Determination Connection charge cost pass through for 2021–22 regulatory year

Murraylink

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AUSTRALIAN ENERGY REGULATOR

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Overview

During the regulatory control period, a service provider can apply to the Australian Energy Regulator (AER) to pass material changes in its costs arising from pre-defined exogenous events through to customers, in the form of higher or lower network charges. In addition to the prescribed events specified in the NER, other pass through events may be specified.[1]

AusNet Services and ElectraNet levy connection charges on Murraylink under their connection agreements. The level of these charges is subject to the revenue determinations we make in relation to AusNet Services and ElectraNet. At the time of making Murraylink's 2018–23 revenue determination, we recognised that Murraylink's connection charges may change materially when the revenue determinations for ElectraNet and AusNet Services expired on 30 June 2018 and 31 March 2022 respectively. Therefore, we approved Murraylink's proposed pass through event for the 2018–23 regulatory control period to cover the changes in the amount of connection charges levied on Murraylink by AusNet Services and ElectraNet.[2]

On 22 December 2022, Murraylink submitted an application to the AER for a pass through of costs related to the actual connection charges levied by AusNet Services and ElectraNet being lower than the forecast connection charges amount for 2021–22 included in Murraylink's 2018–23 revenue determination. Its application submits that the amount it will refund (negative pass through) to its network users through a reduction in transmission prices in 2023–24 will be $870,835 based on incurred connection charges of $285,484 in 2021–22.

We determine that a negative change event has occurred and the appropriate negative pass through amount is $871,070 ($nominal 2023–24). We have adjusted Murraylink’s proposed pass through amount by amending the 2019–20 and 2021–22 CPI figures used in its calculations and by applying the most recent Weighted Average Cost of Capital (WACC) for 2022–23 and 2023–24 when escalating the pass through amount to the 2023–24 regulatory year. Murraylink will adjust its maximum allowed revenue in 2023–24 by this amount in accordance with the revenue determination.

We must make a determination on Murraylink's pass through application. We must consider, with reference to the factors specified in the National Electricity Rules (NER),[3] whether the pass through is justified and whether the relevant amounts have been correctly calculated.[4]

We have assessed Murraylink's application under the framework provided by the NER. In particular, we have considered:

- clause 6A.7.3 of the NER
- the material provided in Murraylink's application
- Murraylink's 2018–23 revenue determination.

[1] National Electricity Rules (NER), clause 6A.7.3(a1).

[2] AER, *Murraylink transmission draft determination 2018–23 - Attachment 13 Pass through events,* September 2017, p. 10.

[3] NER, cl. 6A.7.3(j).

[4] NER, cl. 6A.7.3(g).

1 Determination

We consider that a negative change event has occurred.[5] The negative change event arises from a pass through event, and is a result of the actual connection charges paid to AusNet Services and ElectraNet in 2021–22 being lower than the allowance made for such payments in Murraylink's revenue determination.

The NER require us to determine the amount that should be passed through to customers.[6] We base our decision on an assessment of the factors set out in cl 6A.7.3(j) of the NER. We consider that Murraylink has incorrectly calculated the pass through amount that it proposes to pass on to customers in its calculation submitted on 22 December 2022. We have adjusted Murraylink’s proposed pass through amount by applying the latest available WACC for 2022–23 and 2023–24 when escalating the pass through amount to the 2023–24 regulatory year. Additionally, we have amended Murraylink’s 2019–20 CPI figures based on the latest CPI data from the Australian Bureau of Statistics, unrounded.[7] The negative pass through amount we approve is $871,070 ($nominal 2023–24), which will be adjusted in Murraylink's maximum allowed revenue in the 2023–24 regulatory year in accordance with the procedures set out in Murraylink's 2018–23 revenue determination.[8]

[5] A negative change event is defined in the NER as a pass through event which entails the transmission network service provider incurring materially lower costs in providing prescribed transmission services than it would have incurred but for that event. See NER, chapter 10 Glossary.

[6] NER, cl. 6A.7.3(g)(2).

[7] Australian Bureau of Statistics, *Consumer price index, Australia, September Quarter 2022*

[8] The revenue determination sets out that Murraylink's maximum allowed revenue is subject to adjustments for updating the return on debt annually, a revenue increment or decrement determined in accordance with the Service Target Performance Incentive Scheme, and any approved pass through amounts. See AER, *Murraylink Transmission Determination 2018–23*, April 2018, p.6.

