TransGrid

ABN 19 622 755 774

201 Elizabeth Street (cnr Park St)
PO Box A1000 Sydney South
New South Wales 1235 Australia
Facsimile: (02) 9284 3456
Telephone: (02) 9284 3000
Web: http://www.transgrid.com.au

Network Development and Regulatory Affairs
Telephone: (02) 9284 3072 Facsimile: (02) 9284 3522

DATE: 11 May 2010
SUBJECT: REVENUE AND TRANSMISSION PRICES FOR 2010-11

Purpose

The 2010-11 TUOS price reflects the recovery of regulated revenues for all NSW transmission network service providers being TransGrid, EnergyAustralia and the Directlink Joint Venture and have been calculated by TransGrid as the co-ordinating 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.

Conditions of use

Please note this explanation has been prepared to address the overall 2010-11 TUOS revenue and price for NSW load customers and distributors, and is not designed to explain 2010-11 TUOS price movements for individual NSW load customers and distributors. All amounts in this explanation are exclusive of GST. Any portion of the 2010-11 TUOS price passed on by distributors to distribution customers is done at the discretion of the distributor with no input from TransGrid.

A majority of the 2009-10 and 2010-11 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 2010-11 TUOS forecast revenue paid by NSW load customers and distributors and the actual TUOS revenue paid.

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 EnergyAustralia, Country Energy and the Directlink Joint Venture in their local areas.

It is acknowledged that the 2010-11 TUOS prices for load customers and distributors have increased overall by more than expected Consumer Price Index level movements. This can largely be attributed to:

- The emergence of negative NSW intra-regional settlement residues in Quarter 2 and 3 of 2009-10, resulting in an approximate $36M under-collection for 2009-10;
- It is expected that the current trend of negative NSW intra-regional settlement residues would continue through to 2010-11 resulting in a reduction by approximately $35M in the NSW intra-regional settlement residues forecast for 2010-11;
- The Australian Competition Tribunal ("The Tribunal") variation of the Australian Energy Regulator's (AER) TransGrid transmission determination 2009–10 to 2013–14; and

- The Tribunal's variation of the AER's New South Wales distribution determination 2009–10 to 2013–14 as it applied to EnergyAustralia's Transmission Regulatory Asset Base.

The revenue generated from the NSW Transmission Prices for 2010-11 will, in part, be allocated to the aggregate annual revenue requirement to support TransGrid's capital expenditure program over the next five years of approximately $2.6 billion. This is required to maintain TransGrid's transmission network reliability at more than 99.999% in line with good practice requirements for a transmission system supporting a modern growing economy.

This program includes network augmentation driven by reliability obligations expected from growth in the NSW economy, in general, and growth in Sydney's population of 1.1 million over the next 25 years, in particular. 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 2010-11 TUOS revenue and price

As can be seen in Table 1 the 2010-2011 forecast revenue required for all NSW TNSPs is $904M.

2009-2010 Forecast Revenue $M	2010-2011 Forecast Revenue $M	Movement $M
750	904	154

Table 1

The increase of $154M is explained in Table 2 below as being firstly a decrease in the offsets available to reduce TUOS combined with secondly an increase in the TUOS requirement. See Table 3 for detail.

Reduction in TUOS Offset Movement ($M)	50
TUOS Requirement Movement ($M)	104
Movement ($M)	**154**

Table 2

Figure 1 below demonstrates that offsets available to reduce TUOS revenue and pricing for customer loads and distributors is trending to zero when in the years leading up to 2009-10 the available offset was around the $150M mark.

