



AusNet Electricity Transmission

Revised Cost Allocation Methodology

AER Final Decision

November 2019

© Commonwealth of Australia 2019

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Corporate Communications,
Australian Competition and Consumer Commission,
GPO Box 4141,
Canberra ACT 2601
or publishing.unit@acc.gov.au.

Inquiries about this publication 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: 64082

Contents

Shortened forms.....	4
1 Introduction.....	5
1.1 Summary.....	5
1.2 Background.....	5
2 Rule requirements and assessment.....	7
2.1 The rule requirements	7
2.2 Assessment process	7
2.3 AusNet Transmission CAM revisions and structure	7
3 Consistency with our Transmission Cost Allocation Guidelines	10
3.1 AusNet Transmission CAM assessment.....	10

Shortened forms

Table text heading

AER	Australian Energy Regulator
CAM	Cost Allocation Methodology
TNSP	Transmission Network Service Provider
NEL	National Electricity Law
NEM	National Electricity Market
Rules, NER	National Electricity Market Rules
guidelines	Transmission Cost Allocation Guidelines

1 Introduction

1.1 Summary

On 1 October 2019 AusNet Transmission Group Pty Ltd (AusNet Transmission) submitted a revised Cost Allocation Methodology (CAM) for its Victorian distribution system — see Appendix A to this paper.¹ AusNet provides electricity transmission services across Victoria.² A CAM is used to separately account for the costs of providing electricity transmission services, including from other services the Transmission Network Service Provider (TNSP) might provide. AusNet Transmission proposed its revised CAM take effect from 1 January 2020.

We have determined AusNet Transmission's proposed CAM:

- accords with the requirements of the National Electricity Law (NEL) and National Electricity Rules (the rules)
- gives effect to and is consistent with our Transmission Cost Allocation Guidelines (transmission guidelines).

Accordingly, we have approved AusNet Transmission's proposed CAM under clause 6A.19.4(f) 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 Transmission Network Service Providers (TNSPs) for different categories of services depend on costs incurred in providing those services. We rely upon historical and forecast costs allocated to the above services in accordance with an approved CAM to determine prices charged, or revenues raised, by TNSPs such as AusNet Transmission. It is therefore important that cost allocations between service classifications accurately and fairly represents costs incurred in providing those services.

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

¹ AusNet Transmission, *Cost Allocation Methodology*, September 2019.

² AusNet also provides electricity transmission and gas distribution services in Victoria.

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

Following our approval, AusNet Transmission's proposed CAM will remain in place until we approve further CAM amendments.

2 Rule requirements and assessment

2.1 The rule requirements

- 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 guidelines.
- Clause 6A.19.4(c) provides for us to approve or refuse to approve a CAM submitted under paragraph (a).
- Clause 6A.19.4(d) provides us with 6 months to make a decision on a CAM submitted under paragraph (a).
- Clause 6A.19.4(e) allows us to amend a CAM submitted under cl. 6A.19.4(a) after consulting with the TNSP.
- Clause 6A.19.4(f) provides for a TNSP to amend its CAM from time to time, subject to our approval.
- Clause 6A.19.4(f)(1) provides us with 6 months to make a decision on a CAM amendment submitted under paragraph (f) or the CAM will be taken to have been approved.
- Clause 6A.19.4(f)(2) allows us to change a CAM submitted under paragraph (f) subject to notifying the TNSP of our intended change.

2.2 Assessment process

AusNet Transmission informally submitted a revised CAM on 14 August 2019. We assessed the draft proposed CAM. Resulting from this assessment, AusNet Transmission was provided with feedback that minor corrections were required to permit approval of the CAM.

AusNet Transmission formally submitted its amended revised CAM on 1 October 2019 for our approval. The results of our assessment of AusNet Transmission's amended revised CAM against the requirements of our guidelines are set out in section 3 of this paper.

2.3 AusNet Transmission CAM revisions and structure

AusNet Transmission sought AER approval of the attached amended CAM under clause 6A.19.4(f) of the rules. The CAM provides details on corporate structure, attribution of direct costs, allocation of indirect costs, cost recording and record keeping systems.

AusNet Transmission submitted that the main driver for amending its CAM is a change in its internal cost allocation system for shared costs.³ Namely, it no longer uses activity based costing (ABC) surveys to allocate shared costs to service categories.

³ AusNet, *Cost Allocation Method*, September 2019, p.4.

