

V E N C o r p



Victorian Energy Networks Corporation

VENCorp Electricity Revenue Cap Proposal
1 July 2008 to 30 June 2014

Proposed pricing methodology

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1 Introduction

Regulatory framework

- 1.1 Under rule 6A.10.1(a) of the current National Electricity Rules (**Current NER**)¹ VENCORP must submit a proposed Pricing Methodology to the Australian Energy Regulator (**AER**) relating to transmission services provided by VENCORP.
- 1.2 Under rule 6A.24.1 of the Current NER a 'Pricing Methodology' is described as follows:
- 'a methodology, formula, process or approach that when applied by a *Transmission Service Provider*:
- (1) allocates the *aggregate annual revenue requirement* for *prescribed transmission services* provided by that provider to:
- (i) the *categories of prescribed transmission services* for that provider; and
- (ii) transmission network connection points of Transmission Network Users; and
- (2) determines the structure of the prices that a *Transmission Network Service Provider* may charge for each of the *categories of prescribed transmission services* for that provider.'
- 1.3 Under rule 6A.24.1 of the Current NER, a proposed Pricing Methodology must:
- 1.3.1 give effect to and be consistent with the Pricing Principles for Prescribed Transmission Services set out in rule 6A.23; and
- 1.3.2 comply with the requirements of, and contain or be accompanied by such information as is required by the Pricing Methodology Guidelines made for that purpose under rule 6A.25.
- 1.4 While rule 6A.24.1 of the Current NER requires that a Pricing Methodology comply with the Pricing Methodology Guidelines, these Guidelines are yet to be developed by the AER and under the NER are not required to be developed by the AER until 31 October 2007. Therefore, rule 11.8.4 of the Current NER requires that a 2008 Pricing Methodology comply with the Agreed Interim Requirements instead of the Pricing Methodology Guidelines.

¹ Chapter 6A of the Current NER provides the regulatory framework for regulating the pricing of Prescribed Transmission Services. Part A of Chapter 9 of the Current NER sets out the Victorian derogations to the Current NER.

- 1.5 Under the Agreed Interim Requirements made by the AER on 16 February 2007, VENCORP's proposed Pricing Methodology must:
- 1.5.1 to the extent possible, be consistent with rule 9.8.4F of the Current NER; and
 - 1.5.2 be consistent with Part C of Chapter 6 of version 9 of the NER (**Old NER**).
- 1.6 However, these two requirements are subject to the requirement that the proposed Pricing Methodology is consistent with the Pricing Principles for Prescribed Transmission Services set out in rule 6A.23 of the Current NER.
- 1.7 In addition, the Agreed Interim Requirements require VENCORP to submit the following with its Proposed Pricing Methodology:
- 1.7.1 a detailed explanation of the proposed Pricing Methodology including, where appropriate, worked examples; and
 - 1.7.2 a description of the differences between the pricing methodology applied during the current regulatory control period and the proposed Pricing Methodology.
- 1.8 Rule 6A.25.1(d) of the Current NER specifies that in the event of an inconsistency between the Current NER and the Pricing Methodology Guidelines, the Current NER will prevail to the extent of that inconsistency. Under rule 11.8.1 of the Current NER, 'Agreed Interim Requirements' are defined as being 'equivalent to the requirements of the *pricing methodology guidelines* referred to in rule 6A.25'. This means that rule 6A.25.1(d) operates such that the Current NER prevails over the Agreed Interim Requirements, to the extent of any inconsistency between them.
- 1.9 In any event, by their terms, rule 6A.23 of the Current NER prevails over Agreed Interim Requirements' requirement that a 2008 Pricing Methodology comply with Part C of Chapter 6 of the Old NER, to the extent of any inconsistency between rule 6A.23 of the Current NER and Part C of Chapter 6 of the Old NER.

VENCORP's responsibilities under Victorian arrangements

- 1.10 Under the Victorian jurisdictional derogation in Chapter 9 of the Current NER, and the Electricity Industry Act 2000 (Vic) and VENCORP's transmission licence thereunder:
- the Victorian Transmission Network is owned and operated by SP AusNet and SP AusNet is responsible for providing VENCORP with the Prescribed TUOS Services and Prescribed Common Transmission Services supplied by means of that Network; and
 - VENCORP is responsible for providing those Prescribed TUOS Services and Prescribed Common Transmission Services to transmission customers (see, in particular, rule 9.3.2(a)(1)(i)(B)).
- 1.11 Under rules 9.8.4 to 9.8.4F of the Current NER (which together comprise the Victorian transmission pricing derogation), VENCORP is also responsible for imposing charges on transmission customers for the Prescribed TUOS Services and Prescribed Common

Transmission Services supplied by means of the Victorian Transmission Network. Under rule 6A.23.4 (as modified by rule 9.8.4F(e)(2)), which reads as follows, VENCorp must recover that part of SP AusNet's AARR referable to the Prescribed TUOS Services and Prescribed Common Transmission Services supplied by means of the Victorian Transmission Network and transferring that amount to SP AusNet:

'The portion of the *aggregate annual revenue requirement* referable to *shared network services* is recoverable by a *Regulated owner* from *VENCorp*'.

