



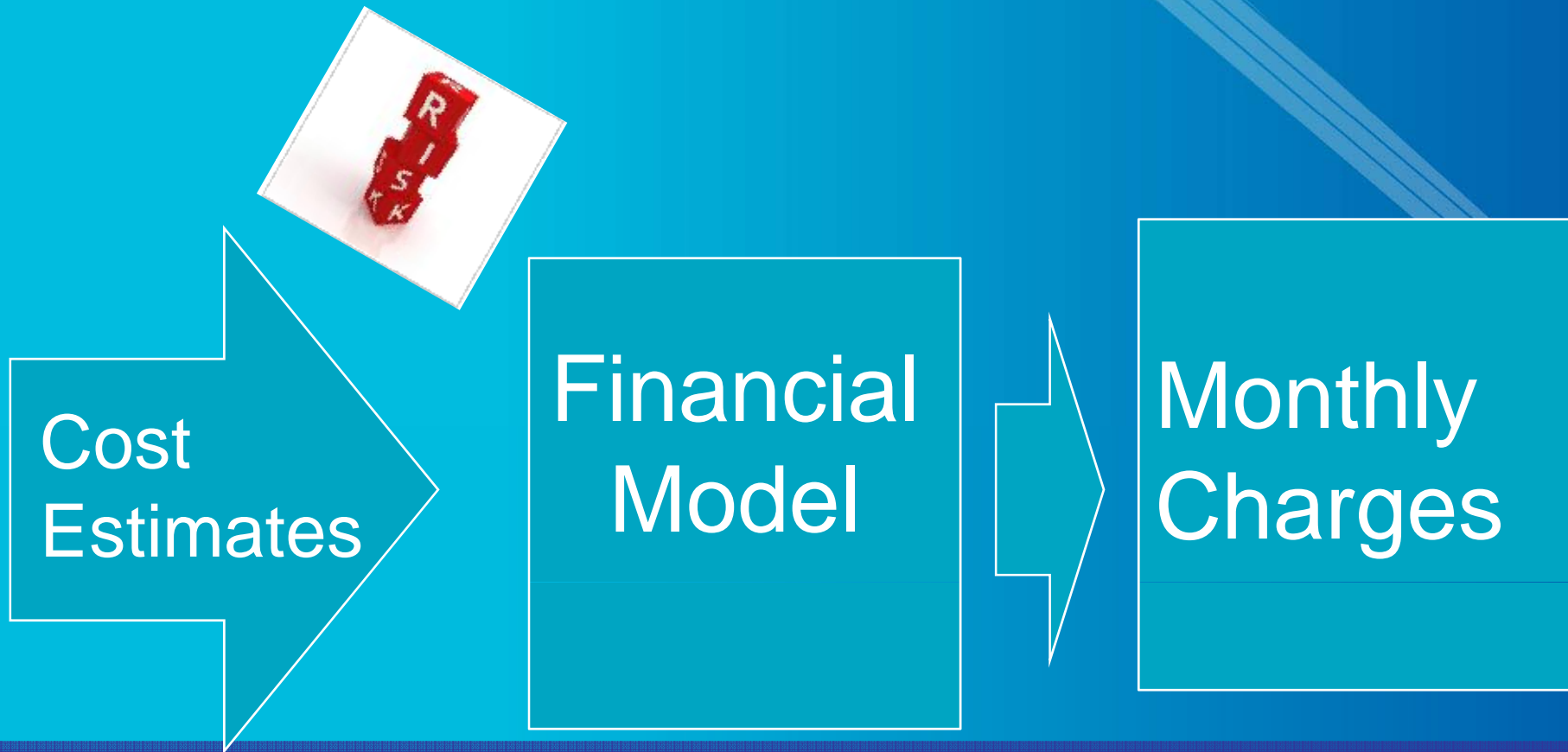
TransGrid

Generator Connection Forum

Process for Determining Connection Charges

31 January 2012

Overview of Connection Pricing



Typical TransGrid Scope of Works

Design and construct:

- High Voltage Switching station
- Single or double circuit transmission line
- Local Secondary Systems
- Communication Systems
- Upstream secondary systems and communications work

Project Considerations

- Environmental approval
- Delivery of project in a compressed time frame
- Procurement of HV plant - long lead time
- Physical site constraints
- OHS
- IR instrument governing site works

Project Delivery Strategy

- TransGrid prefers a competitive tender process
- TransGrid will consider a direct award process in response to customer's circumstances.

