

Draft decision

Directlink transmission determination

2015-16 to 2019-20

Attachment 1: Maximum allowed revenue

November 2014

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1. Note
2. This attachment forms part of the AER's draft decision on Directlink's revenue proposal 2015–20. It should be read with other parts of the draft decision.
3. The draft decision includes the following documents:
4. Overview
5. Attachment 1 – maximum allowed revenue
6. Attachment 2 – regulatory asset base
7. Attachment 3 – rate of return
8. Attachment 4 – value of imputation credits
9. Attachment 5 – regulatory depreciation
10. Attachment 6 – capital expenditure
11. Attachment 7 – operating expenditure
12. Attachment 8 – corporate income tax
13. Attachment 9 – efficiency benefit sharing scheme
14. Attachment 10 – capital expenditure sharing scheme
15. Attachment 11 – service target performance incentive scheme
16. Attachment 12 – pricing methodology and negotiated services
17. Attachment 13 – pass through events
18. Contents

[Contents 1-4](#_Toc404184028)

[Shortened forms 1-5](#_Toc404184029)

[1 Maximum allowed revenue 1-7](#_Toc404184030)

[1.1 Draft decision 1-7](#_Toc404184031)

[1.2 Directlink's proposal 1-8](#_Toc404184032)

[1.3 AER's assessment approach 1-9](#_Toc404184033)

[1.3.1 The building block approach 1-9](#_Toc404184034)

[1.3.2 The building block costs 1-11](#_Toc404184035)

[1.3.3 Annual revenue adjustment process 1-12](#_Toc404184036)

[1.3.4 Average transmission charges 1-14](#_Toc404184037)

[1.4 Reasons for draft decision 1-14](#_Toc404184038)

[1.4.1 X factor, annual expected MAR and estimated total revenue cap 1-15](#_Toc404184039)

[1.4.2 Shared assets 1-17](#_Toc404184040)

[1.4.3 Indicative average transmission charges 1-18](#_Toc404184041)

1. Shortened forms

| 1. Shortened form | 1. Extended form |
| --- | --- |
| 1. AARR | 1. aggregate annual revenue requirement |
| 1. AEMC | 1. Australian Energy Market Commission |
| 1. AEMO | 1. Australian Energy Market Operator |
| 1. AER | 1. Australian Energy Regulator |
| 1. ASRR | 1. aggregate service revenue requirement |
| 1. augex | 1. augmentation expenditure |
| 1. capex | 1. capital expenditure |
| 1. CCP | 1. Consumer Challenge Panel |
| 1. CESS | 1. capital expenditure sharing scheme |
| 1. CPI | 1. consumer price index |
| 1. DRP | 1. debt risk premium |
| 1. EBSS | 1. efficiency benefit sharing scheme |
| 1. ERP | 1. equity risk premium |
| 1. MAR | 1. maximum allowed revenue |
| 1. MRP | 1. market risk premium |
| 1. NEL | 1. national electricity law |
| 1. NEM | 1. national electricity market |
| 1. NEO | 1. national electricity objective |
| 1. NER | 1. national electricity rules |
| 1. NSP | 1. network service provider |
| 1. NTSC | 1. negotiated transmission service criteria |
| 1. opex | 1. operating expenditure |
| 1. PPI | 1. partial performance indicators |
| 1. PTRM | 1. post-tax revenue model |
| 1. RAB | 1. regulatory asset base |
| 1. RBA | 1. Reserve Bank of Australia |
| 1. repex | 1. replacement expenditure |
| 1. RFM | 1. roll forward model |
| 1. RIN | 1. regulatory information notice |
| 1. RPP | 1. revenue pricing principles |
| 1. SLCAPM | 1. Sharpe-Lintner capital asset pricing model |
| 1. STPIS | 1. service target performance incentive scheme |
| 1. TNSP | 1. transmission network service provider |
| 1. TUoS | 1. transmission use of system |
| 1. WACC | 1. weighted average cost of capital |

# Maximum allowed revenue

1. This attachment sets out the AER's draft decision on the maximum allowed revenue (MAR) for the provision of prescribed transmission services for each year of Directlink's 2015–20 regulatory control period. Specifically, the attachment addresses:[[1]](#footnote-1)

* the estimated total revenue cap, which is the sum of the annual expected MAR.
* the annual building block revenue requirement
* the annual expected MAR
* the X factor.

