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**DATE:** 13th May 2011
**SUBJECT:** REVENUE AND TRANSMISSION PRICES FOR 2011-12

## Purpose

This explanation of the 2011-12 TUOS revenue and price drivers serves as an attachment to TransGrid's notification of the 2011-12 NSW Transmission Prices. The 2011-12 TUOS price reflects the recovery of regulated revenues for all NSW transmission network service providers being TransGrid, Ausgrid, Essential Energy and the Directlink Joint Venture and have been calculated by TransGrid as the co-ordinating Transmission Network Service Provider (TNSP) for the NSW Market region.

In so doing TransGrid has complied with the requirements of the Transmission Pricing Methodology approved by the Australian Energy Regulator in April 2009. The purpose of this explanation is to inform internal and external stakeholders of NSW load customers and distributors.

## Introduction

TransGrid is the owner, operator and manager of the major part of the NSW's high-voltage transmission network connecting generators, distributors and major end users in NSW and the ACT. The balance of the network is owned, operated and managed by Ausgrid, Essential Energy (formerly the network businesses of EnergyAustralia and Country Energy) and the Directlink Joint Venture in their local areas.

A large portion of the 2011-12 TUOS revenue will fund TransGrid's capital expenditure program over the next few years of approximately $2.6 billion. The capital expenditure program is required to maintain TransGrid's transmission network reliability at more than 99.999% in line with good practice requirements for a transmission system. The program also provides for extensive network replacement of TransGrid's mature asset base which was established in the 1950s and 1960s and is now reaching the end of its useful life.

**Summary explanation of the major drivers of the overall 2011-12 TUOS revenue and price**

The TUOS revenue to be derived from the 2011-12 NSW transmission prices for NSW load customers and distributors is forecast as the sum of the Maximum Allowed Revenue (MAR) for each NSW TNSP less any forecast TUOS offset (NEM settlement residues, Under/Over collections from previous financial year and revenue from generators). As can be seen in Table 1 the 2011-2012 forecast TUOS revenue required from all NSW load customers and distributors is $1,000M.

| 2010-2011 Forecast TUOS Revenue $M | 2011-2012 Forecast TUOS Revenue $M | Movement $M |
|---|---|---|
| 904 | 1,000 | 96 |

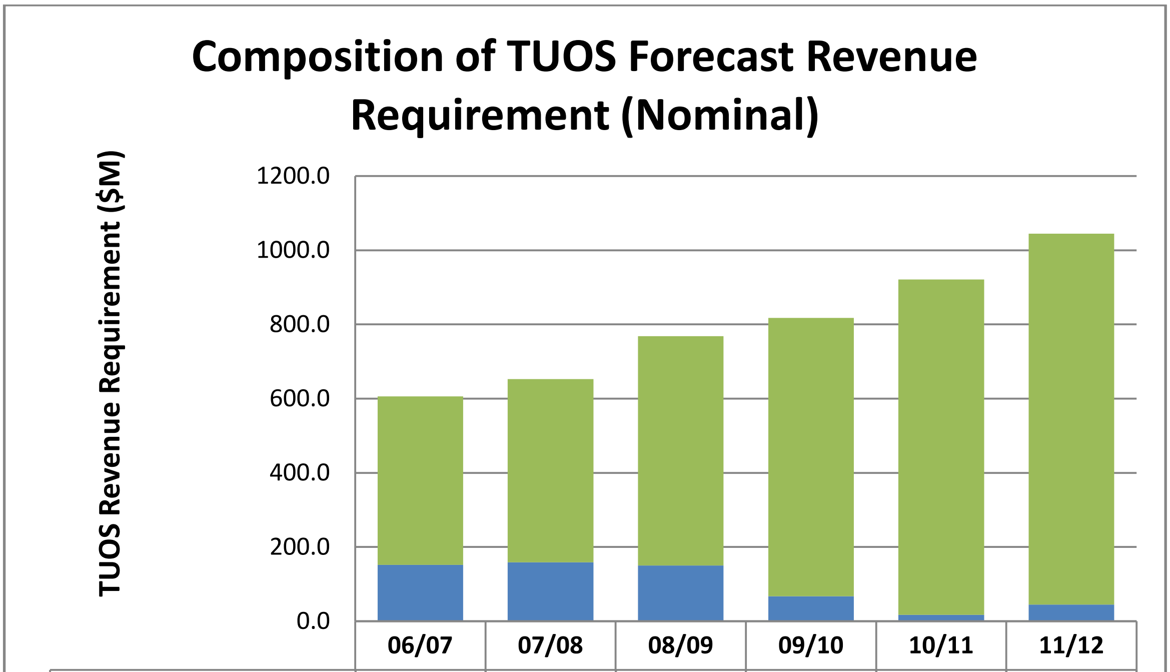
*Table 1*

The increase of $96M is explained in Table 2 below as largely being an increase in the prescribed revenue requirement, reduced by the forecast TUOS Offset. See Table 3 for detail.