Offer to Connect Proposal Structure

- Offer to Connect includes:
 - A detailed Scope of Works
 - A commitment to a completion date
 - A Connection Agreement
 - A Project Agreement
 - Capital Cost Estimate
 - Annual connection service charge
 - Formula for annual review of charges

TransGrid's Typical Component of Project

- Procurement of Long lead time HV plant
- TransGrid Design costs
- Principle Arranged Insurance (PAI)
- TransGrid Project Management labour – design review, contract administration and site supervision services

Contractor's Typical Component of Project

- Prior to Offer to Connect:
 - Time and effort to develop the designs and costing to deliver a commercial offer to TransGrid
- After Offer to Connect acceptance:
 - Detailed design, procurement, securing approvals, establishment on site, construction, testing and commissioning of delivered assets, i.e. transmission line, switching station, communications and upstream works

Risk Allocation

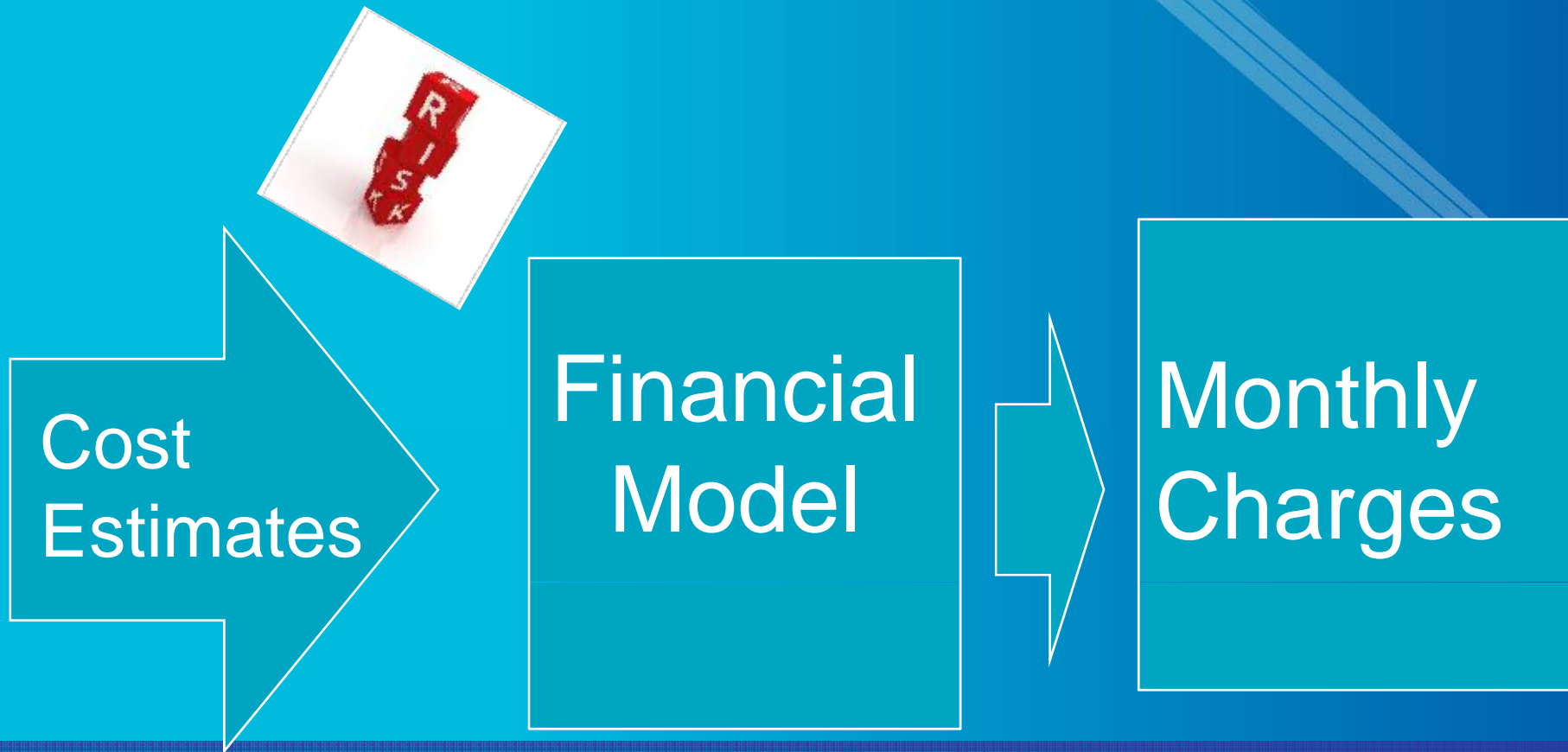
- Project risks are either retained, managed and costed or transferred to the Customer
- Risk profile detailed in a “scope assumptions and exclusions document”
- Typical Customer Risks:– Environmental approval, interface issues, geotechnical, excessive inclement weather.
- Typical TransGrid Risks – Accommodation, design, material, other plant, price and time risk

