

Draft Decision

Transgrid Transmission Determination 2023 to 2028

(1 July 2023 to 30 June 2028)

Attachment 12 Pricing methodology

September 2022

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

AER reference: AER202187

Note

This attachment forms part of the AER’s draft decision on Transgrid’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

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12 Pricing methodology

This attachment sets out our draft decision on Transgrid’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 provides⁴
- provides for the manner and sequence of adjustments to the annual service revenue requirement (ASRR)⁵ 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).

12.1 Draft decision

Our draft decision is to approve Transgrid’s proposed pricing methodology for the 2023–28 regulatory control period, subject to Transgrid 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 Transgrid 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 Transgrid’s proposal

Transgrid’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:⁹

- inclusion of the National Transmission Planner Costs due to a rule change (see section 12.4.1.1)¹⁰
- clarification on the effect of the dedicated connection assets rule change (see section 12.4.1.2)¹¹
- clarification regarding the calculation of non-locational charges (see section 12.4.1.3).

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.¹²

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

12.3.1 Inter-relationships

There are several transmission network service providers (TNSPs) in each of the New South Wales (NSW) and Australian Capital Territory (ACT) regions. The other TNSPs are the Directlink interconnector and electricity distributors which have electricity transmission assets – Ausgrid in NSW and Evoenergy in the ACT. Transgrid is the appointed Co-ordinating Network Service Provider for the NSW and the ACT regions.

As the appointed Co-ordinating Network Service Provider, Transgrid applies its pricing methodology to determine the transmission prices to be charged in the NSW and ACT regions to recover the regulated transmission revenues of Ausgrid, Evoenergy, Directlink and itself in line with clause 6A.29.1 of the NER.¹³

12.4 Reasons for draft decision

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

12.4.1 Assessment of amendments in the proposed pricing methodology

Below, we set out our assessment of the amendments in Transgrid’s proposed pricing methodology.

⁹ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 27–28.

¹⁰ AEMC, *Rule Determination National Electricity Amendment (Reallocation Of National Transmission Planner Costs) Rule 2020*, 29 October 2020.

¹¹ AEMC, *Rule Determination National Electricity Amendment (Connection To Dedicated Connection Assets) Rule 2021*, 8 July 2021.

¹² NER, cl. 6A.24.1(c).

¹³ NER, cl. 6A.29; Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 6.

12.4.1.1 Inclusion of the National Transmission Planner Costs

In its proposed pricing methodology, Transgrid included an adjustment to the non-locational component of prescribed transmission use of system (TUOS) services to account for the Australian Energy Market Operator’s (AEMO) National Transmission Planner (NTP) function fees.¹⁴

We accept this inclusion as it is consistent with the requirements of the NER regarding the derivation of non-locational prices.¹⁵ We note this inclusion simply updates Transgrid’s pricing methodology to reflect new requirements of the NER which were introduced since Transgrid’s previous transmission determination.

12.4.1.2 Connection to dedicated assets ruling

Transgrid’s proposed pricing methodology clarifies that adjustments to the non-locational ASRR by intra-regional residues do not include intra-regional residues that accumulate on designated network assets.¹⁶

We accept this inclusion as it is consistent with the requirements of the NER regarding the new framework for designated network assets.¹⁷ We note this inclusion simply updates Transgrid’s pricing methodology to reflect new requirements of the NER which were introduced since Transgrid’s previous transmission determination.

12.4.1.3 Clarification to Pricing Methodology Clause 7.3

In its proposed pricing methodology, Transgrid clarified that it will calculate non-locational charges for a connection point by multiplying the non-locational price by the:¹⁸

- maximum demand at that connection point in the corresponding billing period two years earlier (i.e., historical metered maximum demand); or
- maximum demand at that connection point in the same billing period (current metered maximum demand) if the historical maximum demand off-take is not available; or
- current metered maximum demand off-take if the historical metered maximum demand is significantly different to the current metered maximum demand.

Regarding the third calculation above, Transgrid clarified it expects to apply this method of calculation only where the conditions necessary to enact Clause 6A.23.4(b)(3)(ii) of the NER apply.¹⁹

We accept this clarification as it merely describes the scenario in which Transgrid expects to apply such a calculation of the non-locational charge due to a significant change in demand. We do not consider it prevents Transgrid from applying this calculation—if appropriate—in alternative scenarios in which demand changes significantly.

¹⁴ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 15.

¹⁵ NER, cl. 6A.23.3(e)(6).

¹⁶ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 14.

¹⁷ NER cl. 6A.23.3, S6A.3.2 and S6A.3.3.

¹⁸ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 19.

¹⁹ That is, where load at the connection point has materially altered, the relevant customer requested a renegotiation of its connection agreement with Transgrid, and the AER approved the change.

In addition, this clarification is consistent with the approved pricing methodologies of other TNSPs in the National Electricity Market.²⁰

12.4.2 Assessment against the pricing principles for prescribed transmission services

We consider that Transgrid's proposed pricing methodology meets the requirements of the pricing principles in the NER. The pricing principles are intended to provide scope for transmission businesses to develop pricing arrangements that address the circumstances in which they operate their network.²¹ This limits our review to a high-level assessment.

