



DRAFT DECISION

Ausgrid Distribution Determination 2019 to 2024

Attachment 19 Pricing methodology

December 2018

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Note

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Ausgrid for the 2019–2024 regulatory control period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Demand management incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

Attachment 14 – Pass through events

Attachment 15 – Alternative control services

Attachment 16 – Negotiated services framework and criteria

Attachment 17 – Connection policy

Attachment 18 – Tariff structure statement

Attachment 19 – Pricing methodology

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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 |
| CPI | consumer price index |
| MAR | maximum allowed revenue |
| NEL | national electricity law |
| NEM | national electricity market |
| NEO | national electricity objective |
| NER | national electricity rules |
| NSP | network service provider |
| NTSC | negotiated transmission service criteria |
| opex | operating expenditure |
| PTRM | post-tax revenue model |
| RAB | regulatory asset base |
| repex | replacement expenditure |
| RFM | roll forward model |
| RIN | regulatory information notice |
| RPP | revenue and pricing principles |
| TNSP | transmission network service provider |
| TUoS | transmission use of system |

19 Transmission pricing methodology

This attachment sets out our draft determination on Ausgrid's proposed transmission pricing methodology for the 2019–24 regulatory control period.

A transmission pricing methodology forms part of our regulatory determination for Ausgrid.¹

Ausgrid's distribution business operates dual function assets, which are high-voltage transmission assets forming part of a distribution network.² Our framework and approach decision established that we would apply transmission pricing rules to those dual function assets.³

The role of a transmission pricing methodology's is to answer the question 'who should pay, and how much' in order for a network business to recover its costs relating to its provision of transmission services.⁴

To do this, a pricing methodology must provide a 'formula, process or approach'⁵ that when applied:

- allocates the aggregate annual revenue requirement to the categories of prescribed transmission services that a network business provides and to the connection points of network users⁶
- determines the structure of prices that a network business may charge for each category of prescribed transmission services.⁷

Ausgrid must submit a transmission pricing methodology for our approval because its network includes high-voltage transmission assets, which are subject to the pricing arrangements for transmission standard control services.⁸

19.1 Draft decision

We approve Ausgrid's proposed pricing methodology submitted April 2018 for the 2019–24 regulatory control period, subject to several editorial amendments.

¹ NER, cl. 6A.2.2(4).

² Ausgrid, *Ausgrid's submission on the AER's preliminary framework and approach paper*, April 2017, p. 20.

³ AER, *Framework and approach: Ausgrid, Endeavour Energy and Essential Energy: Regulatory control period commencing 1 July 2019*, July 2017, p. 82.

⁴ AEMC, Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22, 21 December 2006, p. 1.

⁵ NER, cl. 6A.24.1(b).

⁶ NER, cl. 6A.24.1(b)(1).

⁷ NER, cl. 6A.24.1(b)(2).

⁸ Ausgrid, *Attachment 10.08 - Transmission pricing methodology - PUBLIC*, April 2018, p. 3.

19.2 Ausgrid's proposal

Ausgrid's proposed 2019–24 pricing methodology is largely the same as its 2014–19 pricing methodology, with differences being editorial in nature and not substantive.⁹

19.3 Stakeholder submissions

There have been no submissions to date.

19.4 AER's 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, and contains or is accompanied by information required by, the pricing methodology guidelines.¹⁰

Our assessment approach was guided by these requirements along with the pricing methodology Ausgrid employed, and which we approved, during the 2014–19 regulatory control period.

19.4.1 Inter-relationships

There are several transmission network service providers (TNSPs) in each of the New South Wales (NSW) and Australian Capital Territory (ACT) regions. The other TNSPs are the Directlink interconnector and electricity distributor, Evoenergy, in the ACT which have electricity transmission assets.

There is also an appointed Co-ordinating Network Service Provider for the NSW and ACT regions, TransGrid, which applies its 2018–23 pricing methodology to determine the transmission prices to be charged in those jurisdictions. Such charges recover the regulated transmission revenues of TransGrid, Ausgrid, Evoenergy and Directlink, in line with clause 6A.29.1 of the NER.

19.5 Reasons for draft decision

We consider that Ausgrid's proposed methodology gives effect to the pricing principles for prescribed transmission services in the NER and complies with the requirements of the AER's pricing methodology guidelines.¹¹

Ausgrid's proposed methodology is largely the same as that we approved for it during the 2014–19 regulatory control period, the only changes being editorial. We consider

⁹ Ausgrid, *Attachment 10.08 - Transmission pricing methodology - PUBLIC*, April 2018, p. 3.

¹⁰ NER, cl. 6A.24.1(c); AER, *Electricity transmission service providers, Pricing methodology guidelines*, July 2014.

¹¹ NER, cl. 6A.24.1(c).

these changes are appropriate and do not go to the substance of the pricing methodology.

