



# **Final Decision**

## **2014-15 Network support pass through decisions for TransGrid and ElectraNet**

November 2015

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Version	Date	Pages
1	9 November	9

# Contents

1.1 .Background .....	4
2 TransGrid.....	7
2.1 .Application.....	7
2.2 .Assessment .....	8
2.3 .AER decision .....	8
3 ElectraNet .....	9
3.1 .Application.....	9
3.2 .Assessment .....	9
3.3 .AER decision .....	9

## Summary

TransGrid and ElectraNet made applications to the Australian Energy Regulator (AER) for the pass through of costs relating to network support for the regulatory year 2014–15.<sup>1</sup> This document sets out our decision on these pass through applications.

TransGrid is the provider of electricity transmission network services in New South Wales. Likewise, ElectraNet provides electricity transmission network services in South Australia.

Network support refers to non-network solutions used by transmission network service providers (TNSPs) as a cost effective substitute for network augmentation. Potential non-network solutions include local generation, co-generation, demand side response and services from a Market Network Service Provider. Generally, network support is seen as desirable where it can cost effectively substitute for network build and is promoted by allowing TNSPs to pass through costs which are different to those forecast and are beyond the TNSP's control. In addition, unlike other pass throughs, network support pass through events are not subject to any materiality test under the regulatory regime, which is intended to further promote such measures.

We have assessed the pass through applications in accordance with the National Electricity Rules (NER) and our procedural guideline<sup>2</sup> for preparing a transmission network support pass-through, and consider the appropriate pass through amounts for the TNSPs are:

- -\$0.65 million for TransGrid
- +\$0.31 million for ElectraNet

## 1.1 Background

Forecast allowances for network support payments are included in revenue determinations for TNSPs. A network support pass through event occurs when the actual amount of network support payments differs from the forecast amount allowed in the determination. Differences generally arise because the amount of network support required by a TNSP in a regulatory year is dependent on factors that are outside the control of the TNSP, such as weather conditions, demand levels and electricity usage patterns. The difference between the forecast cost of network support and the actual cost of network support is passed through to users in higher (or lower) charges for the use of the TNSP's transmission services.

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<sup>1</sup> TransGrid's application was received on 16 September 2014 and ElectraNet's application was received on 15 September 2015.

<sup>2</sup> AER, Procedural guideline for preparing a transmission network support pass through application, June 2011.

## 1.1.1 Regulatory requirements

Clause 6A.7.2 of the NER provides that a TNSP may apply to the AER for a determination on a positive or negative network support event following a regulatory year.

Where a positive network support pass through event occurs, clause 6A.7.2(d) provides that the AER must determine a network support pass through amount:

If the AER determines that a positive network support event has occurred in respect of a statement under paragraph (c), the AER must determine the network support pass through amount, taking into account the matters referred to in paragraph (i).

Clause 6A.7.2(f) is similar for the case of a negative network support pass through event.

Clause 6A.7.2(i) of the NER lists the relevant factors that the AER must consider when assessing this application. Clause 6A.7.2(i) states:

In making a determination under paragraph (d) or (f), the AER must take into account:

- (1) the matters and proposals set out in any statement given to the AER by the Transmission Network Service Provider under paragraph (c);
- (2) in the case of a positive network support event, the increase in costs in the provision of prescribed transmission services that the provider has incurred in the preceding regulatory year as a result of the positive network support event;
- (3) in the case of a positive network support event, the efficiency of the provider's decisions and actions in relation to the risk of the event, including whether the provider has failed to take any action that could reasonably be taken to reduce the magnitude of the positive network support event and whether the provider has taken or omitted to take any action where such action or omission has increased the magnitude of the amount in respect of that event;
- (4) the time cost of money based on the allowed rate of return for the provider for the relevant regulatory control period;
- (5) the need to ensure that the provider only recovers any actual increment in costs under this paragraph (i) to the extent that such increment is solely as a consequence of a network support event; and
- (6) any other factors the AER considers relevant.