1. We determine the TNSP's annual building block revenue requirement using a building block approach. We determine the X factors by smoothing the annual building block revenue requirement over the regulatory control period. The X factor is used in the CPI–X methodology to determine the annual expected MAR (smoothed).

## Draft decision

1. We do not accept Directlink's proposed annual building block revenue requirement, annual expected MAR and total revenue cap. For the reasons discussed in the attachments to this draft determination, our decisions on Directlink's proposed building block components have a consequential impact on its annual building block revenue requirement. We have calculated the X factor and the annual expected MAR (smoothed) to reflect our draft decisions on Directlink's annual building block revenue requirement.
2. We determine a total annual building block revenue requirement for Directlink of $76.3 million ($ nominal) for the 2015–20 regulatory control period. As a result of our smoothing of the annual building block revenue requirement, we approve an estimated total revenue cap of $76.3 million ($ nominal) for Directlink for the 2015–20 regulatory control period. Our approved X factor is zero per cent per annum for 2016–17 to 2019–20.
3. Table 1‑1 sets out our draft decision on Directlink's annual building block revenue requirement, the X factor, the annual expected MAR and the estimated total revenue cap for the 2015–20 regulatory control period.

Table ‑ AER's draft decision on Directlink's annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factor ($ million, nominal)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2015–16 | 2016–17 | 2017–18 | 2018–19 | 2019–20 | Total |
| Return on capital | 8.1 | 9.0 | 9.1 | 9.1 | 9.2 | 45.2 |
| Regulatory depreciationa | 1.6 | 1.9 | 2.1 | 2.3 | 2.6 | 10.5 |
| Operating expenditure | 4.0 | 3.3 | 3.5 | 3.5 | 3.6 | 17.9 |
| Net tax allowance | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 2.7 |
| Annual building block revenue requirement (unsmoothed) | 14.9 | 14.7 | 15.2 | 15.5 | 16.0 | 76.3 |
| Annual expected MAR (smoothed) | 14.5 | 14.9 | 15.3 | 15.6 | 16.0 | 76.3b |
| X factor (%) | n/ac | 0.0%d | 0.0%d | 0.0%d | 0.0%d | n/a |

Source: AER analysis.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.

(b) The estimated total revenue cap is equal to the total annual expected MAR.

(c) Directlink is not required to apply an X factor for 2015–16 because the MAR is set in this decision. The MAR for 2015–16 is around 0.1 per cent lower than the approved MAR ($14.2 million) in the final year of the 2005–15 regulatory control period (2014–15) in real terms, or 2.5 per cent higher in nominal terms.

(d) The X factor will be revised to reflect the annual return on debt update.

## Directlink's proposal

1. Directlink proposed a total (smoothed) revenue cap of $99.3 million ($ nominal) for the 2015–20 regulatory control period.
2. Table 1‑2 sets out Directlink's proposed annual building block revenue requirement, the X factor, the annual expected MAR and the estimated total revenue cap.

Table 1‑2 Directlink's proposed annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factor ($ million, nominal)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2015–16 | 2016–17 | 2017–18 | 2018–19 | 2019–20 | Total |
| Return on capital | 10.5 | 10.8 | 11.1 | 11.3 | 11.6 | 55.3 |
| Regulatory depreciationa | 1.7 | 2.0 | 2.2 | 2.5 | 2.8 | 11.1 |
| Operating expenditure | 5.9 | 5.4 | 5.6 | 5.7 | 5.9 | 28.6 |
| Net tax allowance | 0.8 | 0.8 | 0.9 | 0.9 | 1.0 | 4.4 |
| Annual building block revenue requirement (unsmoothed) | 18.9 | 19.0 | 19.8 | 20.5 | 21.2 | 99.3 |
| Annual expected MAR (smoothed) | 18.1 | 19.0 | 19.8 | 20.7 | 21.7 | 99.3 |
| X factor (%) | n/a | –2.00 | –2.00 | –2.00 | –2.00 | n/a |

Source: Directlink, Post tax revenue model, May 2014.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.

