

Draft Decision

ElectraNet Transmission Determination 2023 to 2028

(1 July 2023 to 30 June 2028)

Attachment 12 Pricing methodology

September 2022

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Note

This attachment forms part of the AER’s draft decision on ElectraNet’s 2023–28 transmission determination. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Demand management innovation allowance mechanism

Attachment 12 – Pricing methodology

Attachment 13 – Pass through events

Contents

Note	iii
12 Pricing methodology	1
12.1 Draft decision	1
12.2 ElectraNet’s proposal	2
12.3 Assessment approach	2
12.4 Reasons for draft decision	2
A Required editorial amendments to proposed pricing methodology	9
Glossary	10

12 Pricing methodology

This attachment sets out our draft decision on ElectraNet’s proposed pricing methodology for the 2023–28 regulatory control period.

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

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

An approved pricing methodology does not relate to negotiated transmission services or other transmission services not subject to economic regulation under chapter 6A of the National Electricity Rules (NER).

12.1 Draft decision

Our draft decision is to approve ElectraNet’s proposed pricing methodology for the 2023–28 regulatory control period, subject to ElectraNet making editorial amendments in its revised proposal. This is because it gives effect to, and is consistent with, the pricing principles in the NER, and complies with the information requirements set out in the pricing methodology guidelines.⁸

Appendix A contains the editorial amendments we require ElectraNet to make in its revised proposal to ensure accuracy and consistency with the requirements in the NER and the pricing methodology guidelines.

¹ NER, cl. 6A.2.2(4).

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

³ NER, cl. 6A.24.1(b).

⁴ NER, cl. 6A.24.1(b)(1).

⁵ NER, cl. 6A.24.1(b)(2).

⁶ NER, cl. 6A.24.1(b)(3).

⁷ NER, cl. 6A.24.1(b)(4).

⁸ NER, cl. 6A.23.3 and 6A.24.1(c); AER, *Electricity transmission service providers pricing methodology guidelines*, July 2014.

12.2 ElectraNet’s proposal

ElectraNet’s proposed pricing methodology for the 2023–28 regulatory control period is largely identical to the AER’s approved pricing methodology for the 2018–23 period, with some amendments. ElectraNet included:

- a clearer timetable for the provision of data (see section 12.4.2).
- a clearer definition of load to account for the increasing prevalence of reverse flows at connection points (see section 12.4.2).
- an explicit adjustment for NTP function fees (see section 12.4.2).
- clarification on treatment of designated network assets (see section 12.4.2).
- clarification on billing arrangements (see section 12.4.2).
- clarification on prudent discounts (see section 12.4.2).

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.
- complies with the requirements of the pricing methodology guidelines.⁹

These requirements guided our assessment of ElectraNet’s proposed pricing methodology.

12.3.1 Inter-relationships

The South Australian region has two TNSPs – ElectraNet and the Murraylink interconnector. ElectraNet is the Co-ordinating Network Service Provider for the South Australian region. ElectraNet applies its pricing methodology to determine the transmission prices to be charged in South Australia to recover the regulated transmission revenues of ElectraNet and Murraylink in line with the NER.¹⁰

12.4 Reasons for draft decision

The following sections set out the reasons for our draft decision.

12.4.1 Assessment of amendments in the proposed pricing methodology

In ElectraNet’s proposed pricing methodology, we observed the following changes:

12.4.1.1 Clearer timetable for the provision of data

The proposed pricing methodology clarifies the timing requirements for information provision and the obligation on customers to provide information. Specifically, the proposed pricing methodology requires customers to provide notification of annual demand adjustments by 1 February each year, even if the customer’s Transmission Connection Agreement specifies a

⁹ NER, cl. 6A.24.1(c).

¹⁰ ElectraNet *Proposed Pricing Methodology*, 31 January 2022, p.10

later date. This material also appears earlier in the pricing methodology for greater prominence.¹¹

We accept this clarification as it supports ElectraNet’s obligation to publish transmission prices by 15 March each year.¹²

The Consumer Challenge Panel, sub-panel 25 (CCP25), submitted they were not aware of evidence that this matter was considered by ElectraNet’s Consumer Advisory Panel (CAP) or CAP Working Group. CCP25 therefore suggested the requirement for customers to provide notification of annual demand adjustments by 1 February warranted consideration with the CAP Working Group.¹³

ElectraNet explained that the 1 February deadline is intended ensure that timing requirements in the proposed pricing methodology align with timelines set by a 2014 rule change. In particular, the 2014 rule change required ElectraNet and other TNSPs to publish transmission prices by 15 March year.¹⁴

In the interests of completeness and transparency, ElectraNet included the 1 February deadline in the proposed pricing methodology to make a long-standing practice explicit.¹⁵ ElectraNet stated it had already implemented the 1 February deadline for its load customers via their transmission connection agreements. Further, SA Power Networks historically advises ElectraNet of amended contract agreed maximum demands at connection points ahead of summer.

