

Draft Decision

TasNetworks Electricity Transmission Determination 2024 to 2029 (1 July 2024 to 30 June 2029)

Attachment 12 Pricing methodology

September 2023

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

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12 Pricing methodology

This attachment sets out our draft decision on TasNetworks’ proposed pricing methodology for the 2024–29 period.

TasNetworks submitted a transmission pricing methodology regarding its transmission network for our approval.¹ The role of a transmission pricing methodology is to answer the question of ‘who should pay how much’² in order for a network business to recover its costs relating to its provision of transmission services. To do this, a pricing methodology must provide a ‘formula, process or approach’³ that when applied:

- allocates the aggregate annual revenue requirement (AARR) to the categories of prescribed transmission services that a Transmission Network Service Provider (TNSP) provides⁴
- provides for the manner and sequence of adjustments to the annual service revenue requirement (ASRR)⁵ and allocates that requirement to transmission network connection points⁶
- determines the structure of prices that a TNSP may charge for each category of prescribed transmission services⁷
- for a TNSP who is a System Strength Service Provider, determines, for each system strength node on its transmission network, the system strength unit price for the system strength charging period commencing in the period.⁸

12.1 Draft decision

We do not accept TasNetworks’ proposed pricing methodology. We discussed with TasNetworks our proposed amendments to the proposed pricing methodology. TasNetworks agreed to these amendments and submitted a version of a pricing methodology incorporating these amendments.

We consider the proposed pricing methodology with these amendments gives effect to, and is consistent with, the NER pricing principles, and complies with the information requirements as per the pricing methodology guidelines.⁹ Our proposed amendments to the proposed pricing methodology:¹⁰

- incorporate the connection to dedicated assets rule 2021 (see section 12.4.1.2).

¹ TasNetworks - *Transmission Pricing Methodology* - December 2022, p. 5.

² AEMC, *Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22*, 21 December 2006, p. 1.

³ NER, cl. 6A.24.1(b).

⁴ NER, cl. 6A.24.1(b)(1).

⁵ NER, cl. 6A.24.1(b)(2).

⁶ NER, cl. 6A.24.1(b)(3).

⁷ NER, cl. 6A.24.1(b)(4).

⁸ NER, cl. 6A.24.1(b)(5).

⁹ NER, cll. 6A.23.3 and 6A.24.1(c); AER, *Electricity transmission service providers pricing methodology guidelines*, July 2014.

¹⁰ TasNetworks – Information request TAS IR#046 (follow-up) – Transmission Pricing Methodology – 20230725 – [PUBLIC]

- include further clarifications to pricing arrangements should TasNetworks become the co-ordinating network service provider (CNSP) in Tasmania (see section 12.4.1.3).
- more clearly outline the arrangements for energy storage systems (see section 12.4.1.4).
- incorporate changes to clarify how the prudent discount arrangements are consistent with NER clause 6A.26.1 (see section 12.4.1.6).

These amendments are set out in Attachment B (Attachment C is a marked-up version).

12.2 TasNetworks' proposal

TasNetworks' proposed pricing methodology for the 2024–29 period is largely identical to the AER's approved pricing methodology for the 2019–24 period, with some amendments including:

- the reallocation of national transmission planner costs rule 2020;
- incorporating the Integrating energy storage systems into the NEM rule 2021;
- incorporating the Recovering the cost of the Australian Energy Market Operator's (AEMO's) participant fees rule 2022; and
- more clearly outlining the existing arrangements for TasNetworks as the CNSP in Tasmania.

12.3 Assessment approach

We must approve a proposed pricing methodology if we are satisfied that it:

- gives effect to, and complies with, the pricing principles for prescribed transmission services, and
- complies with the requirements of the pricing methodology guidelines.

These requirements guided our assessment of TasNetworks' proposed pricing methodology.

12.3.1 Submissions

We did not receive any stakeholder submissions regarding TasNetworks' proposed pricing methodology.

12.4 Reasons for draft decision

This section set out the reasons for our draft decision.