(b) The estimated total revenue cap is equal to the total annual expected MAR.

## AER's assessment approach

1. In this section, we describe the building block approach used to determine the TNSP's expected MAR. We also set out the annual revenue adjustment to be applied to Directlink's MAR over the   
   2015–20 regulatory control period.

### The building block approach

1. The MAR is calculated using the post-tax revenue model (PTRM).[[2]](#footnote-2) The PTRM must be such that the expected MAR for each year of the regulatory control period is equal to the net present value (NPV) of the annual building block revenue requirement for the TNSP for each year, and the total revenue cap is the sum of the MARs for each year.[[3]](#footnote-3) In turn, the annual building block revenue requirement must be determined using a building blocks approach.[[4]](#footnote-4) Therefore, we adopt a building block approach when making our decision on a TNSP's total revenue cap and expected MAR for each regulatory year of the regulatory control period. Under this approach we determine the value of the building block components that make up the annual building block revenue requirement for each regulatory year, including:

* indexation of the regulatory asset base (RAB)
* the return on capital, which is a function of the rate of return and the opening RAB (including the addition of capital expenditure)
* the return of capital (depreciation), which is based on the straight-line method to calculating depreciation of the RAB
* the estimated cost of corporate income tax
* other amounts associated with any relevant schemes or carried over from a previous regulatory control period
* operating expenditure.[[5]](#footnote-5)

1. We developed the PTRM, which brings together the various building block components and calculates the annual building block revenue requirement for each year of the regulatory control period.[[6]](#footnote-6) The PTRM also calculates the X factors required under the CPI–X methodology which is used to escalate the MAR for each year (other than the first year) of the regulatory control period.[[7]](#footnote-7) Using the X factors and annual building block revenue requirement, the annual expected MAR (smoothed) is forecast for each year of the regulatory control period. A TNSP’s revenue proposal must be prepared using our PTRM.[[8]](#footnote-8)
2. The annual building block revenue requirement can be lumpy over the regulatory control period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. Smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period so that the NPV of the annual expected MAR (smoothed revenues) is equal to the NPV of the annual building block revenue requirement (unsmoothed revenues). That is, a smoothed profile of the expected MAR is determined for the regulatory control period under the CPI–X methodology.
3. The expected MAR for the first year is generally set equal to the annual building block revenue requirement for the first year of the regulatory control period. It may be appropriate to set the expected MAR for the first year to align with the MAR from the last year of the previous regulatory control period to avoid any large revenue variation between periods (or P0):[[9]](#footnote-9)
4. MAR1 = AR1 or MARL
5. where:
6. MAR1 = the maximum allowed revenue for year 1 of the next regulatory control period
7. AR1 = the annual building block revenue requirement for year 1 of the next regulatory control period
8. MARL ~ the maximum allowed revenue for the last year of the previous regulatory control period.
9. To enable the formula for the annual revenue adjustment process (discussed below in section 1.3.3) to operate correctly, we will refer to the MAR determined in this decision using the building block costs as the allowed revenue (AR). This is because the expected MAR determined using the building block costs do not incorporate performance incentive scheme revenue adjustments and pass through amounts that may apply to each regulatory year.
10. In this determination we first calculate annual building block revenue requirements for each year of the 2015–20 regulatory control period. To do this we consider the various costs facing the TNSP and the trade-offs and interactions between these costs, service quality and across years. This reflects the AER's holistic assessment of the TNSP's proposal.
11. We understand the trade-offs that occur between building block costs and test the sensitivity of these costs to their various driver elements. These trade-offs are discussed in the interrelationships section of the various attachments to this draft decision and are reflected in the calculations made in the PTRM developed by the AER.[[10]](#footnote-10) Such understanding allows the AER to exercise judgement in determining the final inputs into the PTRM and the annual building block revenue requirements that result from this modelling.
12. Having determined the total annual building block revenue requirement for the 2015–20 regulatory control period, the annual building block revenue requirements for each regulatory year are smoothed across that period to reduce revenue variations between years and to come up with the expected MAR for each year. This is done through the determination of the X factors.[[11]](#footnote-11) The X factor must equalise (in net present value terms) the total revenue cap to be earned by the TNSP with the total building block revenue requirement for the 2015–20 regulatory control period.[[12]](#footnote-12) The X factor must usually minimise, as far as reasonably possible, the variance between the expected MAR and annual building block revenue requirement for the last regulatory year of the period.[[13]](#footnote-13) We therefore consider a divergence of up to 3 per cent between the expected MAR and annual building block revenue requirement for the last year of the regulatory control period is reasonable, if this can promote smoother price changes over the regulatory control period.
13. The building block costs (and the elements that drive those costs) used to determine the unsmoothed annual building block revenue requirements are set out below.