Engagement with ElectraNet’s customers already occurred in the context of those changes when they were implemented.

ElectraNet stated it has not received any formal or informal feedback or concerns from the CAP, Working Group, directly connected customers or wider stakeholders on the changes to the proposed pricing methodology. ElectraNet is not aware of any outstanding issues or concerns with the 1 February deadline.¹⁶

12.4.1.2 Clearer definition of load

The proposed pricing methodology responds to the increasing prevalence of reverse flows at connection points by clarifying that at load connection points which have material generation:¹⁷

- Load is energy being taken from the transmission network.
- The load component (offtake) will also be used for energy-based charging.

¹¹ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 9.

¹² NER, cl. 6A.29A.4(e).

¹³ ElectraNet, *Response to AER Information request AER IR017*, 20 June 2022, p. 4.

¹⁴ ElectraNet, *Response to AER Information request AER IR017*, 20 June 2022, p. 4.

¹⁵ ElectraNet, *Response to AER Information request AER IR017*, 20 June 2022, p. 4.

¹⁶ ElectraNet, *Response to AER Information request AER IR017*, 20 June 2022, p. 5.

¹⁷ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 19-20.

We accept this clarification as it is consistent with the requirements of the NER regarding the cost reflective network pricing (CRNP) methodology.¹⁸

We also note that high usage of the network—at particular times, when such flows into a connection point cause strain in the network—are the principal drivers of investment. Transmission prices should therefore reflect these (positive) consumption/demand measures.¹⁹

12.4.1.3 Explicitly adjusting for NTP function fees

The proposed pricing methodology provides for the non-locational component of prescribed TUOS to be adjusted for National Transmission Planning (NTP) function fees advised by AEMO. This is to enable TSNPs to recover NTP fees.²⁰

We accept this adjustment as it is consistent with new requirements of the NER.²¹ We note this inclusion simply updates ElectraNet’s pricing methodology to reflect new requirements of the NER which were introduced since the previous transmission determination.

12.4.1.4 Clarification on treatment of designated network assets

The proposed pricing methodology confirms that the optimised replacement cost of non-prescribed transmission system assets that are designated network assets or identified user shared assets is zero.²²

We accept this confirmation as it is consistent with the requirements of the NER regarding the treatment of designated network assets.²³ We note this amendment is a simple update ElectraNet’s pricing methodology to reflect changes in the NER since the previous transmission determination.

12.4.1.5 Clarification on Billing Arrangements

The proposed pricing methodology clarifies the billing arrangements for dedicated connection assets. ElectraNet stated it will issue invoices for prescribed transmission services to the financially responsible market participant for the dedicated connection asset (or nominee) based on usage at the transmission network connection point.²⁴

We accept this clarification as it is consistent with the requirements of the NER due to the “Connection to Dedicated Connection Assets” rule change.²⁵ We note this amendment updates ElectraNet’s pricing methodology to reflect changes in the NER since the previous transmission determination.

¹⁸ NER, schedule 6A.3.

¹⁹ This is consistent with our considerations of the treatment of reverse flows in the recent AEMO transmission determination: AER, *Draft decision: AEMO transmission determination 2022 to 2027*, October 2021, pp. 18–20.

²⁰ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 17-19.

²¹ NER, cl. 6A.23.3(e)(6).

²² ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 32-33.

²³ NER, cl. S6A.3.2(1).

²⁴ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 26-27.

²⁵ AEMC, *Rule determination: National Electricity Amendment (Connection to dedicated connection assets) Rule 2021*, 8 July 2021.

