

Final Decision

**AusNet Services Transmission
Determination 2022 to 2027
Attachment 12
Pricing methodology**

January 2022

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Note

This attachment forms part of the AER's final decision on AusNet Services' 2022–27 transmission determination. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following attachments:

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 12 – Pricing methodology

Attachment 13 – Pass through events

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12 Pricing methodology

This attachment sets out our final decision on AusNet Services' proposed pricing methodology for the 2022–27 regulatory control period (1 April 2022 to 31 March 2027).

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 'methodology, 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 provides⁴
- provides for the manner and sequence of adjustments to the annual service revenue requirement⁵ and allocates that requirement to transmission network connection points⁶
- 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).

AusNet Services' proposed pricing methodology addresses only the pricing matters for which it has responsibility.⁸ These are prescribed entry services and prescribed exit services.

In Victoria, the pricing of all other prescribed transmission services is the responsibility of the Australian Energy Market Operator (AEMO).⁹ AEMO is also the co-ordinating network service provider in Victoria. It is therefore responsible for allocating the AARR for all transmission businesses in the region including AusNet Services.¹⁰

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 AusNet Services, *Revised Revenue Proposal 2023–27, Appendix 11A Revised Proposed Pricing Methodology*, 1 September 2021, p. 4.

⁹ AusNet Services, *Revised Revenue Proposal 2023–27, Appendix 11A Revised Proposed Pricing Methodology*, 1 September 2021, p. 4.

¹⁰ AusNet Services, *Revised Revenue Proposal 2023–27, Appendix 11A Revised Proposed Pricing Methodology*, 1 September 2021, pp. 4–5.

12.1 Final decision

Our final decision is to approve AusNet Services' revised pricing methodology for the 2022–27 regulatory control period (revised pricing methodology).

12.2 AusNet Services' revised proposal

Our draft decision was to accept AusNet Services' initial pricing methodology for the 2022–27 regulatory control period, and AusNet Services' revised pricing methodology is largely identical to its initial pricing methodology. AusNet Services has however made minor amendments in its revised pricing methodology to clarify the arrangements for shared exit services, in respect of two matters.

Measure of demand for cost allocation

AusNet Services' pricing methodology in the 2017–22 regulatory control period used the coincident maximum demand on the 10 highest demand days of the year to allocate costs of exit services between customers at shared exit terminal stations. This measure of demand is consistent with the demand measure AEMO used in its current pricing methodology to set locational charges (named the MD10 method).¹¹

AusNet Services' revised proposal noted AEMO has since proposed to change the method of setting locational charges from the MD10 to the 365 day method, which uses the maximum demand recorded on any day of the year.¹²

AusNet Service noted the AER will not make its final decision for AEMO's pricing methodology by the time AusNet Services submitted its revised proposal.¹³

To maintain consistency with AEMO, AusNet Services stated it will use the demand measure which the AER approves in the final decision for AEMO's 2022–27 transmission determination.¹⁴

Allocating exit service cost for non-distributor customers

AusNet Services also updated its pricing methodology to reflect its proposed recovery arrangements to account for exit services costs for non-distributor connection customers who share in the use of prescribed connection assets.¹⁵

AusNet Services clarified that, in relation to the exit service costs for non-distributor connections, AusNet proposes to recognise and treat the shared cost allocated to

¹¹ AusNet Services, *Transmission revenue review 2023–27: Revised revenue proposal*, 1 September 2021, p. 164.

¹² AusNet Services, *Transmission revenue review 2023–27: Revised revenue proposal*, 1 September 2021, p. 164.

¹³ This is because the timeline for the AusNet Services 2022–27 transmission determination precedes the timeline for the AEMO 2022–27 transmission determination by several months.

¹⁴ AusNet Services, *Revised Revenue Proposal 2023–27, Appendix 11A Revised Proposed Pricing Methodology*, 1 September 2021, pp. 12–13; AusNet Services, *Transmission revenue review 2023–27: Revised revenue proposal*, 1 September 2021, p. 164.

