



Determination

Connection charge cost pass through for 2018– 19 regulatory year

Murraylink

November 2019

© Commonwealth of Australia 2019

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
AER Reference: 65518

Contents

Overview	1
1 Determination	2
2 Murraylink's application.....	3
2.1. Background.....	3
2.2. Murraylink's proposed pass-through amount	3
3 AER Assessment.....	4
3.1. Negative change event	4
3.2. Relevant factors	4
3.3. Calculation of the pass-through amount	5
3.4. Timing matters	5

Overview

During the regulatory control period, a service provider can apply to the 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 are 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 expire on 30 June 2018 and 31 March 2022 respectively. Therefore, we approved Murraylink's proposed cost 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 20 September 2019, Murraylink submitted an application to the Australian Energy Regulator (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 charge amount for 2018–19 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 reduction in transmission prices in 2020–21 will be \$496,183. On 30 October 2019, Murraylink resubmitted its negative pass through amount to be \$459,184. This corrected for the previously incorrect inclusion of some invoices and credit notes.

We determine that a negative change event has occurred and the appropriate negative pass through amount is \$459,184 (\$nominal 2020–21). Murraylink will adjust its maximum allowed revenue in 2020–21 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 NER, cl. 6A.7.3(a1)

² AER, *Murraylink transmission draft determination 2017–23 - 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 had occurred.⁵ The negative change event arises from a connection charge cost pass through event, and is a result of the actual connection charges paid to AusNet Services and ElectraNet in 2018–19 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 correctly calculated the pass-through amount that it proposes to pass on to customers in its revised calculation, submitted on 30 October 2019. The negative pass-through amount we approve is \$459,184 (\$nominal, 2020–21) and will be adjusted in Murraylink's maximum allowed revenue in the 2020–21 regulatory year in accordance with the procedures set out in Murraylink's 2018–23 revenue determination.⁷

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 Glossory.

⁶ NER, cl. 6A.7.3(g)(2).

⁷ 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 20 September 2019. On 30 October 2019, Murraylink resubmitted its calculation of the pass through amount to correct for the incorrect inclusion of some invoices and credit notes. Its application and supporting calculations are available on our website.

2.1 Background

During a regulatory control period, a transmission network service provider (TNSP) 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 TNSP's revenue determination.⁸

In the 2018–23 revenue determination for Murraylink, we approved a cost 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.⁹ 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 expire on 30 June 2018 and 31 March 2022 respectively.

The connection charge cost 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.¹⁰

2.2 Murraylink's proposed pass-through amount

Murraylink's total connection charges in 2018–19 were \$601,794 (\$nominal, 2018–19).

In its resubmitted calculation, Murraylink applied the opex allowance for connection charges and CPI and WACC escalations consistent with their 2018–23 regulatory determination.¹¹

Murraylink calculated the difference between its actual connection charges and the forecast connection charges for the 2018–19 regulatory year as \$422,610 (\$2018–19). Murraylink then adjusted this amount for the time value of money using the nominal weighted average cost of capital (WACC) from the AER cost of debt update post tax revenue model (PTRM) in 2020–21 dollars, and derived a negative cost pass through amount of \$459,184 (\$2020–21).

⁸ NER, cl. 6A.7.3(a1)

⁹ AER, *Final Decision, Murraylink transmission determination 2018 to 2023, Overview*, April 2018, p.30.

¹⁰ 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.

¹¹ See AER, *Murraylink transmission determination 2018 to 2023*, April 2018, pp. 6–8; AER, *Murraylink 2018–23 – Post-tax revenue model – 2019–20 Return on debt update*, February 2019.

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:¹²

... 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:¹³

... 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 connection charge cost pass through event (\$422,610, \$2018–19), as set out in section 03, exceeds 1 per cent of the maximum allowed revenue for Murraylink for the 2018–19 regulatory year, which is \$14,393,306 (\$2018–19).¹⁴

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:¹⁵

- 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

¹² NER, chapter 10 (definition of 'negative change event').

¹³ NER, chapter 10 (definition of 'materially').

¹⁴ AER, *Murraylink 2018–23 - Post-tax revenue model - 2019–20 Return on debt update*, February 2019; AER analysis.

¹⁵ NER cl 6A.7.3(j).

- 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.

3.3 Calculation of the 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).¹⁶

In its revised calculation submitted to the AER on 30 October 2019, we consider that Murraylink has correctly calculated the negative pass-through amount.

Our 2018–23 revenue determination for Murraylink made an allowance for forecast connection charges of \$1,011,698 (\$2017–18) for the 2018–19 regulatory year. This allowance was escalated to real 2018–19 dollars using the annual percentage change in the ABS CPI (December quarter). December quarter CPI was used for consistency with Murraylink's 2018–23 revenue determination.¹⁷

Murraylink provided the invoices issued by AusNet Services and ElectraNet, showing the total amount charged over 2018–19 was \$601,794 (nominal 2018–19). Murraylink also escalated its 2018–19 actual connection charges from nominal dollars to real 2018–19 dollars to be comparable. Murraylink have calculated the saving that Murraylink obtained because of its connection charges being lower than forecast to be \$422,610 (\$2018–19).

Murraylink have adjusted this amount for the time value of money using the nominal weighted average cost of capital (WACC) from our cost of debt update post tax revenue model (PTRM). The negative cost pass through amount is therefore \$459,184 (\$nominal 2020–21) and this adjustment should occur in the 2020–21 regulatory year.

The calculations are available on our website.

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.¹⁸

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.¹⁹

We consider the last date Murraylink received its connection charges invoices was the date on which the relevant negative change event occurred. Murraylink made its pass through application on 20 September 2019, which is 79 business days after receiving its last connection charges invoice by AusNet Services on 1 June 2019.

¹⁶ NER, cl. 6A.7.3(g).

¹⁷ AER, *Murraylink transmission determination 2018–23*, April 2018, pp. 6–8.

¹⁸ NER cl 6A.7.3(f).

¹⁹ NER cl 6A.7.3(e).