- 1.12 SP AusNet, as the owner and operator of the Victorian Transmission Network, remains responsible for the provision of Entry Services and Exit Services provided by means of that Network (see, in particular, rule 9.3.2(a)(1)(ii)).
- 1.13 The application of Chapter 6A of the Current NER in respect of the Victorian Transmission Network is subject to the modifications set out in rules 9.8.4B to 9.8.4F.² Rule 9.8.4F of the NER contains the Victorian derogations to the application of Part J of Chapter 6A, which contains the rule 6A.23 Pricing Principles.
- 1.14 Under rule 9.8.4F(f), VENCorp is taken to be the Co-ordinating Network Service Provider responsible for the allocation of all relevant AARR relating to the provision of Prescribed TUOS Services or Prescribed Common Transmission Services within the Victorian region in accordance with Part J of Chapter 6A of the Current NER.
- 1.15 To enable VENCorp to undertake its role as the Co-ordinating Network Service Provider, SP AusNet must notify VENCorp of the actual amount of the AARR allocated in respect of each of the Prescribed TUOS Services and Prescribed Common Transmission Services categories of Prescribed Transmission Services, immediately after it performs this allocation (see rule 9.8.4F(d), VENCorp's interpretation of which is discussed in greater detail below).

VENCorp's proposed Pricing Methodology

- 1.16 In accordance with rule 6A.10.1(a) of the Current NER, this document sets out VENCorp's proposed Pricing Methodology for the period commencing 1 July 2008 to 30 June 2014.
- 1.17 In accordance with rule 6A.24.1 of the Current NER, this proposed Pricing Methodology gives effect to and is consistent with the Pricing Principles for Prescribed Transmission Services.
- 1.18 Unless otherwise expressly indicated, this proposed Pricing Methodology also complies with the AER's Agreed Interim Requirements.

Interpretation

- 1.19 All terms in this proposed Pricing Methodology that are capitalised are given the meaning given to them in the Current NER.

² Rule 9.8.4A.

- 1.20 A reference to the 'Current NER' is taken to be a reference to the current version of the NER, version 13 which commenced operation on 13 March 2007.
- 1.21 A reference to the 'Old NER' is taken to be a reference to Version 9 of the NER which was operative between 27 July 2006 and 15 November 2006. Allocation of AARR (VENCorp's MAAR) to categories of Prescribed Transmission Services

Overview of the Interim Requirements

- 1.22 As discussed in the Introduction, VENCorp's prices and charges for Prescribed TUOS Services and Prescribed Common Transmission Services must be determined in accordance with the Current NER as modified by Rules 9.8.4 to 9.8.4G.
- 1.23 Rule 6A.23.2 of the Current NER requires that VENCorp's Maximum Allowable Aggregate Revenue (**MAAR**) for a financial year be allocated to the categories of Prescribed Transmission Services. The portion of the MAAR allocated to a particular category of Prescribed Transmission Services is referred to as the Annual Service Revenue Requirement (**ASRR**) (Rules 6A.22.2).
- 1.24 Rule 6A.23.2 of the Current NER sets out the following principles for the allocation of the Aggregate Annual Revenue Requirement (**AARR**) (or MAAR in the case of VENCorp (see rule 9.8.4F(c)(2)(i)(C) of the Current NER)) to categories of prescribed transmission services³:
- (a) The AARR for a *Transmission Network Service Provider* must be allocated to each *category of prescribed transmission services* in accordance with the *attributable cost share* for each such category of services.
 - (b) This allocation results in the *annual service revenue requirement (ASRR)* for that category of services.
 - (c) The allocation of the *AARR* must be such that:
 - (1) every portion of the *AARR* is allocated; and
 - (2) the same portion of the *AARR* is not allocated more than once.

