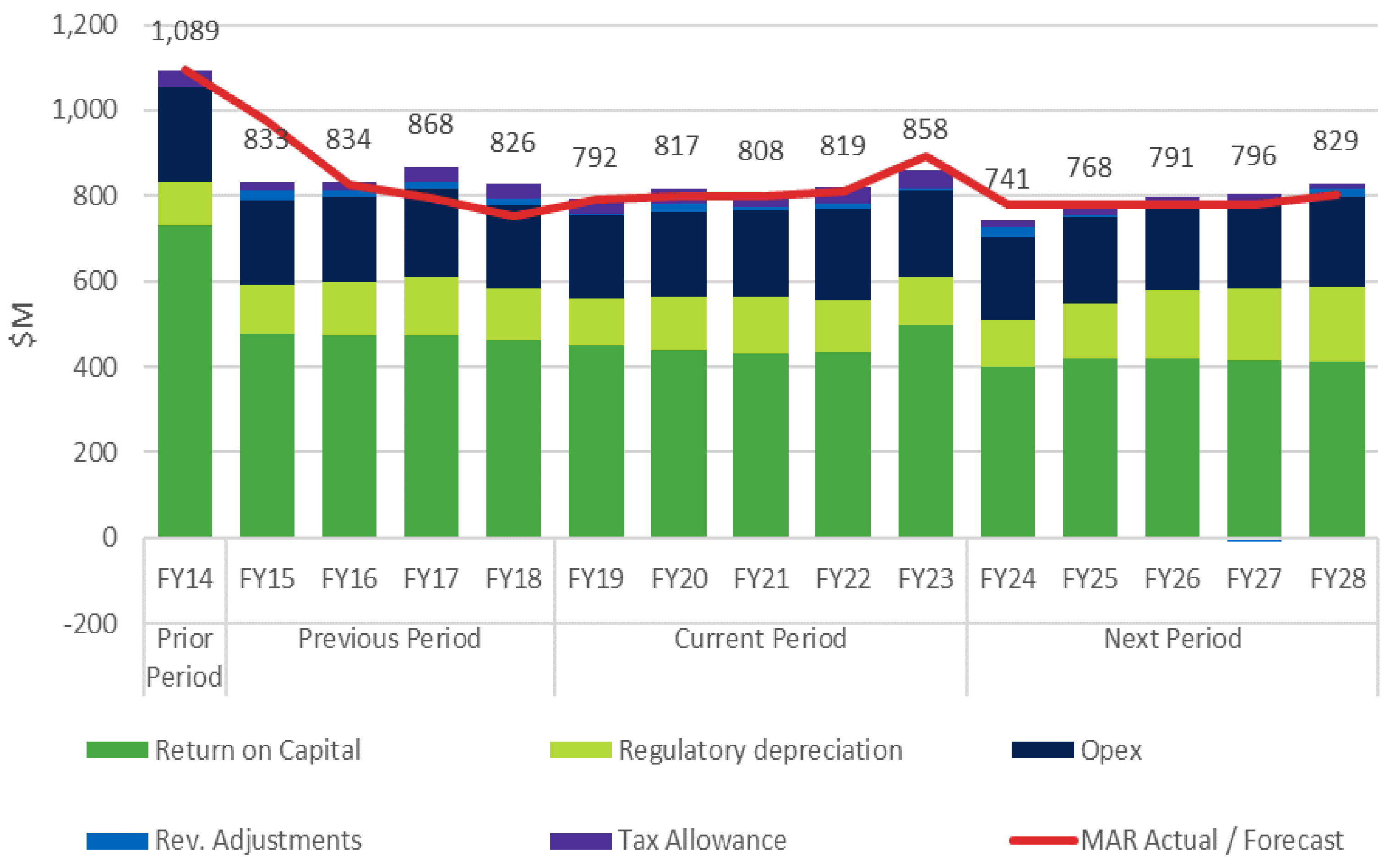
Our forecast revenue

Our forecast revenue of $3.9 billion will fund our expenditure program to meet our customers' needs and maintain the reliability, security and safety of our transmission network, while supporting the energy transition.

Our forecast revenue is $168.9 million or 4.1 per cent less than our expected 2018-23 revenue.



