

# Draft Decision

## Murraylink Transmission Determination 2023 to 2028

(1 July 2023 to 30 June 2028)

### Attachment 11 Pricing methodology

September 2022

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## Note

This attachment forms part of the AER’s draft decision on Murraylink’s 2023–28 transmission determination. 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 – 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 – Pricing methodology

Attachment 12 – Negotiated services

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# 11 Pricing methodology

This attachment sets out our draft decision on Murraylink’s proposed pricing methodology for the 2023–28 regulatory control period.

A pricing methodology must be specified as part of our transmission determination.<sup>1</sup> Its role is to answer the question ‘who should pay how much’<sup>2</sup> in order for a transmission business to recover its costs. To do this, a pricing methodology must provide a ‘formula, process or approach’<sup>3</sup> that when applied:

- allocates the aggregate annual revenue requirement (AARR) to the categories of prescribed transmission services that a transmission business provides.<sup>4</sup>
- provides for the manner and sequence of adjustments to the annual service revenue requirement (ASRR)<sup>5</sup> and allocates that requirement to transmission network connection points.<sup>6</sup>
- determines the structure of prices that a transmission business may charge for each category of prescribed transmission services.<sup>7</sup>

An approved pricing methodology does not relate to negotiated transmission services or other transmission services not subject to economic regulation under chapter 6A of the National Electricity Rules (NER).

## 11.1 Draft decision

Our draft decision is to approve Murraylink’s proposed methodology for the 2023-28 regulatory control period. This is because it gives effect to, and is consistent with, the pricing principles in the NER, and complies with the information requirements set out in the pricing methodology guidelines.<sup>8</sup>

## 11.2 Murraylink’s proposal

Murraylink’s proposed pricing methodology for the 2023–28 regulatory control period<sup>9</sup> is largely identical to the AER’s approved pricing methodology for the 2018–23 period, with some amendments. Murraylink made:

- updates to references to the NER; and

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<sup>1</sup> NER, cl. 6A.2.2(4).

<sup>2</sup> AEMC, *Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22*, 21 December 2006, pp. 1.

<sup>3</sup> NER, cl. 6A.24.1(b).

<sup>4</sup> NER, cl. 6A.24.1(b)(1).

<sup>5</sup> NER, cl. 6A.24.1(b)(2).

<sup>6</sup> NER, cl. 6A.24.1(b)(3).

<sup>7</sup> NER, cl. 6A.24.1(b)(4).

<sup>8</sup> NER, cl. 6A.23.3 and 6A.24.1(c); AER, *Electricity transmission service providers pricing methodology guidelines*, July 2014.

<sup>9</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022.

- changes to the description of Murraylink’s transmission system assets.

## 11.3 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 the pricing methodology guidelines<sup>10</sup>.

These requirements guided our assessment of Murraylink’s proposed pricing methodology.

### 11.3.1 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.<sup>11</sup> Likewise, in the Victorian region, AEMO applies its pricing methodology to determine transmission prices to recover the regulated transmission revenues of Murraylink, AusNet Services and itself.

## 11.4 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 2023–28 refers to it being included in the AEMO and ElectraNet pricing methodologies.<sup>12</sup> Our draft decision for ElectraNet is to accept its pricing methodology for the 2023–28 regulatory control period. The current AEMO pricing methodology applies to the period 1 July 2022 to 30 June 2027.

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.<sup>13</sup> In the Victorian and South Australian regions, AEMO and ElectraNet fulfil that role, respectively, as required by the NER. AEMO is therefore responsible for allocating all relevant aggregate 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.

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<sup>10</sup> NER, cl. 6A.24.1(c); AER, Electricity transmission service providers, Pricing methodology guidelines, July 2014.

<sup>11</sup> NER, cl. 6A.29; Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 11.

<sup>12</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 2.

<sup>13</sup> NER, cl. 6A.29.1(a).

We consider that AEMO's current pricing methodology and ElectraNet's proposed 2023-28 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 2023–28 is the same methodology we approved for the current 2018–23 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 2023 to 30 June 2028 and AEMO's current methodology applies from 1 July 2022 to 30 June 2027.

The NER requires that Murraylink's approved pricing methodology apply for the duration of its regulatory control period and may not be amended during this period.<sup>14</sup> Murraylink has proposed that its pricing methodology will be dealt with by the Co-ordinating Network Service Providers.<sup>15</sup> We accept that modifications to AEMO's pricing methodology for the period beyond 30 June 2027 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 2023–28 regulatory control period. This means both methodologies will always match during this 2023–28 period.

#### **11.4.1 Assessment of amendments in the proposed pricing methodology**

Murraylink's proposed pricing methodology for the 2023–28 period does not make any substantive changes to the AER-approved pricing methodology for the current period. There are minor amendments that reflect updates to the NER and changes to the description of Murraylink transmission system assets.

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.

#### **11.4.2 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 circumstances in which they operate their network.<sup>16</sup> This limits our review to a high level assessment.

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<sup>14</sup> NER, cl. 6A.24.1(e) and (f).

<sup>15</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 3.

<sup>16</sup> AEMC, Rule Determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No 22, 21 December 2006, pp. 27–28.

### 11.4.2.1 Calculation and allocation of the aggregate annual revenue requirement

We assessed Murraylink’s method for calculating and allocating its AARR. We consider that this aspect of Murraylink’s proposed pricing methodology meets the NER requirements.