2 Murraylink’s application

Murraylink submitted its connection charge cost pass through application on 22 December 2022. Its application is available on our website.[9]

2.1 Background

During a regulatory control period, a transmission network service provider can apply to us to pass material changes in its costs arising from pre-defined exogenous events through to customers, in the form of higher or lower network charges. In addition to the prescribed events specified in the NER, other pass through events may be specified in the transmission network service provider's revenue determination.[10]

In the 2018–23 revenue determination for Murraylink, we approved a pass through event to cover the changes in the amount of connection charges levied on Murraylink by AusNet Services and ElectraNet under their connection agreements.[11] The level of these charges are subject to AusNet Services and ElectraNet’s revenue determinations. At the time of making Murraylink's 2018–23 revenue determination, we recognised that Murraylink's connection charges may change materially when the revenue determinations for ElectraNet and AusNet Services expired on 30 June 2018 and 31 March 2022 respectively.

The pass through event is defined to have occurred where the total connection charges levied by AusNet Services and ElectraNet differ materially from the forecast connection charges included in the operating expenditure forecast we approved in the revenue determination.[12]

2.2 Murraylink’s proposed pass through amount

In its application, Murraylink indicated its total connection charges in 2021–22 were $285,484 ($nominal, 2021–22). Murraylink calculated the difference between its actual connection charges and the forecast connection charges for the 2021–22 regulatory year as $804,288 ($2021–22).[13]

Murraylink then adjusted this amount for the time cost of money using the 2021–22 nominal WACC (5.44%) from the 2021–22 return on debt update on its post-tax revenue model (PTRM),[14] and derived a negative pass through amount of $870,835 ($nominal 2023–24).[15]

[9] AER, *Murraylink connection charge pass through 2021-22 application*, 22 December 2022.

[10] NER, cl. 6A.7.3(a1)

[11] AER, *Final Decision, Murraylink transmission determination 2018 to 2023, Overview*, April 2018, p.30.

[12] The definition of material is that the change in connection costs must exceed one per cent of the maximum allowed revenue for Murraylink for the relevant regulatory year. See AER, *Draft Decision, Murraylink transmission determination 2018–2023, Attachment 13 – Pass through events*, September 2017, p. 11. The definition of materially is also set out in the Chapter 10 of the NER.

[13] Murraylink, *2021–22 connection charge pass through application* – December 2022, p. 1.

[14] AER*, Murraylink 2018–23 – Post-tax revenue model – 2021–22 Return on debt update*, February 2021.

[15] Murraylink, *2021–22 connection charge pass through application* – December 2022, p. 1.

3 AER assessment

3.1 Negative change event

In order to approve an amount of money to be passed back to energy consumers, we must determine that a negative change event has occurred. The NER define a negative change event as:[16]

> *… a pass through event which entails the Transmission Network Service Provider incurring materially lower costs in providing prescribed transmission services than it would have incurred but for that event.*

The NER define 'materially' as follows:[17]

> *… the change in costs (as opposed to the revenue impact) that the Transmission Network Service Provider has incurred and is likely to incur in any regulatory year of a regulatory control period, as a result of that event, exceeds 1% of the maximum allowed revenue for the Transmission Network Service Provider for that regulatory year.*

We determine that a negative change event has occurred because the saving Murraylink has obtained as a result of the pass through event ($804,294, $2021–22), as set out in section 3.3, exceeds 1% of the maximum allowed revenue for Murraylink for the 2021–22 regulatory year ($15,869,684 ($2021–22)), which is $158,697 ($2021–22).[18]

3.2 Relevant factors

Clause 6A.7.3(j) of the rules sets out a number of matters that we are required to take into account when determining:

- whether a positive or negative change event has occurred
- the approved pass through amount
- the amount of the approved pass through amount that should be passed through to transmission network users.

We have given regard to the relevant factors listed in clause 6A.7.3(j) of the NER:[19]

- we have considered the matters and proposals provided by Murraylink
- we have calculated the costs Murraylink has saved as a result of the negative change event
- we have taken into account the time cost of money to calculate the appropriate negative pass through amount
- we consider that the costs incurred relating to the pass through event under consideration are not the subject of any previous determination by us under clause 6A.7.3.
- we do not consider any other matters to be relevant.

[16] NER, chapter 10 (definition of 'negative change event').

[17] NER, chapter 10 (definition of 'materially').

[18] AER, *Murraylink 2018–23 - Post-tax revenue model - 2022–23 Return on debt update*, February 2022; AER analysis.

