



Final decision

AEMO transmission determination

April 2014

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Inquiries about this document should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001
Tel: (03) 9290 1444
Fax: (03) 9290 1457
Email: AERInquiry@ aer.gov.au

AER reference: 52117

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1 Final decision

We regulate the economic activities of transmission network service providers (TNSPs) in the national electricity market (NEM), in accordance with the National Electricity Law and the National Electricity Rules.

The Australian Energy Market Operator (AEMO) manages energy markets and systems and provides network planning advice. It does this in each region of the NEM, which incorporates the Eastern and Southern states of Australia. Additionally, and only in Victoria, AEMO provides prescribed and negotiated transmission services.¹

We are required to make a transmission determination for AEMO in its role as a provider of transmission services in Victoria (TNSP) for its next regulatory control period commencing 1 July 2014 to 30 June 2019. Our transmission determination consists of a pricing methodology, negotiating framework and negotiated transmission service criteria (NTSC).

Unlike other TNSPs, however, we are not required to make a building block-based revenue determination for AEMO.² However, AEMO must have a revenue methodology setting out the method for calculating its maximum allowed revenue for the provision of prescribed transmission services for each regulatory year.³ This revenue methodology is not subject to regulatory scrutiny or approval, but AEMO is required to consult with stakeholders when developing it.⁴ AEMO's revenue methodology is available on its website: www.aemo.com.au.

The following contains our final decision on the pricing methodology, negotiating framework and NTSC that will apply to AEMO in the 2014–19 regulatory control period.

1.1 Final decision: pricing methodology

Our decision is to approve the revised pricing methodology AEMO proposed for its 2014–19 regulatory control period. AEMO provided a revised version on 21 February 2014 following the release of our draft decision which indicated some concerns with AEMO's original proposal. We are satisfied that the revised pricing methodology gives effect to the transmission pricing principles in the rules and complies with the pricing methodology guidelines.

The initial and revised pricing methodologies AEMO proposed differ in two respects. First, the revised version uses more up-to-date data to calculate network charges and, second, it provides additional flexibility. These revisions were introduced in response to stakeholder concerns about declining energy consumption and the potential effect this would have on the calculation of transmission charges.

1.1.1 More up-to-date data

In its initial pricing methodology AEMO proposed to use data from the most recently completed financial year ($t-2$) to calculate the prices and charges for shared transmission services.⁵ In its revised pricing methodology AEMO proposed to instead use data from the most recent 12 month period ($t-1$). This would be from 1 March to 28 February each year.

¹ NER, S6A.4.1(a)

² NER, clause S6A.4.2(c)(1).

³ NER, clause S6A.4.2(c)(2).

⁴ NER, clause S6A.4.2(c)(3)

⁵ The term "price" refers to the unit cost of a service. "Charges" represent price x quantity, or total bill.

The Energy Users Coalition of Victoria submitted that AEMO should use the most up to date data on demand and energy consumption available so that prices and charges are cost reflective. They further stated that the use of the latest data was particularly important given the trend towards declining demand and energy consumption.⁶

We note the work AEMO has done to incorporate stakeholders' views in the revised pricing methodology, and are satisfied that basing prices and charges using data from the most recent 12 month period improves on the previous approach and complies with the pricing principles in the rules. It also meets the relevant requirements of the pricing methodology guidelines.⁷

1.1.2 Additional flexibility

The revised pricing methodology AEMO submitted provides additional flexibility in the way a customer's charges are calculated, namely:

- Under normal circumstances, AEMO will calculate prices and charges for shared transmission services using *historical* data on a customer's demand and energy consumption.⁸
- In exceptional circumstances, a customer may request *actual* data be used instead. This request may be made either before or during a pricing period.⁹

The additional flexibility was included in the revised pricing methodology in response to AEMO's consultation with stakeholders. They expressed concerns about using historical data to derive the prices and charges for customers whose demand and energy consumption is, or is likely to be, significantly different from what it has previously been. Major energy user representatives noted that where, for example, there is a decommissioning of a large or highly variable load, then the option to apply actual data should be available.¹⁰

We are satisfied that the additional flexibility in AEMO's revised pricing methodology gives effect to the pricing principles in the rules and the pricing methodology guidelines. The pricing principles are intended to provide TNSPs with scope to implement innovative arrangements, such as those proposed by AEMO. As noted by energy users, the additional flexibility is also appropriate considering the current trend towards declining demand and energy consumption in Victoria, particularly in the manufacturing and industrial sectors.

1.2 Final decision: negotiating framework and negotiating transmission service criteria

We affirm our draft decision approving AEMO's proposed negotiating framework. Our final decision is that the NTSC we published in October 2013 will be the criteria applicable to AEMO in its 2014–19 regulatory control period.

The approved negotiating framework and the NTSC to be applied by AEMO are set out in our transmission determination, along with the pricing methodology.

⁶ EUCV, *Submission to the AER on AEMO's initial pricing methodology*, 24 November 2013, p. 2.

⁷ AER, *Pricing methodology guidelines*, October 2007, section 2.2(c).

⁸ AEMO, *Revised pricing methodology for 2014–19 regulatory control period*, 21 February 2014, p. 6-7.

⁹ AEMO, *Revised pricing methodology for 2014–19 regulatory control period*, 21 February 2014, p. 7.

¹⁰ EUCV, *Submission to the AER on AEMO's initial pricing methodology*, 24 November 2013, p. 8.