04.01.01

Designated Pricing Proposal Charges

Contents

1. Introduction

1.1 Overview

In this attachment we set out what designated pricing proposal charges are and how we propose to recover them over the regulatory control period 2015-20. This includes a description of the unders and overs mechanism to account for over or under recovery of these charges. We note that transitional arrangements for some designated pricing proposal charges in place for the regulatory control period 2010-15 are expiring, but that these will continue to be treated in the same way for the regulatory control period 2015-20, consistent with the AER's Preliminary Determination.

We anticipate that the allocation of designated pricing proposal charges in the regulatory control period 2015-20 will be similar to the approach taken in the 2010-15 period. However, we have amended our approach to the unders and overs mechanism for designated pricing proposal charges to be consistent with our approach for the Distribution Use of System (DUOS) unders and overs.

1.2 Designated pricing proposal charges

Designated pricing proposal charges are defined in Chapter 10 of the National Electricity Rules (NER) as:[1]

> Any of the following:
>
> (a) charges for *designated pricing proposal services;*
>
> (b) *avoided Customer TUOS charges;*
>
> (c) charges for *distribution services* provided by another *Distribution Network Service Provider*, but only to the extent those charges comprise*:*
>
> (1) charges incurred by that *Distribution Network Service Provider* for *designated pricing proposal services*; or
>
> (2) charges for *standard control services*;
>
> (d) charges or payments specified in rule 11.39.

More detail on each of the above elements is provided in the table below.

Table 1: Designated pricing proposal charges

Definition	Description
Designated pricing proposal services	We are charged for these services by the Transmission Network Service Provider (TNSP), Powerlink. The services include prescribed exit services, prescribed common transmission services, and prescribed Transmission Use of System (TUOS) services.
Avoided customer TUOS charges	These charges are required to be paid to embedded generators as described by clause 5.5(h) of the NER.
Charges for distribution services provided by another distribution network	We must recover charges that we incur from Energex for their provision of network services to a small group of customers in the Toowoomba area that cannot be economically supplied from our network.

[1] NER, Chapter 10, Glossary

Definition	Description
Charges or payments specified in clause 11.39 of the NER.	Transitional arrangements in clause 11.39 of the NER will no longer apply for the regulatory control period 2015-20. Charges levied on Ergon Energy for the use of the 220kV network which supplies the Cloncurry network will now fall under the 'charges for distribution services provided by another distribution network' category. Further, the 'designated pricing proposal services' category will now include charges levied by Powerlink for entry and exit services at non-prescribed connection points. This is consistent with the approach taken by Ergon Energy in reporting transmission related payments in our TUOS unders and overs account in the regulatory control period 2010-15. See the section on transitional arrangements for more detail.

The Australian Energy Regulator's (AER) distribution determination must set out how we are to report on the recovery of designated pricing proposal charges for each year of the regulatory control period.

1.3 Transitional arrangements

In the regulatory control period 2010-15, there are transitional arrangements that affect designated pricing proposal charges. The transitional arrangements are set out in clause 11.39 of the NER, which specifies the following charges as designated pricing proposal charges:

- charges levied on us for use of the 220kV network which supplies the Cloncurry township
- charges levied by Powerlink for entry services and exit services at the following non-prescribed connection services:
    - the connection at Oakey Power Station to supply Oakey town
    - the connection at Queensland Nickel[2]
    - the connection at Stoney Creek for the Sunwater pump sites
    - the connection at King Creek for the Sunwater pump sites and Conquest Mining.

In the regulatory control period 2015-20, the requirements of clause 11.39 of the NER will no longer apply. As a result of this, we proposed that the costs of the use of the 220kV network to supply Cloncurry and Powerlink's charges for entry services and exit services at the specified connection points would be included in our operating expenditure. In its Preliminary Determination, the AER concluded that these costs can continue to be recovered as designated pricing proposal charges.

Due to the expiry of transitional arrangements that are in place for the regulatory control period 2010-15, we proposed to incorporate charges that are currently recovered through designated pricing proposal charges into our operating expenditure forecasts. The AER concluded that the charges could continue to be recovered as designated pricing proposal charges and we accept this decision.

Consistent with the AER's position in the Preliminary Determination, Ergon Energy accepts the recovery of these costs as designated pricing proposal charges.

We note that the non-regulated 220kV line to Cloncurry is owned by Ergon Energy and therefore does not meet the definition of a prescribed transmission service. Transmission services are defined generally under the NER as services provided by a transmission network, which in turn is

[2] This service was transferred to Powerlink as a direct connected customer on 1 April 2014.

defined by reference to the nominal operating voltages. However, the transitional arrangements set out in clause 9.32.1(b) of the NER alter the definition of a transmission network for those networks located in Queensland. Specifically, transmission networks in Queensland include only those assets owned by Powerlink or a holder of a transmission authority. Ergon Energy does not hold a transmission authority and none of our networks are therefore considered transmission networks for the purposes of the NER, irrespective of the nominal operating voltage. Hence, the network services provided by Chumvale are not prescribed transmission services.

However, we will treat these costs as designated pricing proposal charges consistent with the AER's Preliminary Determination. We note that those costs fit within the intent of the designated pricing proposal charges, namely the pass through of charges for certain services provided by other Distribution Network Service Providers (DNSPs).

We note that there may be some uncertainty as to whether the entry and exit services provided by Powerlink at the specific connection point are prescribed transmission services, and therefore meet the definition of designated pricing proposal charges. However, Ergon Energy agrees to treat these charges as designated pricing proposal charges consistent with the AER's Preliminary Determination. We note that Powerlink intends for these connection points to be included in its regulatory asset base for its next regulatory control period, at which time those services will be prescribed transmission services and the associated costs recoverable as designated pricing proposal charges.

