

Draft Decision

Ausgrid

Electricity Distribution

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 21
Pricing methodology

September 2023

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21 Pricing methodology

This attachment sets out our draft decision on Ausgrid’s proposed transmission pricing methodology for the 2024–29 period.

Ausgrid operates dual function assets, which are high voltage transmission assets forming part of its distribution network.¹ Our Framework and Approach Paper established that the NER Chapter 6A transmission pricing rules would apply to Ausgrid’s dual function assets.²

As such, Ausgrid has submitted a transmission pricing methodology regarding its high-voltage transmission assets for our approval.³⁴

The role of a transmission pricing methodology is to answer the question of ‘who should pay how much’⁵ in order for a network business to recover its costs relating to its provision of transmission services. To do this, a pricing methodology must provide a ‘formula, process or approach’⁶ that when applied:

- allocates the aggregate annual revenue requirement (AARR) to the categories of prescribed transmission services that a Transmission Network Service Provider (TNSP) provides⁷
- provides for the manner and sequence of adjustments to the annual service revenue requirement (ASRR)⁸ and allocates that requirement to transmission network connection points⁹
- determines the structure of prices that a TNSP may charge for each category of prescribed transmission services¹⁰
- for a TNSP who is a System Strength Service Provider, determines, for each system strength node on its transmission network, the system strength unit price for the system strength charging period commencing in the regulatory control period.¹¹

¹ Ausgrid, *Letter and attachment to the AER on the Framework and approach*, October 2021, p. 27.

² AER, *Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy for the 2024-29 regulatory control period*, July 2022, p. 54.

³ Ausgrid - Att. 8.8 - *Transmission pricing methodology* - 31 Jan 2023 – Public, p. 3.

⁴ NER, cl. 6.26(d).

⁵ AEMC, *Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22*, 21 December 2006, p. 1.

⁶ NER, cl. 6A.24.1(b).

⁷ NER, cl. 6A.24.1(b)(1).

⁸ NER, cl. 6A.24.1(b)(2).

⁹ NER, cl. 6A.24.1(b)(3).

¹⁰ NER, cl. 6A.24.1(b)(4).

¹¹ NER, cl. 6A.24.1(b)(5).

21.1 Draft decision

Our draft decision is to accept Ausgrid's proposed pricing methodology for the 2024–29 period. This is because it gives effect to, and is consistent with, the NER pricing principles, and complies with the information requirements as per the pricing methodology guidelines.¹²

21.2 Ausgrid's proposal

Ausgrid's proposed pricing methodology for the 2024–29 period is largely identical to the AER's approved pricing methodology for the 2019–24 period with only minor amendments that reflect updates to the NER.

The transmission pricing methodology identifies Transgrid as the Co-ordinating Network Service Provider (CNSP) and the System Strength Service Provider.¹³

21.3 Assessment approach

We must approve a proposed pricing methodology if we are satisfied that it:

- gives effect to, and complies with, the pricing principles for prescribed transmission services, and
- complies with the requirements of the pricing methodology guidelines.

These requirements guided our assessment of Ausgrid's proposed pricing methodology.

21.3.1 Inter-relationships

There are several TNSPs in New South Wales (NSW) and Australian Capital Territory (ACT). The other TNSPs are the Directlink interconnector and electricity distributors which have electricity transmission assets – Ausgrid in NSW and Evoenergy in the ACT. Transgrid is the appointed CNSP for the NSW and ACT regions.

As the appointed CNSP, Transgrid applies its pricing methodology to determine the transmission prices to be charged in the NSW and ACT regions. These charges recover the regulated transmission revenues of Ausgrid, Evoenergy and Directlink.¹⁴

21.3.2 Submissions

We did not receive any stakeholder submissions regarding the Ausgrid's proposed transmission pricing methodology.

21.4 Reasons for draft decision

This section sets out the reasons for our draft decision.

¹² NER, cl. 6A.23.3 and 6A.24.1(c); AER, *Electricity transmission service providers pricing methodology guidelines*, July 2014.

¹³ Ausgrid - Att. 8.8 - *Transmission pricing methodology* - 31 Jan 2023 – Public p. 5.

¹⁴ NER, cl. 6A.29.1; Ausgrid - Att. 8.8 - *Transmission pricing methodology* - 31 Jan 2023 – Public p. 5.

