

FINAL DECISION

Powerlink transmission determination

2017−22

Attachment 12 − Pricing methodology

April 2017

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Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Tel: 1300 585 165

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

1. Note
2. This attachment forms part of the AER's final decision on Powerlink's transmission determination for 2017–22. It should be read with all other parts of the final decision.
3. This final decision consists of an Overview and 11 attachments. As many issues were settled at the draft decision stage or required only minor updates we have not prepared final decision attachments for:

* Regulatory depreciation
* Operating expenditure; and
* Corporate income tax.

1. The AER's final decision on these matters is set out in the Overview. For ease of reference the remaining attachments have been numbered consistently with the attachment numbering in our draft decision.
2. The final decision includes the following documents:
3. Overview
4. Attachment 1 – Maximum allowed revenue
5. Attachment 2 – Regulatory asset base
6. Attachment 3 – Rate of return
7. Attachment 4 – Value of imputation credits
8. Attachment 6 – Capital expenditure
9. Attachment 9 – Efficiency benefit sharing scheme
10. Attachment 10 – Capital expenditure sharing scheme
11. Attachment 11 – Service target performance incentive scheme
12. Attachment 12 – Pricing methodology
13. Attachment 13 – Pass through events

Attachment 14 – Negotiated services

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1. Shortened forms

| Shortened form | Extended form |
| --- | --- |
| 1. AARR | 1. aggregate annual revenue requirement |
| 1. AEMC | 1. Australian Energy Market Commission |
| 1. AEMO | 1. Australian Energy Market Operator |
| 1. AER | 1. Australian Energy Regulator |
| 1. ASRR | 1. annual service revenue requirement |
| 1. augex | 1. augmentation expenditure |
| 1. capex | 1. capital expenditure |
| 1. CCP | 1. Consumer Challenge Panel |
| 1. CESS | 1. capital expenditure sharing scheme |
| 1. CPI | 1. consumer price index |
| 1. DMIA | 1. demand management innovation allowance |
| 1. DRP | 1. debt risk premium |
| 1. EBSS | 1. efficiency benefit sharing scheme |
| 1. ERP | 1. equity risk premium |
| 1. MAR | 1. maximum allowed revenue |
| 1. MRP | 1. market risk premium |
| 1. NEL | 1. national electricity law |
| 1. NEM | 1. national electricity market |
| 1. NEO | 1. national electricity objective |
| 1. NER | 1. national electricity rules |
| 1. NSP | 1. network service provider |
| 1. NTSC | 1. negotiated transmission service criteria |
| 1. opex | 1. operating expenditure |
| 1. PPI | 1. partial performance indicators |
| 1. PTRM | 1. post-tax revenue model |
| 1. RAB | 1. regulatory asset base |
| 1. RBA | 1. Reserve Bank of Australia |
| 1. repex | 1. replacement expenditure |
| 1. RFM | 1. roll forward model |
| 1. RIN | 1. regulatory information notice |
| 1. RPP | 1. revenue and pricing principles |
| 1. SLCAPM | 1. Sharpe-Lintner capital asset pricing model |
| 1. STPIS | 1. service target performance incentive scheme |
| 1. TNSP | 1. transmission network service provider |
| 1. TUoS | 1. transmission use of system |
| 1. WACC | 1. weighted average cost of capital |

# Pricing methodology

1. This attachment sets out our final decision on Powerlink's proposed pricing methodology for the 2017–22 regulatory control period.
2. A pricing methodology must be specified as part of our transmission determination[[1]](#footnote-1) and answers the question ‘who should pay how much'[[2]](#footnote-2) in order for a transmission business to recover its efficient costs. To do this, the National Electricity Rules (NER) set out that it must provide a 'methodology, formula, process or approach'[[3]](#footnote-3) that, when applied:

* allocates the aggregate annual revenue requirement to the categories of prescribed transmission services that a transmission business provides and to the connection points of network users[[4]](#footnote-4)
* provides the manner and sequence of adjustments to the annual service revenue requirement[[5]](#footnote-5) and allocates that requirement to transmission connection points[[6]](#footnote-6)
* determines the structure of prices that a transmission business may charge for each category of prescribed transmission services.[[7]](#footnote-7)

A pricing methodology relates to prescribed transmission services only. For negotiated services, Powerlink must comply with other requirements, which are discussed in attachment 14 of this final decision.

## Final decision

Our final decision is to approve Powerlink's revised pricing methodology.

We are satisfied the revisions Powerlink made to setting the locational component of transmission use of system (TUOS) prices for new connections addresses the concerns set out in our draft decision.

