

Draft Decision

Evoenergy

Electricity Distribution

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 21

Transmission pricing methodology

September 2023

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AER reference: AER212491

Amendment record

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21 Transmission pricing methodology

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

Evoenergy 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 Evoenergy’s dual function assets.²

As such, Evoenergy 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 ‘methodology, 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 period.¹¹

21.1 Draft decision

We do not accept Evoenergy’s proposed pricing methodology. We discussed with Evoenergy our proposed amendments to the proposed pricing methodology. Evoenergy openly and

¹ Evoenergy, *Letter and attachment to the AER on the Framework and approach*, 29 October 2021, p. 3.

² AER, *Framework and approach: Evoenergy (ACT): Regulatory control period commencing 1 July 2024*, July 2022, p. 49.

³ Evoenergy, *Transmission pricing methodology*, January 2023, p. 5.

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).

genuinely engaged on these aspects in order to seek resolution on them for our draft decision. Evoenergy agreed to these amendments and submitted a version of a pricing methodology incorporating these amendments.

We consider the proposed pricing methodology with these amendments gives effect to, and is consistent with, the NER pricing principles, and complies with the information requirements as per the pricing methodology guidelines.¹² Our proposed amendments to the proposed pricing methodology:¹³

- incorporate the connection to dedicated assets rule 2021 (see section 21.4.1.2).
- incorporate system strength charges in the presence of connection points (see section 21.4.1.3).

These amendments are set out in Attachment B (Attachment C is a marked-up version).

21.2 Evoenergy’s proposal

Evoenergy’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 some amendments to ensure consistency with Transgrid’s pricing methodology (see section 21.4.1.1).

The transmission pricing methodology identifies Transgrid as the Co-ordinating Network Service Provider (CNSP) and the System Strength Service Provider.¹⁴

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 Evoenergy’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.¹⁵

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

¹³ Evoenergy, *Information Request EVO IR#029 – Transmission Pricing Methodology – 20230526 – PUBLIC*, 13 July 2023.

¹⁴ Transgrid 2023-28 - *Final Decision - Approved Pricing Methodology* - April 2023 p. 8.

¹⁵ NER, cl. 6A.29.1; Transgrid 2023-28 - *Final Decision - Approved Pricing Methodology* - April 2023 p. 6.

21.3.2 Submissions

We did not receive any stakeholder submissions regarding Evoenergy’s proposed transmission pricing methodology.

21.4 Reasons for draft decision

This section sets out the reasons for our draft decision.

21.4.1 Assessment of proposed pricing methodology amendments

The following is our assessment of Evoenergy’s proposed pricing methodology amendments.

21.4.1.1 Consistency with Transgrid’s pricing methodology

Transgrid’s pricing methodology was updated in its 2023-28 Determination to reflect changes in the NER. As Transgrid is the CNSP, Evoenergy’s has amended its pricing methodology to be consistent with that of Transgrid’s. These include:

- the introduction of the National Transmission Planner (NTP) Costs into the charges;
- the recovery of AEMO’s Participant fees (excluding NTP function fees); and
- a minor clarification to non-locational charges.

We accept Evoenergy’s proposed changes to reflect Transgrid’s pricing methodology.

21.4.1.2 Connection to dedicated assets rule 2021

Evoenergy’s proposed pricing methodology did not reflect the *Connection to dedicated assets rule 2021*.¹⁶ At our request, Evoenergy agreed to amend the proposed pricing methodology to clarify that adjustments to the non-locational ASRR by intra-regional residues do not include intra-regional residues that accumulate on designated network assets.¹⁷

We require this inclusion as it is consistent with the requirements of the NER regarding the new framework for designated network assets.¹⁸ We note this inclusion simply updates Evoenergy’s pricing methodology to reflect new requirements of the NER which were introduced since Evoenergy’s previous distribution determination.

21.4.1.3 System strength charges

As a System Strength Service Provider, Transgrid levies system strength charges to the system strength connection points in its network. Because of this, Transgrid’s pricing methodology sets out the methodology for setting the annual system strength revenue and system strength unit price.¹⁹

Because Evoenergy is not a System Strength Service Provider, their proposed pricing methodology did not set out how they will charge for system strength in the presence of a

¹⁶ AEMC, *Rule determination: National Electricity Amendment (Connection to dedicated connection assets) Rule 2021* No. 7, 21 December 2021, p. 1.

¹⁷ Evoenergy – Information Request EVO IR#029 – Transmission Pricing Methodology – 20230526 – PUBLIC, 13 July 2023.

¹⁸ NER cl. 6A.23.3, S6A.3.2 and S6A.3.3.

¹⁹ NER, cl. 6A.23.5

connection point.²⁰ At our request, Evoenergy agreed to amend the proposed pricing methodology to clarify how they would charge for system strength and pass through system strength charges in the coming regulatory period.²¹

We require this inclusion because it reflects Transgrid’s pricing methodology and the new NER requirements. We note this inclusion simply updates Evoenergy’s pricing methodology to reflect new requirements of the NER which were introduced since Evoenergy’s previous distribution determination.

