

# TransGrid Cost Allocation Method

AER Final Decision

June 2023

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# 1 Introduction

## 1.1 Summary

TransGrid is an electricity transmission network service provider (TNSP) in New South Wales (NSW), whose revenue is regulated by the Australian Energy Regulator (AER).

On 2 December 2022 TransGrid submitted an amended Cost Allocation Method (CAM) to the AER for approval, as part of its revenue proposal for the 2023-28 regulatory period. The CAM was resubmitted on 31 May 2023 with changes requested by the AER (see Appendix A to this paper).

The proposed CAM provides an update to:

- TransGrid's ownership and organisation structures,
- incorporates the rebranding of TransGrid Services to Lumea, and
- introduces a new transmission services category to account for the costs of delivering NSW non-contestable projects under the Electricity Infrastructure Investment Act.

We have determined TransGrid's proposed CAM:

- is consistent with the requirements describes in the National Electricity Law (NEL) and the National Electricity Rules (NER, the rules), and
- is consistent with our Transmission Cost Allocation Guidelines (our guidelines).

We have approved TransGrid's proposed CAM submitted on 31 May 2023 under clause 6A.19.4(c) of the rules.

## 1.2 Background

We are responsible for regulating revenues of electricity transmission businesses in the National Electricity Market (NEM) in accordance with the NEL and the rules. Chapter 6A of the rules deals with electricity transmission services.

Cost allocation concerns attributing a regulated business's costs, or allocating shared costs, between transmission service categories and non-regulated business sections. The different transmission service categories are defined in the NEL and the rules:

- prescribed transmission services
- negotiated transmission services
- unregulated services.

Prices charged by TNSPs for different categories of services depend on costs incurred in providing those services. It is therefore important that cost allocations between service classifications accurately and fairly represents costs incurred in providing those services. We rely upon historical and forecast costs allocated in accordance with an approved CAM to determine prices charged, or revenues raised, by TNSPs such as TransGrid.

Transmission regulatory proposals, the regulatory arrangements proposed by TNSPs to us for a particular regulatory control period, must comply with an approved CAM. The revised

CAM subject to this decision paper will be used by TransGrid to develop its next transmission regulatory proposal. TransGrid will also use its revised CAM to report to us annually.

Following our approval TransGrid's proposed CAM will remain relevant to its statutory accounts, reporting and regulatory proposals until we approve further CAM amendments.

## 2 Rule requirements and assessment

### 2.1 Rule requirements

For Transmission Network Service Providers (TNSPs):

- Clause 6A.19.4(a) of the rules requires a TNSP to submit to us for approval a document setting out its proposed CAM.
- Clause 6A.19.4(b) requires that a CAM give effect to and be consistent with our transmission cost allocation guidelines.
- Clause 6A.19.4(c) provides for the AER to approve or refuse to approve a CAM submitted under paragraph (a).
- Clause 6A.19.4(f) provides for a TNSP to amend its CAM from time to time, subject to our approval.

### 2.2 Assessment Process

In October 2022, TransGrid informed the AER that it would be submitting an amended CAM with their revised revenue proposal for the 2023-28 regulatory period in December 2022.

Following an initial review, we requested some minor editorial changes and requested a supporting letter confirming the amended CAM would not impact the historical time series. TransGrid provided its final CAM on 31 May 2023.

### 2.3 TransGrid's CAM revisions

The material changes to the CAM proposed by TransGrid, compared to its current approved CAM, is the introduction of a fourth transmission service type – 'NSW EII non-contestable projects'.

In 2020 the NSW Government passed the *Electricity Infrastructure Investment Act 2020* (the EII Act), which enables the NSW Government to enact the Electricity Infrastructure Roadmap. The roadmap coordinates and allows investment in transmission, generation, and storage infrastructure to transition the NSW electricity grid away from a reliance on coal-fired generation.

Under the EII Act, the Consumer Trustee or the NSW Minister for Energy may authorise or direct Network Operators to undertake network infrastructure projects. The EII Act established the Scheme Financial Vehicle, which pays Network Operators for undertaking these projects.

TransGrid has been directed to undertake several projects under the EII Act. To correctly identify the costs of these projects for the Scheme Financial Vehicle, TransGrid must separate these from other transmission services. TransGrid has done this through the introduction of the 'NSW EII non-contestable projects' category.

