

# Draft Decision

## Directlink Electricity Transmission Determination 2025 to 2030 (1 July 2025 to 30 June 2030)

### Attachment 12 Pricing methodology

September 2024

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## 12 Pricing methodology

This attachment sets out our draft decision on Directlink's proposed pricing methodology for the 2025–30 regulatory control period (period).

A pricing methodology forms part of our transmission determination.<sup>1</sup> Its role is to answer the question 'who should pay how much'<sup>2</sup> in order for a transmission business to recover its costs. To do this, a pricing methodology must provide a 'formula, process or approach'<sup>3</sup> that when applied:

- allocates the aggregate annual revenue requirement (AARR) to the categories of prescribed transmission services that a transmission business provides and to the connection points of network users<sup>4</sup>
- provides for the manner and sequence of adjustments to the annual service revenue requirement (ASRR)<sup>5</sup> and allocates that requirement to transmission network connection points<sup>6</sup>
- determines the structure of prices that a transmission business may charge for each category of prescribed transmission services<sup>7</sup>
- for a TNSP that 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.<sup>8</sup>

An approved pricing methodology does not relate to negotiated transmission services or other transmission services not subject to economic regulation under the rules.

### 12.1 Draft decision

Our draft decision is to not accept Directlink's proposed pricing methodology for the 2025–30 period. We consider that the proposed pricing methodology gives effect to, and is consistent with, the NER pricing principles.<sup>9</sup> However, the pricing methodology does not yet comply with the information requirements of the latest pricing methodology guidelines, with regard to the new system strength provisions (particularly clauses 2.1(j)-(l)).<sup>10</sup> Directlink's revised pricing methodology will need to comply with these information requirements.

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<sup>1</sup> NER, cl. 6A.2.2(4).

<sup>2</sup> AEMC, *Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22*, 21 December 2006, p. 1.

<sup>3</sup> NER, cl. 6A.24.1(b).

<sup>4</sup> NER, cl. 6A.24.1(b)(1).

<sup>5</sup> NER, cl. 6A.24.1(b)(2).

<sup>6</sup> NER, cl. 6A.24.1(b)(3).

<sup>7</sup> NER, cl. 6A.24.1(b)(4).

<sup>8</sup> NER, cl. 6A.24.1(b)(5).

<sup>9</sup> NER, cl. 6A.23.3 and 6A.24.1(c).

<sup>10</sup> AER, *Electricity transmission service providers pricing methodology guidelines*, 25 August 2022, pp. 8–9.

## 12.2 Directlink's proposal

Directlink's proposed pricing methodology for the 2025–30 period is largely identical to the AER's approved pricing methodology for the 2020–25 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).<sup>11</sup>

## 12.3 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 Directlink's proposed pricing methodology.

### 12.3.1 Inter-relationships

There are several Transmission Network Service Providers (TNSPs) in New South Wales (NSW) and Queensland. The other TNSPs in the NSW region are Transgrid as well as electricity distributors which have electricity transmission assets – Ausgrid in NSW and Evoenergy in the ACT. Transgrid is the appointed CNSP for the NSW region. Powerlink is the sole TNSP in the Queensland region.

As the appointed CNSP, Transgrid applies its pricing methodology to determine the transmission prices to be charged in the NSW region. These charges recover the regulated transmission revenues of Ausgrid, Evoenergy and Directlink.<sup>12</sup>

Powerlink's pricing methodology does not apply to Directlink.

### 12.3.2 Submissions

The Energy Users' Association of Australia submitted that they are happy to follow the AER's advice in the Issues Paper that the pricing methodology is capable of acceptance.<sup>13</sup>

We did not receive any other submissions regarding Directlink's proposed pricing methodology.

## 12.4 Reasons for draft decision

This section sets out the reasons for our draft decision.

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<sup>11</sup> Directlink, *Attachment 03b - Pricing methodology* - 24 January 2024, Public, p. 2.

<sup>12</sup> NER, cl. 6A.29.1; Directlink, *Attachment 03b - Pricing methodology* - 24 January 2024, Public, p. 5.

<sup>13</sup> EUAA, *Submission Directlink Revenue Proposal 2025-30*, 15 May 2025, p. 3.

## 12.4.1 Assessment against the pricing principles for prescribed transmission services

We consider that Directlink’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.<sup>14</sup>

### 12.4.1.1 Calculation and allocation of the AARR

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

The AARR is the 'maximum allowed revenue' adjusted:<sup>15</sup>

- for a number of factors such as cost pass throughs, service target performance incentive scheme outcomes, and contingent projects,
- 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, and
- by any allocation of the AARR within and between regions as agreed between TNSPs.

Table 12.1 summarises our review of how Directlink’s proposed pricing methodology calculates and allocates the business’ AARR.