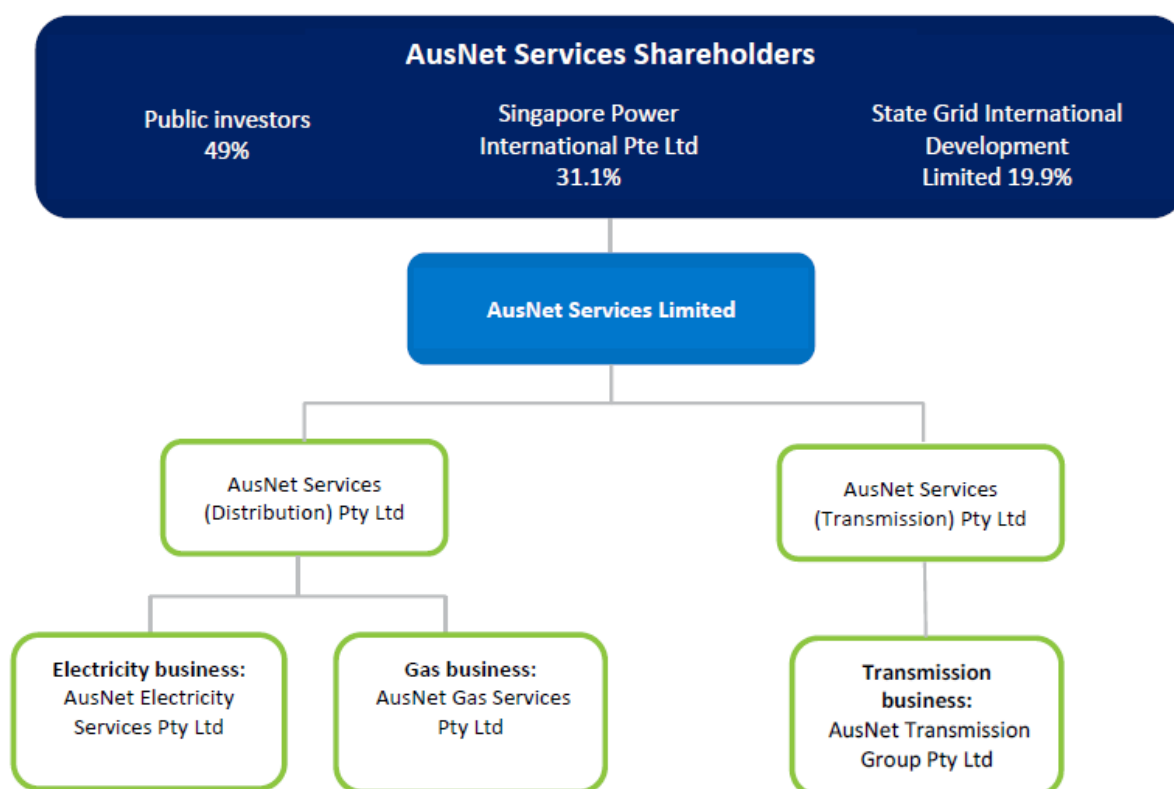
We consider the replacement of ABC surveys with more transparent cost allocators is a material improvement in AusNet Transmission’s cost allocation approach.

AusNet Transmission submitted that its substitution of new allocators for the previous ABC surveys did not have a significant impact on the quantum of costs allocated to AusNet Transmission.⁴

AusNet submitted that a further driver for amending its CAM are internal operational structure changes.⁵

At the highest level AusNet Transmission’s corporate structure is as set out in Figure 1. AusNet Transmission belongs to the AusNet Services corporate group.

Figure 1 AusNet Services corporate structure



The operational structure of AusNet Services (or AusNet Transmission for this paper), responsible for electricity transmission, can be summarised as:⁶

- Regulated energy services
- Operations and services
- Mondo Power

⁴ AusNet Transmission, *Cost Allocation Methodology*, September 2019, p.4.

⁵ AusNet Transmission, *Cost Allocation Methodology*, September 2019, p.4.

⁶ AusNet Transmission, *Cost Allocation Methodology*, September 2019, p.11.

- Corporate groups.

An expanded description is available in AusNet Transmission's proposed CAM.

3 Consistency with our Transmission Cost Allocation Guidelines

This section sets out our assessment of AusNet Transmission's proposed CAM against the requirements of our guidelines.

3.1 AusNet Transmission CAM assessment

The format and content of AusNet Transmission's CAM are regulated by clause 3.2 of our transmission guidelines. Table 1 compares AusNet Transmission's revised amended CAM against the requirements of clause 3.2.

Clause 3.2 of the AER's Transmission Cost Allocation Guidelines	CAM references
3.2 (1) a version history and date of issue for the document	Compliant. See page 2 of the CAM.
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	Compliant. See page 5.
3.2 (3) details of the accountabilities within the TNSP for the document in order to set out clearly: <ul style="list-style-type: none"> A. the TNSP's commitment to implementing the CAM; and B. responsibilities within the TNSP for updating, maintaining and applying the CAM and for internally monitoring and reporting on its application. 	Compliant. See page 6.
3.2 (4) a description of the TNSP's corporate and operational structure in order to enable us to understand how the TNSP is organised to provide its transmission services.	Compliant. See pages 10-11.
3.2 (5) a specification of the categories of transmission services that the TNSP provides to which costs are to be attributed or allocated and the types of persons to whom those services are provided.	Compliant. See page 12.
3.2 (6) the TNSP's detailed principles and policies to be used for attributing costs directly to, or allocating costs between, categories of transmission services that meet the requirements of clause 2.2 of the guidelines. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.	Compliant. See pages 13-22.
3.2 (7) a description of how the TNSP will maintain records of the attribution or allocation of costs to, or between, categories of transmission services in order to enable any such attribution or allocation to be: <ul style="list-style-type: none"> A. demonstrated to us, in accordance with clause 5.2 of the guidelines 	Compliant. See page 8.

and

B. audited or otherwise verified by a third party, including us, as required.

3.2 (8) a description of how the TNSP will monitor its compliance with the CAM and the guidelines	Compliant. See page 7.
---	------------------------

3.2 (9) details of the proposed date on which the CAM will commence, having regard for clause 4.1(d) of the guidelines and	Compliant. See page 9.
--	------------------------

3.2 (10) statement signed and dated by not less than two directors of a TNSP, which states whether in the directors' opinion, the information contained in the CAM is accurate and which confirms the TNSP's intention to comply with the CAM as approved by us.	Compliant. See page 24.
--	-------------------------