12.4.1 Assessment of pricing methodology amendments

12.4.1.1 Inclusion of the National Transmission Planner Costs

TasNetworks' proposed pricing methodology included an adjustment to the non-locational component of prescribed transmission use of system (TUOS) services to account for AEMO's national transmission planner function fees.¹¹

¹¹ TasNetworks - *Transmission Pricing Methodology* - December 2022, p. 8.

We accept this inclusion as it is consistent with the NER requirements regarding the derivation of non-locational prices.^{12,13}

12.4.1.2 Connection to dedicated assets rule 2021

TasNetworks' proposed pricing methodology did not reflect the *Connection to dedicated assets rule 2021*.¹⁴ The cost reflective network pricing methodology needed to be updated to account for the new rule.¹⁵ At our request, TasNetworks agreed to amend the proposed pricing methodology to clarify that adjustments to the non-locational ASRR by intra-regional residues do not include intra-regional residues that accumulate on designated network assets.¹⁶

We require this inclusion as it is consistent with the requirements of the NER regarding the new framework for designated network assets.¹⁷ We note this inclusion simply updates TasNetworks' pricing methodology to reflect new requirements of the NER which were introduced since TasNetworks' previous distribution determination.

12.4.1.3 Co-ordinating network service provider (existing arrangements to be more clearly outlined)

TasNetworks is currently the sole TNSP in Tasmania, and is therefore the sole provider of prescribed transmission services within Tasmania.¹⁸ This means TasNetworks will calculate, bill and arrange for payments of modified load export charge (MLEC).¹⁹ TasNetworks will also calculate adjustments to the MLEC.^{20, 21}

TasNetworks noted Marinus Link could be in service during the 2024-29 period.²²

Section 4.1.3 of the proposed pricing methodology outlines that if, during the 2024-29 period, Marinus Link becomes a regulated interconnector and TasNetworks becomes the CNSP for the region:

- TasNetworks will calculate the AARR for the Tasmanian region, and calculate, bill and arrange for the payment of the MLEC.²³
- TasNetworks will publish details of all MLEC to apply in the following financial year on its website by 15 March each year.²⁴

¹² NER, cl. 6A.23.3(e)(6).

¹³ AEMC, *Rule determination: National Electricity Amendment (Reallocation of national transmission planner costs) Rule 2020* No. 15, 29 October 2020, p. 1.

¹⁴ AEMC, *Rule determination: National Electricity Amendment (Connection to dedicated connection assets) Rule 2021* No. 7, 21 December 2021, p. 1.

¹⁵ TasNetworks - *Transmission Pricing Methodology* - December 2022, pp. 24, 48 & 49.

¹⁶ TasNetworks – Information Request TAS IR#037 – Transmission Pricing Methodology – 20230526 – PUBLIC, 2 June 2023.

¹⁷ NER cl. 6A.23.3(c & e), S6A.3.2(1 & 4) and S6A.3.3(1).

¹⁸ TasNetworks - *Transmission Pricing Methodology* - December 2022, p. 12.

¹⁹ NER cl. 6A.29.1.

²⁰ NER cl. 6A.29A and AER *Pricing methodology guidelines*, Section 2.6.

²¹ NER cl. 6A.23.3.

²² TasNetworks - *Transmission Pricing Methodology* - December 2022, p. 8.

²³ NER cl. 6A.29.1, 6A.29A and AER *Pricing methodology guidelines*, Section 2.6.

²⁴ NER cl. 6A.24.2(b).

We accept this change because it prepares TasNetworks for a potential future arrangement and clarifies existing arrangements.

On TasNetworks' initiative, planned changes to the pricing methodology further clarify arrangements if TasNetworks becomes a CNSP, including:²⁵

- The timetable for the provision of data reasonably required for the calculation of MLEC estimate.
- Billing arrangements between multiple TNSPs in a region.
- Adjustments to the MLEC worked example.
- A worked example of allocation of net MLEC and billing to other TNSPs in Tasmania.

We accept these proposed changes because they are consistent with the requirements of the NER and the pricing methodology guidelines for CNSPs. They are also consistent with the approved pricing methodologies of current CNSPs.