**Table 12.1 Directlink’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 2.1(c) of Directlink’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 2.1(d)(1) of Directlink’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 2.1(b)(2) of Directlink’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 2.1(d)(2) of Directlink’s proposed pricing methodology complies with this requirement

<sup>14</sup> AEMC, *Rule Determination: National Electricity Amendment (Pricing of Prescribed Transmission Services)* Rule 2006 No 22, 21 December 2006, pp. 27–28.

<sup>15</sup> NER, cl. 6A.22.1.

### 12.4.1.2 Allocation of the ASRR to transmission network connection points

We consider Directlink’s proposed pricing methodology for allocating the ASRR meets the NER requirements. Table 12.2 summarises our assessment.

**Table 12.2 Directlink’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 2.1(b)(2) of Directlink’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 2.1(b)(2) of Directlink’s proposed pricing methodology complies with this requirement
Requirement for the allocation of the ASRR for: <ul style="list-style-type: none"> <li>• prescribed TUOS services</li> <li>• locational components</li> <li>• pre-adjusted non-locational components — clause 6A.23.3(a) to (g)</li> </ul>	Section 2.1(b)(2) & 2.1(e)(2 & 3) of Directlink’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 2.1(b)(2) & 2.1(d)(2) of Directlink’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 2.1 of Directlink’s proposed pricing methodology complies with this requirement.

### 12.4.1.3 Development of price structure

We consider Directlink’s proposed pricing methodology and process for developing different prices for recovering the ASRR meets the NER requirements. Table 12.3 summarises our assessment.

**Table 12.3 Directlink’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 2.1(b)(2), 2.1(f) & 2.1(i) of Directlink’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 2.1(f)(2) of Directlink’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 2.1(f)(5) of Directlink'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 2.1(f)(3) and 2.2(a) of Directlink'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 2.1(f)(3) of Directlink'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 2.1(f)(4) & 2.3(a) of Directlink's proposed pricing methodology complies with this requirement.
Setting of TUOS locational prices between annual price publications—clause 6A.23.4(b)	Section 2.1(f)(3) & 2.2(a) of Directlink's proposed pricing methodology complies with this requirement.

## 12.4.2 Assessment against the pricing methodology guidelines for prescribed transmission services

We are satisfied that Directlink's proposed pricing methodology largely complies with the information requirements of the pricing methodology guidelines. However, the proposed pricing methodology did not identify the System Strength Service Provider or include the requirements for TNSPs that are not System Strength Service Providers (see particularly clauses 2.1(j)-(l)).<sup>16</sup>

Key features of the proposal include:

- An acknowledgment that there are multiple TNSPs in the NSW region (Transgrid and the Directlink interconnector as well as electricity distributors which have electricity transmission assets – Ausgrid in NSW), that Transgrid is the CNSP for the NSW region and Powerlink is the sole TNSP for Queensland.<sup>17</sup>
- Its use of the priority ordering approach under clause 6A.23.2(d) of the NER.<sup>18</sup>
- 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.<sup>19</sup>
- A description of the billing arrangements as required by clauses 6A.27 of the NER.<sup>20</sup>

<sup>16</sup> AER, *Electricity transmission service providers pricing methodology guidelines*, 25 August 2022, pp. 8-9.

<sup>17</sup> Directlink, *Attachment 03b - Pricing methodology* - 24 January 2024, Public, p. 2.

<sup>18</sup> Directlink, *Attachment 03b - Pricing methodology* - 24 January 2024, Public, p. 3.

<sup>19</sup> Directlink, *Attachment 03b - Pricing methodology* - 24 January 2024, Public, p. 3.

<sup>20</sup> Directlink, *Attachment 03b - Pricing methodology* - 24 January 2024, Public, p. 5.



- A description of the prudential requirements as required by clause 6A.28 of the NER.<sup>21</sup>
- The inclusion of hypothetical worked examples for:
  - calculation of attributable cost shares.<sup>22</sup>
  - allocation of ASRR to connection points.<sup>23</sup>
- A description on how Directlink intends to monitor and develop records of its compliance with its approved pricing methodology, the pricing principles and Part J of the NER.<sup>24</sup>

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<sup>21</sup> Directlink, *Attachment 03b - Pricing methodology* - 24 January 2024, Public, p. 5.

<sup>22</sup> Directlink, *Attachment 03b - Pricing methodology* - 24 January 2024, Public, p. 3.

<sup>23</sup> Directlink, *Attachment 03b - Pricing methodology* - 24 January 2024, Public, p. 3.

<sup>24</sup> Directlink, *Attachment 03b - Pricing methodology* - 24 January 2024, Public, p. 6.

## 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

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