



DRAFT DECISION
Murraylink transmission
determination
2018 to 2023

Attachment 12 – Pricing
methodology

September 2017

© Commonwealth of Australia 2017

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 4141, Canberra ACT 2601

or publishing.unit@acc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: (03) 9290 1444

Fax: (03) 9290 1457

Email: AERInquiry@aer.gov.au

Note

This attachment forms part of the AER's draft decision on Murraylink's transmission determination for 2018–23. It should be read with all other parts of the draft decision.

The draft 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

Contents

Note	12-2
Contents	12-3
Shortened forms	12-4
12 Pricing methodology	12-6
12.1 Draft decision	12-6
12.2 Murraylink’s proposal	12-6
12.3 Assessment approach	12-7
12.4 Reasons for draft decision	12-7
12.4.1 Assessment against the pricing principles for prescribed transmission services	12-8
12.4.2 Assessment against the pricing methodology guidelines for prescribed transmission services	12-9

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
DMIA	demand management innovation allowance
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
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

Shortened form	Extended form
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 draft determination on Murraylink's proposed pricing methodology for the 2018–23 regulatory control period.

This attachment specifies the pricing methodology that the transmission network service provider (TNSP) is to apply in determining prices for the recovery of regulated transmission revenues.¹ The National Electricity Rules (NER) set out that the service provider must provide a 'methodology, formula, process or approach'² that, when applied:

- allocates the aggregate annual revenue requirement to the categories of prescribed transmission services that a transmission business provides³
- provides for the manner and sequence of adjustments to the annual service revenue requirement⁴ and allocates that revenue requirement to transmission connection points⁵
- determines the structure and recovery of prices that a transmission business may charge for each category of prescribed transmission services.⁶

A pricing methodology relates to prescribed transmission services only. Murraylink currently provides prescribed transmission services only, i.e. it does not currently provide negotiated or unregulated transmission services.

Nonetheless, Murraylink submitted a negotiating framework for negotiated services as part of its regulatory proposal.⁷ This proposed framework is discussed in attachment 14 (negotiated services) of this draft decision.

12.1 Draft decision

We approve Murraylink's proposed pricing methodology for the 2018–23 regulatory control period.

12.2 Murraylink's proposal

In accordance with the NER, Murraylink submitted its proposed pricing methodology with its revenue proposal for the 2018-23 regulatory control period.⁸

¹ NER, cl. 6A.2.2(4).

² NER, cl. 6A.24.1(b).

³ NER, cl. 6A.24.1(b)(1) and (b)(3).

⁴ NER, cl. 6A.24.1(b)(2).

⁵ NER, cl. 6A.24.1(b)(3).

⁶ NER, cl. 6A.24.1(b)(4).

⁷ Murraylink Transmission Company Pty Ltd, *Negotiating Framework, Effective July 2018 to June 2023*, 31 January 2017.

12.3 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.⁹

Our assessment approach was guided by these requirements.

We also considered the pricing methodology Murraylink employed, and which we approved, during the 2013-18 regulatory control period.

12.3.1 Inter-relationships

In each of the South Australian and Victorian regions, there are multiple transmission network service providers (TNSPs). Where there are multiple TNSPs within a region, one must be the Co-ordinating Network Service Provider. ElectraNet is the appointed Co-ordinating Network Service Provider for the South Australian region, and the Australian Energy Market Operator (AEMO) is the appointed Co-ordinating Network Service Provider for the Victorian region. ElectraNet applies its pricing methodology to determine the transmission prices to be charged in the South Australian region, to recover the regulated transmission revenues of both itself and Murraylink in line with the NER.¹⁰ Likewise, in the Victorian region, the AEMO applies its pricing methodology to determine transmission prices to recover the regulated transmission revenues of Murraylink, AusNet Services and itself.

12.4 Reasons for draft decision

Murraylink recovers its revenues for prescribed transmission services from the Co-ordinating Network Service Providers in Victoria and South Australia – AEMO and ElectraNet, respectively.

Murraylink's proposed pricing methodology for 2018–23 refers to it being included in the AEMO and ElectraNet pricing methodologies.¹¹ Our draft decision for ElectraNet is to accept its pricing methodology for 2018–23. The current AEMO pricing methodology applies to the period 1 July 2014 to 30 June 2019.

⁸ Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017.

⁹ NER, cl. 6A.24.1(c); AER, Electricity transmission service providers, Pricing methodology guidelines, July 2014.

¹⁰ NER, cl. 6A.29; Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.1.

¹¹ Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.1(a) to (b).

