

Final

**Procedural guideline for preparing a
transmission network support pass through
application**

June 2011

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1 Introduction

The AER is responsible for the economic regulation of transmission network service providers (TNSPs) in the national electricity market (NEM). The form of economic regulation applied by the AER is a revenue cap which limits the earnings of each transmission network service provider (TNSP) in a regulatory control period. The National Electricity Rules (NER) only allow a revenue cap to be adjusted during a regulatory control period in specific circumstances. One of the allowed adjustments to a revenue cap is a network support pass through amount. In such cases, the AER's role is to approve the network support pass through amount by which a TNSP can vary its revenue cap.

This guideline sets out how TNSPs should prepare a network support pass through application to the AER. This guideline also takes into consideration the submission by Grid Australia in relation to the AER's draft guidelines. In particular, it:

- sets out the process, timing and information requirements that TNSPs must consider when preparing a network support pass through application
- provides information on the procedures the AER will undertake when conducting an assessment of the application and the timeframe in which the AER must make its decision.

By publishing this guideline, the AER is increasing the transparency of the processes applying to network support pass through arrangements.

1.1 Background

Network support projects

Network support typically involves sourcing local generation by a TNSP in order to address forecast constraints in its network. In certain circumstances, a TNSP may find it more cost effective to use generators to maintain system reliability, rather than undertake network augmentation (such as building additional transmission lines). Network support payments are made by TNSPs to network support providers for services to manage anticipated network constraints.

Network support provides a direct benefit to transmission customers and end users, as it can defer the need for transmission augmentation, and hence results in lower transmission charges, while maintaining the reliability of the network. However, the amount of network support required by a TNSP in any given year is dependent on factors that are outside the control of the TNSP such as weather conditions, demand levels, and electricity usage patterns.

The pass through mechanism in the NER has been incorporated into the revenue cap framework to allow for some cost increases (or decreases) to be passed directly onto customers, where the cost increases (or decreases) are beyond the control of the TNSPs. In such circumstances it is unreasonable for TNSPs to bear the risk (or benefit) arising from changes in costs.

Given that there are many factors affecting network support requirements beyond the control of the TNSP, the revenue cap allows for some costs associated with a network support pass through event to be recovered from transmission customers. This pass through of costs is achieved through an adjustment to the maximum allowed revenue (MAR) specified in the TNSP's revenue determination.

1.2 Consultation on final guideline

The AER released its draft guideline on 28 January 2011 and called for submissions on the guideline. The AER received one submission from Grid Australia.¹ The AER's responses to the issues raised by Grid Australia are in chapter 3 of this guideline.

1.3 Confidentiality

The AER's obligations regarding confidentiality and the disclosure of information provided to it by a TNSP is governed by the *Competition and Consumer Act (2010)*, National Electricity Law and the NER. See the ACCC/AER Information Policy guidelines (October 2008) for more information, at the AER website www.aer.gov.au.

1.4 Process for revision

The AER may amend or replace this guideline from time to time.

1.5 Version history and effective date

A version number and an effective date of issue will identify every version of this guideline.

¹ Grid Australia, Submission to the AER – *Guidelines for preparing a transmission network support pass through application*, 11 March 2011.

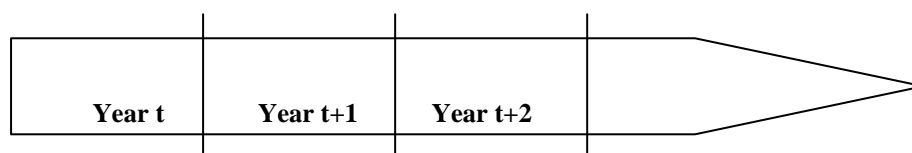
2 Network support pass through application guideline

This chapter outlines the processes a TNSP should follow when preparing a network support pass through application and describes the AER's decision making processes with respect to assessing a network support pass through application. Both TNSPs and the AER must comply with clause 6A.7.2 of the NER in respect of network support pass through applications. Appendix A sets out clause 6A.7.2 of the NER and provides the relevant definitions from chapter 10 of the NER.

