



# **Determination**

## **Connection charge cost pass-through for 2019– 20 regulatory year**

**Murraylink**

November 2020

© Commonwealth of Australia 2020

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Corporate Communications,  
Australian Competition and Consumer Commission,  
GPO Box 3131,  
Canberra ACT 2601  
or [publishing.unit@acc.gov.au](mailto:publishing.unit@acc.gov.au).

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Tel: 1300 585165

Email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

AER Reference: AER201074

# Contents

Overview .....	1
1 Determination .....	3
2 Murraylink's application.....	4
2.1. Background.....	4
2.2. Murraylink's proposed pass-through amount .....	4
3 AER Assessment.....	6
3.1. Negative change event .....	6
3.2. Relevant factors .....	6
3.3. Calculation of the pass-through amount .....	7
3.4. Timing matters .....	7

## Overview

During the regulatory control period, a service provider can apply to the Australian Energy Regulator (AER) to pass material changes in its costs arising from pre-defined exogenous events through to customers, in the form of higher or lower network charges. In addition to the prescribed events specified in the NER, other pass through events may be specified.<sup>1</sup>

AusNet Services and ElectraNet levy connection charges on Murraylink under their connection agreements. The level of these charges are subject to the revenue determinations we make in relation to AusNet Services and ElectraNet. At the time of making Murraylink's 2018–23 revenue determination, we recognised that Murraylink's connection charges may change materially when the revenue determinations for ElectraNet and AusNet Services expire on 30 June 2018 and 31 March 2022 respectively. Therefore, we approved Murraylink's proposed cost pass through event for the 2018–23 regulatory control period to cover the changes in the amount of connection charges levied on Murraylink by AusNet Services and ElectraNet.<sup>2</sup>

On 23 September 2020, Murraylink submitted an application to the AER for a pass through of costs related to the actual connection charges levied by AusNet Services and ElectraNet, being lower than the forecast connection charge amount for 2019–20 included in Murraylink's 2018–23 revenue determination. Its application submits that the amount it will refund (negative pass-through) to its network users through reduction in transmission prices in 2021–22 will be \$843,871, based on incurring connection charges of \$269,571 in 2019–20. On 5 November 2020, Murraylink submitted a corrected connection charge amount of \$280,929.

We determine that a negative change event has occurred and the appropriate negative pass through amount is \$830,194 (\$nominal 2021–22). We have adjusted Murraylink's proposed pass-through amount by:

- applying the updated Weighted Average Cost of Capital (WACC) when escalating the pass through figure to the 2021-22 regulatory control period.
- taking into account for the corrected connection charge amount provided on 5 November 2020.

Murraylink will adjust its maximum allowed revenue in 2021–22 by this amount in accordance with the revenue determination.

We must make a determination on Murraylink's pass through application. We must consider, with reference to the factors specified in the National Electricity Rules (NER),<sup>3</sup> whether the pass-through is justified and whether the relevant amounts have been correctly calculated.<sup>4</sup>

---

<sup>1</sup> NER, cl. 6A.7.3(a1)

<sup>2</sup> AER, *Murraylink transmission draft determination 2018–23 - Attachment 13 Pass through events*, September 2017, p. 10.

<sup>3</sup> NER, cl. 6A.7.3(j).

We have assessed Murraylink's application under the framework provided by the NER. In particular, we have considered:

- clause 6A.7.3 of the NER
- the material provided in Murraylink's application
- Murraylink's 2018–23 revenue determination.

---

<sup>4</sup> NER, cl. 6A.7.3(g).

# 1 Determination

We consider that a negative change event had occurred.<sup>5</sup> The negative change event arises from a connection charge cost pass through event, and is a result of the actual connection charges paid to AusNet Services and ElectraNet in 2019–20 being lower than the allowance made for such payments in Murraylink's revenue determination.

