



**FINAL DECISION**  
**Directlink transmission**  
**determination**  
**2015–16 to 2019–20**

**Attachment 12 – Pricing**  
**methodology and negotiated**  
**services**

April 2015

© Commonwealth of Australia 2015

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](mailto: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](mailto:AERInquiry@aer.gov.au)

AER reference: 53446

## Note

This attachment forms part of the AER's final decision on Directlink's revenue proposal 2015–20. It should be read with other parts of the final decision.

The final 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 and negotiated services

Attachment 13 – pass through events

# Contents

<b>Note</b> .....	12-2
<b>Contents</b> .....	12-3
<b>Shortened forms</b> .....	12-4
<b>12 Pricing methodology and negotiated services</b> .....	12-6
<b>12.1 Final decision</b> .....	12-6
<b>12.2 Directlink’s revised proposal</b> .....	12-7
<b>12.3 AER’s assessment approach</b> .....	12-7
<b>12.4 Reasons for final decision</b> .....	12-7
12.4.1 Pricing methodology .....	12-7
12.4.2 Negotiating framework .....	12-8
<b>12.5 Negotiated transmission service criteria</b> .....	12-8
The NTSC .....	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
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

Shortened form	Extended form
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
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 and negotiated services

This chapter set out our determination on Directlink's proposed pricing methodology<sup>1</sup> and negotiating framework<sup>2</sup> for the 2015–20 regulatory control period.<sup>3</sup> We also specify the negotiated transmission service criteria that are to apply to Directlink.<sup>4</sup>

Our transmission determination imposes control over revenues that a transmission network service provider can recover from the provision of prescribed transmission services.

A pricing methodology describes a formula, process or approach that a transmission network service provider uses to allocate the aggregate annual revenue requirement to those categories of prescribed transmission services provided by it and to transmission network connection points of network users.<sup>5</sup> The methodology also determines the structure of the tariffs that a provider may charge for each of the categories of prescribed transmission services.<sup>6</sup>

By contrast, the provision of negotiated transmission services is less directly regulated by the AER. Instead, under the National Electricity Rules, these services are subject to negotiation between parties, or alternatively arbitration and dispute resolution by a commercial arbitrator.

For the purpose of facilitating such negotiation and arbitration, a transmission business must prepare for AER approval a negotiating framework which sets out procedures for negotiating the terms and conditions of access to a negotiated transmission service.<sup>7</sup> In addition, the AER specifies for each transmission business the negotiated transmission service criteria (NTSC) that it must apply in negotiating terms and conditions of access, including the prices and access charges for negotiated transmission services.<sup>8</sup> They also contain the criteria that a commercial arbitrator must apply to resolve disputes about such terms and conditions and/or access charges.<sup>9</sup>

### 12.1 Final decision

Our final decision:

- accepts Directlink's revised pricing methodology

---

<sup>1</sup> NER, clause 6A.2.2(4); 6A.14.1(8).

<sup>2</sup> NER, clause 6A.2.2(2); 6A.14.1(6).

<sup>3</sup> NER, clause 6A.2.2(3); 6a.14.1(7).

<sup>4</sup> NER, clause 6A.2.2(3).

<sup>5</sup> NER, clause 6A.24.1(b)(1).

<sup>6</sup> NER, clause 6A.24.1(b)(2).

<sup>7</sup> NER, clause 6A.9.5(a).

<sup>8</sup> NER, clause 6A.9.4(a)(1).

<sup>9</sup> NER, clause 6A.9.4(a)(2).

- upholds our draft decision accepting Directlink's proposed negotiating framework specifying the NTSC.

