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20 March 2024

Mr Mark Allen
Regulatory Manager
Energy Infrastructure Investments Pty Limited
Level 25, 580 George Street
SYDNEY NSW 2000

By email: [REDACTED]

Dear Mr Allen,

Re: AER Determination – Murraylink 2022-23 Connection Charges cost pass through

I am writing to advise you of the Australian Energy Regulator's (AER) assessment of Murraylink's negative cost pass through (CPT) application, submitted on 9 January 2024, in relation to 2022-23 connection charges.

In accordance with clause 6A.7.3 of the National Electricity Rules (NER), the AER has determined that a negative change event has occurred, and the required negative pass through amount is \$954,406 (\$Dec 2024). This amount should be reflected in Murraylink's maximum allowed revenue for 2024-25.

The approved negative pass through amount is \$1,122 more than Murraylink's proposed amount of \$953,284 (\$Dec 2024). The approved pass through amount reflects corrections made by the AER to the weighted average cost of capital used in Murraylink's application.

Details of the AER's assessment against the relevant factors set out in the NER are included below. If you have any queries in relation to this matter, please contact David Monk at [REDACTED]

Yours sincerely

[REDACTED]

Arek Gulbenkoglul
General Manager
Network Expenditure

Sent by email on: 20.03.2024

Attachment A: Reasons for determination

1. Occurrence of a connection charge event and a negative change event

Murraylink's 2018–23 revenue determination included a nominated pass through event to cover changes in the amount of connection charges levied on Murraylink by AusNet Services and ElectraNet.¹

On 9 January 2024, Murraylink submitted an application to the AER for a pass through of costs related to the actual connection charges levied by AusNet Services and ElectraNet being lower than the forecast connection charges for 2022–23 included in Murraylink's 2018–23 revenue determination. We are satisfied that the lower connection charges for 2022–23 identified by Murraylink meets the definition of this nominated pass through event.

In order to approve an amount of money to be passed back to energy consumers, the AER must determine that a negative change event has occurred. The NER define a negative change event as:²

... a pass through event which entails the Transmission Network Service Provider incurring materially lower costs in providing prescribed transmission services than it would have incurred but for that event.

The NER define 'materially' as follows:³

... the change in costs (as opposed to the revenue impact) that the Transmission Network Service Provider has incurred and is likely to incur in any regulatory year of a regulatory control period, as a result of that event, exceeds 1% of the maximum allowed revenue for the Transmission Network Service Provider for that regulatory year.

We are satisfied that a negative change event has occurred. The saving Murraylink has obtained as a result of the pass through event (\$880,817 (\$Jun 2023)), exceeds 1% of Murraylink's maximum allowed revenue for the 2022–23 regulatory year (\$18.72 million (\$Jun 2023)).⁴

2. Relevant factors

Clause 6A.7.3(j) of the rules sets out a number of matters that we are required to take into account when determining:

- whether a positive or negative change event has occurred
- the approved pass through amount
- the amount of the approved pass through amount that should be passed through to transmission network users.

¹ AER, *Murraylink transmission draft determination 2018–23 - Attachment 13 Pass through events*, September 2017, p. 10.

² NER, chapter 10 (definition of 'negative change event').

³ NER, chapter 10 (definition of 'materially').

⁴ AER, *Murraylink Final Decision – Post-tax revenue model – 2022-23 RoD update*; AER analysis.

We have had regard to the relevant factors listed in clause 6A.7.3(j) of the NER.⁵ Specifically, we have:

- considered the matters and proposals set out in Murraylink’s written application.
- calculated the costs Murraylink has saved as a result of the negative change event in the 2022–23 regulatory year
- taken into account the time cost of money to calculate the required negative pass through amount
- concluded that the costs incurred relating to the pass through event under consideration are not the subject of any previous determination by us under clause 6A.7.3.

3. Approved pass through amount

Rule 6A.7.3(b) of the NER states that, if a negative change event occurs, the AER may require the Transmission Network Service Provider to pass through to transmission network users a negative pass through amount as determined by the AER under clause 6A.7.3(g).

To calculate the negative pass through amount, we have used the actual connection charges amount of \$288,561 (\$Dec 2022) reported in Murraylink’s 2022–23 Regulatory Financial Report, provided as part of its response to our Regulatory Information Notice.⁶ This amount matches the connection charges amount proposed in Murraylink’s application.⁷

Actual connection charges are assumed to be valued at middle of the year terms. Therefore, we escalated this amount by applying the annual percentage change in the CPI (December quarter) for 2022–23 (7.83%) over a time period of half a year, and determined the value of the actual connection charges as \$299,648 (\$Jun 2023).

Our 2018–23 revenue determination for Murraylink made an allowance for forecast connection charges of \$1,011,698 (\$Jun 2018) for the 2022–23 regulatory year. This allowance was escalated to real 2022–23 dollars using the annual percentage change in the CPI (December quarter), with the forecast connection charges determined to be \$1,180,465 (\$Jun 2023).

We are satisfied that Murraylink has reasonably incurred actual connection charges of \$299,648 (\$Jun 2023) compared to the applicable regulatory allowance of \$1,180,465 (\$Jun 2023). Therefore, the variation between the forecast and actual connection charges is \$880,817 (\$Jun 2023). Murraylink’s calculation of the difference between the forecast and actual connection charges at June 2023 was also \$880,817 (\$Jun 2023).⁸

To account for the time cost of money, weighted average cost of capital (WACC) escalations are applied for a period of one and a half years when determining the pass through amount. Therefore, in our calculation we applied:

⁵ NER cl 6A.7.3(j).

⁶ Murraylink, *2022–23 regulatory accounts*, October 2023.

⁷ Murraylink, *2022–23 connection charge cost pass through application*, January 2024, p. 1.

⁸ Murraylink, *2022–23 connection charge cost pass through application*, January 2024, p. 1.

- 2023–24 nominal WACC of 5.46% over one year, which represents the year in which the connection charge cost pass through application is submitted and assessed by the AER
- a further 2024–25 nominal WACC of 5.57% for half a year, which represents the period where the pass through amount is passed through to customers.

In its calculation, Murraylink used a nominal WACC figure of 5.41% when it accounted for the time cost of money over the above period. As a result, our approved negative pass through amount of \$954,406 (\$Dec 2024) is slightly larger than the \$953,284 (\$Dec 2024) negative pass through amount proposed by Murraylink.

Consequently, we determine that a negative change event has occurred and that the required pass through amount is \$954,406 (\$Dec 2024). This amount will be removed from allowed revenues for the next regulatory year (2024–25) and result in lower transmission charges for network users (other things constant).