These costs have been removed from operating expenditure and will be reflected in TUOS charges in our annual Pricing Proposals.

2. Reporting on designated pricing proposal charges

In this section we set out how we propose to report on the recovery of designated pricing proposal charges.

2.1 Annual reporting

Clause 6.18.7 of the NER requires us to specify in our annual pricing proposal (rather than our Regulatory Proposal) how designated pricing proposal charges are to be recovered from customers. We do not propose to set out in detail, in this attachment, how we will pass our designated pricing proposal charges on to customers in every year of the regulatory control period 2015-20.

We will set out in our annual pricing proposal:

- the forecast level of designated pricing proposal charges that will apply for the relevant regulatory year
- how those designated pricing proposal charges will be passed on to customers.

Consistent with our approach in the regulatory control period 2010-15, we propose to report to the AER on the recovery of designated pricing proposal charges from our network tariffs and the adjustments made through the unders and overs account in our annual pricing proposals.

In this attachment we set out how we propose to make adjustments to account for any over or under recovery of these charges. We also indicate how we intend to apply designated pricing proposal charges. The application of the designated pricing proposal charges may be modified from year to year as circumstances dictate, and will be described more completely in our annual pricing proposal.

2.1.1 Allocation of Powerlink charges

We will pass through Powerlink's network charges in as cost-reflective a manner as is possible. Powerlink's entry and exit connection price and Capped Customer TUOS Usage Price are likely to be recovered with reference to a customer's maximum demand. Customer TUOS General Prices and Transmission Customer Common Service Prices are likely to be apportioned on the basis of a customer's historical and forecast energy demand.

2.1.2 Allocation of network charges from other DNSPs

We propose to recover these amounts in the same manner as general TUOS charges passed through to customers.

2.1.3 Allocation of avoided TUOS payments

We propose to recover these payments in the same manner as general TUOS charges passed through to customers at the same connection point as the embedded generator to which the payment is made.

2.2 Unders and overs adjustments

To demonstrate compliance with clause 6.18.7 of the NER and the AER's distribution determination, we will maintain an unders and overs account for designated pricing proposal charges (also referred to more generally in our previous revenue determination as TUOS charges).

We will provide detailed information regarding the unders and overs account in each annual pricing proposal, consistent with our approach in the regulatory control period 2010-15.

In *04.01.00 – (Revised) Compliance with Control Mechanisms*, we argue that tolerance limits should be maintained for the operation of DUOS unders and overs. In the event that the AER confirms its decision not to apply tolerance limits, we propose to use a *t-1* methodology for calculating DUOS unders and overs. If this methodology is agreed to be implemented for DUOS unders and overs, to maintain consistency on overs and unders accounts, we propose that a *t-1* methodology is also applied to designated pricing proposal charges.

In line with the *t-1* proposal on DUOS unders and overs, we have amended the unders and overs calculation for designated pricing proposal charges to be based on the audited closing balance in year *t-2* and estimate of the closing balance in year *t-1*. In addition to the actual under/over recovery of amounts in *t-2*, the estimated under or over recovery in year *t-1* would be recovered via an adjustment in year *t*.

An example of this calculation is provided in Table 2 below. This table uses dummy data and is not intended to reflect our actuals or forecasts for any particular year.

Table 2: Example of calculation of designated pricing proposal charges under and overs

	Year t-2 actual	Year t-1 estimate	Year t forecast
Revenue from TUOS charges	$243,561	$254,707	$271,690
Less under/over adjustment approved by the regulator for previous year	$2,784		
Less total transmission related payments	$244,487	$252,843	$269,295
Transmission charges to be paid to TNSPs	$235,268	$242,832	$258,386
Avoided TUOS charges to EGs	$4,698	$5,023	$5,672
Payment to other DNSPs	$4,521	$4,965	$5,237
Under/over recovery for the regulatory year	**($3,710)**	**$1,887**	**$2,395**
TUOS unders and overs account			
Nominal WACC	9.72%	9.72%	7.41%
Opening balance	$0	($4,071)	($2,395)
Interest on opening balance	$0	($396)	$0
Under/over recovery	($3,710)	$1,887	$2,395
Interest on under/over recovery	($361)	$183	$0
Closing balance	**($4,071)**	**($2,395)**	**$0**

The entries in the unders and overs account for the most recently completed regulatory year (year *t-2*) will be audited values. The entries in the unders and overs account for the current regulatory year (year *t-1*) will be estimated values. This arrangement allows for some smoothing of prices should there be a large under or over recovery in the two years prior to year *t*.

The structure of the unders and overs account, as we propose above, is consistent with the current *t-2* approach. Interest is applied to the opening balances and net over or under recovery in years *t-2* and *t-1* using the approved nominal Weighted Average Cost of Capital (WACC) for that year. No interest is applied in year *t*.

We note that, in the example table provided for designated pricing proposal charges in the distribution determination,[3] the AER excluded "Avoided TUOS Charges to EGs". Ergon Energy requests that the AER reinstate this line item consistent with our currently approved methodology for unders and overs for designated pricing proposal charges, as approved in our 2015-16 Pricing Proposal.

[3] Table 14.2 in AER (2015), *Preliminary Decision Ergon Energy Determination 2015-16 to 2019-20, Attachment 14 – Control Mechanisms*, April 2015.