2.1 Network support pass through process

The TNSP is required to lodge a network support pass through application with the AER before any costs are able to be passed through to customers. When the AER receives the network support pass through application, the AER is required to conduct a review of the costs. Figure 1 outlines the sequence of events associated with the network support pass through process as specified in the NER.

Figure 1: Network support pass through process



Where:

t = Year in which network support event occurs

t+1 = Year in which TNSP lodges application with AER and the AER makes a determination on the application

t+2 = Year in which AER approved network support pass through amount is passed through to customers.

2.2 Timing

Table 2 sets out the timing provisions of clause 6A.7.2 of the NER.

The AER intends to make a determination within 60 business days for both positive and negative network support pass through applications. This is to ensure the pass through amount can be incorporated into the following year's transmission prices in a timely manner. The timeframe allows for any consultation processes which the AER may carry out as part of the determination process, including seeking further information from the relevant TNSP, or other parties.

Table 2: Timing of network support pass through processes

Event	Timing
TNSP submits positive or negative network support pass through application	60 business days after the end of the relevant year.
AER determination (positive network support pass through)	The AER must make a determination within 60 business days after receiving the application. If the AER does not make a determination, then the AER is taken to have determined the amount as proposed by the TNSP.
AER determination (negative network support pass through)	The AER allows for the timeframe to be decided at the AER's discretion. The AER intends to assess negative network support pass through applications within 60 business days after receiving the application similar to a positive amount. If circumstances require the AER to take more than 60 days to assess the application, the AER will advise the TNSP in writing of the additional time required.

2.3 NER information requirements

In accordance with clause 6A.7.2 of the NER, TNSPs are required to provide the following information when preparing a network support pass through application:

- details of the network support event, including whether it was a positive or negative network support event
- a proposed network support pass through amount
- verification of the actual network support payments
- evidence the proposed network support amount occurs solely as a consequence of a network support event.

When determining a proposed network support amount the TNSP must provide the AER with details of all assumptions and calculations used to derive the amount. Ideally, this information should be presented in a spreadsheet that shows how the proposed network support pass through amount was calculated, including the application of CPI, and estimates of the time cost of money. The spreadsheet should show all formulas and input data.

To verify actual network support payments the TNSP must provide audited regulatory accounts, or other certification by an independent and appropriately qualified expert.

2.4 AER information requirements

The AER considers that the TNSPs must provide the following information:

- reasons for the difference between the forecast and actual network support payments
- any decisions and actions of the TNSP in managing the network support event, including details on the TNSP's risk management approach to control the magnitude of the pass through amount

- if the network support arrangement has changed or has not been previously reviewed by the AER as part of the AER determination process:
 - details on the provider/s of the network support services (including name, relationship to TNSP, nature of services to be provided, length of contract)
 - details on processes used to award the network support services contract
 - details on whether the regulatory investment test criteria have been met
- if existing network support arrangements have changed, the TNSP should detail any changes to the arrangements, including provider details and the nature of the service being provided.

2.5 AER assessment procedures

In reviewing a network support pass through application, the AER will review:

- whether a network support event has occurred, including whether a positive or a negative network support pass through amount has been proposed
- if the date the application was received meets the timeframe as prescribed in the NER (60 business days after the end of the relevant year)
- that the actual network support payments can be verified against the TNSP's audited regulatory accounts or audited financial statements or through an independently certified cost valuation report
- all calculations, including whether:
 - the proposed network support pass through amount is correct
 - costs included in the proposed amount reflect the NER definition of network support pass through amount
 - the time cost of money (as determined in the TNSP's revenue determination) has been applied correctly
- for new or varied network support contracts:
 - the consultation processes undertaken by the TNSP and processes undertaken for awarding the contract to the network support provider
 - whether the TNSP conducted a regulatory investment test to determine whether a non-network solution such as network support is the most cost effective option to address a network constraint
 - whether any capital expenditure allowance for a network augmentation that is a substitute for network support payments has been provided for in the TNSP's revenue determination

- 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 TNSP 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.