The Chapter 10 NER definitions relating to a network support pass through are listed below.

### **Positive network support event**

A network support event which entails a Transmission Network Service Provider making higher network support payments in the preceding regulatory year than the amount of network support payments (if any) that is provided for in the annual building block revenue requirement for the provider for that regulatory year.

### **Negative network support event**

A negative support event which entails a Transmission Network Service Provider making lower network support payments in the preceding regulatory year than the amount of network support payments (if any) that is provided for in the annual building block revenue requirements for the provider for that regulatory year.

### **Network support event**

If, at the end of a regulatory year of a regulatory control period, the amount of network support payments made by a Transmission Network Service Provider for that previous regulatory year is higher or lower than the amount of network support payments (if any) that is provided for in the annual building block revenue requirement for the

Transmission Network Service Provider for that regulatory year, this constitutes a network support event.

**Network support pass through amount**

The amount that should be passed through to Transmission Network Users in the regulatory year following the preceding regulatory year, in respect of a network support event for a Transmission Network Service Provider.

**Network support payment**

A payment by a Transmission Network Service Provider to:

- (a) any Generator providing network support services in accordance with clause 5.6.2; or
- (b) any other person providing a network support service that is an alternative to network augmentation.

The NER does not require that any materiality threshold be applied to network support pass throughs as opposed to other or most pass through events. The reason for this is to encourage the use of non-network solutions.

### **1.1.2 Guideline for preparing a transmission network support pass through application**

We released a guideline detailing our approach to assessing network support cost pass throughs in June 2011 (guideline)<sup>3</sup>. The guideline was prepared in order to assist TNSPs in preparing their network support pass through applications. The guideline increases the transparency of the process applying to network support pass through arrangements.

The guideline provides information regarding what steps we will take in assessing an application for a network support cost pass through, and what information is required from TNSPs for the process. The basic steps to assessing an application are:

- Assessing whether a network support event has occurred
- Verifying the network support payments
- Checking the calculations for the pass through amount, including steps taken to compensate the TNSP or its users for the time cost of money
- Assessing the efficiency of a network support provider's decisions and actions in relation to the risk of an event.

For further detail, the guideline can be found at <http://www.aer.gov.au/node/972>.

We have considered the applications for network support pass throughs in accordance with the NER and the guideline, and our reasoning is set out below.

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<sup>3</sup> AER, Procedural guideline for preparing a transmission network support pass through application, June 2011

## 2 TransGrid

### 2.1 Application

#### Network support payments

TransGrid applied to us for a negative network support cost pass through of -\$0.65 million (\$December 2016) on 16 September 2015.

TransGrid's revenue determination for the 2009–14 regulatory control period included an allowance for \$6.98 million (\$Dec 2013). A network support allowance was not included in TransGrid's revenue determination for the 2015–17 regulatory control period.<sup>4</sup> This means that in the future the pass through of network support payments will only be a positive amount, in the event that network support is required.

Invoices to TransGrid's customers for a particular month are not collected until the following month. Invoices for the June 2014 month were sent to transmission network users and received in July 2014. This falls in the 2014–15 regulatory year. As TransGrid had no allowance for network support in 2014–15, the pass through amount being returned to customers in 2014–15 is the remaining 2013–14 network support costs invoiced to customers.

TransGrid's allowance for network support costs was associated with two projects:

- Reactive power capability
- Import capability from Snowy

TransGrid submitted that they made no network support payments for reactive power capability or import capability from Snowy projects in the 2014–15 regulatory year.

In regard to reactive power capability, TransGrid submitted that a rule change on Network Support and Control Ancillary Services (NSCAS) was determined by the Australian Energy Market Commission in April 2011 and came into effect in April 2012.<sup>5</sup> The NSCAS rule amendments changed the requirement of reactive power capability TransGrid may need to contract.<sup>6</sup> As a result, TransGrid postponed its request for a proposal for the reactive power capability project, which was the subject of the network support allowance approved in the 2009–14 revenue determination.

