



DRAFT DECISION

AusNet Services Transmission Determination 2022 to 2027

Attachment 12 Pricing methodology

June 2021

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Note

This attachment forms part of the AER's draft decision on AusNet Services' 2022–27 transmission determination. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Maximum allowed revenue

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 innovation allowance mechanism

Attachment 12 – Pricing methodology

Attachment 13 – Pass through events

Attachment 14 – Negotiating framework

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12 Pricing methodology

This attachment sets out our draft decision on AusNet Services' proposed pricing methodology for the 2022–27 regulatory control period (1 April 2022 to 31 March 2027).

A pricing methodology must be specified as part of our transmission determination.¹ Its role is to answer the question 'who should pay how much'² in order for a transmission business to recover its costs. 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 business 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 transmission business may charge for each category of prescribed transmission services.⁷

An approved pricing methodology does not relate to negotiated transmission services or other transmission services not subject to economic regulation under chapter 6A of the NER.

AusNet Services' proposed pricing methodology addresses only the pricing matters for which it has responsibility.⁸ These are prescribed entry services and prescribed 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 AARR for all transmission businesses in the region including AusNet Services.¹⁰

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 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, p. 4.

⁹ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, p. 4.

¹⁰ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, pp. 4–5.

12.1 Draft decision

Our draft decision is to accept AusNet Services' pricing methodology for the 2022–27 regulatory control period (proposed pricing methodology). This is because it gives effect to, and is consistent with, the pricing principles in the NER, and complies with the information requirements set out in the pricing methodology guidelines.¹¹

12.2 AusNet Services' proposal

AusNet Services stated its proposed pricing methodology 'is identical to that approved for the 2017–22 regulatory control period'.¹² We note the differences between the current pricing methodology and the proposed pricing methodology are editorial in nature and not substantive.

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.¹³

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 for AusNet Services' approved pricing methodology for the 2017–22 regulatory control period.

AusNet Services noted AEMO's pricing methodology is currently under review and any changes may be adopted when it comes into effect.¹⁴

12.3 Assessment approach

We must approve a proposed pricing methodology if satisfied it:

- gives effect to, and is consistent with, the pricing principles for prescribed transmission services; and
- complies with the information requirements of the pricing methodology guidelines.¹⁵

These requirements guided our assessment of AusNet Services' proposed pricing methodology.

¹¹ NER, cl. 6A.24.1(c).

¹² AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, p. 4.

¹³ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, p. 4.

¹⁴ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, pp. 12 and 16.

¹⁵ NER, cl. 6A.24.1(c); AER, *Electricity transmission service providers pricing methodology guidelines*, July 2014.

12.3.1 Inter-relationships

In making our assessment, we agree with AusNet Services that the transmission arrangements in Victoria need to be considered.

In Victoria, ownership and planning of the electricity transmission network is split. Ownership rests with the declared transmission system operators (DTSOs). Of these, AusNet Services is the largest.

Planning is the responsibility of AEMO. Its objective as a planner is to ensure the transmission network operates within the security and performance obligations set out in the NER.¹⁶ AEMO bases its investment decisions on cost benefit analysis and considers the long term interests of electricity consumers.¹⁷

In addition to its role as planner, AEMO is responsible for managing certain prescribed transmission services in Victoria.

Prescribed transmission services consist of four types. Figure 12.1 shows each of these and the delineation between the services AusNet Services and AEMO manage.

AusNet Services manages prescribed connection services. As mentioned, these are prescribed entry services and prescribed exit services.

AEMO is responsible for pricing all other prescribed transmission services—namely, prescribed transmission use of system (TUOS) services and prescribed common transmission services.¹⁸ Prescribed TUOS services provide different benefits to transmission customers depending on their location within the transmission system.¹⁹ Prescribed common transmission services provide equivalent benefits to all transmission customers without any differentiation based on their location.²⁰

¹⁶ NER, schedules 5.1a and 5.1.