Appendix B provides more detail on the information requirements that should be included in a network support pass through application. Appendix C shows a worked example of how a network support pass through amount should be calculated.

3 AER issues and considerations

This chapter sets out the AER's reasoning on the *Network support pass through application procedural guideline*. This chapter also discusses comments made by Grid Australia in response to the AER's draft guideline on how to prepare a TNSP network support pass through application.²

3.1 Determining whether a network support event has occurred

When reviewing a network support pass through application, the AER must determine whether a network support event has occurred. Chapter 10 of the NER defines a network support event as when the actual amount of network support payments incurred in a regulatory year differs to the forecast amount allowed in the determination for that year. If a TNSP's application meets the NER definition of network support event, then the AER must decide on a network support pass through amount to be recovered or be returned to transmission customers.

Submission

Grid Australia submitted that TNSPs should be able to lodge a network support pass through application to the AER in cases where actual network support pass through costs were incurred in a regulatory year, but a zero allowance was provided for in the transmission revenue determination.³

AER conclusion

Given the long-term planning horizon used by TNSPs, the AER expects TNSPs will generally be able to identify their network support needs well in advance of the need arising, even if the exact amount or cost of network support cannot be specified. For that reason the AER does not consider it likely that unforeseen network support arrangements will have to be entered into during a regulatory control period.

However, the AER also accepts that such rare events may occur. In such circumstances, disallowing the pass through of a network support amount would penalise both the TNSP and the transmission customers. Disallowing new network support arrangements from the pass through provisions means the TNSP is not allowed to recover efficient costs, and forces the TNSP to find alternative (more expensive) means to maintain reliability, or puts reliability at risk.

Accordingly, the AER will review all applications for network support pass through where the definition of a network support event is met, including where a new network support arrangement is introduced within a regulatory control period. The definition of a network support event is shown in appendix A. Part (b) of the definition states that where an allowance for capital expenditure in relation to a network augmentation has been provided for in the revenue determination, network support payments that are a substitute for that augmentation cannot be included in a pass through amount. TNSPs will have to demonstrate that any new network support arrangements introduced within

² Grid Australia, *Submission*, p. 3.

³ Grid Australia, *Submission*, p. 2.

a regulatory control period meet all components of the definition of a network support event.

3.2 Other costs

If a network support event occurs, the TNSP may apply to the AER to pass through to users a range of costs associated with that event. For example, the TNSP may incur administrative costs (such as staffing and consultant costs) as a result of the network support event, and may seek to include these costs in its application. When reviewing a network support pass through application, the AER will consider all costs submitted on a case by case basis.

Submission

Grid Australia stated that administrative costs (and possibly other costs) should be included in the network support pass through amount. Grid Australia was of the opinion that clause 6A.7.2 of the NER allows for the recovery of administrative costs, noting that these costs would not have been incurred but for the network support event taking place. Grid Australia stated that if the associated costs are incremental, cost effective, and occur solely as a consequence of a network support event, then these costs should be included in the network support pass through amount.⁴

AER conclusion

The AER will consider costs other than network support payments for inclusion in the network support pass through amount, on a case by case basis. The AER considers that the NER definitions are clear and that such costs must relate to a network support event – that is, where actual network support payments are greater or lower than the forecast network support payments. The costs that can be included are not necessarily related to the implementation of network support contracts, or planning and assessment of network support arrangements. If a TNSP's application includes costs related to a network support event as defined in the NER, then the AER is required to take into account the factors listed under clause 6A.7.2(i) of the NER. If the claimed costs satisfy the relevant factors of the NER, then the AER will include the claimed costs as part of the network support pass through amount.

