



DRAFT DECISION

Evoenergy

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 Evoenergy 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

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Attachment 15 – Alternative control services

Attachment 16 – Negotiated services framework and criteria

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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 Evoenergy's proposed transmission pricing methodology for the 2019–24 regulatory control period.

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

Evoenergy'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 Evoenergy's dual function assets.³

The role of a transmission pricing methodology's is to answer the question 'who should pay 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

Evoenergy 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 Evoenergy's proposed pricing methodology submitted January 2018 for the 2019–24 regulatory control period, subject to several editorial amendments.

Evoenergy informed us that it will update its proposed pricing methodology in its November 2018 revised proposal. We understand the updates will account for our

¹ NER, cl. 6A.2.2(4).

² ActewAGL Distribution, *Response to preliminary framework and approach, Regulatory control period commencing 1 July 2019*, April 2017. (Evoenergy was then known as ActewAGL.)

³ AER, *Framework and approach, ActewAGL Regulatory control period commencing 1 July 2019*, July 2017.

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 Evoenergy, *Appendix 11.1 - Transmission pricing methodology 2019–24 (Public)*, January 2018, pp. vii and 1–2.

remade final decision for Evoenergy for the 2014–19 regulatory control period, which we had not published at the time Evoenergy submitted its initial regulatory proposal for 2019–24.⁹

Our final decision will therefore assess Evoenergy’s revised proposed pricing methodology having regard to these updates and stakeholder submissions.

19.2 Evoenergy’s proposal

Evoenergy’s proposed 2019–24 pricing methodology is largely the same as its current pricing methodology for 2014–19. Evoenergy stated that it had updated some aspects of its pricing methodology to ensure consistency with TransGrid’s pricing methodology.¹⁰

19.3 Stakeholder submissions

We have not received any submissions in this regard.

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.¹¹

Our assessment approach was guided by these requirements.

We also considered the pricing methodology Evoenergy 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 distributors which have electricity transmission assets – Ausgrid in NSW and Evoenergy in ACT.

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

⁹ AER, *Final decision: Evoenergy 2014–19 distribution determination*, November 2018.

¹⁰ TransGrid is the Co-ordinating Network Service Provider for the NSW and ACT regions. (Evoenergy, *Appendix 11.1 - Transmission pricing methodology 2019–24 (Public)*, January 2018, p. 1.)

¹¹ NER, cl. 6A.24.1(c); AER, *Electricity transmission service providers, Pricing methodology guidelines*, July 2014.

19.5 Reasons for draft decision

We consider that Evoenergy'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.¹²

Evoenergy's proposed methodology is largely the same methodology we approved for Evoenergy for the 2014–19 regulatory control period.

We note that changes to Evoenergy's proposed pricing methodology compared to that applicable for its 2014-19 regulatory control period are editorial or updates to its example calculations. We consider these changes are appropriate and do not go to the substance of the pricing methodology.

Further, we identified several (non-substantive) editorial errors which we will communicate to Evoenergy for correction.

19.5.1 Assessment against the pricing principles for prescribed transmission services

We consider Evoenergy'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.¹³ 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 Evoenergy'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 Evoenergy's proposed pricing methodology calculates and allocates its AARR.

¹² NER, cl. 6A.24.1(c).

¹³ AEMC, *Rule Determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No 22*, 21 December 2006, pp. 27–8.

Table 19.1 Evoenergy'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 3.2 of Evoenergy'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 category of service—clause 6A.23.2(a)	Sections 3.3 and 3.4 of Evoenergy's proposed pricing methodology comply with 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)	Section 3.5.4 and Appendix 1 of Evoenergy's proposed pricing methodology complies 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)	Section 3.3 of Evoenergy's proposed pricing methodology complies with this requirement.

Source: Evoenergy, *Appendix 11.1 - Transmission pricing methodology 2019–24 (Public)*, January 2018.

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

We assessed Evoenergy'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 Evoenergy'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 3.3, 3.4 and 3.5.1 of Evoenergy's proposed pricing methodology complies 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 3.3, 3.4 and 3.5.2 of Evoenergy'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 3.5.3 of Evoenergy's proposed pricing methodology largely complies with this requirement. We consider that Evoenergy has inadvertently referred to clause 6A.23.3(c)(2) [should actually be a reference to 6A.23.3(e)(2)]. We note the 2014–19 pricing methodology refers to clause 6A.23.3(b)(1) of the NER and we consider this clause is the appropriate one to include in the pricing

methodology.

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 3.5.4 and Appendix 1 of Evoenergy'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 clause 6A.23.4 and clause 6A.23.3(h)

Section 3.7 and Appendix 1 of Evoenergy's proposed pricing methodology comply with this requirement.

Source: Evoenergy, *Appendix 11.1 - Transmission pricing methodology 2019–24 (Public)*, January 2018.

Development of price structure

A pricing methodology must develop a price structure which complies with the NER but Evoenergy's proposal did not set out how it will develop one.¹⁴

That is because TransGrid is responsible for undertaking this on Evoenergy'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.¹⁵

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

Information requirements

The AER is satisfied that Evoenergy's proposed pricing methodology for 2019–24 complies with the information requirements of the AER's pricing methodology guidelines. Key features of the proposal include:

- acknowledging that there are multiple transmission network service providers in its regions (NSW and ACT)¹⁶
- 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

¹⁴ NER, cl. 6A.23.4.

¹⁵ Evoenergy, *Appendix 11.1 - Transmission pricing methodology 2019–24 (Public)*, January 2018, p. 4.

¹⁶ Evoenergy provides transmission services to south-east NSW. (Evoenergy, *Appendix 11.1 - Transmission pricing methodology 2019–24 (Public)*, January 2018, p. 1.)

- 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 Evoenergy intends to monitor and develop records of its compliance with its approved pricing methodology.