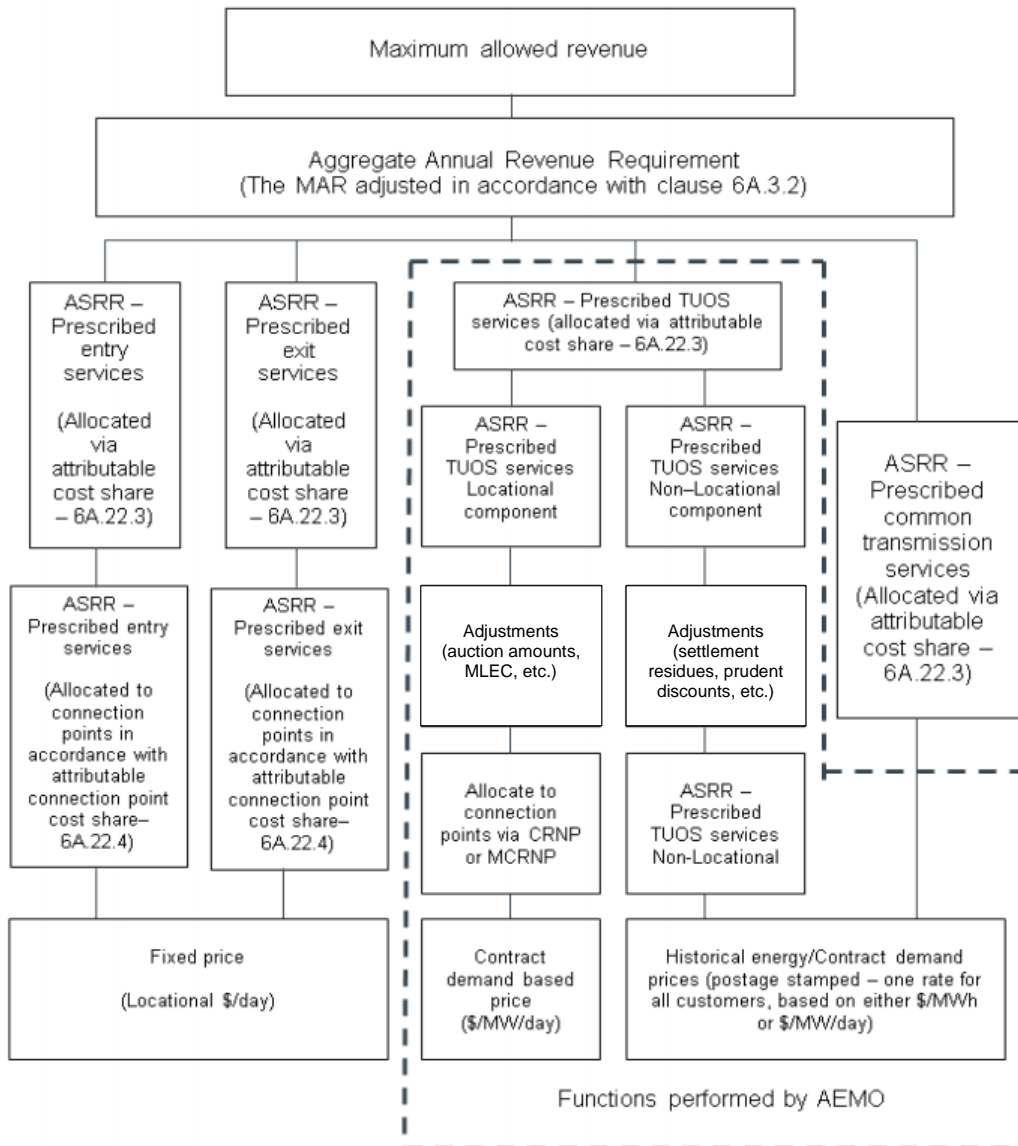
¹⁷ NEL, section 50F.

¹⁸ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, p. 16; NER, schedule 6A.4.2(k)1.(g)(1).

¹⁹ NER, chapter 10.

²⁰ NER, chapter 10.

Figure 12.1 Transmission pricing responsibilities in Victoria



Source: AER analysis.

Given the arrangements in Victoria, we have determined that AusNet Services’ proposed pricing methodology could be approved if it only addressed those services it has responsibility for. That is, prescribed entry services and prescribed exit services only.

This consideration is consistent with our assessment of AusNet Services 2017–22 pricing methodology. AEMO’s pricing methodology addresses the services for which

AusNet Services does not have pricing responsibility—prescribed TUOS services and prescribed common transmission services.²¹

12.4 Reasons for draft decision

Our draft decision is to accept AusNet Services' proposed pricing methodology.

We consider AusNet Services' proposed pricing methodology gives effect to, and is consistent with, the pricing principles, and complies with the requirements of the pricing methodology guidelines that are relevant to its responsibility for prescribed connection services.

It is the same pricing methodology we approved for AusNet Services' 2017–22 regulatory control period.

The following sections set out the reasons for our draft decision.

Calculation and allocation of the aggregate annual revenue requirement

We accept AusNet Services' method for calculating and allocating its AARR as we consider it meets the NER requirements.

The AARR is the 'maximum allowed revenue' adjusted:²²

- for a number of factors such as cost pass throughs, service target performance incentive scheme outcomes and contingent projects²³
- by subtracting the operating and maintenance costs expected to be incurred in the provision of prescribed common transmission services
- by any allocation of the AARR within and between regions as agreed between TNSPs.²⁴

Table 12.1 summarises our review of how AusNet Services' proposed pricing methodology calculates and allocates the business' AARR.

²¹ AEMO's pricing methodology for its 2014–19 regulatory control period applies until 30 June 2022 through an enforceable undertaking agreed to by us and AEMO. AEMO recently submitted a proposed pricing methodology for the 2022–27 regulatory control period for our assessment. Our website contains more information on AEMO's pricing methodologies ([AER website](#)).