3.3 Recovery of other costs under the NER regulatory framework

Submission

Grid Australia stated that aside from the network support pass through provision, there are no other mechanisms available for TNSPs to recover costs incurred as a result of the network support event. Grid Australia stated that if the TNSP was required to absorb these other costs as part of its general operating expenditure (opex) allowance, TNSPs would be required to incur higher operating expenditure to implement such arrangements. This would place TNSPs in a disadvantaged position, since they would

⁴ Grid Australia, *Submission*, p. 2.

lose out in obtaining the rewards associated with the Efficiency Benefit Sharing Scheme.⁵

Grid Australia also noted that under the current regulatory framework, labour costs directly associated with network investments can be capitalised and continue to earn a return over the life of the asset. Grid Australia noted it seemed a more financially attractive option to pursue capital investment on network augmentation than to pursue network support activities.

AER conclusion

Since the introduction of clause 6A.7.2 of the NER, the network support pass through mechanism provides for more limited recovery of costs than what was previously available. The AER will adhere to clause 6A.7.2 in determining network support pass through amounts.

The AER notes that the opex allowance in a transmission determination includes cost estimates for network support payments. Although the network support payments allowance does not include administrative or other related costs, the determination also includes a general opex allowance to cover administrative or other costs associated with grid planning and regulatory management activities.

The incentive framework (adopted by the AER) operates such that the TNSP's total revenue is approved for the whole of the regulatory control period. The TNSP is free to spend its revenue in the manner it sees fit. If an unanticipated cost arises, the TNSP can spend more of its revenue on that cost than was contemplated at the time of the regulatory proposal. Similarly, the TNSP may spend less on a planned project if the costs associated with that project turn out to be less than the forecast provided at the time of the revenue proposal. This flexibility allows the TNSP to revise its expenditure priorities as circumstances change throughout the regulatory control period. The AER considers this flexibility in determining how to spend its revenue enables a TNSP to manage any costs associated with network support activities.

3.4 Negative network support pass through applications

The AER will assess applications associated with negative network support pass through events in the same manner as it will assess applications for positive network support pass through events. When making a determination on a negative network support pass through application, the AER will consider the factors listed in clause 6A.7.2 of the NER which relate to positive network support events.

The AER considers these factors are relevant for determining the network support pass through amount where there is a negative network support event. In both cases the actions of the TNSP can impact on the magnitude of the pass through amount and the external influences that drive the need for network support. Therefore, the AER considers it appropriate to treat positive and negative network support pass through applications symmetrically.

⁵ Grid Australia, *Submission*, p. 2.

3.5 Evidence of network support payment

Submission

Grid Australia requested that the AER's final guideline provides confirmation that audited financial statements or regulatory accounts would constitute sufficient evidence for verifying network support payments.⁶

AER conclusion

The AER confirms that audited regulatory accounts provide sufficient verification of network support payments, as required by clause 6A.7.2(c)(3) of the NER.

3.6 Difference between actual and forecast network support payments

The network support pass through application should provide reasons for differences in the variation of actual and forecast costs relating to the network support event. The TNSP should provide this information regardless of the materiality of the proposed amount. Reporting on causes of network support pass through variations between forecast and actual payments will assist the AER:

- understand the forecasting difficulties associated with network support payments
- understand the cost drivers and environmental conditions impacting on the network operations and the need for network support
- assess the efficiency of the TNSPs actions in managing the magnitude of the network support event, including assessing the extent to which such actions may or may not be possible.

The application should include references to supporting information to verify the reasons for the difference between forecast and actual costs.

3.7 Review of contractual arrangements

The AER is required to make an assessment on whether the costs for the network support services have been derived efficiently. In particular, it is noted clause 6A.7.2(i)(3) of the NER requires the AER to conduct an efficiency assessment on network support pass through applications relating to positive network support events.

Given that the AER considers network support pass through processes should apply on a symmetrical basis, the AER will also conduct an efficiency assessment for applications relating to negative network support pass through amounts. The AER considers that information on the process undertaken by the TNSP for establishing network support contracts, and in some cases, information about the contractual arrangements may be needed.

⁶ Grid Australia, *Submission*, p. 3.