³ Under the Victorian derogation (rule 9.8.4F of the Current NER):

- a reference to 'prescribed transmission services' are to be read as 'shared network services' where applicable.
- a reference to a 'Transmission Network Service Provider' is to be read as a reference to 'the Regulated Owner' or 'VENCorp' as the case requires.
- a reference to 'prescribed TUOS services' or 'prescribed common transmissions services' are to be read as a reference to 'shared network services'.
- a reference to the 'Aggregate Annual Revenue Requirement' (AARR), in the case of VENCorp, is to be read as 'Maximum Allowable Aggregate Revenue' (MAAR) (rule 9.8.4F(of the Current NER)).

- (d) Where, as a result of the application of the *attributable cost share*, a portion of the *AARR* would be attributable to more than one category of *prescribed transmission services*, that *attributable cost share* is to be adjusted and applied such that any costs of a *transmission system* asset that would otherwise be attributed to the provision of more than one category of *prescribed transmission services*, is allocated as follows:
- (1) to the provision of *prescribed TUOS services*, but only to the extent of the stand-alone amount for that *category of prescribed transmission services*;
 - (2) if any portion of the costs of a *transmission system* asset is not allocated to *prescribed TUOS services*, under subparagraph (1), that portion is to be allocated to *prescribed common transmission services*, but only to the extent of the *stand-alone amount* for that *category of prescribed transmission services*;
 - (3) if any portion of the costs of a *transmission system* asset is not attributed to *prescribed transmission services* under subparagraphs (1) and (2), that portion is to be attributed to *prescribed entry services* and *prescribed exit services*.'

1.25 The 'Attributable Cost Share' is defined in rule 6A.22.3 of the Current NER as follows:

- (a) For a *Transmission Network Service Provider* for a category of *prescribed transmission services*, the *attributable cost share* for that provider for that category of services must, subject to any adjustment required under the principles in rule 6A.23.2, substantially reflect the ratio of:
- (1) the costs of the *transmission system* assets directly attributable to the provision of that *category of prescribed transmission services*; to
 - (2) the total costs of all the *Transmission Network Service Provider's transmission system* assets directly attributable to the provision of *prescribed transmission services*.
- (b) The costs of the *transmission system* assets referred to in paragraph (a) refers to optimised replacement cost or to an accepted equivalent to optimised replacement cost that is referable to values contained in the accounts of the *Transmission Network Service Provider*.'

1.26 The principles for allocation of the AARR can be summarised into four steps:

- 1.26.1 For each asset directly attributable to the provision of Prescribed Transmission Services.

- determine the optimised replacement cost (**ORC**) of the asset; and
- determine the category of Prescribed Transmission Services to which the asset is 'directly attributable'.

1.26.2 Use this to determine:

- the ORC of the transmission assets directly attributable to the provision of each category of Prescribed Transmission Services; and
- the total ORC of all assets directly attributable to the provision of prescribed transmission services.

1.26.3 Use these figures to determine the Attributable Cost Share for each category of Prescribed Transmission Services. In so doing, if an asset is 'directly attributable' to more than one category of Prescribed Transmission Service, it is necessary to apply the 'priority ordering' rules set out in rule 6A.23.2(d) (**Priority Ordering Rules**).

1.26.4 Multiply the Attributable Cost Share for each category of Prescribed Transmission Services by the AARR to determine the ASRR for each category of Prescribed Transmission Services.

1.27 In addition to the requirements of the Current NER, the AER's Agreed Interim Requirements provide that (subject to the Proposed Pricing Methodology being consistent with the Pricing Principles set out in rule 6A.23) the Proposed Pricing Methodology must be consistent with Part C of Chapter 6 of the Old NER. The Agreed Interim Requirements relevantly provide that a proposed Pricing Methodology must demonstrate that:

- '(1) the allocation of the *aggregate annual revenue requirement* and the delineation of assets to classes of transmission services is consistent with rule 6.3 of the *old National Electricity Rules*;
- (2) the allocation of the *aggregate annual revenue requirement* among all assets used in the provision of transmission services in order to allocate the costs involved in the provision of transmission services is consistent with rule 6.4 of the *old National Electricity Rules*' (see paragraph 2.1(b) of the AER's Agreed Interim Requirements).

1.28 Rules 6.3 and 6.4.1 of Part C of Chapter 6 of the Old NER provide for:

- the allocation of the AARR between the classes of transmission services recognised by the Old NER, namely entry services, exit services, transmission use of system services and common services (see rule 6.3); and
- then, the allocation of the AARR referable to each class of transmission service among the assets classified in the corresponding class of assets (see rule 6.4.1).