We consider the revised pricing methodology gives effect to the pricing principles in the NER and complies with the requirements of the pricing methodology guidelines, as is required by clause 6A.24.1(c).[[8]](#footnote-8)

The approved pricing methodology is set out in attachment B of our final decision.

## Powerlink’s revised proposal

Powerlink considered that we had misinterpreted or misunderstood the proposed amendments to the setting of TUOS locational prices in our draft decision.[[9]](#footnote-9) However, in its revised proposal, Powerlink made editorial changes to the pricing methodology to clarify the intent of the proposed amendments. Specifically, it revised section 6.12 to clarify that a side constraint would not apply to an interim locational TUOS price where a previously calculated and published TUOS locational price does not exist.[[10]](#footnote-10)

## Assessment approach

1. A proposed pricing methodology must:

* give effect to, and comply with, the pricing principles for prescribed transmission services
* comply with the requirements of, and contain or is accompanied by information required by, the pricing methodology guidelines.[[11]](#footnote-11)

1. Our assessment approach was guided by these requirements. In particular, we assessed whether the editorials Powerlink made to its description of how it will set its locational TUOS prices give effect to the requirements in the NER.

## Reasons for final decision

Our draft decision accepted all but one aspect of Powerlink's initial proposed pricing methodology.[[12]](#footnote-12) Our concern was that Powerlink's proposed amendments to set an interim TUOS locational price did not comply with clause 6A.23.4(b)(2) of the NER, which requires prices to be subject to an annual side constraint of 2 percent. That is, locational TUOS prices in the forthcoming year must not change by more than 2 per cent relative to the price set for the previous year.

In response to our draft decision, Powerlink stated that the AER had either misinterpreted or misunderstood the nature of the proposed amendments.[[13]](#footnote-13) Powerlink explained that the interim price not subject to the 2 per cent side constraint would only apply to a new connection point 'without a previously calculated TUOS locational price'. In this situation, the customer does not have a previous price for which the 2 per cent side constraint in clause 6A.23.4(b)(2) of the NER may apply. However, the side constraint would apply to an existing connection with a previously calculated TUOS locational price. To make this point clear in its pricing methodology, Powerlink made editorial changes to the relevant section as follows:[[14]](#footnote-14)

In the event that Powerlink is required to set a TUOS locational price at a new connection point without a previously calculated TUOS locational price, an interim price not subject to the side constraints of clause 6A.23.4(b)(2) will be determined. At an existing connection point where the load has changed significantly after prescribed TUOS service locational prices have been determined and published an interim price will be calculated subject to clause 6A.23.4(b)(3). This will be calculated using the prevailing pricing models with demands estimated in a manner consistent with clause 2.2(f) of the pricing methodology guidelines.

A price subject to the side constraints of clause 6A.23.4(b)(2) will be determined and published at the next annual price determination.

On the basis of the clarification, we consider Powerlink's revised pricing methodology satisfies the requirements in the NER. The practical outcomes for a new connection point without a previously calculated TUOS locational price means that no side constraint can be applied. We consider Powerlink's' editorials in section 6.12 of the revised pricing methodology make this distinction clear.

1. NER, cl. 6A.2.2(4). [↑](#footnote-ref-1)
2. AEMC, Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22, 21 December 2006, p. 1. [↑](#footnote-ref-2)
3. NER, cl. 6A.24.1(b). [↑](#footnote-ref-3)
4. NER, cl. 6A.24.1(b)(1). [↑](#footnote-ref-4)
5. NER, cl. 6A.24.1(b)(2). [↑](#footnote-ref-5)
6. NER, cl. 6A.24.1(b)(3). [↑](#footnote-ref-6)
7. NER, cl. 6A.24.1(b)(4). [↑](#footnote-ref-7)
8. NER, cl. 6A.14.1(8). [↑](#footnote-ref-8)
9. Powerlink, Revised regulatory proposal, December 2016, pp. 20–21. [↑](#footnote-ref-9)
10. Powerlink, Revised regulatory proposal, December 2016, p. 21. [↑](#footnote-ref-10)
11. NER, cl. 6A.24.1(c). [↑](#footnote-ref-11)
12. AER, Draft decision: Powerlink transmission determination 2017–18 to 2021–22: Attachment 12 – Pricing methodology, September 2016. [↑](#footnote-ref-12)
13. Powerlink, Revised regulatory proposal, December 2016, p. 21. [↑](#footnote-ref-13)
14. Powerlink, Revised regulatory proposal: Appendix 3.03 Revised pricing methodology, November 2016, p. 17. [↑](#footnote-ref-14)