21.4.1 Assessment against the pricing principles for prescribed transmission services

We consider that Ausgrid’s proposed pricing methodology meets the requirements of the NER pricing principles. The pricing principles are intended to provide scope for TNSPs to develop pricing arrangements that address the circumstances in which they operate their network.¹⁵

21.4.1.1 Calculation and allocation of the AARR

We consider Ausgrid’s method for calculating and allocating its AARR, meets the NER requirements.

The AARR is the 'maximum allowed revenue' adjusted:

- for a number of factors such as cost pass throughs, service target performance incentive scheme outcomes, and contingent projects, and
- by subtracting the operating and maintenance costs expected to be incurred in the provision of prescribed common transmission services and expected system strength service payments.¹⁶

Table 21.1 summarises our review of how Ausgrid’s proposed pricing methodology calculates and allocates the business' AARR.

Table 21.1 Ausgrid’s proposed calculation and allocation of the AARR and the NER requirements

NER requirements	AER Assessment
Requirement for the AARR to be calculated as defined in the NER—clause 6A.22.1	Section 3.1 of Ausgrid's proposed pricing methodology complies with this requirement
Requirement for the AARR to be allocated to each category of prescribed transmission services in accordance with attributable cost share for each such category of services— clause 6A.23.2(a)	Sections 3.2 and 3.3 of Ausgrid's proposed pricing methodology complies with this requirement.
Requirement for every portion of the AARR to be allocated and for the same portion of AARR not to be allocated more than once—clause 6A.23.2(c)	Section 3.3 and Appendix A of Ausgrid's proposed pricing methodology complies with this requirement.
Subject to clause 11.6.11 of the NER, requirement for adjusting attributable cost share and priority ordering approach to asset costs that would otherwise be attributed to the provision of more than one category of prescribed transmission services—clause 6A.23.2(d)	Section 3.4 and Appendix A of Ausgrid's proposed pricing methodology complies with this requirement

¹⁵ AEMC, *Rule Determination: National Electricity Amendment (Pricing of Prescribed Transmission Services)* Rule 2006 No 22, 21 December 2006, pp. 27–28.

¹⁶ NER, cl. 6A.3.2.

21.4.1.2 Allocation of the ASRR to transmission network connection points

We consider Ausgrid’s proposed pricing methodology for allocating the ASRR meets the NER requirements. Table 21.2 summarises our assessment.

Table 21.2 Ausgrid’s proposed allocation of the ASRR and the NER requirements

NER requirements	AER assessment
Requirement for whole ASRR for prescribed entry services to be allocated to transmission network connection points in accordance with the attributable connection point cost share for prescribed entry services that are provided by the TNSP at that connection point—clause 6A.23.3(i)	Section 3.4 of Ausgrid’s proposed pricing methodology complies with this requirement.
Requirement for the whole ASRR prescribed exit services to be allocated to transmission network connection points in accordance with the attributable connection point cost share for prescribed exit services that are provided by the TNSP at that connection point—clause 6A.23.3(j)	Section 3.4 of Ausgrid’s proposed pricing methodology complies with this requirement.
Requirement for the allocation of the ASRR for: <ul style="list-style-type: none"> • prescribed TUOS services • locational components • pre-adjusted non-locational components — clause 6A.23.3(a) to (g) 	Section 3.4 of Ausgrid’s proposed pricing methodology complies with this requirement.
Requirement for adjusting attributable cost share and priority ordering approach to asset costs that would otherwise be attributed to the provision of more than one category of prescribed transmission services— clause 6A.23.2(d)	Section 3.4 and Appendix A of Ausgrid’s proposed pricing methodology complies with this requirement.
Requirement for the recovery of the ASRR for prescribed common transmission services and the operating and maintenance costs incurred in the provision of those services and system strength service payments to be recovered through prices charged to transmission customers and connection points set in accordance with price structure principles set out in clause 6A.23.4—clause 6A.23.3(h)	Sections 3.4 of Ausgrid’s proposed pricing methodology complies with this requirement.

21.4.1.3 Development of price structure

We consider Ausgrid’s proposed pricing methodology and process for developing different prices for recovering the ASRR meets the NER requirements. Table 21.3 summarises our assessment.

Table 21.3 Ausgrid’s proposed pricing structure and the NER requirements

NER requirements	AER assessment
Requirement for separate prices for each category of prescribed transmission services—clause 6A.23.4(a)	Section 3.6 of Ausgrid’s proposed pricing methodology complies with this requirement.
Requirement for fixed annual amount prices for prescribed entry services and prescribed exit services—clause 6A.23.4(g)	Section 3.6 of Ausgrid’s proposed pricing methodology complies with this requirement.