Key drivers of our revenue reduction:

- a lower return on capital, driven by a lower rate of return
- lower projected corporate income tax, and
- lower revenue adjustments

Key revenue risks:

1. The current level of **returns do not reasonably match the market cost of capital**. We are actively participating in the AER's 2022 RORI process to address this matter.
2. **Commercial viability** – the regulatory allowance does not enable network businesses to maintain BBB+ investment grade credit rating when investing in Major projects. We are actively participating in the AEMC's Transmission Planning and Investment Review to address this matter.

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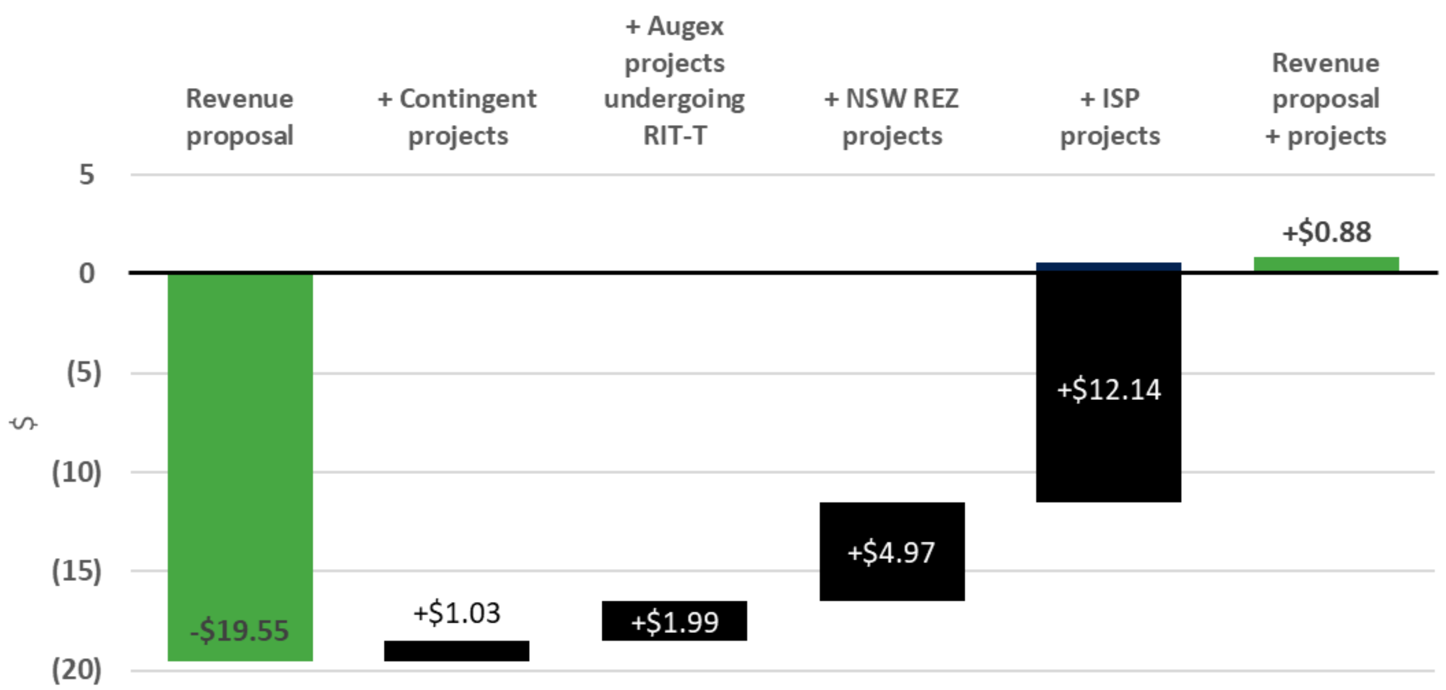
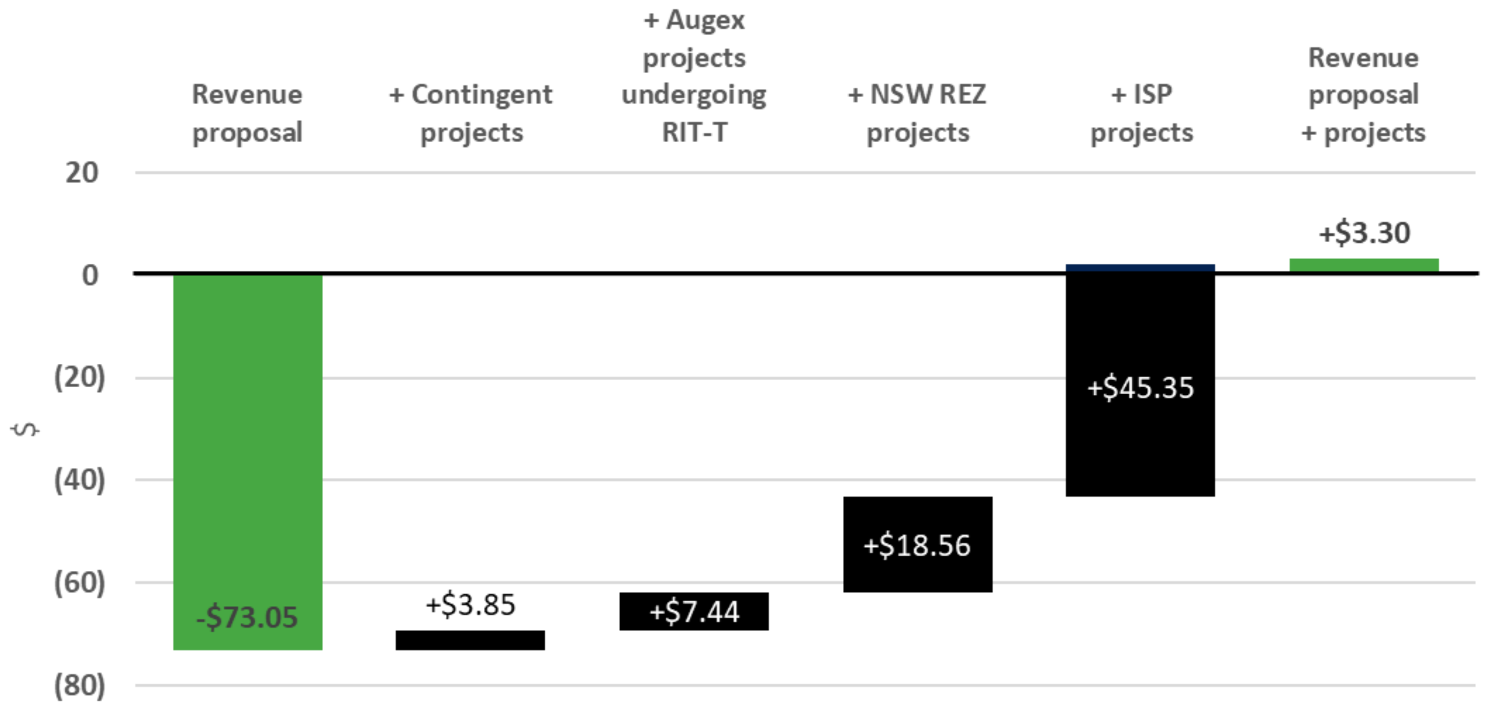
Our forecast prices

