



# **Determination Network support pass- through for 2019–20 regulatory year**

**ElectraNet**

December 2020

© Commonwealth of Australia 2020

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 3131, Canberra ACT 2601 or [publishing.unit@acc.gov.au](mailto:publishing.unit@acc.gov.au).

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Tel: 1300 585165

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

AER Reference: AER201074

# Contents

Overview .....	1
1 Determination .....	2
2 ElectraNet's application .....	3
2.1. Background .....	3
2.2. ElectraNet's proposed pass through amount .....	4
3 AER assessment .....	6
3.1. Positive network support event .....	6
3.2. Relevant factors .....	6
3.3. Calculation of pass through event .....	6
3.4. Timing matters .....	7

## Overview

On 18 September 2020, ElectraNet applied to the Australian Energy Regulator (AER) to pass through costs relating to network support for the 2019–20 regulatory year.

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 network support payments which are different to those forecast and are beyond the TNSPs' control.<sup>1</sup> 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 for preparing a transmission network support pass through application.<sup>2</sup>

We determine that a positive pass through event has occurred, and the appropriate positive pass through amount is \$2,107,330 (\$nominal, 2021–22). This amount will be added to allowed revenues for the next regulatory year (2021–22) and result in slightly higher transmission charges (other things constant).

---

<sup>1</sup> See, NER, Chapter 10 (definition of 'network support payment').

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

# 1 Determination

We consider that a positive network support event has occurred<sup>3</sup> and approve a positive pass-through amount of \$2,107,330 (\$nominal, 2021–22). This is due to network support costs being higher in 2019–20 than the allowance forecast for such costs in ElectraNet's revenue determination. The approved pass-through amount will be adjusted in ElectraNet's maximum allowed revenue in the 2021–22 regulatory year in accordance with the procedures set out in ElectraNet's 2018–23 revenue determination.

The NER require us to determine the amount that should be passed through to customers.<sup>4</sup> We base our decision on an assessment of the factors set out in clause 6A.7.2(i) of the NER. ElectraNet proposed a positive pass-through amount of \$2,109,838 (\$nominal, 2021–22) to recover from its transmission network users, submitted on 18 September 2020. We have adjusted ElectraNet's proposed pass-through amount by applying the actual network support costs reported in its 2019–20 Regulatory Financial Report, provided in response to our Regulatory Information Notice. In addition, we applied an updated weighted average cost of capital (WACC) when escalating the figure to the 2021–22 regulatory year.

---

<sup>3</sup> A positive change event is defined in the NER as a pass through event which entails the transmission network service provider incurring materially higher costs in providing prescribed transmission services than it would have incurred but for that event. See NER, chapter 10 Glossary.

<sup>4</sup> NER, cl. 6A.7.2(d).

## 2 ElectraNet's application

ElectraNet submitted its network support pass through application on 18 September 2020. The application is available on our website.<sup>5</sup>

### 2.1 Background

Revenue determinations for TNSPs include forecast allowances for network support payments.

A network support 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.

### 2.2 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.

A positive or negative network support event entails a TNSP making higher or 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 TNSP for that regulatory year.

Where a positive or negative network support event occurs, the AER must determine a network support pass through amount.<sup>6</sup>

Clause 6A.7.2(i) of the NER lists the relevant factors that the AER must consider when making a determination on a positive or negative network support event:

- (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;

---

<sup>5</sup> <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs/electranet-network-support-pass-through-2019-20>.

<sup>6</sup> NER, cl. 6A.7.2(d) and 6A.7.2(f).

- (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 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.

## 2.3 Guidelines 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>7</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 ElectraNet's application for a network support pass through in accordance with the NER and the guideline, and our reasoning is set out below.

## 2.4 ElectraNet's proposed pass through amount

On 18 September 2020, ElectraNet applied to the AER for a positive network support pass through of \$2,109,838 (\$nominal, 2021–22). This reflects ElectraNet's calculation of the difference between the allowance ElectraNet received for network support payments as part of its revenue determination and what ElectraNet actually spent on network support in the relevant period. ElectraNet's revenue determination for the 2018–23 regulatory control period included an allowance for \$8,679,583 (\$2019–20) for the 2019–20 regulatory year.<sup>8</sup>

---

<sup>7</sup> AER, *Procedural guideline for preparing a transmission network support pass through application*, June 2011.