| | |
|---|---|
| Prescribed Revenue Requirement Movement ($M) | 123 |
| TUOS Offset Movement ($M) | -27 |
| **Movement ($M)** | **96** |

*Table 2*

Figure 1. below gives the split between the required TUOS revenue that must be collected through TUOS charges and the TUOS offset. A marginal improvement in the TUOS offset is forecast for 2011-12.




| | 06/07 | 07/08 | 08/09 | 09/10 | 10/11 | 11/12 |
|---|---|---|---|---|---|---|
| Net Revenue to Recover | 454.7 | 493.6 | 617.9 | 750.2 | 904.3 | 999.8 |
| Total Offsets | 151.7 | 159.0 | 150.2 | 67.4 | 17.1 | 44.5 |

*Figure 1*

**Detailed explanation of the overall 2011-12 TUOS revenue and price drivers**

| Items available to offset TUOS Requirement | 2010-2011 Forecast Offset $M | 2011-2012 Forecast Offset $M | Movement $M | Note |
|---|---|---|---|---|
| AEMO – Intra-Reg Set Residues | - 8.0 | - 1.5 | 6.5 | *1* |
| AEMO - SRA Proceeds | 56.8 | 46.5 | - 10.3 | *2* |
| Under Collection | - 37.5 | - 6.9 | 30.6 | *3* |
| Generators | 5.8 | 6.4 | 0.6 | |
| Sub Total | 17.1 | 44.5 | 27.4 | |

| Prescribed Requirement Items[1] | 2010-2011 Requirement $M | 2011-2012 Requirement $M | Movement $M | Note |
|---|---|---|---|---|
| TransGrid Transmission Revenue | 735.2 | 818.2 | 83.0 | *4* |
| Ausgrid Transmission Revenue | 173.2 | 213.3 | 40.1 | *4* |
| DirectLink Transmission Revenue | 13.0 | 12.8 | - 0.2 | |
| Sub Total | 921.4 | 1,044.3 | 122.9 | |
| NSW load customers & distributors | **904.3** | **1000** | **96** | |

*Table 3*

## 1. Intra-regional residues settled by TransGrid with AEMO

The Intra-Regional Settlement Residue is formed by subtracting the dollar amount of the NSW energy generated and imported to NSW, from NSW purchased energy within the National Electricity Market (NEM) operated by AEMO. The differences that occur are related to the Marginal Loss Factors determined for both NSW generator and load connection points by AEMO in accordance with the National Electricity Rules (NER) and by the dynamic losses determined as part of the AEMO dispatch process for the import to NSW. In turn these intra-regional residues are distributed to the relevant TNSP. More information can be found at AEMO's website.

For most trading intervals intra regional residues are positive. However during summer days of extreme weather, negative intra-regional residues generally coincide with high spot NSW prices. The size and frequency of negative NSW intra-regional residues during 2010-11 was less than the previous year, however there were two days in February of 2011 where over $10m in negative intra-regional residues was accrued. At the time of this attachment, a NER change was being determined by the AEMC which could reduce negative intra-regional residues. More information can be found at the AEMC's website.

[1] This is the annual revenue cap following AER approved adjustments such as performance incentive payments, pass throughs (or refunds of) and other items.

## 2. SRA Proceeds and negative inter-regional residues settled by TransGrid with AEMO

In accordance with the NER TransGrid receives the proceeds from the sale of auction units relating to the interconnectors linking NSW with Victoria and Queensland.

However, when power flows from a high priced region to a low priced region negative inter-regional residues accrue. The NER requires these negative inter-regional residues be distributed to the relevant TNSP. During 2010-11 there were a number of large negative inter-regional residue events, with the largest occurring on 22 April 2010 that led to $17.5m of negative inter-regional residues being paid by TransGrid. More information can be found at AEMO's website.

## 3. Under Collection

The 22 April 2010 negative inter-regional residue event of $17.5m largely contributed to the under collection for 2010-11.

## 4. The TransGrid Revenue Cap and the Ausgrid Revenue Cap

On 25 November 2009 the Australian Competition Tribunal ("The Tribunal") made orders varying the AER's TransGrid transmission determination 2009–10 to 2013–14

On 25 November 2009 the Tribunal made orders varying the AER's New South Wales distribution determination 2009–10 to 2013–14 as it applied to Ausgrid's Transmission Regulatory Asset Base.

For subsequent years the MAR is adjusted in accordance with the formulae given in the determinations.

**Conditions of use**

Please note this explanation has been prepared to address the overall 2011-12 TUOS revenue and price for NSW load customers and distributors, and is not designed to explain 2011-12 TUOS price movements for individual NSW load customers and distributors. Such a detailed explanation can be provided on request.

A majority of the 2010-11 and 2011-12 data refers to forecast data. Because the actual revenue collected is dependent on actual energy consumption and demand, there could be a departure between the 2011-12 TUOS forecast revenue paid by NSW load customers and distributors and the actual TUOS revenue paid.

Any questions arising from this attachment may be directed to Sean Buggy, Customer Account Executive on 02 9284 3072 or email sean.buggy@transgrid.com.au.