In regard to import capability from Snowy, TransGrid submitted that the project is a market driven project, contingent on new generation development in southern NSW. To the end of June 2014, no network support related payments were made for this project.

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<sup>4</sup> AER, Final Decision: TransGrid Transmission Determination 2015–16 to 2017–18, April 2015, p. 7–22

<sup>5</sup> The National Electricity Amendment (Network Support and Control Ancillary Services) Rule 2011.

<sup>6</sup> NSCAS are services that are critical to maintaining the secure and reliable operation of the power system. They provide the capability to control the active or reactive power flow into or out of a transmission network in order to maintain that transmission network in a secure operating state, and maintain or increase its power transfer capability. The NSCAS rule change, amongst other things, provides for competition for the provision of NSCAS by allowing AEMO to acquire NSCAS from NSPs and non-registered participants, in addition to the existing ability for market participants to provide NSCAS.

## 2.2 Assessment

We are satisfied that no eligible network support payments were made by TransGrid in 2014–15. As a result, we consider it appropriate that the remaining 2013–14 payment of TransGrid's network support allowance that was paid by customers in the 2014–15 regulatory year should be returned to customers as a negative pass through amount.

We considered the calculation of the network support pass through amount in accordance with the NER and our guideline. TransGrid's calculation of the pass through amount correctly applies escalation for CPI and WACC.

## 2.3 AER decision

We determine that a negative pass through event has occurred. We consider that a network support pass through amount of \$650,000 or -\$0.65 million (\$December 2016), should be incorporated into TransGrid's 2016–17 transmission use of system (TUOS) charges. This will reduce allowable revenues by the stated amount and result in slightly lower transmission charges (other things constant).



## 3 ElectraNet

### 3.1 Application

ElectraNet applied to us for a positive network support cost pass through of \$0.31 million (\$December 2016) on 15 September 2015. This is the difference between the allowance ElectraNet received for this activity as part of its determination and what ElectraNet actually spent on network support in the relevant period. The pass through relates to network support services supplied at Port Lincoln on the Eyre Peninsula. The service supplied is generation at the Port Lincoln connection point. The loss of a transmission line supplying the Eyre Peninsula would mean ElectraNet would be unable to meet the NER requirements to maintain adequate and stable voltages. The provision of generation at the connection point is used as network support.

ElectraNet submitted that the variation in expenditure compared with the allowance reflects the actual level of utilisation and required availability of the network support arrangements during the 12 month period. The contracted services were not deployed during 2014-15 as there were no planned or unplanned outages requiring the service.

### 3.2 Assessment

We are satisfied that ElectraNet has incurred actual network support costs of \$8.81 million<sup>7</sup>, compared to the applicable regulatory allowance of \$8.53 million<sup>8</sup>, and those network support costs were reasonably incurred. The variation in the expenditure meets the definition of a network support event in the NER. The contract for these network services was awarded on the basis of a competitive tender and we consider this an appropriate method for maintaining costs at an efficient level.<sup>9</sup>

ElectraNet's calculation of the pass through is in accordance with our guideline, and all escalations for CPI and WACC have been made appropriately.

### 3.3 AER decision

We determine that a positive pass through event has occurred, and the appropriate pass through amount is \$310,000 or \$0.31 million (\$December 2016) as stated by ElectraNet in its application. This amount will be added to allowed revenues for the next regulatory year (2015-16) and result in slightly higher transmission charges (other things constant).

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<sup>7</sup> ElectraNet, Regulatory Accounts for 2014–15, dated 30 October 2015.

<sup>8</sup> AER, Final Decision: ElectraNet Transmission Determination 2013-14 to 2017-18, April 2013, p. 31.

<sup>9</sup> NER, clause 6A.7.2(i)(3).