Attachment 04.01.01

Designated Pricing Proposal Charges

Contents

1. Introduction

1.1 Overview

In this attachment we set out what designated pricing proposal charges are and how we propose to recover them over the next regulatory control period. This includes a description of the unders and overs mechanism to account for over or under recovery of these charges. We describe how the expiry of transitional arrangements in place for the current regulatory control period will affect our recovery of particular charges, and the effect this has had on our operating expenditure forecast.

We anticipate that the treatment of designated pricing proposal charges in the next Regulatory Control Period will be similar to the approach taken in the current period, the key difference being that the designated proposal charges currently applicable as a result of the transitional arrangements in Chapter 11 of the National Electricity Rules (NER) will no longer apply.

1.2 Designated pricing proposal charges

Designated pricing proposal charges are defined in Chapter 10 of the NER as[1]:

> Any of the following:
>
> (a) charges for *designated pricing proposal services;*
>
> (b) *avoided Customer TUOS charges;*
>
> (c) charges for *distribution services* provided by another *Distribution Network Service Provider*, but only to the extent those charges comprise*:*
>
> (1) charges incurred by that *Distribution Network Service Provider* for *designated pricing proposal services*; or
>
> (2) charges for *standard control services*;
>
> (d) charges or payments specified in rule 11.39.

More detail on each of the above elements is provided in the table below.

Table 1: Designated pricing proposal charges

Definition	Description
Designated pricing proposal services	We are charged for these services by the transmission service provider Powerlink. The services include prescribed exit services, prescribed common transmission services, and prescribed Transmission Use of System (TUOS) services.
Avoided customer TUOS charges	These charges are required to be paid to embedded generators as described by clause 5.5(h) of the NER.
Charges for distribution services provided by another distribution network	We must recover charges that we incur from Energex for their provision of network services to a small group of customers in the Toowoomba area that cannot be economically supplied from our network.
Charges or payments specified in clause 11.39 of the NER.	There will be no charges or payments in this category for the 2015–2020 regulatory control period. See the section on transitional arrangements for more detail.

[1] NER, Chapter 10, Glossary

The Australian Energy Regulator's (AER) revenue determination must set out how we are to report on the recovery of designated pricing proposal charges for each year of the regulatory control period.

1.3 Transitional arrangements

In the current regulatory control period, there are transitional arrangements that affect designated pricing proposal charges. The transitional arrangements are set out in clause 11.39 of the NER, which specifies the following charges as designated pricing proposal charges:

- Charges levied on us for use of the 220kV network which supplies the Cloncurry township
- Charges levied by Powerlink for entry services and exit services at the following non-prescribed connection services:
  - The connection at Oakey Power Station to supply Oakey town
  - The connection at Queensland Nickel[2]
  - The connection at Stoney Creek for the Sunwater pump sites
  - The connection at King Creek for the Sunwater pump sites and Conquest Mining.

In the next regulatory control period, the requirements of clause 11.39 will no longer apply. As a result of this, the costs of the use of the 220kV network to supply Cloncurry and Powerlink's charges for entry services and exit services at the specified connection points will be included in our operating expenditure. This matter was considered but not resolved in the AER's Final Framework & Approach.[3]

Due to the expiry of transitional arrangements that are in place for the current regulatory control period, we will need to incorporate charges that are currently recovered through designated pricing proposal charges into our operating expenditure forecasts. This will result in these specific charges being recovered in the same manner as other standard control services.

As we have set out in Appendix A of our Regulatory Proposal, these costs were not represented in our base year operating expenditure. We have included the costs of the 220kV network supplying Cloncurry, which were formerly recovered as designated pricing proposal charges, as a step change.

We have also included the charges levied by Powerlink for entry and exit services at the three ongoing non-prescribed connection points in the operating expenditure forecasts for standard control services for 2015-16 and 2016-17. We understand that Powerlink is considering applying to the AER to to have these connection services classified as prescribed services for its next regulatory control period, commencing on 1 July 2017. Subject to approval by the AER, the costs will therefore be reflected in the TUOS charges from 2017-18 onwards.

