Determination

Pricing methodology guideline amendments for inter-regional charging arrangements

July 2014
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Overview

We are responsible for the economic regulation of transmission service providers in the national electricity market. We regulate transmission service providers in accordance with the national electricity rules and the national electricity law.

On 28 February 2013, the Australian Energy Market Commission (the Commission) published its final determination and rule implementing inter–regional transmission charging arrangements. It establishes a load export charge which will be levied between transmission network providers in adjacent regions of the national energy market, from 1 July 2015.¹

The Commission’s final rule requires that transmission businesses amend their pricing methodologies by 27 February 2015. To facilitate this, we are required to amend our transmission Pricing Methodology Guidelines (the Guidelines).²

This document sets out our determination on the amendments we have decided to make. These amendments are contained in a new section of the Guidelines (section 2.6). The Guidelines can be accessed on our website at the following link: https://www.aer.gov.au/node/24369. We have not made any other amendments to the Guidelines, other than those relating to the introduction of inter-regional transmission charging arrangements set out in section 2.6.

Background information

Prior to making this determination, we published an issues paper. It contained background information about inter–regional transmission charging arrangements and the Commission's reasons for introducing them. If you are unfamiliar with how the new arrangements will operate, then we suggest reading the issues paper first. It is on our website: https://www.aer.gov.au/node/24369. Appendix A of this document contains a flow chart explaining how transmission prices are derived from the revenue allowance set by the AER. This is helpful to understand how inter-regional transmission charges affect customers.

In a nutshell, inter–regional transmission charging arrangements are intended to make transmission network charges more cost reflective. The national electricity market comprises of inter–connected regions between which electricity flows. Customers which import electricity from a neighbouring region effectively use that region’s transmission network to obtain supply. The introduction of inter–regional transmission charging arrangements allows for that exporting transmission network operator to recover some of its costs from the customers in the importing region. Previously, this was not possible.

A co-ordinating network service provider is responsible for administering inter-regional transmission charging arrangements. It is a transmission business which has been appointed to a price co-ordination role by other businesses in its region.³ Provisions exist in the Commission's final rule for instances where a region does not already have a co-ordinating network service provider, for one to be appointed.⁴

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¹ This is an additional transmission network charge to those already levied by the network operators in the national market prior to the rule change.
² NER, clause 6A.20(e)
³ NER, Chapter 10.
⁴ NER, 6A.29A.1.
We outlined our proposed amendments to the Guidelines in the issues paper. Submissions received were taken into account by us in making this determination.

**Total revenue impacts associated with the new rule**

The total revenue which transmission businesses collectively earn across the national electricity market will not change following commencement of the rule on 1 July 2015. The amendments do not introduce new costs that transmission businesses are able to recover via additional revenue. The rule affects the *allocation* of existing costs only.

The modified load export charge is levied between transmission businesses in neighbouring regions of the electricity market. They will be required to pay this charge out of the allowable revenue they would otherwise be able to earn from providing intra-regional transmission services. In that way, the receipts and liabilities of transmission businesses will vary, depending on net electricity flows between regions. Nevertheless, the overall effect of the modified load export charge will be that the aggregate revenue that they all earn will be unchanged.

The flow of electricity is likely to change over the course of a year. The modified load export charge is therefore recovered via net payments. The way this will work is best described using an example.

### Example of the modified load export charge

As co-ordinating network service providers, ElectraNet in South Australia and the Australian Energy Market Operator in Victoria are responsible for calculating the modified load export charge.

If in one year South Australia is a net importer of electricity from Victoria, ElectraNet would be required to pay AEMO a modified load export charge. If the charge is $1 million, then ElectraNet would recover its AER allowed revenue for intra-regional services plus an additional $1 million from its customers. For AEMO, the opposite would apply. AEMO would recover its allowed revenue requirement for intra-regional services minus the modified load export charge ($1 million) which is now being recovered by ElectraNet through its South Australian customer base.

In effect, ElectraNet’s revenue would go up by $1 million and AEMO’s revenue would go down by $1 million. As the additional revenue ElectraNet recovers is paid to AEMO, customers in the net-importing region (South Australia) bear the cost of the modified load export charge. At the same time, AEMO receives the shortfall in revenue ($1 million) which it did not recover from Victorian customers, who are now paying a lower charge.