We accept that it is appropriate for Murraylink to adopt AEMO's and ElectraNet's pricing methodologies. Where there are multiple transmission businesses in a region, those businesses must appoint a Co-ordinating Network Service Provider.¹² In the Victorian and South Australian regions, AEMO and ElectraNet fulfil that role, respectively, in accordance with the NER. AEMO is therefore responsible for allocating all relevant aggregate annual revenue requirements (AARR) in the Victorian region and ElectraNet is responsible for such in the SA region. This includes Murraylink's AARR in Victoria and SA. Therefore we consider Murraylink's adoption of AEMO and ElectraNet pricing methodologies is appropriate.

We find that the AEMO's current pricing methodology and ElectraNet's proposed 2018–23 methodology give effect to the pricing principles in the NER and comply with the requirements of our pricing methodology guidelines. It follows that we accept Murraylink's proposed pricing methodology for the same reasons.

Further, we note that Murraylink's proposed methodology for 2018–23 is the same methodology we approved for the current 2013–18 regulatory control period.

We have to clarify how Murraylink's proposed and AEMO's current pricing methodologies will interact. We note that the timing of the two regulatory control periods in which the methodologies apply does not coincide. Murraylink's proposed pricing methodology will apply from 1 July 2018 to 30 June 2023 and AEMO's current methodology applies from 1 July 2014 to 30 June 2019.

The NER require that Murraylink's approved pricing methodology will apply for the duration of its regulatory control period and may not be amended during this period.¹³ Murraylink has proposed that its pricing methodology will be dealt with by the Coordinating Network Service Providers.¹⁴ We accept that modifications to AEMO's pricing methodology for the period beyond 30 June 2019 and within Murraylink's regulatory control period will apply to Murraylink. We consider that this outcome is consistent with the NER because Murraylink will automatically adopt AEMO's pricing methodology in operation during Murraylink's 2018–23 regulatory control period. This means both methodologies will always match during this 2018–23 period.

12.4.1 Assessment against the pricing principles for prescribed transmission services

We consider that Murraylink's proposed pricing methodology meets the requirements of the pricing principles in the NER. The pricing principles are intended to provide scope for transmission businesses to develop pricing arrangements that address the

¹² NER, cl. 6A.29.1(a).

¹³ NER, cl. 6A.24.1(e) and (f).

¹⁴ Murraylink Transmission Company Pty Ltd, Pricing Methodology, *Effective July 2018 to June 2023*, 31 January 2017, section 2.1 (b)(2).

circumstances in which they operate their network.¹⁵ This limits our review to a high-level assessment.

As mentioned above, because we have considered that the pricing methodologies of ElectraNet and the AEMO (as Co-ordinating Network Service Providers) meet the requirements of the pricing principles in the NER, we consider Murraylink's methodology also meets those pricing principles.

12.4.2 Assessment against the pricing methodology guidelines for prescribed transmission services

We are satisfied that Murraylink's proposed pricing methodology complies with the information requirements of the pricing methodology guidelines.

Key features of the proposal include:

- acknowledging that there are multiple TNSPs in the Victorian and South Australian regions and that the AEMO is the Co-ordinating Network Service Provider for the Victorian region, and ElectraNet for the South Australian region¹⁶
- calculating the locational component of prescribed TUOS services costs using a cost reflective network pricing methodology¹⁷
- basing the locational prescribed TUOS services price on a contract agreed maximum demand or the average half-hourly maximum demand at a connection point¹⁸
- using a postage stamp pricing structure for the non-locational component of prescribed TUOS services and prescribed common transmission services¹⁹
- using the priority ordering approach under clause 6A.23.3(d) of the NER to implement priority ordering²⁰
- describing how asset costs that may be attributable to both prescribed entry services and prescribed exit services will be allocated at a connection point²¹

¹⁵ AEMC, *Rule Determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No 22*, 21 December 2006, pp. 27–8.

¹⁶ Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.1.

¹⁷ Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.1.

¹⁸ Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.2.

¹⁹ Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.3.

²⁰ Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.1.

²¹ Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.1.

- describing billing arrangements as in clauses 6A.27, 6A.29A.4 and 6A.29A.5 of the NER²²
- describing prudential requirements as in clause 6A.28 of the NER²³
- describing how Murraylink intends to monitor and develop records of its compliance with its approved pricing methodology, the pricing principles and Part J of the NER.²⁴

The above are deemed included in Murraylink's proposal whenever it refers to the ElectraNet and AEMO pricing methodologies.

²² Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.1.

²³ Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.1.

²⁴ Murraylink Transmission Company Pty Ltd, *Pricing Methodology, Effective July 2018 to June 2023*, 31 January 2017, section 2.1.