The NER require us to determine the amount that should be passed through to customers.<sup>6</sup> We base our decision on an assessment of the factors set out in cl 6A.7.3(j) of the NER. We consider that Murraylink has incorrectly calculated the pass-through amount that it proposes to pass on to customers in its revised calculation, submitted on 23 September 2020. We have adjusted Murraylink's proposed pass-through amount by applying the updated WACC when escalating the pass through figure to the 2021-22 regulatory control period and taking into account the corrected connection charge amounts, which it resubmitted on 5 November 2020. The negative pass-through amount we approve is \$830,194 (\$nominal 2021–22) and will be adjusted in Murraylink's maximum allowed revenue in the 2021–22 regulatory year in accordance with the procedures set out in Murraylink's 2018–23 revenue determination.<sup>7</sup>

---

5 A negative change event is defined in the NER as a pass through event which entails the transmission network service provider incurring materially lower costs in providing prescribed transmission services than it would have incurred but for that event. See NER, chapter 10 Glossary.

6 NER, cl. 6A.7.3(g)(2).

7 The revenue determination sets out that Murraylink's maximum allowed revenue is subject to adjustments for updating the return on debt annually, a revenue increment or decrement determined in accordance with the Service Target Performance Incentive Scheme, and any approved pass through amounts. See AER, *Murraylink Transmission Determination 2018–23*, April 2018, p.6.

## 2 Murraylink's application

Murraylink submitted its connection charge cost pass-through application on 23 September 2020. On 6 November 2020, Murraylink submitted an updated total connection charges amount for 2019–20, to correct for the previously incorrect inclusion/ exclusion of some cost components.

Its application and supporting calculations are available on our website.

### 2.1 Background

During a regulatory control period, a transmission network service provider can apply to us to pass material changes in its costs arising from pre-defined exogenous events through to customers, in the form of higher or lower network charges. In addition to the prescribed events specified in the NER, other pass through events may be specified in the transmission network service provider's revenue determination.<sup>8</sup>

In the 2018–23 revenue determination for Murraylink, we approved a cost pass through event to cover the changes in the amount of connection charges levied on Murraylink by AusNet Services and ElectraNet under their connection agreements.<sup>9</sup> The level of these charges are subject to AusNet Services and ElectraNet's revenue determinations. At the time of making Murraylink's 2018–23 revenue determination, we recognised that Murraylink's connection charges may change materially when the revenue determinations for ElectraNet and AusNet Services expire on 30 June 2018 and 31 March 2022 respectively.

The connection charge cost pass through event is defined to have occurred where the total connection charges levied by AusNet Services and ElectraNet differ materially from the forecast connection charges included in the operating expenditure forecast we approved in the revenue determination.<sup>10</sup>

### 2.2 Murraylink's proposed pass-through amount

In its calculation, Murraylink applied the correct opex forecast for connection charges and CPI and WACC escalations, consistent with their 2018–23 regulatory determination.<sup>11</sup> In its application, Murraylink indicated its total connection charges in 2019–20 were \$269,571 (\$nominal, 2019–20).

Murraylink calculated the difference between its actual connection charges and the forecast connection charges for the 2019–20 regulatory year as \$776,656 (\$2019–20). Murraylink

---

<sup>8</sup> NER, cl. 6A.7.3(a1)

<sup>9</sup> AER, *Final Decision, Murraylink transmission determination 2018 to 2023, Overview*, April 2018, p.30.

<sup>10</sup> The definition of material is that the change in connection costs must exceed one per cent of the maximum allowed revenue for Murraylink for the relevant regulatory year. See AER, *Draft Decision, Murraylink transmission determination 2018–2023, Attachment 13 – Pass through events*, September 2017, p. 11. The definition of materially is also set out in the Chapter 10 of the NER.

<sup>11</sup> See AER, *Murraylink transmission determination 2018 to 2023*, April 2018, pp. 6–8; AER, *Murraylink 2018–23 – Post-tax revenue model – 2019–20 Return on debt update*, February 2019.

then adjusted this amount for the time value of money using the 2018–19 nominal WACC from the AER cost of debt update post tax revenue model (PTRM) in nominal 2021–22 dollars, and derived a negative cost pass through amount of \$843,871 (\$nominal 2021–22).

On 5 November 2020, Murraylink submitted an updated total connection charges amount for 2019–20 of \$280,929 (\$nominal, 2019–20). This corrected for the incorrect inclusion and exclusion of various cost components in its application.