12.4.1.4 Integrating energy storage systems into the NEM (new rule)

Following the AEMC's final determination on the *Integrating Energy Storage Systems into the NEM rule* change, a new class of participant termed integrated resource provider has been introduced into the NER.²⁶ Operators of any bidirectional units will need to register as an integrated resource provider. Bidirectional units include batteries and pumped hydro.²⁷

TasNetworks noted storage participants have a choice as to the service they wish to receive – including negotiated transmission service or prescribed transmission services.²⁸ The proposed pricing methodology clarifies the pricing arrangements for storage participants.²⁹

We accept this inclusion as it is consistent with the requirements of the NER.³⁰

We consider that the proposed pricing methodology did not clearly explain some aspects of the pricing arrangements for storage participants. TasNetworks agreed to revise those sections to improve clarity. We have reviewed the amended pricing methodology and agree that the planned changes improve clarity.³¹

²⁵ TasNetworks – Information Request TAS IR#046 (follow-up) – Transmission Pricing Methodology – 20230725 – PUBLIC, 4 August 2023.

²⁶ AEMC, *Rule determination: National Electricity Amendment (Integrating energy storage systems into the NEM) Rule 2021 No. 13*, 2 December 2021, p. i.

²⁷ TasNetworks - *Transmission Pricing Methodology* - December 2022, p. 8.

²⁸ AEMC, *Rule determination: National Electricity Amendment (Integrating energy storage systems into the NEM) Rule 2021 No. 13*, 2 December 2021, p. 51.

²⁹ TasNetworks - *Transmission Pricing Methodology* - December 2022, pp. 8-9.

³⁰ AEMC, *Rule determination: National Electricity Amendment (Integrating energy storage systems into the NEM) Rule 2021 No. 13*, 2 December 2021, p. 1.

³¹ TasNetworks – Information Request TAS IR#046 (follow-up) – Transmission Pricing Methodology – 20230725 – PUBLIC, 4 August 2023.

12.4.1.5 Recovering the cost of AEMO’s participant fees (new rule)

The proposed pricing methodology incorporates transitional arrangements requiring TasNetworks to pass through participant fees, as determined by AEMO, through non-locational transmission charges.^{32, 33}

We accept this inclusion as it is consistent with the requirements of the NER due to the new *Recovering the cost of AEMO’s participant fees rule of 2022*.³⁴

12.4.1.6 Amendments to clarify prudent discount arrangements

In the proposed pricing methodology, we considered the section on prudent discounts is open to interpretation as not being consistent with clause 6A.26.1.³⁵ We consider it did not explicitly explain how TasNetworks may recover outstanding amounts of the discount amount that it was entitled to recover after the financial year of the reduced charges, as per clause 6A.26.1(g).

At our request, TasNetworks has agreed to revise the section and we accept that the proposed changes address our concerns.³⁶

12.4.2 Assessment against the pricing principles for prescribed transmission services

We consider TasNetworks’ pricing methodology with the amendments meets the requirements of the NER pricing principles. The pricing principles are intended to provide scope for TNSPs to develop pricing arrangements that address the circumstances in which they operate their network.³⁷

12.4.2.1 Calculation and allocation of the AARR

We consider TasNetworks’ method for calculating and allocating its AARR, meets the NER requirements.

The AARR is the 'maximum allowed revenue' adjusted:

- for a number of factors such as cost pass throughs, service target performance incentive scheme outcomes, and contingent projects, and
- by subtracting the operating and maintenance costs expected to be incurred in the provision of prescribed common transmission services and expected system strength service payments.³⁸

Table 12.1 summarises our review of how TasNetworks’ pricing methodology with the amendments calculates and allocates the business’ AARR.

³² NER cl. 11.153.1, 11.153.2, 11.153.3, 11.153.4 and 11.153.5.

³³ AEMC, *Recovering the cost of AEMO’s participant fees, Rule determination*, 20 October 2022, pp. 23 & 24.

³⁴ AEMC, *Recovering the cost of AEMO’s participant fees, Rule determination*, 20 October 2022.

³⁵ TasNetworks - *Transmission Pricing Methodology* - December 2022, p. 39.