The AARR is the 'maximum allowed revenue' adjusted:<sup>17</sup>

- for a number of factors such as cost pass throughs, service target performance incentive scheme outcomes, and contingent projects<sup>18</sup>
- by subtracting the operating and maintenance costs expected to be incurred in the provision of prescribed common transmission services
- by any allocation of the AARR within and between regions as agreed between TNSPs.<sup>19</sup>

Table 11.1 summarises our review of how Murraylink’s proposed pricing methodology calculates and allocates the business’ AARR.

**Table 11.1 Murraylink’s proposed calculation and allocation of the AARR and the NER requirements**

NER requirements	AER assessment
Requirement for the AARR to be calculated as defined in the NER—clause 6A.22.1.	Section 2.1(c) of Murraylink’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 services—clause 6A.23.2(a).	Section 2.1(d)(1) of Murraylink’s proposed pricing methodology complies 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 2.1(d) of Murraylink’s proposed pricing methodology comply 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 2.1(d)(2) of Murraylink’s proposed pricing methodology comply with this requirement.

### 11.4.2.2 Allocation of the ASRR to transmission network connection points

We assessed Murraylink’s proposed pricing methodology for allocating the ASRR. We consider this aspect of Murraylink’s proposal meets the NER requirements. Table 11.2 summarises our assessment.

**Table 11.2 Murraylink’s proposed allocation of the ASRR and 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	Section 2.1 (e)(1) of Murraylink’s proposed pricing methodology comply with this requirement.

<sup>17</sup> NER, cl. 6A.22.1.

<sup>18</sup> NER, cl. 6A.3.2.

<sup>19</sup> NER, cl. 6A.29.3.



NER requirements	AER assessment
services that are provided by the TNSP at that connection point— clause 6A.23.3(i).	
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 2.1(e)(1) of Murraylink's proposed pricing methodology comply with this requirement.
Requirement for the ASRR for prescribed TUOS services to be allocated between pre-adjusted locational components and pre-adjusted non-locational components—clause 6A.23.3(a).	Section 2.1(e)(3) of Murraylink'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 connection points set in accordance with price structure principles—clause 6A.23.3(h).	Section 2.1(c) of Murraylink's proposed pricing methodology comply with this requirement.

#### 11.4.2.3 Development of price structure

We assessed Murraylink's proposed pricing methodology and process for developing different prices for recovering the ASRR. We consider this aspect of Murraylink's proposal meets the NER requirements. Table 11.3 summarises our assessment.

**Table 11.3 Murraylink's proposed pricing structure and the NER requirements**

NER requirements	AER assessment
Requirement for separate prices for each category of prescribed transmission services—clause 6A.23.4(a).	Section 2.1(f)(1) of Murraylink's proposed pricing methodology complies with this requirement.
Requirement for fixed annual amount prices for prescribed entry services and prescribed exit services—clause 6A.23.4(g).	Section 2.1(f)(2) of Murraylink's proposed pricing methodology complies with this requirement.
Requirement for postage stamped prices for prescribed common transmission services—clause 6A.23.4(f).	Section 2.1(f)(5) of Murraylink's proposed pricing methodology complies with this requirement.
Requirement for prices for locational component of prescribed TUOS services to be based on demand at times of greatest utilisation of the transmission network and for which network investment is most likely to be contemplated—clause 6A.23.4(b)(1).	Section 2.2(a) of Murraylink's proposed pricing methodology complies with this requirement.
Requirement for prices for the locational component of ASRR for prescribed TUOS services not to change by more than 2 per cent per year compared with the load weighted average prices for this component for the relevant region—clause 6A.23.4(b)(2).	Sections 2.1(f)(3) & 2.2(a) of Murraylink's proposed pricing methodology complies with this requirement.
Requirement for prices for the adjusted non-locational component of prescribed TUOS services to be on a postage stamp basis—clause 6A.23.4(e).	Section 2.1(f)(4), 2.1(i) & 2.3(a) of Murraylink's proposed pricing methodology complies with this requirement.
Setting of TUOS locational prices between annual price publications—clause 6A.23.4(b).	Section 2.1(f)(3) & 2.2(a) of Murraylink's proposed pricing methodology complies with this requirement.

### 11.4.3 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 region.<sup>20</sup>
- calculating the locational component of prescribed TUOS services costs using a cost reflective network pricing methodology.<sup>21</sup>
- basing the locational prescribed TUOS services price on a contract agreed maximum demand or the average half-hourly maximum demand at a connection point.<sup>22</sup>
- using a postage stamp pricing structure for the non-locational component of prescribed TUOS services and prescribed common transmission services.<sup>23</sup>
- using the priority ordering approach under clause 6A.23.2(d) of the NER to implement priority ordering.<sup>24</sup>
- describing how asset costs that may be attributable to both prescribed entry services and prescribed exit services will be allocated at a connection point.<sup>25</sup>
- describing billing arrangements as in clauses 6A.27, 6A.29A.4 and 6A.29A.5 of the NER.<sup>26</sup>
- describing prudential requirements as in clause 6A.28 of the NER.<sup>27</sup>
- 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.<sup>28</sup>

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

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<sup>20</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 2.

<sup>21</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 7 & 8.

<sup>22</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 8.

<sup>23</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 9-11.

<sup>24</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 4.

<sup>25</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 4.

<sup>26</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 6.

<sup>27</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 6.

<sup>28</sup> Murraylink, Attachment 02, *Pricing Methodology*, 31 January 2022, pp 7.

## Glossary

Term	Definition
AARR	Aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	Aggregate Service Revenue Requirement
NER	National Electricity Rules
TNSP	Transmission Network Service Provider
TUOS	Transmission use of system