### The building block costs

1. The efficient costs to be recovered by a TNSP can be thought of as being made up of various building block costs. Our draft decision assesses each of the building block costs and the elements that drive these costs. The building block costs are approved reflecting trade-offs and interactions between the cost elements, service quality and across years.
2. Table 1‑3 shows the building block costs that form the annual building block revenue requirement for each year and where discussion on the elements that drive these costs can be found within this draft decision.

Table ‑ Building block costs

|  |  |
| --- | --- |
| Building block costs | Attachments where elements are discussed |
| Return on capital | Regulatory asset base (attachment 2)  Capex (attachment 6) Rate of return (attachment 3) |
| Regulatory depreciation (return of capital) | Regulatory asset base (attachment 2) Capex (attachment 6) Depreciation (attachment 5) |
| Operating expenditure (opex) | Opex (attachment 7) |
| Efficiency benefits/penalties | Efficiency benefit sharing scheme (attachment 9) |
| Estimated cost of corporate tax | Corporate income tax (attachment 8) Value of imputation credits (attachment 4) |

Source: AER analysis.

### Annual revenue adjustment process

1. The PTRM incorporates a forecast inflation rate to calculate the expected MAR (excluding performance incentive scheme revenue adjustments and pass through amount that may apply to each regulatory year) in nominal dollar terms, whereas the actual MAR for each year is adjusted for actual inflation. As discussed in the return on debt appendix (see attachment 3 of this draft decision), we will update Directink's return on debt annually. This means the actual MAR for each year will also be adjusted for revised X factors after the annual return on debt update. This annual revenue adjustment process is set out below.
2. The MAR for the subsequent year of the regulatory control period requires an annual adjustment based on the previous year’s AR.[[14]](#footnote-14) That is, the subsequent year’s AR is determined by adjusting the previous year’s AR for actual inflation and the X factor determined after the annual return on debt update:
3. AR*t* = AR*t*-1 × (1 + ∆CPI) × (1 – X*t*)
4. where:
5. AR = the allowed revenue

t = time period/financial year (for t = 2 (2016–17, 3 (2017–18), 4 (2018–19), 5 (2019–20))

1. ∆CPI = the annual percentage change in the ABS Consumer price index all groups, weighted average of eight capital cities from December in   
    year t – 2 to December in year t – 1[[15]](#footnote-15)
2. X = the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the return on debt appendix calculated for the relevant year.
3. The MAR is determined annually in accordance with the NER by adding to (or deducting from) the AR:

* the service target performance incentive scheme revenue increment (or revenue decrement)[[16]](#footnote-16)
* any approved pass through amounts.[[17]](#footnote-17)

1. Table 1‑4 sets out the timing of the annual calculation of the AR and performance incentive:

MAR*t* = (allowed revenue) + (performance incentive) + (pass through)

= AR*t* + + P*t*

1. where:
2. MAR = the maximum allowed revenue
3. AR = the allowed revenue
4. S = the revenue increment or decrement determined in accordance with the service target performance incentive scheme
5. P = the pass through amount (positive or negative) that the AER has determined in accordance with clauses 6A.7.2 and 6A.7.3 of the NER
6. t = time period/financial year (for t = 2 (2016–17, 3 (2017–18), 4 (2018–19), 5 (2019–20))
7. ct = time period/calendar year (for t = 2 (2015), 3 (2016), 4 (2017), 5 (2018)).
8. Under the NER, a TNSP may also adjust the MAR for under or over recovery amounts.[[18]](#footnote-18) That is, the revenue amounts recovered higher or lower than the approved MAR for each year would be included in the subsequent year's MAR. In the case of an under-recovery, the amount would be added to the future year's MAR. In the case of an over-recovery, the amount would be subtracted from the future year's MAR.