¹⁵ AusNet Services, *Transmission revenue review 2023–27: Revised revenue proposal*, 1 September 2021, p. 164.

non-DNSP customers as a 'negotiated exit charge'.¹⁶ Further, AusNet Services will subtract these charges from its maximum allowed revenues.¹⁷

Where a non-distribution connection drives augmentation of a connection asset, AusNet Services will not include the non-distributor's share of the asset into the RAB and will recover that share as a negotiated exit charge.¹⁸

12.3 Assessment approach

Please see our draft decision.¹⁹

12.4 Reasons for final decision

This section addresses only the changes AusNet Services introduced into its revised pricing methodology (see section 12.2). For our consideration of other aspects of the revised pricing methodology, please refer to our draft decision.²⁰

Measure of demand for cost allocation

We consider AusNet Services' proposal to use a demand measure that is consistent with AEMO to allocate exit service costs is reasonable.

The costs of connection are often associated with a customer's peak demand. The greater a customer's anticipated or contracted peak demand, the greater its connection needs and, therefore, costs are likely to be (all else being equal).

AEMO stated that the times of greatest utilisation of the network and drivers of transmission investment in Victoria are changing. This is the reason for AEMO's proposal to change from the MD10 to the 365 day method.²¹

We consider it is appropriate that AusNet Services' method for allocating exit service costs reflect these changing drivers.

In addition, we expect to publish our final decision for the AEMO 2022–27 transmission determination in April 2022—some months after this final decision for AusNet Services. We therefore consider it is appropriate that AusNet Services' pricing methodology

¹⁶ A 'negotiated exit charge' refers to a charge for an exit service which is also a negotiated transmission service within the meaning of the NER, and which is payable by a Transmission Customer (including a non-DNSP customer) to AusNet Services. The negotiated exit charge is subject to AusNet Services' negotiating framework and negotiated transmission service criteria.

¹⁷ AusNet Services, *Revised Revenue Proposal 2023–27, Appendix 11A Revised Proposed Pricing Methodology*, 1 September 2021, p. 13.

¹⁸ AusNet Services, *Revised Revenue Proposal 2023–27, Appendix 11A Revised Proposed Pricing Methodology*, 1 September 2021, p. 13.

¹⁹ AER, *Draft decision: AusNet Services transmission determination 2022 to 2027: Attachment 12: Pricing methodology*, June 2021, pp. 5–8.

²⁰ AER, *Draft decision: AusNet Services transmission determination 2022 to 2027: Attachment 12: Pricing methodology*, June 2021.

²¹ AER, *Draft decision: AEMO transmission determination 2022 to 2027*, October 2021, pp. 15–16.

signal that it would use the demand measure we approve for AEMO as part of its method for allocating exit service costs.

Allocating exit service costs for non-distributor customers

We consider AusNet Services' proposed recovery arrangements to account for exit services costs for non-distributor connection customers who share in the use of prescribed connection assets is, in principle, reasonable. We address this aspect of AusNet Services' revised pricing methodology below, to clarify the intent of this proposed treatment.

In particular, we refer to the following sentence from AusNet Services' revised pricing methodology:²²

The shared cost allocated will be recognised as a negotiated exit charge and the amount calculated annually will be subtracted from the maximum allowed revenue.

We clarified with AusNet Services that the term "negotiated exit charge" refers to the charges for non-distributor connection customers and means the charges for an "exit service" that is a "negotiated transmission service" as defined under the NER. Therefore, the negotiated exit charge is subject to AusNet Services' negotiating framework and negotiated transmission service criteria.²³

AusNet Services also stated it would subtract the amount of the negotiated exit charge from the maximum allowed revenue. The amount of the negotiated exit charge would not form part of the annual service revenue requirement for the relevant connections.

To avoid doubt, AusNet Services clarified the negotiated exit charge amounts subtracted from the maximum allowed revenue (more specifically, from the annual service revenue requirement) is revenue that AusNet Services will not recover in the current or future regulatory years under part J of chapter 6A of the NER.²⁴

²² AusNet Services, *Revised Revenue Proposal 2023–27, Appendix 11A Revised Proposed Pricing Methodology*, 1 September 2021, p. 13.

²³ AusNet Services, *Response to information request #021 - Revised proposed pricing methodology clarification*, 25 November 2021; AusNet Services, *Response to information request #023 - Shared exit services in revised proposed pricing methodology clarification*, 6 December 2021.

²⁴ AusNet Services, *Response to information request #023 - Shared exit services in revised proposed pricing methodology clarification*, 6 December 2021.

Shortened forms

| Shortened form | Extended form |
|----------------|---------------------------------------|
| AARR | aggregate annual revenue requirement |
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| DNSP | distribution network service provider |
| NER | National Electricity Rules |
| RAB | regulatory asset base |