Submission

Grid Australia did not consider that it is necessary or reasonable for the AER to review network support contracts with providers where such arrangements have not already been reviewed as part of a revenue determination process. Grid Australia noted that in many cases, confidentiality arrangements exist between contracting parties and the TNSPs. Accordingly, the AER should have regard to the confidentiality arrangements in place.⁷

AER conclusion

To assess the efficiency of a TNSP's actions on its management of a network support pass through event the AER will need to understand the arrangements that govern the provision of the network support service to the TNSP. This may encompass a review of the process used to establish the contract or contracts but also may require review of contract terms and conditions in some cases.

The AER notes Grid Australia's concerns regarding confidential information, but also notes that the AER has systems in place to handle confidential information, in accordance with the Competition and Consumer Act 2010, the National Electricity Law and the NER.⁸ The AER's obligations regarding confidentiality and disclosure of information provided to it by a TNSP is discussed in section 1.3 of this guideline.

3.8 Materiality

In accordance with clause 6A.7.2 of the NER, the AER will make a determination on the application, regardless of the materiality of the proposed network support pass through amount. Unless the forecast and actual network support payments are the same, TNSPs are expected to lodge an application for either a positive or a negative network support pass through amount with respect to each year of the regulatory control period.

Submission

Grid Australia proposed that a one per cent materiality threshold should be applied for network support events. If the network support pass through amount is greater than one per cent of the maximum allowed revenue (MAR), the TNSP must seek the approval of the AER to pass through the amount, in accordance with clause 6A.7.2 of the NER. For network support events less than one per cent of the TNSP's MAR, the TNSP should adjust the MAR without seeking the approval from the AER.⁹

AER conclusion

The AER notes that network support pass through events are different to other pass through events as the NER does not specify a materiality threshold to apply to the pass through amount. Therefore, in accordance with the NER, the TNSP will be required to submit an application to the AER, irrespective of the size of the difference between the forecast and actual payments relating to a network support event.

⁷ Grid Australia, *Submission*, pp. 1–2.

⁸ See <http://www.accc.gov.au/content/index.phtml/itemId/846791>

⁹ Grid Australia, *Submission*, p. 3.

3.9 Under/over recovery of network support pass through amounts from previous years

Due to the timing of network support pass through approvals and variations to transmission revenues during a regulatory year, a network support pass through amount may not be fully recovered in a regulatory year. Some TNSPs have previously incorporated a ‘true up’ amount in their calculations of network support pass through amounts. That is, the proposed pass through amount has included under or over recoveries of previous network support pass through amounts.

The network support pass through amount is defined in the NER as the difference between actual and forecast network support payments made by the TNSP for network support services in a regulatory year. This definition does not allow for under/over recovery amounts arising from previous years to be recovered through the network support pass through mechanism. Accordingly, the AER will not approve any under or over recovery amounts from previous regulatory years as part of the network support pass through amount.

3.10 Calculation of network support pass through amount

The network support pass through amount is calculated as the difference between forecast and actual network support payments, with an adjustment to take into account the time cost of money. In some cases, other costs will be included in the network support pass through amount.

3.10.1 Annual approach

The AER considers that the network support pass through amount should be calculated on an annual basis, as this approach is administratively simple. See attachment C for a worked example on how to calculate the network support pass through amount under an annual approach.

3.10.2 Consumer price index

In order to calculate the network support pass through amount, the forecast network support payments and actual payments or other costs should be valued in the same dollar terms. In accordance with the control mechanism used to calculate the TNSP’s maximum allowed revenue (MAR), the actual inflation rate should be used to index amounts to equivalent dollar terms. The inflation measure to be applied is specified in the control mechanism chapter of the TNSP’s revenue determination.

Submission

Grid Australia submitted that the method of CPI escalation applied to the network support pass through allowance should be consistent with the CPI escalation applied to the MAR under the TNSP’s revenue determination.¹⁰

AER conclusion

When the AER approves a network support pass through amount, an adjustment to the TNSP’s MAR is required. As discussed in section 2.2 of the guidelines, there are time

¹⁰ Grid Australia, *Submission*, p. 4.

lags between when the network support event occurs (year t), when the AER makes a determination on the network support pass through amount (year t+1) and when the pass through amount will be recovered (year t+2).