Table 1‑4 Timing of the calculation of allowed revenues and the performance incentive for Directlink

|  |  |  |  |
| --- | --- | --- | --- |
| t | Allowed revenue (financial year) | ct | Performance incentive (calendar year) |
| 2 | 1 July 2016–30 June 2017 | 2 | 1 January 2015–31 December 2015 |
| 3 | 1 July 2017–30 June 2018 | 3 | 1 January 2016–31 December 2016 |
| 4 | 1 July 2018–30 June 2019 | 4 | 1 January 2017–31 December 2017 |
| 5 | 1 July 2019–30 June 2020 | 5 | 1 January 2018–31 December 2018 |

Note: The performance incentive for 1 January 2014–31 December 2014 is to be applied to the AR determined for   
2015–16 (AR1).

### Average transmission charges

1. The NER does not require an estimate of transmission charges for a revenue determination of a TNSP. Nonetheless, we typically provide some indicative transmission price impacts flowing from the revenue determination as discussed in section 1.4.3. Although we assess Directlink's proposed pricing methodology as part of this determination, actual transmission charges established at particular connection points are not determined by us. TransGrid, as coordinating TNSP for NSW, includes Directlink's revenue requirements to establish the transmission charges in accordance with the approved pricing methodology and the NER.

## Reasons for draft decision

1. We determine a total annual building block revenue requirement of $76.3 million ($ nominal) for Directlink for the 2015–20 regulatory control period. This compares to Directlink's proposed total annual building block revenue requirement of $99.3 million ($ nominal) for this period.
2. Figure 1‑1 shows the building block components from our determination that make up the annual building block revenue requirement for Directlink, and the corresponding components from its proposal.
3. We have calculated the annual building block revenue requirement for Directlink based on our draft decision on each of these building block components. The revenues are affected by our changes to Directlink's proposed building blocks. These changes include:

* forecast operating expenditure (attachment 7)
* the rate of return (attachment 3)
* the opening RAB (attachment 2) and forecast capital expenditure (attachment 6)
* forecast regulatory depreciation (attachment 5)
* the estimated cost of corporate income tax (attachment 8).

Figure 1‑1 AER's draft decision and Directlink's proposed annual building block revenue requirement ($ million, nominal)



Source: AER analysis.

### X factor, annual expected MAR and estimated total revenue cap

1. For this draft decision, we determine an X factor of zero per cent per annum for the years 2016–17 to   
   2019–20 for Directlink. The NPV of the annual building block revenue requirement is $62.7 million ($ nominal) as at 1 July 2015. Based on this NPV and applying the CPI–X method, we determine that the annual expected MAR (smoothed) for Directlink increases from $14.5 million in 2015–16 to $16.0 million in 2019–20 ($ nominal). The resulting estimated total revenue cap for Directlink is $76.3 million ($ nominal) for the 2015–20 regulatory control period.
2. Figure 1‑2 shows our draft decision on Directlink's annual expected MAR (smoothed revenue) and the annual building block revenue requirement (unsmoothed revenue) for the 2015–20 regulatory control period.

Figure 1‑2 AER's draft decision on Directlink's annual expected MAR (smoothed) and annual building block revenue requirement (unsmoothed) ($ million, nominal)

1. 

Source: AER analysis.

1. To determine the expected MAR for Directlink, we have set the MAR for the first regulatory year at $14.5 million ($nominal) which is $0.4 million lower than the annual building block revenue requirement. We then applied an X factor of zero per cent per annum to determine the expected MAR in subsequent years.[[19]](#footnote-19) We consider that our profile of X factors results in an expected MAR in the last year of the regulatory control period that is as close as reasonably possible to the annual building block revenue requirement for that year as required under the NER.[[20]](#footnote-20)
2. The average increase in our approved expected MAR is 2.5 per cent per annum ($ nominal) over the 2015–20 regulatory control period.[[21]](#footnote-21) Our draft decision results in no change in real terms ($2013–14) to Directlink's average annual revenue relative to that in the 2005–15 regulatory control period.[[22]](#footnote-22)

1. Figure 1‑3 compares our draft decision building blocks for Directlink's 2015–20 regulatory control period with Directlink's proposed revenue requirement for that same period, and the approved revenue for the 2005–15 regulatory control period.