**Determination**

We have determined that the five amendments we proposed in the issues paper will be made to the Guidelines. These amendments will be made as proposed, with the exception of a drafting change to one of them. We have also decided to make a further two amendments in response to Grid Australia’s submission.

The new Guidelines take effect from the date of publication (17 July 2014). The next step is for transmission businesses to revise their pricing methodologies in line with the Guidelines and submit them to the AER for approval, by no later than 27 February 2015.\(^5\)

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\(^5\) NER, clause 11.64.3(a).
1 Issues paper

We proposed five amendments to the Guidelines in the issues paper. In this section, we outline those amendments and consider the submissions we received on them from stakeholders.

1.1 Required amendments

For a pricing methodology to be approved it must give effect to the pricing principles in the rules and comply with the Guidelines. The pricing principles contain the substantive requirements. The Guidelines specify the information that we require to be satisfied that a business has given effect to the pricing principles.

The AER is responsible for determining the Guidelines. In making our determination, we are required to consider clause 6A.25.2 of the rules. The amendments to the Guidelines which we are required to make in response to the introduction of inter-regional transmission charging arrangements are specified in that clause. The relevant sections of clause 6A.25.2 are:

- The pricing methodology guidelines must specify or clarify:
  
  (g) the matters which Transmission Network Service Providers that are also Co-ordinating Network Service Providers must include in their pricing methodologies in accordance with clause 6A.24.1(b1) for:

    1. the allocation of the AARR for prescribed transmission services provided by Transmission Network Service Providers within that region, including the allocation of the AARR as agreed between Transmission Network Service Providers in accordance with clause 6A.29.3;
    2. the calculation of modified load export charges consistent with clause 6A.29A.2; and
    3. the allocation of billing of modified load export charges:

      (i) receivable by other Co-ordinating Network Service Providers in interconnected regions; and
      (ii) payable to other Co-ordinating Network Service Providers in interconnected regions,

    to each Transmission Network Service Provider within its region under clause 6A.29A.5.

1.2 Proposed amendments

In developing the proposed amendments to the Guidelines, we considered the rule requirements in clause 6A.25.2(g).

1.2.1 Allocation of the annual revenue

Clause 6A.25.2(g)(1) requires the Guidelines to be amended so that when a co-ordinating network service provider submits its pricing methodology for approval it is required to specify how the annual aggregate revenue requirement (AARR) in its region will be allocated.

The Guidelines are also required to address clause 6A.29.3. It states that a co-ordinating network service provider responsible for the allocation of the AARR in a region may allocate the AARR of

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6 NER, clause 6A.24.1(c)(1) and (2).
7 NER, clause 6A.24.1(c)(2).
8 NER, clause 6A.25.2(g)(1).
interconnected regions as well, if the relevant transmission business or businesses have agreed to such an arrangement.

**AER issues paper proposal 1**

Where a TNSP is the co-ordinating network service provider for a region its pricing methodology is required to detail how it will derive the AARR for prescribed transmission services in that region, including any allocation of the AARR in an interconnected region as agreed between TNSPs in accordance with clause 6A.29.3 of the NER.

1.2.2 **The calculation of the modified load export charge**

Clause 6A.25.2(g) requires the Guidelines to be amended so that a pricing methodology a transmission business submits is required to show how the modified load export charge will be calculated.9

In the issues paper, we stated that we did not think that the Guidelines needed to elaborate or provide further clarification on how a pricing methodology is required to give effect to the calculation of the modified load export charge. This is other than to state that a pricing methodology must specify that when calculating the modified load export charge a co-ordinating network service provider is required to follow the method prescribed in clause 6A.29A.2.

**AER issues paper proposal 2**

Where a TNSP is the co-ordinating network service provider for one or more regions, it is required to detail how it will calculate the modified load export charge payable to it by the co-ordinating network service provider for each interconnected region, in accordance with clause 6A.29A.2 of the NER.

1.2.3 **The allocation of billing**

Two types of billing are addressed in the final rule (see the issues paper, section 1.2.4):10

1. Inter–regional billing. This occurs between co-ordinating network service providers and results in a net payment from one provider to the other.

2. Intra–regional billing. This occurs where there are multiple transmission businesses within a given region. To recover their contribution toward paying a modified load export charge, or so they can recover additional revenue as their share in the receipt of a modified load export charge, the co-ordinating network service provider is required to bill each business in its region.

The final rule requires the Guidelines to address intra–regional billing only. For the issues paper, when we considered the amendment that we should make we referred to the Commission’s rule change determination.