Risk Management and Mitigation Options

- Adjustment of Validity of Offer to Connect
- Commitment to preliminary design work prior to Offer to Connect.
- Commitment to pre-purchasing of long lead time plant prior to Offer to Connect.

NOTE: Any pre “Offer to Connect” commitment by TransGrid requires the customer to provide security over the financial exposure

Recap - Connection Charges



Primary Pricing Inputs

- **Historical or Contractor's Pricing**
- **TransGrid's estimates**
- **Preliminary Work completed**
- **Estimate of secondary system replacement every 15 years, Communications systems every 10 years**
- **S-curve cash disbursement schedule**
- **Estimate of ongoing operation and maintenance costs**
- **Project credit support structure.**
- **Term of agreement**

Secondary Pricing Inputs

- **Required return on investment**
- **CPI and escalation forecasts**
- **Interest rate movements**
- **Foreign Exchange fluctuations**
- **Scope movement**
- **Timing Risk**
- **Depreciation and Company Tax rates**

Pricing Methodology

- **Post Tax Revenue Model. Outputs charges that allows TransGrid to recover its costs and secure a commercial return.**
- **Interest costs capitalised over construction period prior to revenue commencement**
- **Future expenditure and labour expectations NPV adjusted**
- **Allowances made for future expected secondary systems replacements.**
- **Annual CPI adjustment.**

Pricing Proposal

- **TransGrid's base Connection Charge are fixed for the term of the Connection Agreement.**
- **Base Connection Charge is adjusted annually for movement in the CPI.**

Regulated Revenue Determination

- **Capitalised asset balance drives the charges over the life of the agreement.**
- **Negotiated Connection Charges are determined in accordance with TransGrid's Negotiating Framework for Provision of a Negotiated Transmission Service, 1 July 2009 to 30 June 2014 as approved by the AER.**

Benchmarking against TransGrid's Prescribed Services Revenue

Table 7: AER roll forward of TransGrid's regulatory asset base (\$m, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14
Opening RAB	4217.5	4706.8	5123.2	5677.3	6186.2

Table 9: AER final decision on annual building block revenue requirement (\$m, nominal)

Annual building block revenue requirement (unsmoothed)	690.5	738.6	780.8	859.0	924.3
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Revenue Building Blocks – Prescribed Investment

TransGrid Revenue Requirement as a % of the RAB

