Determination Network support pass through for 2021–22 regulatory year

Powerlink

November 2022

AUSTRALIAN ENERGY REGULATOR

© Commonwealth of Australia 2021

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.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
Tel: 1300 585 165

AER reference: 213605

Contents

Overview **1**

1 Determination **2**

2 Powerlink's application **3**

2.1 Background 3

2.2 Regulatory requirements 3

2.3 Guidelines for transmission network support pass through applications 4

2.4 Powerlink'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

Glossary **8**

Overview

On 21 September 2022, Powerlink applied to the Australian Energy Regulator (AER) to pass through costs relating to network support for the 2021–22 regulatory year.

Powerlink is the provider of electricity transmission network services in Queensland.

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[1]. 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 Powerlink'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.[2]

We determine that a positive network support event has occurred, and the appropriate positive network support pass through amount is $290,733 ($nominal, 2023–24). This amount will be added to allowed revenues for the next regulatory year (2023–24) and result in slightly higher transmission charges (other things constant).

[1] See, National Electricity Rules (NER), Chapter 10 (definition of 'network support payment').

[2] 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[3] and approve a positive network support pass through amount of $290,733 ($nominal, 2023–24). This is due to network support costs being higher in 2021–22 than the allowance forecast for such costs in Powerlink's revenue determination. The approved network support pass through amount will be adjusted in Powerlink's maximum allowed revenue in the 2023–24 regulatory year in accordance with the procedures set out in Powerlink's 2022–27 revenue determination.

The NER require us to determine the amount that should be passed through to customers.[4] We base our decision on an assessment of the factors set out in clause 6A.7.2(i) of the NER. Powerlink proposed a positive network support pass through amount of $290,733 ($nominal, 2023–24) to recover from its transmission network users, submitted on 21 September 2022.

We have accepted Powerlink's proposed network support pass through amount after verifying the actual network support costs reported in its 2021–22 Regulatory Financial Report, provided in response to our Regulatory Information Notice.

[3] 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.

[4] NER, cl. 6A.7.2(d).

2 Powerlink's application

Powerlink submitted its network support pass through application on 21 September 2022. The application is available on our website.[5]

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.[6]

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;
>
> (4) the time cost of money based on the allowed rate of return for the provider for the relevant regulatory control period;

[5] https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs

[6] NER, cl. 6A.7.2(d) and 6A.7.2(f).

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

2.3 Guidelines for transmission network support pass through applications

We released a guideline detailing our approach to assessing network support cost pass throughs in June 2011 (guideline).[7] 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 Powerlink'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 Powerlink's proposed pass through amount

On 21 September 2022, Powerlink applied to the AER for a positive network support pass through of $290,733 ($nominal, 2023–24). This reflects Powerlink's calculation of the difference between the allowance Powerlink received for network support payments as part of its revenue determination and what Powerlink actually spent on network support in the relevant period. Powerlink's revenue determination for the 2017–22 regulatory control period included an allowance for $0 ($2021–22) for the 2021–22 regulatory year.[8] Thus, this network support pass through application relates to network support payments which Powerlink has incurred as a result of a network support contract it entered into after its revenue determination for the 2017–22 regulatory control period.

The pass through relates to network support services incurred in response to the Australian Energy Market Operator's (AEMO's) report "Notice of Queensland System Strength

[7] AER, *Procedural guideline for preparing a transmission network support pass through application*, June 2011.

[8] AER, *Powerlink 2017–22 – Post tax revenue model - 2021–22 return on debt update*, January 2021; AER analysis.

Requirements and Ross Fault Level Shortfall". This report required adequate system strength services in place to meet this shortfall by 31 August 2021.[9]

Powerlink submitted that the variation in expenditure compared with the allowance reflects the costs it accrued during the 2021–22 regulatory year, in relation to the payments to owners of the Daydream, Hamilton, Hayman and Whitsunday solar farms in North Queensland for some of the costs associated with retuning inverters as part of the long-term solution to address system strength requirements at the Ross 275 kV node.[10]

[9] Powerlink, *Network Support Pass Through Application for 2021–22*, September 2022, p.3.

[10] Powerlink, *Network Support Pass Through Application for 2021–22*, September 2022, p.3.

3 AER assessment

3.1 Positive network support event

The NER defines network support event as follows[11]:

> **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 Powerlink in 2021–22 ($270,046, $2021–22) were higher than the amount of network support payments provided for in Powerlink's 2017–22 determination ($0, $2021–22).

3.2 Relevant factors

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 Powerlink
- We have calculated the increase in costs Powerlink has occurred as a result of the positive network support event
- We are satisfied that Powerlink'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 Powerlink 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 21 September 2022, we consider that Powerlink has correctly calculated the positive network support pass through amount.

To calculate the positive network support pass through amount, we have used the network support cost amount of $265,443 ($nominal, 2021–22) reported in Powerlink's 2021–22 Category Analysis data, provided as part of its response to our Regulatory Information Notice. This amount matches the network support cost amount in its application.[12] Actual

[11] NER, chapter 10 Glossary.

[12] Powerlink, *Network Support Pass Through Application for 2021–22*, September 2022, p.3.

network support payments are assumed to be valued at middle of the year terms.[13] Therefore, we escalated this amount by applying the 2021–22 CPI figure (3.50%) over a time period of half a year, and determined the value of the network support cost amount at June 2021 as $270,046 ($2021–22).

We are satisfied that Powerlink has reasonably incurred actual network support costs of $270,046 ($2021–22) compared to the applicable regulatory allowance of $0 ($2020–21). 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 expression of interest process[14] and we consider this an appropriate method for maintaining costs at an efficient level.[15]

To account for the time cost of money, WACC escalations are applied for a period of one and a half years when determining the network support pass through amount. Therefore, in our calculation we applied:

- 2022–23 nominal WACC of 5.08% over one year, which represents the year in which the network support pass through application is submitted and assessed by the AER.[16]
- a further 2023–24 nominal WACC of 4.98% for half a year, which represents the period where the network support pass through amount is passed through to customers. As this time period falls outside Powerlink's current 2017–22 determination, we have relied on the nominal WACC figure in Powerlink's 2022–27 final decision.[17]

Consequently, we determine that a positive network support event has occurred and the appropriate network support pass through amount is $290,733 ($nominal, 2023–24). This is the same pass through amount proposed by Powerlink. This amount will be recovered from allowed revenues for the next regulatory year (2023–24) and result in slightly 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.[18] We must then make a determination within 60 business days of the business's application to us.[19]

The relevant regulatory year ended on 30 June 2022 and Powerlink made its network support pass through application on 21 September 2022, 59 business days later.

[13] AER, *Procedural guideline for preparing a transmission network support pass through application*, June 2011, p. 13.

[14] Powerlink, *Network Support Pass Through Application for 2021–22*, September 2022, p.3.

[15] NER, cl. 6A.7.2(i)(3).

[16] AER, *Final decision - Powerlink transmission determination 2022-27 - Post-tax revenue model*, April 2022.

[17] AER, *Final decision - Powerlink transmission determination 2022-27 - Post-tax revenue model*, April 2022.

[18] NER, cl. 6A7.2(c).

[19] NER, cl. 6A7.2(e).

Glossary

Term	Definition
AER	Australian Energy Regulator
AEMO	Australian Energy Market Operator
CPI	Consumer price index
Guideline	Procedural guideline for preparing a transmission network support pass through application
NER	National Electricity Rules
TNSP	Transmission network service provider
WACC	Weighted average cost of capital