1.29 Schedule 6.2 of the Old NER, in turn, sets out detailed guidance on:

- the allocation of assets to the classes of transmission services recognised by the Old NER, namely entry services, exit services, transmission use of system services and common services; and
 - the allocation of non-asset related costs to individual assets.
- 1.30 Paragraphs 1 and 3 of Schedule 6.2 of the Old NER, in particular, are of potential applicability to VENCORP's Proposed Pricing Methodology, as they relate to respectively:
- common services, which are analogous to Prescribed Common Transmission Services under the Current NER; and
 - transmission use of system services, which are analogous to Prescribed TUOS Services under the Current NER.
- 1.31 The allocation process set out in the Current NER is substantively different to that set out in the Old NER. For example:
- 1.31.1 the Current NER contemplates the allocation of the AARR to each of the categories of Prescribed Transmission Services in proportion to the Attributable Cost Shares, i.e. to reflect the ORC of assets attributable to the relevant category of Prescribed Transmission Services as a proportion of the total ORC of all assets attributable to the provision of Prescribed Transmission Services. By contrast, under the Old NER, the AARR, including non-asset related costs, were allocated to individual assets in the asset class corresponding to the classes of transmission services; and
- 1.31.2 the Current NER establishes the Priority Ordering Rules to allocate the ORC of assets directly attributable to more than one category of Prescribed Transmission Services. By contrast, schedule 6.2 of the Old NER prescribes, in relative detail, how specific assets are to be allocated to the various classes of transmission services.
- 1.32 To the extent that the differences between the relevant provisions of the Current NER and the Old NER are properly characterised as an inconsistency between those provisions, VENCORP's Proposed Pricing Methodology must be consistent with the allocation process set out in the Current NER. This is because:
- the operation of rules 6A.25.1(d) and 11.8.1, which together have the effect that the Current NER prevails over the Agreed Interim Requirements, and thus the provisions of Part C of Chapter 6 of the Old NER, to the extent of any inconsistency between them; and
 - the Agreed Interim Requirements, which purport to require that the Methodology be consistent with Part C of Chapter 6 of the Old NER, state that this requirement is subject to the overarching requirement that the Proposed Pricing Methodology be consistent with the Pricing Principles set out in rule 6A.23 of the Current NER.

- 1.33 In seeking to prepare a proposed Pricing Methodology that complies with the Current NER and the Agreed Interim Requirements, VENCORP has considered the following:
- 1.33.1 the express requirements of paragraph 2.1(b)(1) & (2) of the Agreed Interim Requirements;
 - 1.33.2 the differences between the relevant provisions of the Current NER and the Old NER; and
 - 1.33.3 whether, and the extent to which, each of those differences constitutes inconsistencies.
- 1.34 Based on its consideration of these matters, VENCORP currently understands the requirements for allocation of the AARR / MAAR to each of the categories of Prescribed Transmission Services applicable to a 2008 Pricing Methodology to be as follows:
- 1.34.1 For each asset directly attributable to the provision of Prescribed Transmission Services, a Transmission Network Service Provider (TNSP) must:
 - determine the optimised replacement cost (ORC) of the asset; and
 - determine the category of Prescribed Transmission Services to which the asset is 'directly attributable'.
 - 1.34.2 The TNSP must determine whether an asset is 'directly attributable' to the provision of Prescribed Transmission Services, and the category of Prescribed Transmission Services to which that asset is 'directly attributable', in accordance with the provisions of schedule 6.2 of the Old NER. The relevant provisions of the Old NER, and of schedule 6.2 in particular, are not otherwise applicable to a 2008 Pricing Methodology because they are inconsistent with the Current NER.
 - 1.34.3 The TNSP must then determine:
 - the ORC of the transmission assets directly attributable to the provision of each category of Prescribed Transmission Services; and
 - the total ORC of all assets directly attributable to the provision of prescribed transmission services.
 - 1.34.4 These figures must, in turn, be used by the TNSP to determine the Attributable Cost Share for each category of Prescribed Transmission Services. As the allocation of assets to the category of Prescribed Transmission Services to which they are 'directly attributable' is to be undertaken in accordance with schedule 6.2 of the Old NER, there is limited potential for an asset to be 'directly attributable' to more than one category of Prescribed Transmission Service, so as to require the application of the Priority Ordering Rules.