## 12.2 Directlink's revised proposal

In accordance with the NER, Directlink submitted its revised pricing methodology with its revenue proposal for the 2015–20 regulatory control period.<sup>10</sup> Directlink did not resubmit its negotiating framework, since we approved that aspect of its proposal at the draft decision stage.<sup>11</sup>

We published on our website the AER's proposed NTSC that would apply to Directlink in June 2014 (reproduced in section 1.4.2). This is required by clause 6A.11.3 of the NER.<sup>12</sup> Nonetheless, we acknowledge that there are currently no negotiated services associated with Directlink.<sup>13</sup>

## 12.3 AER's assessment approach

In reaching our draft and final decisions, we considered whether:

- the proposed pricing methodology gives effect to the pricing principles for prescribed transmission services and complies with the information requirements of the pricing methodology guidelines<sup>14</sup>
- the proposed negotiating framework specified the minimum requirements in clause 6A.9.5(c) of the NER<sup>15</sup>
- the NTSC sets out the required criteria and reflects the negotiated transmission service principles in clause 6A.9.1 of the NER.<sup>16</sup>

## 12.4 Reasons for final decision

### 12.4.1 Pricing methodology

We approve Directlink's proposed pricing methodology. It gives effect to the pricing principles for prescribed transmission services and complies with the requirements in the pricing methodology guidelines.

Our draft decision required Directlink to engage with TransGrid about their respective pricing methodologies. That was because we did not accept aspects of the latter's proposed methodology to which Directlink's was interlinked. Directlink has consulted with TransGrid about the latter's revised pricing methodology. We have also assessed

---

<sup>10</sup> NER, clause 6A.10.1. Directlink submitted its revenue proposal to the AER on 13 January 2015.

<sup>11</sup> AER, *Draft decision on Directlink's regulatory proposal: 2015–20*, November 2014, p. 12–7.

<sup>12</sup> AER, *Proposed negotiating transmission service criteria for Directlink, regulatory control period 1 July 2015 to 30 June 2020*, June 2014.

<sup>13</sup> Directlink, *Revenue proposal*, 2 June 2014, p. 14.

<sup>14</sup> NER, clause 6A.23 and 6A.24; 6A.14.3(g)(1) and (2).

<sup>15</sup> NER, clause 6A.9.5(b)(2); 6A.14.3(f).

<sup>16</sup> NER, clause 6A.9.4(a) and (b); 6A.14.1(i).



TransGrid's revised pricing methodology submitted in January 2015. Our final decision is to approve TransGrid's revised pricing methodology and hence it follows that we approve Directlink's too. Our reasons are set in attachment 19 of our final decision on TransGrid's revised pricing methodology, see <http://www.aer.gov.au/node/23137>.

It is important to clarify how Directlink's and TransGrid's pricing methodologies will interact. We note that the lengths of the two businesses' regulatory control periods are different. Directlink's is from 1 July 2015 to 30 June 2020. TransGrid's regulatory control period has the same commencement date but ends on 30 June 2018.

In this context, the NER require that Directlink's approved pricing methodology must apply, and cannot be amended, for the duration of its 2015–20 regulatory control period.<sup>17</sup> In our draft decision, we noted that if TransGrid submits a modified pricing methodology for its next regulatory control period (2018–19 and beyond), those modifications will not apply to Directlink in 2018–19.<sup>18</sup> We no longer consider this to be the case.

Any modifications to TransGrid's pricing methodology in 2018–19 will, as a matter of course, apply to Directlink. We now consider that this outcome is consistent with the NER because Directlink is applying the same methodology throughout the 2015–20 regulatory control period; that is, it is adopting the pricing arrangements TransGrid has in operation. The fact that those arrangements may alter in the 2015–20 regulatory control period does not mean that Directlink's methodology no longer applies or has been amended during the 2015-19 regulatory control period.

#### 12.4.2 Negotiating framework

We uphold our draft decision approving Directlink's proposed negotiating framework. Our reasons are set out in our draft decision.<sup>19</sup>

### 12.5 Negotiated transmission service criteria

Below we have set out the NTSC published by the AER in June 2014.<sup>20</sup> This NTSC will apply to Directlink. We consider that the NTSC sets out the required criteria to be applied by Directlink in negotiating terms and conditions of access for negotiated transmission services and any access charges.