³⁶ TasNetworks – Information Request TAS IR#037 – Transmission Pricing Methodology – 20230526 – PUBLIC, 2 June 2023.

³⁷ AEMC, *Rule Determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No 22*, 21 December 2006, pp. 27–28.

³⁸ NER cl. 6A.3.2.

Table 12.1 TasNetworks' proposed calculation and allocation of the AARR and the NER requirements

NER requirements	AER Assessment
Requirement for the AARR to be calculated as defined in the NER—clause 6A.22.1	Section 5.3 of TasNetworks' pricing methodology with the amendments complies with this requirement.
Requirement for the AARR to be allocated to each category of prescribed transmission services in accordance with attributable cost share for each such category of services—clause 6A.23.2(a)	Sections 5.4 and 5.5 of TasNetworks' pricing methodology with the amendments complies with this requirement.
Requirement for every portion of the AARR to be allocated and for the same portion of AARR not to be allocated more than once—clause 6A.23.2(c)	Sections 5.5.2 and 5.5.3 and Appendix C of TasNetworks' pricing methodology with the amendments complies with this requirement.
Subject to clause 11.6.11 of the NER, requirement for adjusting attributable cost share and priority ordering approach to asset costs that would otherwise be attributed to the provision of more than one category of prescribed transmission services—clause 6A.23.2(d)	Appendix B, D and E of TasNetworks' pricing methodology with the amendments complies with this requirement

12.4.2.2 Allocation of the ASRR to transmission network connection points

We consider TasNetworks' pricing methodology with the amendments for allocating the ASRR meets the NER requirements. Table 12.2 summarises our assessment.

Table 12.2 TasNetworks' proposed allocation of the ASRR and the NER requirements

NER requirements	AER assessment
Requirement for whole ASRR for prescribed entry services to be allocated to transmission network connection points in accordance with the attributable connection point cost share for prescribed entry services that are provided by the TNSP at that connection point—clause 6A.23.3(i)	Section 5.5.4 of TasNetworks' pricing methodology with the amendments complies with this requirement.
Requirement for the whole ASRR prescribed exit services to be allocated to transmission network connection points in accordance with the attributable connection point cost share for prescribed exit services that are provided by the TNSP at that connection point—clause 6A.23.3(j)	Section 5.5.4 of TasNetworks' pricing methodology with the amendments complies with this requirement

<p>Requirement for the allocation of the ASRR for:</p> <ul style="list-style-type: none"> • prescribed TUOS services • locational components • pre-adjusted non-locational components — clause 6A.23.3(a) to (g) 	<p>Section 5.5.4 of TasNetworks' pricing methodology with the amendments complies with this requirement.</p>
<p>Requirement for adjusting attributable cost share and priority ordering approach to asset costs that would otherwise be attributed to the provision of more than one category of prescribed transmission services— clause 6A.23.2(d)</p>	<p>Appendix B & D of TasNetworks' pricing methodology with the amendments complies with this requirement.</p>
<p>Requirement for the recovery of the ASRR for prescribed common transmission services and the operating and maintenance costs incurred in the provision of those services and system strength service payments to be recovered through prices charged to transmission customers and connection points set in accordance with price structure principles set out in clause 6A.23.4—clause 6A.23.3(h)</p>	<p>Sections 5.5.5 of TasNetworks' pricing methodology with the amendments complies with this requirement.</p>

12.4.2.3 Development of price structure

We consider TasNetworks' pricing methodology with the amendments and process for developing different prices for recovering the ASRR, meets the NER requirements. Table 12.3 summarises our assessment.