[19] NER cl 6A.7.3(j).

3.3 Calculation of pass through amount

Rule 6A.7.3(b) requires that, if a negative change event occurs, the AER may require the transmission network service provider to pass through to transmission network users a negative pass through amount as determined by the AER under subparagraph (g).[20]

In its application submitted to the AER on 22 December 2022, we consider that Murraylink has incorrectly calculated the negative pass through amount.

To calculate the negative pass through amount, we have used the actual connection charges amount of $285,484 ($nominal, 2021–22) reported in Murraylink's 2021–22 Regulatory Financial Report, provided as part of its response to our Regulatory Information Notice.[21] This amount matches the connection charges amount proposed in Murraylink's application.[22] Actual connection charges are assumed to be valued at middle of the year terms. Therefore, we escalated this amount by applying the annual percentage change in the CPI (December quarter) for 2021–22 (3.50%) over a time period of half a year, and determined the value of the actual connection charges as $290,434 ($2021–22) at June 2022. Our 2018–23 revenue determination for Murraylink made an allowance for forecast connection charges of $1,011,698 ($2017–18) for the 2021–22 regulatory year. This allowance was escalated to real 2021–22 dollars using the annual percentage change in the CPI (December quarter), with the forecast connection charges determined to be $1,094,728 ($2021–22).

We are satisfied that Murraylink has reasonably incurred actual connection charges of $290,434 ($2021–22) compared to the applicable regulatory allowance of $1,094,728 ($2021–22). Therefore, the variation between the forecast and actual connection charges is $804,294 ($2021–22). Murraylink's calculation of the difference between the forecast and actual connection charges at June 2022 was $804,288 ($2021–22). [23] This slightly different figure was caused by Murraylink's use of its 2019–20 CPI value rounded to two decimal places.

To account for the time cost of money, weighted average cost of capital (WACC) escalations are applied for a period of one and a half years when determining the pass through amount. Therefore, in our calculation we applied:

- 2022–23 nominal WACC of 5.41% over one year, which represents the year in which the connection charge cost pass through application is submitted and assessed by the AER.
- a further 2023–24 nominal WACC of 5.56% for half a year, which represents the period where the pass through amount is passed through to customers.

In its calculation, Murraylink used a nominal WACC figure of 5.44% when it accounted for the time cost of money over the above period. As such, our approved negative pass through amount of $871,070 ($nominal, 2023–24) is slightly larger than the $870,835 ($nominal, 2023–24) negative pass through amount proposed by Murraylink.

Consequently, we determine that a negative pass through event has occurred and the appropriate pass through amount is $871,070 ($nominal, 2023–24). This amount will be

[20] NER, cl. 6A.7.3(g).

[21] Murraylink, *2021–22 regulatory accounts*, October 2022.

[22] Murraylink, *2021–22 connection charge cost pass through application*, December 2022, p. 1.

[23] Murraylink, *2021–22 connection charge cost pass through application*, December 2022, p. 1.

removed from allowed revenues for the next regulatory year (2023–24) and result in lower transmission charges (other things constant).

3.4 Timing matters

The NER provide that, for a negative change event, an application to us for a negative pass through amount must be made within 90 business days of the relevant event occurring.[24] We must make a determination on the event within 40 business days of the business providing details of the event and supporting evidence to us.[25]

We consider the date Murraylink submitted its regulatory accounts (thus finalising the difference between its actual and forecasted connection charges) to the AER as the date on which the relevant negative change event occurred. In previous decisions, we have used the date Murraylink received its connection charges invoice as the relevant date in which a change event is taken to occur. However, Murraylink has explained that until regulatory accounts are settled it is not able to undertake a like-for-like comparison of forecast and actual connection charge costs for a regulatory year, and finalise any proposed cost pass through amount. Based on this, we consider it would be appropriate to treat the date of the finalisation of the Murraylink's regulatory accounts as the date in which a change event, positive or negative, occurs. We received Murraylink's regulatory accounts on the 27 October 2022. Murraylink made its pass through application on 22 December 2022, which is 40 business days after the negative change event is deemed to have occurred.

[24] NER cl 6A.7.3(f).

[25] NER cl 6A.7.3(e).

Glossary

Term	Definition
ABS	Australian Bureau of Statistics
AER	Australian Energy Regulator
CPI	Consumer price index
NER	National Electricity Rules
PTRM	Post-tax Revenue Model
WACC	Weighted average cost of capital