12.4.1.6 Clarify the Prudent Discounts

The proposed pricing methodology clarifies ElectraNet's approach to prudent discounts. The purpose of this change is to provide additional information for the benefit of ElectraNet's customers on the matters we will consider in negotiating a prudent discount. In addition, ElectraNet's proposal explains that it will apply to the AER to recover any discount.²⁶

We accept this clarification as it is consistent with the requirements of the NER regarding prudent discounts.²⁷

12.4.2 Further observations from stakeholders

In discussions with AER staff, CCP25 noted transmission networks in general were not engaging with stakeholders on potential innovations to transmission price signals given the changing patterns of demand.²⁸

ElectraNet stated it meets routinely with its customers and offers to meet with each annually when new tariffs are published. It also meets routinely with SA Power Networks in relation to tariffs. ElectraNet stated the consistent message from this subset of customers, who are the customers who directly face transmission tariffs, is that simplicity is preferred.²⁹

We assess a TNSP's pricing methodology against the requirements of the NER and our pricing methodology guidelines.³⁰ As set out in this draft decision, we consider ElectraNet's proposed pricing methodology meet these requirements. We note the proposed pricing methodology acknowledges the changing patterns of demand with its clarification of the definition of load (see section 12.4.1.2).

More generally, we encourage stakeholders to engage with TNSPs to identify areas to innovate on pricing signals given the changing patterns of demand. We particularly encourage such engagement while a TNSP is developing its regulatory proposal. We would then have the full transmission determination process to assess such innovations against the requirements of the NER and our pricing methodology guidelines.

12.4.3 Calculation and allocation of the AARR

We assessed ElectraNet's method for calculating and allocating its AARR. We consider that this aspect of ElectraNet's proposed pricing methodology meets the NER requirements.

The AARR is the 'maximum allowed revenue' adjusted:

- in accordance with clause 6A.3.2 of the NER, 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.

²⁶ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 28.

²⁷ NER, cl 6A.26.1(f) & 6A.26.2.

²⁸ AER, *File note: ElectraNet – CCP25 submission regarding pricing methodology*, 6 June 2022.

²⁹ ElectraNet, *Response to AER Information request AER IR017*, 20 June 2022, p. 6.

³⁰ NER, part J of chapter 6A; AER, AER, *Electricity transmission service providers pricing methodology guidelines*, July 2014.

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

Table 12.1 ElectraNet’s proposed calculation and allocation of the AARR and the NER requirements

NER requirements ³¹	AER assessment
Requirement for the AARR to be calculated as defined in the NER—clause 6A.22.1.	Section 7.3 of ElectraNet’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).	Section 7.5 of ElectraNet’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).	Appendices B and E of ElectraNet’s proposed pricing methodology comply 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).	Appendices B and E of ElectraNet’s proposed pricing methodology comply with this requirement.

12.4.4 Allocation of the ASRR to transmission network connection points

We assessed ElectraNet’s proposed pricing methodology for allocating the ASRR. We consider this aspect of ElectraNet’s proposal meets the NER requirements. Table 12.2 summarises our assessment.

Table 12.2 ElectraNet’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).	Sections 7.9.1 of ElectraNet’s proposed pricing methodology comply 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).	Sections 7.9.2 of ElectraNet’s proposed pricing methodology comply 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 	Section 7.9.3 of ElectraNet’s proposed pricing methodology complies with this requirement.

³¹ We note that the Essential Services Commission of South Australia (ESCOSA) finalised a review of the SA Electricity Transmission Code in September 2016, which ElectraNet has taken into account in its 2018–23 regulatory proposal. The code sets transmission reliability standards. See <http://www.escosa.sa.gov.au/projectsand-publications/projects/electricity/electricity-transmission-code-review-2018-2023-regulatory-period/electricitytransmission-code-review-2018-2023-regulatory-period> (viewed 6 June 2017).

NER requirements	AER assessment
—clause 6A.23.3(a) to (g).	
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).	Appendix E of ElectraNet'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 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).	Section 7.11.4 of ElectraNet's proposed pricing methodology comply with this requirement.

12.4.5 Development of price structure

We assessed ElectraNet's proposed pricing methodology and process for developing different prices for recovering the ASRR. We consider this aspect of ElectraNet's proposal meets the NER requirements. Table 12.3 summarises our assessment.