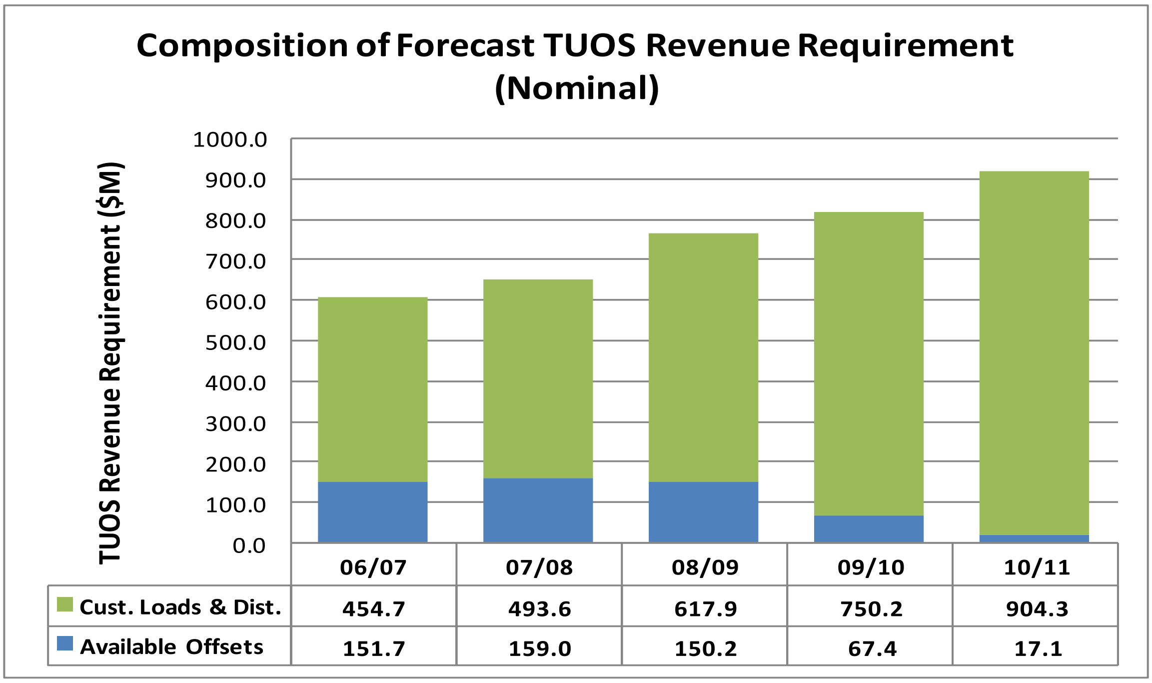

Figure 1

Detailed explanation of the overall 2010-11 TUOS revenue and price drivers

Items available to offset TUOS Requirement	2009-2010 Forecast Offset $M	2010-2011 Forecast Offset $M	Movement $M	Note
AEMO – Intra-Reg Set Residues	27.0	-8.0	-35.0	*1*
AEMO - SRA Proceeds	53.0	56.8	3.8	
Under Collection	-25.9	-37.5	-11.6	*2*
Generators	13.3	5.8	-7.5	*3*
Sub Total	67.4	17.1	-50.3	

TUOS Requirement Items[1]	2009-2010 TUOS Requirement $M	2010-2011 TUOS Requirement $M	Movement $M	Note
TransGrid Transmission Revenue	665.4	735.2	69.8	*4*
EnergyAustralia Trans. Revenue	139.6	173.2	33.6	*5*
DirectLink Transmission Revenue	12.6	13.0	0.4	
Sub Total	817.6	921.5	103.8	
NSW load customers & distributors	**750.2**	**904.3**	**154.1**	

Table 3

Note Explanation

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. More information can be sourced from the AEMO website.

In accordance with the NER, AEMO allocates Intra-Regional Residues to the TNSP for NEM financial settlement. In turn, under the AER approved Transmission Pricing Methodology, the distribution of the Intra-Regional Residues will be used by TransGrid to offset the TUOS requirement.

Prior to 2009-10 the Intra-Regional Settlement Residue represented a significant credit that could be offset against the TUOS requirement, reducing the TUOS bills of NSW load customers and distributors. In fact, the 2009-10 Intra-regional residue was forecast at $27M credit. However, commencing in the second and third quarter of this financial year, there was a step change in the size and frequency of NSW negative intraregional residues.

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

For financial year to mid March 2010, TransGrid's net settlement of intraregional residues totaled around $6M in debit. In 2009 for the same time the intraregional residue settlement totaled $17.79M in credit. Much of the $6M debit balance can be attributed to eight settlement weeks ranging from $600K to $4.4M in debit, yet in the four previous financial years there was only one settlement week with a material negative intraregional residue.

TransGrid has written to, and met with AEMO, to seek AEMO's assistance in understanding this step change in NSW intra-regional residues. AEMO's preliminary assessment is that the NSW intra-regional residues are being calculated in accordance with the NER. AEMO intends to publish a report on negative intra-residues in NSW in the coming months.

2. **Under Collection**

This item represents the reconciliation between the 2009-10 TransGrid Revenue Cap against the 2009-10 expected TransGrid collection.

	$M
Expected Collection 2009-10	629.2
TG 2009-10 Revenue Cap	-665.4
Under Collection 2009-10^	-36.2
Interest -Under Collection 2009-10	-1.3
Total Under Collection 2009-10	-37.5

^The major component comprises the emergence, in 2009-10, of negative intraregional residues in Quarter 2 and Quarter 3 mentioned in Note 1. The $36M under collection occurred largely because the 2009-10 intraregional residues was forecast as $27M but actual collection was approximately $8M deficit ($27M expected to be collected + $8M paid out = $35M under collection from intra-regional residues)

3. **Generators**

This item represents the TUOS charge paid by Generators. NER clause 11.6.11 becomes effective as at 2010-11 and contains revised arrangements for transitioning from prescribed transmission connection services to negotiated transmission connection services, resulting in a reduction of the TUOS charge levied on Generators.

4. **TransGrid 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

5. **EnergyAustralia Revenue Cap**

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 EnergyAustralia's Transmission Regulatory Asset Base

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.