NER requirements	AER assessment
Requirement for postage stamped prices for prescribed common transmission services— clause 6A.23.4(f)	Section 3.6 of Ausgrid's proposed pricing methodology complies with this requirement.
Requirement for prices for locational component of prescribed TUOS services to be based on demand at times of greatest utilisation of the transmission network and for which network investment is most likely to be contemplated—clause 6A.23.4(b)(1)	Section 3.6 of Ausgrid's proposed pricing methodology complies with this requirement.
Requirement for prices for the locational component of ASRR for prescribed TUOS services not to change by more than 2% per year compared with the load weighted average prices for this component for the relevant region—clause 6A.23.4(b)(2)	Section 3.6 of Ausgrid's proposed pricing methodology complies with this requirement.
Requirement for prices for the adjusted nonlocational component of prescribed TUOS services to be on a postage stamp basis— clause 6A.23.4(e)	Section 3.6 of Ausgrid's proposed pricing methodology complies with this requirement.
Setting of TUOS locational prices between annual price publications—clause 6A.23.4(b)	Section 3.6 of Ausgrid's proposed pricing methodology complies with this requirement.

21.4.2 Assessment against the pricing methodology guidelines for prescribed transmission services

We are satisfied that Ausgrid's proposed pricing methodology complies with the information requirements of the pricing methodology guidelines.

Key features of the proposal include:

- An acknowledgment that there are multiple TNSPs in the New South Wales region (the others being Evoenergy, Directlink and Transgrid) and that Transgrid is the CNSP for the region.¹⁷
- An explanation on how it will set charges applicable to each system strength connection point on its transmission network to recover on a pass through basis the annual system strength charge for the system strength connection point determined by the relevant System Strength Service Provider.^{18,19}
- An explanation on how the system strength charges comply with the requirements of clause 6A.23.6 of the National Electricity Rules.²⁰
- Its use of the priority ordering approach under clause 6A.23.2(d) of the NER.²¹

¹⁷ Ausgrid - Att. 8.8 - *Transmission pricing methodology* - 31 Jan 2023 – Public p. 5.

¹⁸ Ausgrid - Att. 8.8 - *Transmission pricing methodology* - 31 Jan 2023 – Public, p. 4.

¹⁹ Transgrid 2023-28 - *Final Decision - Approved Pricing Methodology* - April 2023 pp. 22-25.

²⁰ Ausgrid – Att. 8.8 – *Transmission pricing methodology* – 31 Jan 2023 – Public, p. 13.

²¹ Ausgrid - Att. 8.8 - *Transmission pricing methodology* - 31 Jan 2023 – Public, p. 12.

- A description of how asset costs that may be attributable to both prescribed entry services and prescribed exit services will be allocated at a connection point.²²
- A description of the billing arrangements as in clauses 6A.27, 6A.29A.4 and 6A.29A.5 of the NER.²³
- A description of the prudential requirements as in clause 6A.28 of the NER.²⁴
- The inclusion of hypothetical worked examples for:
 - calculation of attributable cost shares.²⁵
 - allocation of ASRR to connection points.²⁶
- A description on how Ausgrid intends to monitor and develop records of its compliance with its approved pricing methodology, the pricing principles and Part J of the NER.²⁷

²² Ausgrid – Att. 8.8 – *Transmission pricing methodology* – 31 Jan 2023 – Public, p. 12.

²³ Ausgrid - Att. 8.8 - *Transmission pricing methodology* - 31 Jan 2023 – Public, p. 13.

²⁴ Ausgrid – Att. 8.8 – *Transmission pricing methodology* – 31 Jan 2023 – Public, p. 14.

²⁵ Ausgrid - Att. 8.8 - *Transmission pricing methodology* - 31 Jan 2023 – Public p. 8.

²⁶ Ausgrid - Att. 8.8 - *Transmission pricing methodology* - 31 Jan 2023 – Public pp. 9-12.

²⁷ Ausgrid – Att. 8.8 – *Transmission pricing methodology* – 31 Jan 2023 – Public, p. 15.

Shortened forms

Term	Definition
AARR	Aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	Annual service revenue requirement
CNSP	Co-ordinating Network Service Provider
NER	national electricity rules
TNSP	transmission network service provider
TUOS	transmission use of system
