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3 April 2023

Mr Arek Gulbenkoglu
General Manager Network Expenditure
Australian Energy Regulator
Level 17, 2 Lonsdale Street
Melbourne VIC 3000

Email: [redacted]

Dear Mr Gulbenkoglu

Transgrid's 2023-2028 Revised Revenue Proposal

We are writing in relation to the as-commissioned capex forecast for Project EnergyConnect (EnergyConnect) in our capex model, which was submitted to the AER with our 2023–28 Revised Revenue Proposal on 31 January 2022.

AER Determination for EnergyConnect

In May 2021, the AER published its Determination for EnergyConnect (EnergyConnect Decision), which approved total capex of $1,817.9 million in real 2017-18 dollars for the 2018–23 regulatory period. This equated to $2,008.0 million in real 2022-23 dollars in our initial Revenue Proposal and $2,154.4 million in our revised Revenue Proposal[1].

Given the timing of delivering EnergyConnect, we expect to incur some capex approved by the AER in its EnergyConnect Decision in the 2023–28 period. We refer to this capex as 'pre-approved capex'.

Initial Revenue Proposal and the AER's Draft Decision

In January 2022, we submitted our initial 2023–28 Revenue Proposal to the AER. This explained that in relation to EnergyConnect, delays mean that the expected delivery date is anticipated to be 2024-25 and

[1] These values exclude equity raising costs. The $2,008.0 million and $2,154.4 million were calculated by taking the $1,817.9 million (real 2017-18) dollars included in the AER's EnergyConnect Decision and adjusting it for five years of actual / estimated inflation between June 2018 and June 2023. The values differed for the initial and revised Revenue Proposals due to different inflation assumptions being used.

that, as a result, we expected to spend $532.8 million of the total approved capex of $2,008.0 million[2] in the 2023–28 period.

We therefore added this pre-approved capex to our capex forecast for the first two years of the 2023–28 period. We confirmed our commitment to deliver the Project in line with the total approved capex allowance of $2,008.0 million (calculated at that time) and did not include any additional capex for this Project in our Revenue Proposal.

Consistent with the explanation in our initial Revenue Proposal (including the expected completion date of 2024-25), the capex model reflected the total value of approved capex for PEC of $2,008.0 million as the ‘as-incurred capex.

On 30 September 2022, the AER published its Draft Decision on our initial 2023–28 Revenue Proposal. The AER’s Draft Decision reflected the total value of as-incurred capex for EnergyConnect of $2,008.0 million as the as-incurred capex for the Project, updated for inflation as required.

Revised Revenue Proposal

In December 2022, we submitted our 2023–28 Revised Revenue Proposal to the AER. This explained that based on the latest information, we now expect to spend $989.3 million of the pre-approved 2018–23 capex in the 2023–28 period. This is largely due to:

- delays in detailed design impacting the construction start date
- global factors such as shipping and supply chain bottlenecks, impacting the procurement of long lead items, and
- the timing of seasonal studies and compulsory acquisition requirements delaying the Environmental Impact Statement processes and approvals, as well as the acquisition of property and easements.

We confirmed that notwithstanding this change to the timing of undertaking capex, we remain committed to delivering this project in line with the total approved capex allowance and were not seeking any additional capex for EnergyConnect in the Revised Revenue Proposal.

As previously advised to the AER, our Revised Revenue Proposal included total as-incurred capex for EnergyConnect of $2,009.8 million. This reflects the 2018–23 actual / estimated capex of $1,020.5 million *and* the 2023–28 forecast capex of $989.3 million. In total, this is $144.7 million lower than the approved capex allowance of $2,154.4 million (i.e., $2,154.4 million *less* $2,009.8 million *equals* $144.7 million).

Omitted as-commissioned capex

At the same time, we intended for the forecast as-commissioned capex for EnergyConnect in our Revised Revenue Proposal to align with the as-incurred capex of $2,009.8 million, albeit with different timing. However, we inadvertently omitted to include the as-commissioned capex related to the $989.3 million in

[2] Excluding equity raising costs.

forecast as-incurred capex for the 2023–28 period. That amount translated into $985.7 million of as-commissioned capex.[3]

We therefore request that the AER update the as-commissioned capex forecast in our Revised Revenue Proposal capex model to include the $985.7 million that was omitted. Adding that amount into the as-commissioned capex forecast for the 2023–28 period has no impact on rewards or penalties from the Capital Expenditure Sharing Scheme (which only considers as-incurred capex).

Closing

I would be pleased to discuss any aspect of this letter further or to provide any other supporting information. We look forward to continuing to work with the AER, our customers and other stakeholders in the review of our Revised Revenue Proposal.

Yours sincerely

[redacted]

Maryanne Graham
Executive General Manager, Corporate and Stakeholder Affairs

[3] There is a slight difference in real terms because we have set our as-commissioned capex to match our as-incurred capex in *nominal* terms (i.e., all as-incurred capex over both the 2018–23 and 2023–28 periods is picked up in as-commissioned capex for the 2023-24 and 2024-25 years without any inflation adjustment). This means that when translated into Real 2022-23 dollars there is a difference between the as-incurred and as-commissioned amounts.