We consider this approach reasonable and necessary for TransGrid to meet its' obligations under the EII Act and the NER.

### **3 Consistency with our cost allocation guidelines**

This section sets out our assessment of TransGrid's proposed CAM against the requirements of our Cost Allocation Guidelines.

### 3.1 TransGrid CAM assessment

The format and content of TransGrid’s CAM are regulated by NER Chapter 6A and clause 3.2 of our Cost Allocation Guidelines. Table 1 compares TransGrid’s proposed CAM against the requirements of NER Chapter 6A and clause 3.2.

**Table 1. CAM Assessment Tables**

#### General Obligations

Rules	Guidelines	Requirements	Addressed
6A.15.4(a)	1.4(1), 3.1	Each TNSP must develop a proposed CAM for submission to the AER.	Compliant
6A.15.4(b)	1.4(2), 3.1	The proposed CAM must give effect to and be consistent with the cost allocation guidelines.	Compliant
-	5.4	A TNSP must maintain a current copy of its approved CAM on its website.	Compliant

#### Contents of Cost Allocation Method

Guidelines	Requirements	Addressed
3.2(1)	A version history and date of issue for the document.	Page 2
3.2(2)	A statement of the nature, scope and purpose of the document and the way in which it is to be used by the TNSP.	Page 3
3.2(3)(A)	Accountabilities to implementation.	Section 6



3.2(3)B	Responsibilities for updating, maintaining, and applying the CAM, and for internally monitoring and reporting its application.	Section 6
3.2(4)	Description of corporate and operation structure.	Section 4
3.2(5)	Specification of service categories and types of persons to whom service provided.	Section 8
3.2(6)	Principles and policies for attributing costs to, and allocating costs between, categories of transmission services in accordance with clause 2.2 of the cost allocation guideline.	Section 9
3.2(7)	Description of how will maintain records of attribution and allocation.	Section 7
3.2(8)	Description of how will monitor compliance with CAM and guidelines.	Section 6
3.2(9)	Commencement Date.	Section 5
3.2(10)	A signed statement by at least two Directors of a TNSP, confirming the information contained in the document is accurate and that the TNSP intends to comply with the CAM if approved.	Section 10

**Cost Allocation principles and Policies**

Rules	Guidelines	Requirements	Addressed
6A.19.2(1)	2.2.1(a) 2.2.1(a)(1) 2.2.1(a)(2)	Include sufficiently detailed principle and policies for attributing costs to, and allocating costs between, categories of transmission services to enable:  The AER to replicate the reported outcomes  The TNSP to demonstrate that it is meeting the requirements	Compliant

	2.2.1(b)		
6A.19.2(2)	2.2.2(a)	Attribute costs directly to, or allocated costs between, categories of distribution services based on substance of underlying transaction or event not legal form.	Compliant
6A.19.2(3)(i)	2.2.3	Only directly attribute costs to categories of distribution services is they are directly attributable to the provision of the service.	Compliant
6A.19.2(3)(ii)	2.2.4(a) 2.2.4(a)(1) 2.2.4(a)(2) 2.2.4(b) & (c)	Allocate shared costs between categories of distribution services using an appropriate causal allocator, except to the extent that:  Shared cost is immaterial or  Causal relationship cannot be established without undue cost or effort.  In which case a non-causal allocator may be used in specified circumstances.	Compliant
6A.19.2(4)		Clearly describe the cost allocation method, the reason for using it and the numeric quantity (if any) of the chosen allocator.	Compliant
6A.19.2(5)	2.2.5	Do not allocate the same cost more than once.	Compliant
6A.19.2(6)	2.2.6	Detailed principals, policies and approach used to attribute costs directly to, or allocated costs between, categories of distribution services must be consistent with the Transmission Ring Fencing Guidelines.	Compliant
6A.19.2(7)	2.2.7	Costs that have been attributed or allocated costs to transmission services must not be reattributed or reallocated to another service during the regulatory control period.	Compliant

## Glossary

Term	Definition
AER	Australian Energy Regulator
NEL	National Electricity Law
NER	National Electricity Rules
CAM	Cost Allocation Method
TNSP	Transmission Network Service Provider
EII Act	Electricity Infrastructure Investment Act 2020

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