It stated that its preferred approach for the recovery of the modified load export charge would be on the basis of intra–regional, rather than inter–regional, utilisation. It decided ‘on this approach because it better reflects the fact that all customers derive benefits from (or can be considered to have caused

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9 NER, clause 6A.25.2(g)(2).
10 NER, clause 6A.29A.4
the need for) inter–regional capability, not just those located near the border’.\textsuperscript{11} We decided in the issues paper that this intention should be reflected in the Guidelines.

### AER issues paper proposal 3

Where there is more than one transmission business in a region, the co-ordinating network service provider must provide details in its pricing methodology regarding how it will allocate any amounts receivable by or payment to other transmission businesses in accordance with clause 6A.29.5 of the NER.

### AER issues paper proposal 4

When allocating any amounts receivable by or payable to other transmission businesses as per clause 6A.29.5 of the NER, a co-ordinating network service provider is required to specify in its pricing methodology that the allocation of those amounts will be conducted according to intra–regional, rather than inter–regional, network utilisation.

### Other issues

1.2.4

The final rule provides that the co-ordinating network service provider in each region is required to provide details of all modified load export charges to apply for the following financial year. This must be done in accordance with the Guidelines and by 15 March each year.\textsuperscript{12}

Prices for each of the categories of prescribed transmission services to apply for the following financial year are to be published by 15 May each year.\textsuperscript{13} For clarification, prices are the \textit{unit cost} of the service. Total charges paid are \textit{derived from the price (unit cost) multiplied by energy consumption or demand}.

In order for a co-ordinating network service provider to publish transmission prices on time, it may have to rely on information from other transmission businesses. The rules require: ‘each [TNSP] within a region must promptly provide information reasonably requested by the Co-ordinating Network Service Provider for that region to enable the proper performance of the co–ordination function’.\textsuperscript{14}

Our issues paper proposed guideline amendments requiring transmission businesses’ pricing methodologies to clarify \textbf{when} they will provide information to a co-ordinating network service provider in their region.

### Proposal 5

If a TNSP has appointed a co-ordinating network service provider in its region, then that TNSP must specify the timetable for provision of all necessary data to the co-ordinating network service provider for the calculation of the inter–and intra–regional transmission charges.

\begin{itemize}
\item \textsuperscript{11} AEMC, \textit{Rule determination: National electricity amendment (Inter–regional transmission charging)}, 28 February 2013, p. 26.
\item \textsuperscript{12} NER, clause 6A.24.2(b).
\item \textsuperscript{13} NER, clause 6A.24.2(c).
\item \textsuperscript{14} NER, clause 6A.24.4(e).
\end{itemize}
1.3 **Stakeholder submissions**

We received a submission from Grid Australia on the amendments proposed in the issues paper. The Australian Energy Market Operator also provided a submission, which made more general comments about the proposed amendments.

Table 1.1 and Table 1.2 summarise the submissions from Grid Australia and AEMO, respectively.

### Table 1.1 Grid Australia submissions

<table>
<thead>
<tr>
<th>Proposed amendments to the Guidelines</th>
<th>Grid Australia submission</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proposal 1</strong></td>
<td></td>
</tr>
<tr>
<td>Where a TNSP is the co-ordinating network service provider for a region its pricing methodology is required to detail how it will derive the AARR for prescribed transmission services in that region, including any allocation of the AARR in an interconnected region as agreed between TNSPs in accordance with clause 6A.29.3 of the NER.</td>
<td>Supports proposals 1 to 4.</td>
</tr>
<tr>
<td><strong>Proposal 2</strong></td>
<td></td>
</tr>
<tr>
<td>Where a TNSP is the co-ordinating network service provider for one or more regions, it is required to detail how it will calculate the modified load export charge payable to it by the co-ordinating network service provider for each interconnected region, in accordance with clause 6A.29A.2 of the NER.</td>
<td>Supports proposals 1 to 4.</td>
</tr>
<tr>
<td><strong>Proposal 3</strong></td>
<td></td>
</tr>
<tr>
<td>Where there is more than one transmission business in a region, the co-ordinating network service provider must provide details in its pricing methodology regarding how it will allocate any amounts receivable by or payment to other transmission businesses in accordance with clause 6A.29.5 of the NER.</td>
<td>Submitted that the co-ordinating network service provider, rather than the appointing TNSP, should specify the timetable for the provision of all necessary data.</td>
</tr>
<tr>
<td><strong>Proposal 4</strong></td>
<td></td>
</tr>
<tr>
<td>When allocating any amounts receivable by or payable to other transmission businesses as per clause 6A.29.5 of the NER, a co-ordinating network service provider is required to specify in its pricing methodology that the allocation of those amounts will be conducted according to intra-regional, rather than inter-regional, network utilisation.</td>
<td>Supports proposals 1 to 4.</td>
</tr>
<tr>
<td><strong>Proposal 5</strong></td>
<td></td>
</tr>
<tr>
<td>If a TNSP has appointed a co-ordinating network service provider in its region, then that TNSP must specify the timetable for provision of all necessary data to the co-ordinating network service provider for the calculation of the inter- and intra-regional transmission charges.</td>
<td>Supports proposals 1 to 4.</td>
</tr>
</tbody>
</table>