The post-tax revenue model (PTRM) is used by the AER to determine the expected MAR earned by a TNSP for each regulatory year in the regulatory control period. Given that the forecast MAR was calculated using the PTRM, for consistency reasons, the network support pass through amount should be based on the same dollar terms as the PTRM. The PTRM values the forecast revenue at end of year dollar terms. Actual network support payments are assumed to be valued at middle of the year terms. Therefore, to ensure that like for like comparisons can be made:

- the forecast allowance for network support payments should be indexed using CPI to end of year dollar terms in the same year in which the network support event occurred
- the actual network support expenditure should be indexed by applying a half year CPI to actual expenditure to end of year dollar terms (for the year in which the network support event occurred).

Although these adjustments may not accurately reflect the individual circumstances of the TNSP, the AER considers this approach is consistent with the approach taken in the PTRM and is administratively simple.

Please refer to appendix C for a worked example on how the CPI should be applied when calculating the network support pass through amount.

3.10.3 Time cost of money

Clause 6A.7.2(i)(4) of the NER requires the AER to take into account the time cost of money as part of deriving the network support pass through amount. The NER requires that the weighted average cost of capital (WACC) is used to account for the time cost of money.

The time cost of money is based on the principle that a dollar is worth more, the sooner it is to be received, all other things being equal.¹¹ This is because if received today, a dollar can be invested and earn interest, making it more valuable than a dollar received in the future. The time cost of money is effectively an interest payment from the TNSP to its customers on a negative network support amount (over recovery) or an interest payment to the TNSP from its customers on a positive network support amount (under recovery).

To account for the time cost of money, TNSPs are required to apply the WACC when determining the network support pass through amount. A one and a half year time lag is involved with calculating the network support pass through amount. If the network support event occurs in year t, the time lags are:

- a one year time lag representing the year in which the network support pass through application is submitted and assessed by the AER (year t+1)

¹¹ Peirson, Brown, Easton, Howard, Pinder, *Business Finance*, 9th edition (2006), p. 843.

- a further half year lag representing the period where the network support pass through amount is passed through to customers. For simplicity, this is assumed to occur in the middle of the following year (year t+2).

See appendix C for a worked example of how the time cost of money should be applied when calculating the network support pass through amount.

3.11 Conclusion

The AER considers its approach to making a determination on a TNSP's proposed network support pass through amount is consistent with the NER requirements. The AER will comply with the assessment procedures and information requirements listed in chapter 2 to ensure sound administrative decision making on TNSP network support pass through applications.

A. NER requirements

6A.7.2 Network support pass through

- (a) This clause applies where a network support event occurs with respect to a regulatory year ('the previous regulatory year').
- (b) If a network support event occurs, a Transmission Network Service Provider must seek a determination by the AER to pass through to Transmission Network Users a network support pass through amount.
- (c) Where a Transmission Network Service Provider seeks a determination as referred to in paragraph (b), the provider must, within 60 business days of the end of the previous regulatory year, submit to the AER a written statement which specifies:
 - (1) the details of the network support event including whether the event was a negative network support event or a positive network support event;
 - (2) the amount that the provider proposes should be passed through to Transmission Network Users in the regulatory year following the previous regulatory year as a result of the network support event;
 - (3) evidence:
 - (i) of the actual increase in the amount of network support payments, including certification by an independent and appropriately qualified expert; and
 - (ii) that such amounts occur solely as a consequence of the positive network support event; and
 - (4) such other information as may be required pursuant to the information guidelines in force under clause 6A.17.2.
- (d) If the AER determines that a positive network support event has occurred in respect of a statement under paragraph (c), the AER must determine the network support pass through amount, taking into account the matters referred to in paragraph (i).
- (e) If the AER does not make the determination referred to in paragraph (d) within 60 business days from the date it receives the Transmission Network Service Provider's statement and accompanying evidence under paragraph (c), then, on the expiry of that period, the AER is taken to have determined that the amount as proposed in the provider's statement under paragraph (c) is the network support pass through amount.
- (f) 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).
- (g) A Transmission Network Service Provider must provide the AER with such information as the AER requires for the purpose of making a determination under paragraph (f) within the time specified by the AER in a notice provided to the provider by the AER for that purpose.

