



# **Final Decision**

## **2015-16 Network support pass through decision for ElectraNet**

November 2016

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## Summary

ElectraNet made an application to the Australian Energy Regulator (AER) for the pass through of costs relating to network support for the regulatory year 2015–16.<sup>1</sup> This document sets out our decision on this pass through application.

ElectraNet is the provider of 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 ElectraNet's pass through application 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 amount for ElectraNet to be -\$0.63 million. This negative pass through amount will be deducted from allowed revenues for the next regulatory year (2017-18), resulting in slightly lower transmission charges (other things constant).

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<sup>1</sup> ElectraNet's application was received on 22 September 2016.

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

# 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.

## 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 negative network support pass through event occurs, clause 6A.7.2(f) provides that the AER must determine a network support pass through amount:

If a negative network support event occurs (whether or not the occurrence of that event is notified by the provider to the AER under paragraph (c)) and the AER determines to impose a requirement on the Transmission Network Service Provider in relation to that negative network support event, the AER must determine the network support pass through amount taking into account the matters referred to in paragraph (i).

Clause 6A.7.2(d) is similar for the case of a positive 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.

## **1.2 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 purpose of the guideline is 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

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

- 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 ElectraNet's application for a network support pass through in accordance with the NER and the guideline, and our reasoning is set out below.

## 2 ElectraNet

### 2.1 Application

ElectraNet applied to us for a negative network support cost pass through of \$0.63 million (\$December 2017) on 22 September 2016. 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 deployed on three occasions during 2015-16. This included two planned outages in July 2015 and one unplanned outage in March 2016. ElectraNet submitted that the two planned outages related to refurbishment works while the unplanned outage was caused by a lightning strike.

### 2.2 Assessment

We are satisfied that ElectraNet has incurred actual network support costs of \$8.14 million (\$June 2016)<sup>4</sup>, compared to the applicable regulatory allowance of \$8.7 million (\$June 2016)<sup>5</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>6</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.

### 2.3 AER decision

We determine that a negative pass through event has occurred, and the appropriate pass through amount is -\$626,741 or -\$0.63 million (\$December 2017) as stated by ElectraNet in its application. This amount will be deducted from allowed revenues for the next regulatory year (2017-18) and result in slightly lower transmission charges (other things constant).

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<sup>4</sup> ElectraNet, Regulatory Accounts for 2015–16, dated 27 October 2016.

<sup>5</sup> AER, Final Decision: ElectraNet Transmission Determination 2013-14 to 2017-18, April 2013, p. 31.

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