

TransGrid

Revised Cost Allocation Methodology

February 2017

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# 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 Rules |
| transmission guidelines | Transmission Cost Allocation Guidelines |

# Introduction

## Summary

On 14 December 2016 TransGrid submitted amendments to its Cost Allocation Methodology (CAM).[[1]](#footnote-2) TransGrid is a licensed Transmission Network Service Provider (TNSP) in New South Wales (NSW). A CAM is used to separately account for the costs of providing electricity transmission services, including from other services the TNSP might provide. The amended CAM will take effect from the date this decision is published.

We have determined that TransGrid's proposed CAM amendments:

* accord with the requirements of the National Electricity Law (NEL) and National Electricity Rules (rules)
* give effect to and are consistent with our Transmission Cost Allocation Guidelines (transmission guidelines).

Accordingly we have approved TransGrid's proposed CAM amendments under clause 6A.19.4(c) of the rules.

## 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.

# The rule requirements

## 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 transmission 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.

## Assessment process

TransGrid submitted a draft of its amended CAM on 31 May 2016. We assessed the draft amended CAM. Resulting from this assessment, we provided TransGrid with feedback that limited corrections were required to permit approval of the CAM.

TransGrid formally submitted its revised amended CAM on 14 December 2016. The results of our assessment of TransGrid's revised amended CAM against the requirements of our transmission guidelines are set out in sections 2 and 3 of this paper.

## TransGrid's CAM revisions

TransGrid sought our approval of the amended Cost Allocation Method (CAM) under clause 6A.19.4(f) of the National Electricity Rules. TransGrid indicated that the driver of revisions to its CAM is a change in ownership, necessitating updates to the CAM's descriptive elements. We accept the organisational changes are significant and justify amendments to the CAM. TransGrid did not propose changes to the CAM's substantive elements such as the attribution of costs to services or the allocators for shared costs.

# Consistency with our cost allocation guidelines

This section sets out our assessment of TransGrid's revised amended CAM against the requirements of our transmission guidelines.

## TransGrid CAM assessment

The format and content of TransGrid's CAM are regulated by clause 3.2 of our transmission guidelines. Table 1 compares TransGrid'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. |
| 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 3. |
| 3.2 (3) details of the accountabilities within the TNSP for the document in order to set out clearly:  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 9. |
| 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 5 to 7. |
| 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 to 19. |
| 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:  A. demonstrated to us, in accordance with clause 5.2 of the guidelines and  B. audited or otherwise verified by a third party, including us, as required. | Compliant. See page 11. |
| 3.2 (8) a description of how the TNSP will monitor its compliance with the CAM and the guidelines | Compliant. See pages 9 and 10. |
| 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 8. |
| 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 20. |

1. The approved CAM is available at the AER website [www.aer.gov.au](file:///\\cdchnas-evs02\home$\djoha\trimdata\TRIM\TEMP\HPTRIM.7664\website%20https:\www.aer.gov.au\). [↑](#footnote-ref-2)