Figure 1‑3 Annual average of AER's draft decision building blocks compared to Directlink's proposed revenue requirement and approved revenue for 2005–15 ($ million, 2013–14)

1. 

Source: AER analysis.

### Shared assets

1. Service providers, such as Directlink, may use assets to provide both prescribed transmission services we regulate and unregulated services. These assets are called 'shared assets'.[[23]](#footnote-23) Of the unregulated revenues a service provider earns from shared assets, 10 per cent will be used to reduce the service provider's prices for prescribed transmission services.[[24]](#footnote-24) However, price reductions are subject to a materiality threshold. Unregulated use of shared assets is material when a service provider's unregulated revenues from shared assets in a specific regulatory year are expected to be greater than 1 per cent of its MAR for that regulatory year.[[25]](#footnote-25)
2. Directlink submitted that it does not earn and does not expect to earn unregulated revenues, including through use of regulated assets. It therefore submitted forecasts for shared asset unregulated revenues of zero value in each regulatory year of the 2015–20 regulatory control period.[[26]](#footnote-26) Based on our previous assessment of service provider unregulated revenues, we consider Directlink's forecasts are reasonable.[[27]](#footnote-27)

### Indicative average transmission charges

1. Our draft decision on Directlink's expected MAR ultimately affects the prices consumers pay for electricity. However, the adjustments we have made to Directlink's expected MAR do not directly translate to changes in annual electricity bills, principally because Directlink is a small component of the broader transmission network that serves NSW and the ACT. TransGrid is the main transmission network service provider in this region, and is designated the coordinating TNSP. Our draft decision on TransGrid's expected MAR is the principal determinant of the estimated transmission charges, and therefore the estimated impact of transmission charges on annual electricity bills. Further, the transmission charges in NSW/ACT are also affected by the revenue determinations for Ausgrid and ActewAGL's transmission assets.[[28]](#footnote-28) Directlink, just like Ausgrid and ActewAGL, collects its transmission revenues from TransGrid.
2. We therefore estimate the forecast average transmission charges in NSW/ACT by:

* taking the sum of TransGrid and Directlink's annual expected MAR determined in this draft decision and the expected revenues for Ausgrid and ActewAGL's transmission assets for   
  2014–18[[29]](#footnote-29)
* dividing it by the forecast annual energy delivered in NSW/ACT as published by AEMO.[[30]](#footnote-30)