- Transmission cost savings in our Proposal – **$19.55 p.a. for residential and $73.05 p.a. for small business customers** – will essentially be fully offset if all of the following projects **with a total indicative cost of $12.5 billion** proceed in the 2023-28 period.
- The costs of these projects are not reflected in our in our capex forecasts in our Revenue Proposal
- ISP projects and NSW REZs will only proceed if they deliver net benefits i.e. the expected savings in wholesale costs outweigh the increase in transmission costs.

Residential bill impact – transmission component ($, Real 2022-23)



Small business customers bill impact - transmission component ($, Real 2022-23)



Notes: We have eight contingent projects at a total estimated cost of $1.17 billion (see Chapter 17). The total indicative cost of major Augex projects undergoing a RIT-T is $741.9m (see chapter 17). The total indicative cost of NSW REZs is $4.2 billion (see chapter 17). The total indicative cost of ISP projects in the 2023-28 period is $6.4 billion (see Chapter 17)

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Next steps

- Customer input is critical to our Revised Revenue Proposal
- Seeking a broad range of diverse views on areas of change including:
  - Outcomes of RIT-Ts underway
  - Changes to real cost escalators
  - Projects to ready our network for 100% renewables by 2025
  - AER 2022 RoRI.
- Propose reinstating monthly TAC meetings, subject to consultation with TAC members.

Notes: 1 July 2018 to 30 June 2023 (2018 -23 period)