



Statement of reasons

**TransGrid**

**Notice of proposed pass-through for  
Bayswater network support**

January 2008

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On 7 December 2007, the Australian Energy Regulator (AER) received from TransGrid a notice of proposed pass-through of \$30,516,319 for network support. The network support relates to the upgrade of the Bayswater generator transformers to 500kV operation by Macquarie Generation, as part of the Western 500kV operation.

The AER has considered the notice in accordance with the pass-through rules in the ACCC's Decision on NSW and ACT Transmission Network Revenue Cap – TransGrid 2004–05 to 2008–09.

Taking account of advice from its consultant, Nuttall Consulting, the AER has formed the opinion in accordance with clause 3.5(a) of the pass-through rules that:

- as specified in TransGrid's notice, a pass-through event did take effect on 1 July 2007 and another pass-through event will take effect on 1 April 2009
- the proposed pass-through amount of \$30,516,319 is appropriate
- applying the proposed pass-through amount over the period 1 July 2008 to 30 June 2009 is appropriate.

As part of this opinion, the AER also considered that TransGrid's conduct in relation to the pass-through event and the proposed pass-through amount is consistent with 'good electricity industry practice' (as defined in the National Electricity Code). In particular, the AER considered that:

- based on TransGrid's demand forecasts and generation dispatch scenarios for these specific circumstances, there was a reasonable need for the pass-through events during the current regulatory period
- undertaking the network support with Macquarie Generation rather than another option was most likely the least cost option
- the steps taken by TransGrid in its negotiations with Macquarie Generation are likely to result in reasonably efficient costs in the circumstances.

The AER considers that the concept of 'good electricity industry practice' should be regarded as a dynamic term with continuous evolution over time. While in this instance, the AER acknowledges TransGrid's N-1 criteria is consistent with 'good electricity industry practice', the application of a N-1 criteria may not be appropriate in other circumstances.