Table 12.3 TasNetworks' proposed pricing structure and the NER requirements

NER requirements	AER assessment
<p>Requirement for separate prices for each category of prescribed transmission services— clause 6A.23.4(a)</p>	<p>Section 5.5.5 of TasNetworks' pricing methodology with the amendments complies with this requirement.</p>
<p>Requirement for fixed annual amount prices for prescribed entry services and prescribed exit services—clause 6A.23.4(g)</p>	<p>Section 5.5.5.1 of TasNetworks' pricing methodology with the amendments complies with this requirement.</p>
<p>Requirement for postage stamped prices for prescribed common transmission services— clause 6A.23.4(f)</p>	<p>Section 5.5.5.4 of TasNetworks' pricing methodology with the amendments complies with this requirement.</p>
<p>Requirement for prices for locational component of prescribed TUOS services to be based on demand at times of greatest utilisation of the transmission network and for which network investment is most likely to be contemplated— clause 6A.23.4(b)(1)</p>	<p>Section Appendix C of TasNetworks' pricing methodology with the amendments complies with this requirement.</p>

NER requirements	AER assessment
Requirement for prices for the locational component of ASRR for prescribed TUOS services not to change by more than 2% per year compared with the load weighted average prices for this component for the relevant region—clause 6A.23.4(b)(2)	Section 5.5.5.2 of TasNetworks' pricing methodology with the amendments complies with this requirement.
Requirement for prices for the adjusted nonlocational component of prescribed TUOS services to be on a postage stamp basis—clause 6A.23.4(e)	Section 5.5.5.3 of TasNetworks' pricing methodology with the amendments complies with this requirement.
Setting of TUOS locational prices between annual price publications—clause 6A.23.4(b)	Section 5.9 of TasNetworks' pricing methodology with the amendments complies with this requirement.

12.4.3 Assessment against the pricing methodology guidelines for prescribed transmission services

We are satisfied that TasNetworks' pricing methodology with the amendments complies with the information requirements of the pricing methodology guidelines.

Key features of the proposal include:

- An acknowledgement that TasNetworks is the sole TNSP providing prescribed transmission services within this region and TasNetworks is the Coordinating Network Service Provider for the region.³⁹
- An explanation on how it will set charges applicable to each system strength connection point on its transmission network to recover the annual system strength charge for the system strength connection point.⁴⁰
- An explanation on how the system strength charges comply with the requirements of clause 6A.23.5 of the NER.⁴¹
- Its uses of the priority ordering approach under clause 6A.23.2(d) of the NER.⁴²
- How asset costs that may be attributable to both prescribed entry services and prescribed exit services will be allocated at a connection point.⁴³
- It describes billing arrangements as in clauses 6A.27, 6A.29A.4 and 6A.29A.5 of the NER.⁴⁴

³⁹ TasNetworks - *Transmission Pricing Methodology* - December 2022, p. 16.

⁴⁰ TasNetworks - *Transmission Pricing Methodology* - December 2022, pp. 31-33.

⁴¹ TasNetworks - *Transmission Pricing Methodology* - December 2022, pp. 31-33.

⁴² TasNetworks - *Transmission Pricing Methodology* - December 2022, pp. 46-47.

⁴³ TasNetworks - *Transmission Pricing Methodology* - December 2022, pp. 46-47.

⁴⁴ TasNetworks - *Transmission Pricing Methodology* - December 2022, pp. 36-37.

- A description of the prudential requirements as in clause 6A.28 of the NER.⁴⁵
- The inclusion hypothetical worked examples for:
 - calculation of attributable cost shares.⁴⁶
 - allocation of ASRR to connection points.⁴⁷
 - modified load export charge.⁴⁸
- A description of how TasNetworks intends to monitor and develop records of its compliance with its approved pricing methodology, the pricing principles and Part J of the NER.⁴⁹

⁴⁵ TasNetworks - *Transmission Pricing Methodology* - December 2022, p. 38.

⁴⁶ TasNetworks - *Transmission Pricing Methodology* - December 2022, pp. 19-20.

⁴⁷ TasNetworks - *Transmission Pricing Methodology* - December 2022, pp. 21-23.

⁴⁸ TasNetworks - *Transmission Pricing Methodology* - December 2022, pp. 67-69.

⁴⁹ TasNetworks - *Transmission Pricing Methodology* - December 2022, p. 41.

Shortened forms

Term	Definition
AARR	Aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	Annual service revenue requirement
CNSP	Co-ordinating network service provider
IRP	Integrated resource provider
MLEC	modified load export charge
NEM	national electricity market
NER	national electricity rules
TNSP	transmission network service provider
TUOS	transmission use of system