It also sets out the criteria to be applied by a commercial arbitrator in resolving any dispute in relation to those matters.<sup>21</sup> The NTSC give effect to and are consistent with the Negotiated Transmission Service Principles in clause 6A.9.1 of the NER.<sup>22</sup>

---

<sup>17</sup> NER, cl. 6A.24.1(e) and (f).

<sup>18</sup> AER, *Draft decision: Directlink distribution determination 2014–15 and 2015–19*, November 2014, p. 19–8.

<sup>19</sup> AER, *Draft decision: Directlink distribution determination 2014–15 and 2015–19*, November 2014, p. 19–9 to 10.

<sup>20</sup> AER, *Proposed negotiating transmission service criteria for Directlink, regulatory control period 1 July 2015 to 30 June 2020*, June 2012.

<sup>21</sup> NER, clause 6A.9.4(a).

<sup>22</sup> NER, clause 6A.9.4(b).

## The NTSC

### National Electricity Objective

1. The terms and conditions of access for a negotiated transmission service, including the price that is to be charged for the provision of that service and any access charges, should promote the achievement of the National Electricity Objective.

### Criteria for terms and conditions of access

#### *Terms and conditions of access*

2. The terms and conditions of access for a negotiated transmission service must be fair, reasonable and consistent with the safe and reliable operation of the power system in accordance with the NER.
3. The terms and conditions of access for negotiated transmission services, particularly any exclusions and limitations of liability and indemnities, must not be unreasonably onerous. Relevant considerations include the allocation of risk between the TNSP and the other party, the price for the negotiated transmission service and the cost to the TNSP of providing the negotiated service.
4. The terms and conditions of access for a negotiated transmission service must take into account the need for the service to be provided in a manner that does not adversely affect the safe and reliable operation of the power system in accordance with the NER.

### Price of services

5. The price of a negotiated transmission service must reflect the cost that the TNSP has incurred or incurs in providing that service, and must be determined in accordance with the principles and policies set out in the Cost Allocation Methodology.
6. Subject to criteria 7 and 8, the price for a negotiated transmission service must be at least equal to the avoided cost of providing that service but no more than the cost of providing it on a stand-alone basis.
7. If the negotiated transmission service is a shared transmission service that:
  - a. exceeds any network performance requirements which it is required to meet under any relevant electricity legislation; or
  - b. exceeds the network performance requirements set out in schedule 5.1a and 5.1 of the NERthen the difference between the price for that service and the price for the shared transmission service which meets network performance requirements must reflect the TNSP's incremental cost of providing that service (as appropriate).
8. For shared transmission services, the difference in price between a negotiated transmission service that does not meet or exceed network performance requirements and a service that meets those requirements should reflect the TNSP's avoided costs. Schedule 5.1a and 5.1 of the NER or any relevant electricity

legislation must be considered in determining whether any network service performance requirements have not been met or exceeded.

9. The price for a negotiated transmission service must be the same for all Transmission Network Users. The exception is if there is a material difference in the costs of providing the negotiated transmission service to different Transmission Network Users or classes of Transmission Network Users.
10. The price for a negotiated transmission service must be subject to adjustment over time to the extent that the assets used to provide that service are subsequently used to provide services to another person. In such cases the adjustment must reflect the extent to which the costs of that asset are being recovered through charges to that other person.
11. The price for a negotiated transmission service must be such as to enable the TNSP to recover the efficient costs of complying with all regulatory obligations associated with the provision of the negotiated transmission service.

### **Criteria for access charges**

#### *Access charges*

12. Any access charges must be based on the costs reasonably incurred by the TNSP in providing Transmission Network User access. This includes the compensation for forgone revenue referred to in clause 5.4A(h) to (j) of the NER and the costs that are likely to be incurred by a person referred to in clause 5.4A(h) to (j) of the NER (as appropriate).