**Source**: Grid Australia, *Submission to the AER*, 30 May 2014

### Table 1.2 AEMO submissions

<table>
<thead>
<tr>
<th>General comment</th>
<th>AEMO submission</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comment 1</strong></td>
<td>In practice, the cost allocation sequence for inter- and intra-regional network charges would differ to the description given in the issues paper.</td>
</tr>
</tbody>
</table>
Cost allocation sequence

<table>
<thead>
<tr>
<th>Comment 2</th>
<th>Use of forecast data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The requirement to publish inter-regional network charges by 15 March each year (NER, clause 6A.24.2(b)) will lead to a larger reliance on forecast data. In particular, the most up-to-date data on service target performance incentive scheme (STPIS) amounts will not be available at the time of publishing inter-regional network charges. This will lead to a greater reliance on forecasting STPIS amounts, which in turn could potentially create larger over- and under-recovery amounts in subsequent years, leading to greater volatility in inter-regional charging.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comment 3</th>
<th>Timing inconsistency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Data set used by AEMO will differ for inter- and intra-regional charges. To calculate inter-regional charges, the NER requires the application of customer data from the most recently completed financial year (t–2). The 2014–19 pricing methodology for AEMO requires the use of data from the most recently completed 12 month period from 1 March to 28 February (t–1) to calculate intra-regional charges. No other transmission business uses this data set.</td>
</tr>
</tbody>
</table>

Source: AEMO, Submission to the AER, 30 May 2014.

Grid Australia's made two general comments. These are discussed in section 2.1.3.
2 Determination

In this section, we state the amendments to the Guidelines we have decided to make and our reasoning. These amendments are set out in section 2.6 of the Guidelines, and in accordance with the rules they must be complied with when a transmission business submits its pricing methodology for approval to the AER.\(^\text{15}\)

2.1 Final amendments

We have determined that:

- proposals 1–4 in the issues paper will be included in the Guidelines
- proposal 5 in the issues paper will be included in the Guidelines but with a minor drafting edit
- two further amendments will be included in the Guidelines to reflect comments in Grid Australia’s submission.

We consider the general comments AEMO’s submission made in section 2.1.4 below.

2.1.1 Proposals 1–4

We consider proposals 1–4 in the issues paper reflect the requirements in the rules.\(^\text{16}\) Grid Australia’s submission supported these proposals. We therefore determine that they will be included in the amendments to the Guidelines.

2.1.2 Proposal 5

Grid Australia’s submission suggested drafting edits to issues paper proposal 5. We agree that proposal 5 could be worded more clearly. The amendment in the Guidelines we have decided to make will read (with the edits in bold):

\[
\text{If a TNSP has appointed a co-ordinating network service provider in its region, then that co-ordinating network service provider must specify the timetable for provision of all necessary data to it for the calculation of the inter– and intra–regional transmission charges.}
\]

2.1.3 Further amendments

Grid Australia’s submission stated that:

1. it supports the Guidelines specifying that in addition to providing details of modified load export charges to adjacent co-ordinating network service providers, the co-ordinating network service providers must publish this information on their website in a timely manner
2. the Guidelines should expressly state that the time period used to allocate costs in determining inter–regional network charges is the most recently completed financial year at the time at which the charge is being calculated.