21.4.2 Assessment against the pricing principles for prescribed transmission services

We consider Evoenergy’s amended 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.²²

21.4.2.1 Calculation and allocation of the AARR

We consider Evoenergy’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.²³

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

Table 21.1 Evoenergy’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 3.2 of Evoenergy’s amended 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 3.3 and 3.4 of Evoenergy’s amended pricing methodology complies with this requirement. |

²⁰ NER, cl. 6A.23.6

²¹ Evoenergy – Information Request EVO IR#029 – Transmission Pricing Methodology – 20230526 – PUBLIC, 13 July 2023.

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

²³ NER, cl. 6A.3.2

| NER requirements | AER Assessment |
|---|---|
| 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 3.5 and Appendix A of Evoenergy's amended 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 3.5 and Appendix A of Evoenergy's amended pricing methodology complies with this requirement |

21.4.2.2 Allocation of the ASRR to transmission network connection points

We consider Evoenergy's amended pricing methodology for allocating the ASRR meets the NER requirements. Table 21.2 summarises our assessment.

Table 21.2 Evoenergy'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 3.5 of Evoenergy's amended 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 3.5 of Evoenergy's amended 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 3.5 of Evoenergy's amended 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 | Section 3.5 & Appendix A of Evoenergy's amended pricing methodology complies with this requirement. |

| NER requirements | AER assessment |
|--|--|
| prescribed transmission services— clause 6A.23.2(d) | |
| 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 and 3.7 and Appendix A of Evoenergy's amended pricing methodology complies with this requirement. |

21.4.2.3 Development of price structure

We consider Evoenergy's amended 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 Evoenergy'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 3.7 of Evoenergy's amended 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 3.7 of Evoenergy's amended pricing methodology complies with this requirement. |
| Requirement for postage stamped prices for prescribed common transmission services— clause 6A.23.4(f) | Section 3.7 of Evoenergy's amended 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 3.7 and Appendix A of Evoenergy's amended 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 | Sections 3.6 and 3.7 of Evoenergy's amended pricing methodology complies with this requirement. |

| NER requirements | AER assessment |
|--|--|
| prices for this component for the relevant region—clause 6A.23.4(b)(2) | |
| 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 3.7 of Evoenergy's amended pricing methodology complies with this requirement. |
| Setting of TUOS locational prices between annual price publications—clause 6A.23.4(b) | Section 3.7 of Evoenergy's amended pricing methodology complies with this requirement. |

21.4.3 Assessment against the pricing methodology guidelines for prescribed transmission services

We are satisfied that Evoenergy's amended 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 Ausgrid, Directlink and Transgrid) and that Transgrid is the CNSP for the region.²⁴
- 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.²⁵²⁶
- An explanation on how the system strength charges comply with the requirements of clause 6A.23.6 of the NER.²⁷
- Its uses of the priority ordering approach under clause 6A.23.2(d) of the NER.²⁸
- Describes how asset costs that may be attributable to both prescribed entry services and prescribed exit services will be allocated at a connection point.²⁹
- Describes the billing arrangements as in clauses 6A.27, 6A.29A.4 and 6A.29A.5 of the NER.³⁰

²⁴ Evoenergy - *Transmission pricing methodology* January 2023 Public p. 7.

²⁵ Evoenergy - *Transmission pricing methodology* January 2023 Public p. 18.

²⁶ Transgrid 2023-28 - *Final Decision - Approved Pricing Methodology* - April 2023 pp. 22-25.

²⁷ Evoenergy - *Transmission pricing methodology* January 2023 Public p. 18.

²⁸ Evoenergy - *Transmission pricing methodology* January 2023 Public pp. 16-17.

²⁹ Evoenergy - *Transmission pricing methodology* January 2023 Public pp. 16-17.

³⁰ Evoenergy - *Transmission pricing methodology* January 2023 Public p. 18.

- A description of the prudential requirements as in clause 6A.28 of the NER.³¹
- The inclusion of hypothetical worked examples for:
 - calculation of attributable cost shares.³²
 - allocation of ASRR to connection points.³³
- A description of how Evoenergy intends to monitor and develop records of its compliance with its approved pricing methodology, the pricing principles and Part J of the NER.³⁴

³¹ Evoenergy - *Transmission pricing methodology* January 2023 Public pp. 18-19.

³² Evoenergy - *Transmission pricing methodology* January 2023 Public pp. 11-12.

³³ Evoenergy - *Transmission pricing methodology* January 2023 Public pp. 13-17.

³⁴ Evoenergy - *Transmission pricing methodology* January 2023 Public p. 19.

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 |
| NSP | network service provider |
| NTP | national transmission planner |
| TNSP | transmission network service provider |