## 3 AER Assessment

### 3.1 Negative change event

In order to approve an amount of money to be passed back to energy consumers, we must determine that a negative change event has occurred. The NER define a negative change event as:<sup>12</sup>

*... a pass through event which entails the Transmission Network Service Provider incurring materially lower costs in providing prescribed transmission services than it would have incurred but for that event.*

The NER define 'materially' as follows:<sup>13</sup>

*... the change in costs (as opposed to the revenue impact) that the Transmission Network Service Provider has incurred and is likely to incur in any regulatory year of a regulatory control period, as a result of that event, exceeds 1% of the maximum allowed revenue for the Transmission Network Service Provider for that regulatory year.*

We determine that a negative change event has occurred because the saving Murraylink has obtained as a result of the connection charge cost pass through event (\$765,198, \$2019–20), as set out in section 3.23, exceeds 1 per cent of the maximum allowed revenue for Murraylink for the 2018–19 regulatory year, which is \$15,179,781 (\$2019–20).<sup>14</sup>

### 3.2 Relevant factors

Clause 6A.7.3(j) of the rules sets out a number of matters that we are required to take into account when determining:

- whether a positive or negative change event has occurred
- the approved pass-through amount
- the amount of the approved pass-through amount that should be passed through to transmission network users.

We have given regard to the relevant factors listed in clause 6A.7.3(j) of the NER:<sup>15</sup>

- We have considered the matters and proposals provided by Murraylink
- We have calculated the costs Murraylink has saved as a result of the negative change event
- We have taken into account the time cost of money to calculate the appropriate negative pass through amount

---

<sup>12</sup> NER, chapter 10 (definition of 'negative change event').

<sup>13</sup> NER, chapter 10 (definition of 'materially').

<sup>14</sup> AER, *Murraylink 2018–23 - Post-tax revenue model - 2020–21 Return on debt update*, February 2020; AER analysis.

<sup>15</sup> NER cl 6A.7.3(j).

- We consider that the costs incurred relating to the pass-through event under consideration are not the subject of any previous determination by us under clause 6A.7.3
- We do not consider any other matters to be relevant.

### 3.3 Calculation of the pass-through amount

Rule 6A.7.3(b) requires that, if a negative change event occurs, the AER may require the transmission network service provider to pass through to transmission network users a negative pass through amount as determined by the AER under subparagraph (g).<sup>16</sup>

In its application submitted to the AER on 23 September 2020, we consider that Murraylink has incorrectly calculated the negative pass-through amount.

Our 2018–23 revenue determination for Murraylink made an allowance for forecast connection charges of \$1,011,698 (\$2017–18) for the 2019–20 regulatory year. This allowance was escalated to real 2019–20 dollars using the annual percentage change in the ABS CPI (December quarter). December quarter CPI was used for consistency with Murraylink's 2018–23 revenue determination.<sup>17</sup>

To calculate the negative pass-through amount, we have used the updated connection charge amount for 2019–20 of \$280,929 (\$nominal, 2019–20). This results in Murraylink's connection charges being lower than forecast in Murraylink's 2018–23 determination by \$765,198 (\$2019–20), which is lower than Murraylink's calculation of \$776,656 (\$2019–20) in its application.

Murraylink have adjusted this amount for the time value of money using the 2018-19 nominal WACC (5.69%) from our cost of debt update PTRM. We have adjusted Murraylink's proposed calculation by applying the 2021-22 nominal WACC (5.59%) when escalating the pass through figure to the 2021-22 regulatory control period. Our approved negative cost pass through amount is therefore \$830,194 (\$nominal 2021–22) and this adjustment should occur in the 2021–22 regulatory year.

### 3.4 Timing matters

The NER provide that, for a negative change event, an application to us for a negative pass-through amount must be made within 90 business days of the relevant event occurring.<sup>18</sup> We must make a determination on the event within 40 business days of the business providing details of the event and supporting evidence to us.<sup>19</sup>

We consider the date Murraylink received its connection charges invoices was the date on which the relevant negative change event occurred. Murraylink made its pass-through application on 23 September 2020, which is 60 business days after receiving its last connection charge invoice by AusNet Services.

---

<sup>16</sup> NER, cl. 6A.7.3(g).

<sup>17</sup> AER, *Murraylink transmission determination 2018–23*, April 2018, pp. 6–8.

<sup>18</sup> NER cl 6A.7.3(f).

<sup>19</sup> NER cl 6A.7.3(e).