We agree with both these comments and have included amendments to the Guidelines to reflect them.\(^\text{17}\)

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\(^{15}\) NER, clause 6A.24.1(c)(1) and (2).
\(^{16}\) NER, clause 6A.25.2(g).
\(^{17}\) AER, Pricing methodology guidelines, July 2014, section 2.6(f) and (g), p. 13.
With regard to Grid Australia's first proposal, we consider the requirement that a co-ordinating network service provider publish details of its modified load export charges on its website in a timely manner is consistent with the rules.\(^\text{18}\) It promotes transparency and is good industry practice.

In relation to Grid Australia's second proposal, we note that clause S6A.3.2(3) of the rules refers to 'regulatory year' when specifying the time period for running the modified load export charge cost allocation process.

We concur that more clarity around this term would be helpful. We have therefore included an amendment requiring a co-ordinating network service provider's pricing methodology to state that the relevant time period is the last completed financial year, as determined from the time at which the charge is being calculated.\(^\text{19}\) As Grid Australia's submission states, providing such clarity is essential if the inter–regional transmission charging arrangements are to operate equitably.

2.1.4 AEMO's submission

To reiterate, AEMO's submission made three comments:

1. in practice, the costs allocation steps described in the issues paper would be reversed
2. the date on which co-ordinating network service providers are required to publish the load export charge (15 March) under the NER will require a larger reliance on some forecast data
3. the data period AEMO uses to calculate the load export charge will lag behind the data period used to calculate its intra–regional charges (AEMO is the co-ordinating network service provider in Victoria).

Cost allocation sequence

The introduction of inter–regional transmission charging arrangements will require co-ordinating network service providers to allocate costs for both intra– and inter–regional network. The Commission's rule change determination described the sequence of the two cost allocation processes as:

Operationally this would occur as follows. The transmission network service provider would undertake one application of its cost reflective network pricing methodology for intra–regional load points according to current arrangements in which no inter–regional load points would be included. The transmission network service provider would then perform and additional run of the cost reflective network pricing methodology (based on standardised components) including the export points (or points, depending on how many neighbouring regions there were). This second application of the cost reflective network pricing methodology would only have the function of producing a charge for the importing regions.\(^\text{20}\)

The issues paper provided a description of the two cost allocation processes in accordance with how the Commission explained it in its rule change determination. That is, costs would be allocated to intra–regional load points, first, and to inter–regional load points, second. Notwithstanding, AEMO's submission stated that in practice the sequence would be reversed. The AER accepts that this is most likely the case.

The modified load export charge is added on top of, or subtracted from, the revenue a co-ordinating network service provider needs to recover from intra–regional transmission customers. As an

\(^{18}\) NER, clause 11.64.2(b).
\(^{19}\) AER, Pricing methodology guidelines, July 2014, section 2.6(g), p. 13.
\(^{20}\) AEMC, Rule determination: National electricity amendment (Inter–regional transmission charging), 28 February 2013, p. 15.
increment (or decrement), it may be helpful for co-ordinating network service providers to calculate the modified load export charge first. In any case, the NER does not expressly state the sequence in which the two cost allocations processes are to proceed.

Moreover, we consider the sequence to be a matter for co-ordinating network service providers to decide for themselves, in terms of what is administratively simplest for them. The order does not affect the outcome of the cost allocation processes, and does not require clarification in the Guidelines.

**Use of forecast data**

In its submission AEMO stated that in order to calculate transmission use of system charges, it currently obtains the most up-to-date data relating to the Service Target Performance Incentive Scheme prior to the 15 May publication date for TUoS services. It noted that a consequence of the rule requirement to finalise data to publish the load export charge by 15 March is that AEMO will require a larger reliance on forecasting the service incentive amounts.

We acknowledge AEMO’s concerns regarding the use of forecast data. It could have the effect of creating larger over and under recovery amounts in subsequent years as forecast amounts are reconciled with actuals. Notwithstanding this, the requirement to publish the load export charge by 15 May is a NER requirement. The Guidelines must give effect to the NER. As such, AEMO has to accept a greater reliance on forecast data.

**Timing inconsistency**

AEMO’s submission referred to a timing inconsistency unique to it.

To calculate intra–regional locational TUoS prices in Victoria, the approved pricing methodology for its 2014–19 regulatory control period requires AEMO to use data on customer demand from the most recent 12 month period (t–1). This is from 1 March to 28 February each year. For inter–regional charges, the NER requires co-ordinating network service providers to use data from the most recently completed financial year (t–2).