In a submission on Transgrid's revenue proposal, the AER's Consumer Challenge Panel (CCP25) submitted that they had no comments on the proposed pricing methodology.²² No other stakeholders commented on the proposed pricing methodology.

12.4.2.1 Calculation and allocation of the AARR

We assessed Transgrid's method for calculating and allocating its AARR, and consider that this aspect of Transgrid'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.

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

Table 12.1 Transgrid'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 5.1 of Transgrid'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 5.2 and 5.3 of Transgrid's proposed pricing methodology comply 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 5.2 and Appendix C of Transgrid'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	Appendix C of Transgrid's proposed pricing methodology complies with this requirement

²⁰ Namely, ElectraNet and Powerlink Queensland.

²¹ AEMC, *Rule Determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No 22*, 21 December 2006, p. 27–28.

²² CCP25, *Submission on AER Issues Paper & Transgrid 2023-28 revenue proposal*, May 2022, p. 20.

of prescribed transmission services—clause 6A.23.2(d)	
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12.4.2.2 Allocation of the ASRR to transmission network connection points

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

Table 12.2 Transgrid’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 6 of Transgrid’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 6 of Transgrid’s proposed pricing methodology complies 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 —clause 6A.23.3(a) to (g)	Section 6 and Appendices A and B of Transgrid’s proposed pricing methodology comply 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)	Appendix C of Transgrid’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)	Sections 5 and 6 of Transgrid’s proposed pricing methodology comply with this requirement.

12.4.2.3 Development of price structure

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

Table 12.3 Transgrid’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 of Transgrid’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 7.1 of Transgrid's proposed pricing methodology complies with this requirement.
Requirement for postage stamped prices for prescribed common transmission services— clause 6A.23.4(f)	Section 7.4 of Transgrid'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 7.2 and Appendix A of Transgrid's proposed pricing methodology comply 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 7.2 of Transgrid'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 7.3 of Transgrid's proposed pricing methodology complies with this requirement.
Setting of TUOS locational prices between annual price publications—clause 6A.23.4(b)	Section 7.6 of Transgrid's proposed pricing methodology complies with this requirement.

12.4.3 Assessment against the pricing methodology guidelines for prescribed transmission services

We are satisfied that Transgrid's proposed pricing methodology complies with the information requirements of the pricing methodology guidelines.

Key features of the proposal include:

- acknowledging that there are multiple TNSPs in the New South Wales region (the others being Ausgrid, Directlink and Evoenergy) and that Transgrid is the Coordinating Network Service Provider for the region²³
- calculating the locational component of prescribed TUOS services costs using a cost reflective network pricing methodology²⁴
- basing the locational prescribed TUOS services price on a contract agreed maximum demand or the average half-hourly maximum demand at a connection point²⁵
- using a postage stamp pricing structure for the non-locational component of prescribed TUOS services and prescribed common transmission services²⁶
- using the priority ordering approach under clause 6A.23.3(d) of the NER to implement priority ordering²⁷

²³ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 11 and 20.

²⁴ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 14-16.

²⁵ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 18.

²⁶ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 14 & 19

²⁷ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, Appendix C, p. 32-43.

- describing how asset costs that may be attributable to both prescribed entry services and prescribed exit services will be allocated at a connection point²⁸
- describing billing arrangements as in clauses 6A.27, 6A.29A.4 and 6A.29A.5 of the NER²⁹
- describing prudential requirements as in clause 6A.28 of the NER³⁰
- including hypothetical worked examples for:
 - allocation of AARR to transmission services³¹
 - allocation of AARR to connection points³²
 - modified load export charge³³
- describing how Transgrid intends to monitor and develop records of its compliance with its approved pricing methodology, the pricing principles and Part J of the NER.³⁴

²⁸ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 17-18.

²⁹ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 20-21.

³⁰ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 21.

³¹ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 11-12.

³² Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 12–14.

³³ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 25–27.

³⁴ Transgrid, *Pricing Methodology 2023/24 - 2027/28*, 31 January 2022, p. 27.

A. Required editorial amendments to proposed pricing methodology

Section / Page	Current text	Required text
Section 1.2 / Page 7	Existing price structure: ...and components for the 2023/24- 2027/29 ...	Existing price structure: ...and components for the 2023/24- 2027/28 ...
Section 3 / Page 8	These negotiated and non-prescribed services are not subject to this pricing methodology, for further information on these services, please refer to our negotiating framework.	[Please delete this text. Transgrid is no longer required to submit a negotiating framework to the AER for approval under chapter 6A of the NER.]
Section 6 / Page 13	...AARR as described in Section 6AARR as described in Section 6 5 ...
Section 6.2/ Page 14	...that do not include intra-regional residues that accumulate on Dedicated network Assets (Clause);	...that do not include intra-regional residues that accumulate on Designated network Assets (Clause);
Section 8.1 / Page 20	...or exceed the minimum information requirements specified in Clause 6A.27.2or exceed the minimum information requirements specified in Clause 6A.27.2 6A.27.1 ...

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
CCP25	Consumer Challenge Panel, sub-panel 25
CNSP	Co-ordinating Network Service Provider
NER	National Electricity Rules
NTP	National Transmission Planner
TNSP	Transmission Network Service Provider
TUOS	Transmission use of system