<sup>8</sup> AER, *ElectraNet 2018–23 - Post-tax revenue model - 2019–20 return on debt update*, April 2019; AER analysis.

The pass through relates to network support services supplied at Port Lincoln on the Eyre Peninsula.<sup>9</sup> 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 charges under the new networks support services agreement which commenced in January 2019, and the commencement of charges for a new load bank facility required to maintain the reliability standard in light of declining Port Lincoln demand levels.<sup>10</sup>

---

<sup>9</sup> ElectraNet, *Network Support Pass Through Application for 2019–20*, September 2020, p.1.

<sup>10</sup> ElectraNet, *Network Support Pass Through Application for 2019–20*, September 2020, p.2.



## 3 AER assessment

### 3.1 Positive network support event

The NER defines network support event as follows<sup>11</sup>:

#### **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.

We determine that a positive network support event has occurred because the network support payments made by ElectraNet in 2019–20 (\$10,622,327, \$2019–20) were higher than the amount of network support payments provided for in ElectraNet's 2018–23 determination (\$8,679,583, \$2019–20).

### 3.2 Relevant factors

As aforementioned, clause 6A.7.2(i) of the NER sets out a number of factors that we must take into account when determining the approved pass-through amount following a network support event.

We have given regard to the appropriate factors:

- We have considered the matters and proposals set out by ElectraNet
- We have calculated the increase in costs ElectraNet has occurred as a result of the positive network support event
- We are satisfied that ElectraNet's decisions and actions in relation to the risk of the event were efficient
- We have taken into account the time cost of money to calculate the appropriate pass through amount
- We are satisfied that the costs ElectraNet will recover under this determination are solely a consequence of the aforementioned network support event
- We do not consider any other factors to be relevant.

### 3.3 Calculation of pass through event

In its application submitted to the AER on 18 September 2020, we consider that ElectraNet has incorrectly calculated the positive pass-through amount.

Our 2018–23 revenue determination for ElectraNet made an allowance for \$8,679,583 (\$2019–20) for the 2019–20 regulatory year. To calculate the positive pass-through amount,

---

<sup>11</sup> NER, chapter 10 Glossary.

we have used the network support cost amount of \$10,525,904 (\$nominal, 2019–20) reported in ElectraNet's 2019–20 Regulatory Financial Report, provided as part of its response to our Regulatory Information Notice. This amount is higher than the network support cost amount in its application of \$10,525,215 (\$nominal, 2019–20).<sup>12</sup> When escalated to the end of the 2019–20 regulatory year, the network support cost amount we have used is \$10,622,327 (\$2019–20).

We are satisfied that ElectraNet has reasonably incurred actual network support costs of \$10,622,327 (\$2019–20) compared to the applicable regulatory allowance of \$8,679,583 (\$2019–20). 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<sup>13</sup> and we consider this an appropriate method for maintaining costs at an efficient level.<sup>14</sup>

ElectraNet applied consumer price index and WACC escalations as per our guideline and used the 2019–20 WACC (5.68 per cent) in its application. In our calculation, we used the 2020–21 nominal WACC of 5.57 per cent for escalation because we are calculating the foregone interest between the period of June 2020 (the period at which this difference is calculated) and December 2021 (the period in which the additional network support costs will be recovered).<sup>15</sup>

Consequently, we determine that a positive pass through event has occurred and the appropriate pass through amount is \$2,107,330 (\$nominal, 2021–22). This amount will be recovered from allowed revenues for the next regulatory year (2021–22) and result in higher transmission charges (other things constant).

### 3.4 Timing matters

The NER provide that an application for network support pass through must be made within 60 business days of the end of the relevant regulatory year.<sup>16</sup> We must then make a determination within 60 business days of the business' application to us.<sup>17</sup>

The relevant regulatory year ended on 30 June 2020 and ElectraNet made its pass through application on 18 September 2020, 58 business days later.

---

<sup>12</sup> ElectraNet, *Network Support Pass Through Application for 2019–20*, September 2020, p.1.

<sup>13</sup> ElectraNet, *Network Support Pass Through Application for 2019–20*, September 2020, p.2.

<sup>14</sup> NER, cl. 6A.7.2(i)(3).

<sup>15</sup> AER, *Final decision, Post Tax Revenue Model. 2020-21 RoD update, Eyre Peninsula contingent project*, September 2020.

<sup>16</sup> NER, cl. 6A7.2(c).

<sup>17</sup> NER, cl. 6A7.2(e).