Table 12.3 ElectraNet'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 7.11 of ElectraNet'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 7.11.1 of ElectraNet's proposed pricing methodology complies with this requirement.
Requirement for postage stamped prices for prescribed common transmission services—clause 6A.23.4(f).	Section 7.11.3 of ElectraNet's proposed pricing - clause 6A.23.4(f) 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 7.11.2 of ElectraNet'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 cent per year compared with the load weighted average prices for this component for the relevant region—clause 6A.23.4(b)(2).	Section 7.11.2 of ElectraNet's proposed pricing methodology complies with this requirement.
Requirement for prices for the adjusted non-locational component of prescribed TUOS services to be on a postage stamp basis—clause 6A.23.4(e).	Section 7.11.3 of ElectraNet's proposed pricing methodology complies with this requirement.
Setting of TUOS locational prices between annual price publications—clause 6A.23.4(b).	Section 7.14 of ElectraNet's proposed pricing methodology complies with this requirement.

12.4.6 Assessment against the pricing methodology guidelines for prescribed transmission services

We are satisfied that ElectraNet'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 South Australian region (the other being Murraylink) and that ElectraNet is the Co-ordinating Network Service Provider for the region.³²
- calculating the locational component of prescribed TUOS services costs using a cost reflective network pricing methodology.³³
- basing the locational prescribed TUOS services price on a contract agreed maximum demand or the average half-hourly maximum demand at a connection point.³⁴
- using a postage stamp pricing structure for the non-locational component of prescribed TUOS services and prescribed common transmission services.³⁵
- using the priority ordering approach under clause 6A.23.3(d) of the NER to implement priority ordering.³⁶
- describing how asset costs that may be attributable to both prescribed entry services and prescribed exit services will be allocated at a connection point.³⁷
- describing billing arrangements as in clauses 6A.27, 6A.29A.4 and 6A.29A.5 of the NER.³⁸
- describing prudential requirements as in clause 6A.28 of the NER.³⁹
- including hypothetical worked examples for:
 - calculation of attributable cost shares.⁴⁰
 - allocation of ASRR to connection points.⁴¹
 - modified load export charge.⁴²
- describing how ElectraNet intends to monitor and develop records of its compliance with its approved pricing methodology, the pricing principles and Part J of the NER.⁴³

³² ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 10.

³³ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 8.

³⁴ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 8.

³⁵ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 8.

³⁶ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 23-24.

³⁷ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 13.

³⁸ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 26-27.

³⁹ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 27-28.

⁴⁰ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 14.

⁴¹ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 15-19.

⁴² ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 53-55.

⁴³ ElectraNet, *Proposed Pricing Methodology*, 31 January 2022, p. 28.

A Required editorial amendments to proposed pricing methodology

Section / Page	Current text	Required text
Pricing methodology - Appendix B p. 32	“This change reflects the requirements of new clause 6A.3.2(1) , which was introduced by the National Electricity Amendment (Connection to dedicated connection assets) Rule 2021 No. 7.”	“This change reflects the requirements of new clause S6A.3.2(1) , which was introduced by the National Electricity Amendment (Connection to dedicated connection assets) Rule 2021 No. 7.”
7.11.2 Prescribed TUOS services – locational component prices and charges p. 22	“to the extent that the change in prices relate to the adjusted modified load export charge as per clause 6A.23.4(3)(i) of the Rules; or”	“to the extent that the change in prices relate to the adjusted modified load export charge as per clause 6A.23.4(b)(3)(i) of the Rules; or”
7.11.2 Prescribed TUOS services – locational component prices and charges p. 22	“per clause 6A.23.3(b)(3)(ii) of the Rules, if since the commencement of the previous regulatory year:”	“per clause 6A.23.4(b)(3)(ii) of the Rules, if since the commencement of the previous regulatory year:”
7. Proposed Pricing Methodology Table 1	“This change reflects the requirements of new clause 6A.3.2(1) ”	“This change reflects the requirements of new clause S6A.3.2(1) ”

Glossary

Term	Definition
AARR	Aggregate Annual Revenue Requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	Aggregate Service Revenue Requirement
CAP	Consumer Advisory Panel
CCP	Consumer Challenge Panel
CCP25	Consumer Challenge Panel, sub-panel 25
CESS	Capital Expenditure Sharing Scheme
CNSP	Co-ordinating Network Service Provider
CRNP	Cost Reflective Network Pricing
MAR	Maximum Allowed Revenue
NER	National Electricity Rules
NTP	National Transmission Planner
TNSP	Transmission Network Service Provider
TUOS	Transmission use of system