²² NER, cl. 6A.22.1.

²³ NER, cl. 6A.3.2.

²⁴ NER, cl. 6A.29.3.

Table 12.1 AusNet Services' proposed calculation and allocation of the AARR against the NER requirements

NER requirements	AER assessment
Requirement for the AARR to be calculated as defined in the NER— clause 6A.22.1.	Clause 3 of AusNet Services' proposed pricing methodology satisfies 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 service—clause 6A.23.2(a).	Clause 4.1 and appendix B of AusNet Services' proposed pricing methodology satisfies 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).	Clause 4.1 and appendix B of AusNet Services' proposed pricing methodology satisfies 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).	Clause 4.2 and appendix B of AusNet Services' proposed pricing methodology satisfies this requirement.

Allocation of the ASRR to transmission network connection points

We accept AusNet Services' proposed pricing methodology for allocating the annual service revenue requirement (ASRR) as we consider it meets the NER requirements. Table 12.2 summarises our assessment.

Table 12.2 AusNet Services' 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).	Clauses 5.1 and 5.2 of AusNet Services' proposed pricing methodology satisfies 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)	Clauses 5.1 and 5.2 of AusNet Services' proposed pricing methodology satisfies this requirement.
Requirement for the ASRR for prescribed TUOS services to be allocated between pre-adjusted locational components and pre-adjusted non-locational components—clause 6A.23.3(a).	Not addressed, since AEMO (not AusNet Services) is responsible for the pricing of prescribed TUOS services.
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 clause 6A.23.4—clause 6A.23.3(h).	Not addressed, since AEMO (not AusNet Services) is responsible for the pricing of prescribed common transmission services.

Development of price structure

We accept AusNet Services' proposed pricing methodology and process for developing different prices for recovering the ASRR as we consider it meets the NER requirements. Table 12.3 summarises our assessment.

Table 12.3 AusNet Services' proposed pricing structure against the NER requirements

NER requirements	AER assessment
Requirement for separate prices for each category of prescribed transmission services—clause 6A.23.4(a).	Clause 5.3 of AusNet Services' proposed pricing methodology satisfies this requirement for prescribed entry and prescribed exit services.
Requirement for fixed annual amount prices for prescribed entry services and prescribed exit services—clause 6A.23.4(g).	Clause 5.3 of AusNet Services' proposed pricing methodology satisfies this requirement.
Requirement for postage stamped prices for prescribed common transmission services—clause 6A.23.4(f)	Not addressed, since AEMO (not AusNet Services) is responsible for the pricing of prescribed common transmission services.
Requirement for prices for locational component of prescribed TUOS services to be based on demand at times of greatest use of the transmission network and for which network investment is most likely to be contemplated—clause 6A.23.4(b)(1).	Not addressed, since AEMO (not AusNet Services) is responsible for the pricing of prescribed TUOS services.
Requirement for prices for the locational component of prescribed TUOS services not to change by more than 2 per cent per year compared with the load weighted average prices for this component for the relevant region—clause 6A.23.4(b)(2).	Not addressed, since AEMO (not AusNet Services) is responsible for the pricing of prescribed TUOS services.
Requirement for prices for the adjusted non-locational component of prescribed TUOS services to be on a postage stamp basis—clause 6A.23.4(e).	Not addressed, since AEMO (not AusNet Services) is responsible for the pricing of prescribed TUOS services.

Information requirements

We are satisfied AusNet Services' proposed pricing methodology complies with the information requirements of the pricing methodology guidelines.

Key features of the proposal include:

- acknowledging there are multiple TNSPs in the Victorian region (the others being Murraylink and AEMO) and that AEMO is the co-ordinating network service provider for the region²⁵

²⁵ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, p. 4.

- using the priority ordering approach under clause 6A.23.2(d) of the NER to implement priority ordering²⁶
- describing how asset costs that may be attributable to both prescribed entry services and prescribed exit services will be allocated at a connection point²⁷
- describing billing arrangements as in clause 6A.27 of the NER²⁸
- describing prudential requirements as in clause 6A.28 of the NER²⁹
- including hypothetical worked examples³⁰
- describing how AusNet Services intends to monitor and develop records of its compliance with its approved pricing methodology, the pricing principles and Part J of the NER.³¹

²⁶ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, pp. 8–10 and 17–27.

²⁷ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, pp. 11–13.

²⁸ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, p. 14.

²⁹ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, p. 15.

³⁰ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, appendix B.

³¹ AusNet Services, *Revenue Proposal 2023–27, Appendix 14A Proposed Pricing Methodology*, 29 October 2020, p. 4.

Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ASRR	annual service revenue requirement
CESS	capital expenditure sharing scheme
NER	national electricity rules
TNSP	transmission network service provider
TUOS	transmission use of system