1. Our draft decision for TransGrid presents this analysis.[[31]](#footnote-31)

1. NER, clauses 6A.4.2(a)(1)–(3) and 6A.6.8. [↑](#footnote-ref-1)
2. NER, clauses 6A.5.1 and 6A.5.3. [↑](#footnote-ref-2)
3. NER, clauses 6A.5.3(c)(1) and (4). [↑](#footnote-ref-3)
4. NER, clause 6A.5.4. [↑](#footnote-ref-4)
5. NER, clause 6A.5.4(a). [↑](#footnote-ref-5)
6. NER, clause 6A.5. [↑](#footnote-ref-6)
7. NER, clauses 6A.5.3 and 6A.6.8. [↑](#footnote-ref-7)
8. NER, clause 6A.5.1(a). [↑](#footnote-ref-8)
9. The MAR for year 1 of the next regulatory control period may include adjustment for the performance incentive that applied during the previous regulatory control period, and under or over recovery adjustments from previous regulatory years. [↑](#footnote-ref-9)
10. There are trade-offs that are not modelled in the PTRM but are reflected in the inputs to the PTRM. For example, service quality is not explicitly modelled in the PTRM, but the trade-offs between service quality and price are reflected in the forecast capex and opex inputs to the model. Other trade-offs are obvious from the calculations in the PTRM. For example, while someone may expect a lower regulatory asset base to also lower revenues, the PTRM shows that this will not occur if the reduction in the regulatory asset base is due solely to an increase in the depreciation rate. In such circumstances, revenues increase as the increased depreciation allowance more than offsets the reduction in the return on capital caused by the lower regulatory asset base. [↑](#footnote-ref-10)
11. NER, clause 6A.6.8(a). [↑](#footnote-ref-11)
12. NER, clause 6A.6.8(c)(1). [↑](#footnote-ref-12)
13. NER, clause 6A.6.8(c)(2). [↑](#footnote-ref-13)
14. In the case of making the annual adjustment for year 2, the previous year's AR would be the same as the approved smoothed revenue for year 1 as contained in the PTRM. [↑](#footnote-ref-14)
15. In the revenue cap determination for Directlink's 2005–15 regulatory control period, the CPI required for the annual MAR adjustment process reflects the March quarter CPI, which is typically published by the ABS in late April. For this transmission determination we require Directlink to use the December quarter of the previous calendar year CPI for the annual MAR adjustment for its next regulatory control period. December quarter CPI is typically released by the ABS towards the end of January of the following year. As the same set of CPI will be used for the RAB roll forward at the next reset for Directlink in 2020, this change will allow us to update the actual CPI for RAB roll forward purposes well before the publication date of the AER's final decision at the next reset. We note that there will be an overlapping issue of the March quarter CPI when the transition to the December quarter CPI occurs (this will be in the year 2015–16 for the TNSP). This is because the CPI for March quarter 2015 will be reflected in both 2014–15 and 2015–16. However, we consider this is only a transitional issue and does not have a material impact on the revenue to be recovered by the TNSP. [↑](#footnote-ref-15)
16. NER, clause 6A.7.4. [↑](#footnote-ref-16)
17. NER, clauses 6A.7.2 and 6A.7.3. [↑](#footnote-ref-17)
18. NER, clauses 6A.23.3(c)(2)(iii) and 6A.24.4(c). [↑](#footnote-ref-18)
19. NER, clause 6A.5.3(c)(3). [↑](#footnote-ref-19)
20. NER, clause 6A.6.8(c)(2). We consider a divergence of up to 3 per cent between the expected MAR and annual building block revenue requirement for the last year of the regulatory control period is appropriate, if this can achieve smoother price changes for users over the regulatory control period. In the present circumstances, based on the X factors we have determined for Directlink, this divergence is around 0.3 per cent. [↑](#footnote-ref-20)
21. In real dollar terms, the average change in our approved expected MAR for Directlink is zero per cent per annum over the 2015–20 regulatory control period. [↑](#footnote-ref-21)
22. Because the regulatory control periods compared are of different lengths, we calculated the annual average revenues for the relevant regulatory control periods for comparison. [↑](#footnote-ref-22)
23. NER, clause 6A.5.5. [↑](#footnote-ref-23)
24. AER, Shared asset guideline, November 2013. [↑](#footnote-ref-24)
25. AER, Shared asset guideline, November 2013, p. 8. [↑](#footnote-ref-25)
26. Directlink, . [↑](#footnote-ref-26)
27. Undertaken as we developed our shared asset guideline, during the 2013 calendar year, as part of our Better Regulation work program. [↑](#footnote-ref-27)
28. While Ausgrid and ActewAGL are predominantly electricity distribution businesses, they also own and operate some transmission assets. These assets operate in parallel and support TransGrid’s transmission network to provide transmission network services to NSW and ACT. [↑](#footnote-ref-28)
29. We made draft decisions on Ausgrid and ActewAGL's proposed annual expected MAR for the 2014–19 period. Our draft decision for Ausgrid and Actew AGL can be found on our website at [www.aer.gov.au](file:///\\SCBRFS001\home$\CHXUE\www.aer.gov.au). For this analysis, we used Ausgrid's and ActewAGL's 2014–15 to 2017–18 transmission revenues from our draft decision to be consistent with TransGrid's 2014–18 period. [↑](#footnote-ref-29)
30. AEMO, National electricity forecasting report for the national electricity market, June 2014, table 6, Medium. [↑](#footnote-ref-30)
31. AER Draft decision, TransGrid transmission determination 2015-18, November 2014, Overview section 7.2: http://www.aer.gov.au/node/23137. [↑](#footnote-ref-31)