Consultation

- (h) Before making a determination under paragraph (d) or (f), the AER may consult with the relevant Transmission Network Service Provider and such other persons as the AER considers appropriate, on any matters arising out of the relevant network support event as the AER considers appropriate.

Relevant factors

- (i) 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 weighted average cost of capital 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.

Relevant NER definitions

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 network 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 requirement for the provider for that regulatory year.

network support event

- (a) 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.

- (b) In calculating the amount for the purposes of a network support event referred to in paragraph (a), the amount of network support payments made by a Transmission Network Service Provider must not include an amount of network support payments that are a substitute for a network augmentation where an allowance for capital expenditure in relation to that network augmentation has been provided for in the revenue determination.

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.

B. Information requirements

This section sets out information which should be included by a TNSP in its network support pass through application. Table 1 shows a pro forma which a TNSP should follow when preparing a network support pass through application. This pro forma captures the information needed by the AER for the purposes of making a determination on the application.

Table 1: TNSP network support pass through application information requirements

For the year ended 30 June XX:

- (1) Network support payment allowance (\$m)*
 - (2) Actual network support expenditure (\$m)
 - (3) Network support pass through amount (\$m), including time cost of money calculations
 - (4) Reasons for variation
 - (5) Verification of actual network support expenditure (audited regulatory accounts)
 - (6) Date network support pass through application is submitted to AER
 - (7) In some cases, details on contractual arrangements
 - (8) In some cases, details on the TNSP's decisions that may have effected the magnitude of the network support event
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* As provided for in the TNSP's revenue determination.

Definitions

1. Network support payment allowance

The network support payment allowance is the amount provided for in the TNSP's revenue determination. The network support payment allowance is set in end of year dollar terms at the time the determination was made. Accordingly the network support allowance needs to be converted to dollar terms in the regulatory year in which the network support event occurred, to allow comparison with the actual payments. The CPI adjustment involves indexing the network support allowance to end of year dollar terms for the year in which the network support event occurred.

2. Actual network support expenditure

Actual network support expenditure is the total payments to the network support provider (or providers) for network support services during the relevant regulatory year. The TNSP should index the value of the actual payments (which is initially valued in middle of the year dollar terms), by half a year's inflation indexation to end of year dollar terms. This is to ensure the network support allowance and actual network support expenditure can be compared on a like for like basis.

3. Network support pass through amount

The network support pass through amount is the difference between the network support allowance and the actual network support expenditure, taking into account any other costs and the time cost of money. The AER will take into account the time cost of money over a period of 1.5 years.

4-8 Other information

The TNSPs are expected to provide qualitative information in support of their application as discussed in chapter 2 of the guideline.

C. Worked example

The attached spreadsheet shows a worked example on how to calculate the network support pass through amount. The AER recommends that TNSPs should calculate the proposed network support pass through amount based on an annual approach.

Assume the following hypothetical event:

2009–10 Negative network support pass through event (over recovery)

Suppose a TNSP has over recovered network support payments from customers during a financial year. Accordingly, it seeks a determination from the AER on a proposed negative network support pass through amount. The TNSP's revenue determination has approved a network support payment of \$60 million (\$2007–08) in the 2009–10 regulatory year. The TNSP has made actual network support payments of \$50 million to the network support service provider in 2009–10. Assume that the revenue determination for the TNSP allowed a nominal vanilla WACC of 10 per cent per annum.

The calculations show a negative network support pass through amount of \$14.47 million (\$2009–10) will be passed through to customers.