



FINAL DECISION
AusNet Services transmission
determination
2017-2022

Attachment 12 – Pricing
methodology

April 2017

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Note

This attachment forms part of the AER's final decision on AusNet Services' revenue proposal 2017–22. It should be read with other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 – maximum allowed revenue

Attachment 2 – regulatory asset base

Attachment 3 – rate of return

Attachment 4 – value of imputation credits

Attachment 5 – regulatory depreciation

Attachment 6 – capital expenditure

Attachment 7 – operating expenditure

Attachment 8 – corporate income tax

Attachment 9 – efficiency benefit sharing scheme

Attachment 10 – capital expenditure sharing scheme

Attachment 11 – service target performance incentive scheme

Attachment 12 – pricing methodology

Attachment 13 – pass through events

Attachment 14 – negotiated services

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Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	annual service revenue requirement
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
MAR	maximum allowed revenue
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider

Shortened form	Extended form
NTSC	negotiated transmission service criteria
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
TNSP	transmission network service provider
TUoS	transmission use of system
WACC	weighted average cost of capital

12 Pricing methodology

This attachment sets out our final decision on AusNet Services' proposed pricing methodology for the 2017–22 regulatory control period.

A pricing methodology must be specified as part of our transmission determination¹ and answers the question 'who should pay how much'² in order for a transmission business to recover its efficient costs. To do this, the National Electricity Rules (NER) set out that it must provide a 'methodology, formula, process or approach'³ that when applied:

- allocates the aggregate annual revenue requirement to the categories of prescribed transmission services provided by the transmission business⁴
- provides the manner and sequence of adjustments to the annual service revenue requirement⁵ and allocates that requirement to transmission connection points⁶
- determines the structure of prices that a transmission business may charge for each category of prescribed transmission services.⁷

AusNet Services' proposed pricing methodology addresses only the pricing matters for which it has responsibility.⁸ These are prescribed entry and exit services. In Victoria, the pricing of all other prescribed transmission services is the responsibility of the Australian Energy Market Operator (AEMO).⁹ AEMO is also the co-ordinating network service provider in Victoria. It is therefore responsible for allocating the aggregate annual revenue requirement (AARR) for all transmission businesses in the region including AusNet Services.¹⁰

12.1 Final decision

Our final decision is to approve AusNet Services' proposed pricing methodology for the 2017–22 regulatory control period. We consider the proposed methodology gives effect to the pricing principles in the NER and complies with the requirements of the pricing methodology guidelines, as is required by clause 6A.24.1(c).¹¹

¹ NER, cl. 6A.2.2(4).

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 AusNet Services, *Revenue proposal, Appendix 14A: Pricing methodology*, 30 October 2015, p. 4.

⁹ AusNet Services, *Revenue proposal, Appendix 14A: Pricing methodology*, 30 October 2015, p. 4.

¹⁰ AusNet Services, *Revenue proposal, Appendix 14A: Pricing methodology*, 30 October 2015, p. 4.

¹¹ NER, cl. 6A.14.1(8).

The approved pricing methodology is set out in attachment B of our final transmission determination.

12.2 AusNet Services' revised proposal

On 30 October 2015, AusNet Services submitted its proposed pricing methodology, which we approved in our draft decision.¹² AusNet Services did not alter its proposed pricing methodology in their revised proposal.¹³

AusNet Services' initial proposal noted its proposed pricing methodology was 'identical to that approved for the current regulatory control period'.¹⁴ That is, AusNet Services was not proposing to introduce any new or amended pricing arrangements in the 2017–22 regulatory control period.

When considering its proposed pricing methodology, AusNet Services stated it is important to note the transmission arrangements in Victoria differ from those in other states.¹⁵ Under these arrangements, AusNet Services owns and operates the majority of the declared shared transmission network. But, unlike other similar network operators in the National Electricity Market (NEM), AusNet Services does not have pricing responsibility for all transmission services in the region. Given this, AusNet Services proposed its pricing methodology should address only the pricing matters for which it has responsibility. These are prescribed entry services and prescribed exit services. This is the same approach taken with respect to AusNet Services' approved 2014–17 pricing methodology.

12.3 AER's assessment approach

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

- gives effect to, and complies with, the pricing principles for prescribed transmission services¹⁶
- complies with the information requirements of the pricing method guidelines.¹⁷

In making our assessment, we agree the transmission arrangements in Victoria need to be considered. Our assessment of the transmission arrangements in Victoria are set out in our draft decision, attachment 12 – Pricing methodology.¹⁸

¹² AER, *AusNet Services 2017-22 - Draft Decision - Attachment 12 - Pricing Methodology*, 20 July 2016.

¹³ AusNet Services, *Revised revenue proposal*, 21 September 2016, p. 244.

¹⁴ AusNet Services, *Revenue proposal, Appendix 14A: Pricing methodology*, October 2015, p. 4.

¹⁵ AusNet Services, *Revenue proposal, Appendix 14A: Pricing methodology*, October 2015, p. 4.

¹⁶ NER, clause 6A.24.1(c)(1).

¹⁷ NER, clause 6A.24.1(c)(2).

¹⁸ AER, *AusNet Services 2017-22 - Draft Decision - Attachment 12 - Pricing Methodology*, 20 July 2016.

12.4 Reasons for final decision

Our draft decision approved AusNet Services' proposed pricing methodology.¹⁹ We did not receive any submissions in response to our draft decision. Therefore, our final decision is to approve AusNet Services' proposed pricing methodology.

¹⁹ AER, *AusNet Services 2017-22 - Draft Decision - Attachment 12 - Pricing Methodology*, 20 July 2016.