It is noted that the operation of AEMO’s pricing methodology leads to a misalignment between the allocation of costs which feed into intra–regional and inter–regional charges. However, this is the approach that AEMO proposed in its 2014–19 pricing proposal and which consumers stated they wanted during the AER’s consultation in making its transmission determination for AEMO. It is not a matter which can be addressed in the Guidelines, which deal only with the information that must be provided for a transmission pricing methodology to be approved.

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21 NER, clause 6A.24.2(c).
23 Energy Users Coalition of Victoria, Submission on the AER's issues paper on AEMO's proposed pricing methodology, 24 November 2013.
24 NER, clause 6A.24.1(c)(2).
A Appendix A: Transmission pricing diagram

Figure A.1 Transmission pricing diagram

* These operating and maintenance costs are not part of the AARR, nor are they part of the ASRR for prescribed common transmission service. However, they are recovered on a postage stamp basis.

^ Shares of the ASRR for prescribed TUOS services are to be allocated 50% to the locational component and 50% to non-locational component, or using an alternative allocation as per clause 6A.23.3(d)(2).
Figure A.1 provides an outline of the process for turning the revenue we set for a business in a transmission determination into customer prices. It essentially sets out the three step processes contained within part J of the rules. The first two steps are commonly known as ‘cost allocation’. The third involves developing a pricing structure (fixed annual amount, postage stamp price, or demand–based price).

A.1 Step one: allocation to services

The first step required of a pricing methodology is a description of how a business will derive its annual service revenue requirement (ASRR). This involves allocating a business’ adjusted MAR, known as the aggregate annual revenue requirement (AARR), to each category of prescribed transmission services that a business provides. In practice, businesses ‘make an assessment of which assets were directly attributable on a causation basis to particular services at the date the Proposed Pricing Rule was published (24 August 2006)’.

A.2 Step two: allocation to assets

The intention of the first step is to allocate a transmission provider’s AARR between different categories of prescribed transmission services. The second step required under the NER transmission pricing principles involves a cost allocation within prescribed transmission services. The requirements in this step vary according to the category of prescribed transmission service:

- For prescribed exit and prescribed entry services, the ASRR must be allocated on the basis of an ‘attributable cost share’. This involves determining the relative cost of a service provided to a network user as a proportion of the total cost of providing all prescribed entry and exit services.

- The ASRR allocated to prescribed transmission use of system (TUoS) services must be allocated to transmission customer connection points on a locational and non-locational basis. The locational component is allocated according ‘estimated proportionate use’. Transmission businesses do this by running a ‘standard’ or ‘modified’ cost reflective network pricing methodology which models electricity flows and allocates costs accordingly. The non-locational component is ‘postage stamped’, that is, the same $/MWh or $/MW price is applied throughout the region. The portion of the locational and non-locational components must be a 50 per cent share, or an alternative methodology the AER has approved.

- The introduction of the inter-regional transmission charging arrangements requires co-ordinating network service providers to adjust their ASRR for the locational component of TUoS services. The adjustments are made such that the aggregate revenue transmission businesses recover collectively across the national electricity market stays the same.

- The ASRR allocated to common transmission services must be recovered through a postage price. This is intended ‘to limit any rebalancing of Prescribed Transmission Service charges to

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28 NER, clause 6A.22.3.
29 NER, clause 6A.23.3.
30 Alternatively, the allocation can be based on a reasonable estimate of future network utilisation and the likely need for future transmission investment with the objective of providing a more efficient locational price.
Transmission Customers in different locations and help maintain the stability and predictability of the pricing arrangements.\textsuperscript{31}

\section*{A.3 Step three: pricing structure}

For the recovery of the ASRR, a business is to develop separate prices for each category of prescribed transmission services in accordance with the NER transmission pricing principles. This is the third step which a transmission pricing methodology must address. The pricing principles that guide price structures are:

- For prescribed entry and exit services, TNSPs must determine a fixed annual price at each connection point that recovers the share of the prescribed entry or exit ASRR allocated to that connection point.

- For common transmission service ASRR and non-locational component of the prescribed TUoS service ASRR, prices must be postage stamped.

- For charges recovering the locational component of prescribed TUoS services ASRR, the pricing structure must be based on demand at times of greatest network utilisation for which investment is likely to be contemplated.

\textsuperscript{31} AEMC, Transmission pricing for prescribed transmission services: Rule proposal report, Proposed national electricity amendment (Pricing of prescribed transmission services) rule 2006, 24 August 2006 p. 61.