We also identified several (non-substantive) editorial errors which we sought Ausgrid to correct.

19.5.1 Assessment against the pricing principles for prescribed transmission services

We consider Ausgrid's proposed pricing methodology accords with the requirements of the NER pricing principles.

The pricing principles are intended to provide scope for transmission businesses to develop pricing arrangements that address the circumstances in which they operate their network.¹² This limits our review to a high-level assessment of the methodology, rather than a detailed analysis of each pricing parameter and element within that methodology.

Calculation and allocation of the aggregate annual revenue requirement

We assessed Ausgrid's method for calculating and allocating its aggregate annual revenue requirement (AARR), and consider that it meets the NER requirements.

The AARR is the maximum allowed revenue (MAR) adjusted:

- in accordance with clause 6A.3.2 of the NER, 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

Table 19.1 summarises our review of how Ausgrid's proposed pricing methodology calculates and allocates its AARR.

Table 19.1 Ausgrid's proposed calculation and allocation of the AARR against the NER requirements

| NER requirements | Assessment |
|--|--|
| Requirement for the AARR to be calculated as defined in the NER—clause 6A.22.1 | Section 3.1 of Ausgrid's proposed pricing methodology 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 | Sections 3.2 and 3.3 of Ausgrid's proposed pricing methodology comply with this requirement. |

¹² AEMC, *Rule Determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No 22*, 21 December 2006, pp. 27–8.

| | |
|---|---|
| category of service—clause 6A.23.2(a) | |
| 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) | Section 3.2 and appendix A of Ausgrid's proposed pricing methodology comply 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) | Sections 3.2 and 3.4.4 and appendix A of Ausgrid's proposed pricing methodology comply with this requirement. |

Source: Ausgrid, *Attachment 10.08 - Transmission pricing methodology - PUBLIC*, April 2018.

Allocation of the annual service revenue requirement to transmission network connection points

We assessed Ausgrid's proposed pricing methodology for allocating the annual service revenue requirement (ASRR) and consider it meets the NER requirements. Table 19.2 summarises our assessment.

Table 19.2 Ausgrid's proposed allocation of the ASRR against 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) | Sections 3.2, 3.3 and 3.4.1 of Ausgrid's proposed pricing methodology comply 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) | Sections 3.2, 3.3 and 3.4.2 of Ausgrid's proposed pricing methodology comply with this requirement. |
| Requirement for the allocation of the ASRR for: prescribed TUOS services locational components pre-adjusted non-locational components —clause 6A.23.3(a) | Section 3.4.3 of Ausgrid's proposed pricing methodology complies with this requirement. Ausgrid's note on clause 6A.23.3(c)(1) appears to be an outdated reference. We consider the appropriate (and up to date) reference should be to clause 6A.23.3(b)(1) 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) | Section 3.4.4 of Ausgrid's proposed pricing methodology complies with this requirement. |
| 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 to be recovered through prices charged to transmission customers and network service and network service provider transmission connection points set in accordance with price structure principles set out in | Appendix A of Ausgrid's proposed pricing methodology complies with this requirement. |

Source: Ausgrid, *Attachment 10.08 - Transmission pricing methodology - PUBLIC*, April 2018.

Development of price structure

A pricing methodology must develop a price structure which complies with the NER but Ausgrid's proposal did not set out how it will develop one.¹³

That is because TransGrid is responsible for undertaking this on Ausgrid's behalf for categories of prescribed transmission services, locational and non-locational charges, general charges for transmission use of system (TUoS), and common service charges.¹⁴

We are satisfied that it is appropriate for TransGrid, as the appointed co-coordinating network service provider in NSW and the ACT, to develop the price structure for Ausgrid's prescribed transmission services.

Information requirements

We are content that Ausgrid's proposed 2019–24 pricing complies with the AER's pricing methodology guideline information requirements. This is because key features of the methodology include:

- acknowledging that there are multiple transmission network service providers in its regions (NSW and ACT)¹⁵
- using the priority ordering approach under clause 6A.23.2(d) of the NER to implement priority ordering
- describing how asset costs that may be attributable to both prescribed entry services and prescribed exit services will be allocated at a connection point
- describing billing arrangements as in clause 6A.27 of the NER
- describing prudential requirements as in clause 6A.28 of the NER
- including hypothetical examples
- describing how Ausgrid intends to monitor and develop records of its compliance with its approved pricing methodology.

¹³ NER, cl. 6A.23.4.

¹⁴ Ausgrid, *Attachment 10.08 - Transmission pricing methodology - PUBLIC*, April 2018, pp. 6 and 11–13.

¹⁵ Ausgrid, *Attachment 10.08 - Transmission pricing methodology - PUBLIC*, April 2018, p. 5.