[2] This service was transferred to Powerlink as a direct connected customer on 1 April 2014.

[3] AER, *Final Framework and approach for Energex and Ergon Energy: Regulatory control period commencing 1 July 2015*, April 2014, pp. 97-98.

2. Reporting on designated pricing proposal charges

In this section we set out how we propose to report on the recovery of designated pricing proposal charges.

2.1 Annual reporting

Clause 6.18.7 of the NER requires us to specify in our annual pricing proposal (rather than our Regulatory Proposal) how designated pricing proposal charges are to be recovered from customers. We do not propose to set out in detail, in this attachment, how we will pass our designated pricing proposal charges on to customers in every year of the next regulatory control period.

We will set out in our annual pricing proposal:

- The forecast level of designated pricing proposal charges that will apply for the relevant regulatory year
- How those designated pricing proposal charges will be passed on to customers.

Consistent with our approach in the current regulatory control period, we propose to report to the AER on the recovery of designated pricing proposal charges from our network tariffs and the adjustments made through the unders and overs account in our annual pricing proposals.

In this attachment we set out how we propose to make adjustments to account for any over or under recovery of these charges. We also indicate how we intend to apply designated pricing proposal charges. The application of the designated pricing proposal charges may be modified from year to year as circumstances dictate, and will be described more completely in our annual pricing proposal.

2.1.1 Allocation of Powerlink charges

We will pass through Powerlink's network charges in as cost-reflective a manner as is possible. Powerlink's entry and exit connection price and Capped Customer TUOS Usage Price are likely to be recovered with reference to a customer's maximum demand. Customer TUOS General Prices and Transmission Customer Common Service Prices are likely to be apportioned on the basis of a customer's historical and forecast energy demand.

2.1.2 Allocation of network charges from other DNSPs

We propose to recover these amounts in the same manner as general TUOS charges passed through to customers.

2.1.3 Allocation of avoided TUOS payments

We propose to recover these payments in the same manner as general TUOS charges passed through to customers at the same connection point as the embedded generator to which the payment is made.

2.2 Unders and overs adjustments

To demonstrate compliance with clause 6.18.7 of the NER and the AER's revenue determination, we will maintain an unders and overs account for designated pricing proposal charges (also referred to more generally in our previous revenue determination as TUOS charges). We will provide detailed information regarding the unders and overs account in each annual pricing proposal, consistent with our approach in the current regulatory control period.

An example of the unders and overs calculation for designated pricing proposal charges is provided in Table 2 below.

Table 2: Example of calculation of designated pricing proposal charges under and overs

	Year t-2 actual	Year t forecast
Revenue from TUOS charges	$296,021	$337,688
Less under/over adjustment approved by the regulator for year t-2	($3,717)	n/a
Less total transmission related payments	$304,685	$331,732
Transmission charges to be paid to TNSPs	$298,764	$322,768
Avoided TUOS charges to EGs	$3,229	$4,214
Payment to other DNSPs	$2,692	$4,749
Under/over recovery for the regulatory year	**($4,947)**	**$5,956**
TUOS unders and overs account		
Nominal WACC for year t-2	9.72%	n/a
Nominal WACC for year t-1	9.72%	n/a
Opening balance	$0	($5,956)
Interest on opening balance	$0	n/a
Under/over recovery for year t-2	($4,947)	$5,956
Interest on under/over recovery for year t-2	($1,009)	n/a
Closing balance	**($5,956)**	**$0**

We will vary the amount and structure of TUOS charges in any given year in order to achieve a zero expected balance on the unders and overs account closing balance for year *t*. The entries in the unders and overs account for the most recently completed regulatory year (year *t-2*) will be audited values. Under these under/over recovery arrangements there will be a two year lag between the year in which the under/over recovery occurs and the year in which the adjustment to the expected TUOS revenue to be recovered is made.

The structure of the unders and overs account, as we propose above, is similar to that used in our current regulatory control period. It differs only in that it needs to account for the difference in the WACC each year that results from the AER's trailing average portfolio approach for calculating the cost of debt.