- 1.34.5 Multiply the Attributable Cost Share for each category of Prescribed Transmission Services by the AARR to determine the ASRR for each category of Prescribed Transmission Services.
- 1.35 As the Co-ordinating Network Service Provider for the Victorian region, VENCORP is responsible, under rule 9.8.4F(f)(1) of the Current NER, for the allocation of all relevant AARRs relating to the provision of Prescribed TUOS Services and Prescribed Common Transmission Services in the Victorian region. Rule 9.8.4F(f)(1) (which uses superseded terms, e.g. 'transmission use of system services' and 'common services') relevantly provides:
- 'VENCORP is to be taken to be:*
- (1) the *Co-ordinating Network Service Provider* appointed under rule 6A.29 responsible for the allocation of all relevant *aggregate annual revenue requirements* relating to the provision of *transmission services* which are *transmission use of system services* or *common services* within the Victorian *region* in accordance with the relevant clauses of Part J of Chapter 6A'.
- 1.36 That is, as Co-ordinating Network Service Provider, VENCORP is responsible for allocating the aggregate ASRRs for each of the Prescribed TUOS Services and Prescribed Common Transmission Services categories of Prescribed Transmission Services.
- 1.37 While VENCORP is responsible for determining the MAAR referable to each of the Prescribed TUOS Services and Prescribed Common Transmission Services categories (see, for example, rule 9.8.4F(f)(1)), rule 9.8.4F(d) relevantly provides:
- 'A Regulated owner must, on allocating its aggregate annual revenue requirement amongst all of its assets utilised in the provision of shared network services, immediately notify VENCORP of the actual amount of the aggregate annual revenue requirement allocated in respect of each of its assets utilised in the provision of those services'.*
- 1.38 Rule 9.8.4F(d) is expressed in terms that reflect the allocation process under the Old NER (e.g. it requires SP AusNet (as the relevant Regulated Owner) to notify VENCORP of the AARR allocated to each of its assets in the Prescribed TUOS Services' and Prescribed Common Transmission Services' asset classes). Despite this, however, VENCORP understands rule 9.8.4F(d) to operate (under the transmission pricing regime established by the Current NER) to require SP AusNet to notify VENCORP of:
- 1.38.1 the ORC of each of SP AusNet's assets 'directly attributable' to each of the Prescribed TUOS Services and Prescribed Common Transmission Services categories of Prescribed Transmission Services;
- 1.38.2 SP AusNet's ASRRs for each of the Prescribed TUOS Services and Prescribed Common Transmission Services categories (**SP AusNet's ASRRs**); and

- 1.38.3 SP AusNet's operating and maintenance costs incurred in the provision of Prescribed Common Transmission Services to VENCORP, which were deducted from SP AusNet's Maximum Allowable Revenue in deriving its AARR in accordance with rule 6A.22.1 of the Current NER.
- 1.39 Rule 6A.29.3 of the Current NER also provides for the allocation of the AARRs of TNSPs across one or more inter-connected regions by agreement between those TNSPs. Rule 6A.29.3 relevantly provides:
- (a) The *Transmission Network Service Providers* responsible for the allocation of the *AARR* within a *region* may agree with one or more other such providers for *interconnected regions* to undertake the allocations of *AARR* as one allocation over all of those *regions*.
- (b) To make an allocation over several *regions*, the sum of the *AARR* of all *Transmission Network Service Providers* providing *prescribed transmission services* within those *regions* must be used.'
- 1.40 Where the TNSPs of one or more inter-connected region so agree, financial transfers between those TNSPs must occur in respect of the revenue collected by each from their transmission customers in respect of the Prescribed Transmission Services provided by the network of another of those TNSPs. These financial transfers occur under rule 6A.27.4(a) which relevantly provides:
- 'Each *Transmission Network Service Provider* must pay to each other relevant *Transmission Network Service Provider* the revenue which is estimated to be collected during the following year by the first provider as charges for *prescribed transmission services* for the use of *transmission systems* owned by those other *Transmission Network Service Providers*'.

VENCORP'S Application of the Interim Requirements

- 1.41 Under rule 9.8.4F(d) of the Current NER, SP AusNet will notify VENCORP of SP AusNet's ASRRs. That is, SP AusNet is responsible for determining its Attributable Cost Shares, and its ASRRs, for each category of Shared Network Services and providing SP AusNet's ASRRs to VENCORP.
- 1.42 SP AusNet's methodology for deriving the data used to determine the Attributable Cost Shares for each category of Prescribed Transmission Services is set out in section 3.5 of its Proposed Pricing Methodology dated 31 March 2007.
- 1.43 VENCORP will separately determine the Attributable Cost Shares of certain assets directly attributable to the provision of Shared Network Services that are operated and maintained by SP AusNet under network service agreements with VENCORP (**Additional Assets**), the costs of which are not included in the determination of SP AusNet's AARR. That is, VENCORP will:
- determine the ORC of each of these Additional Assets; and

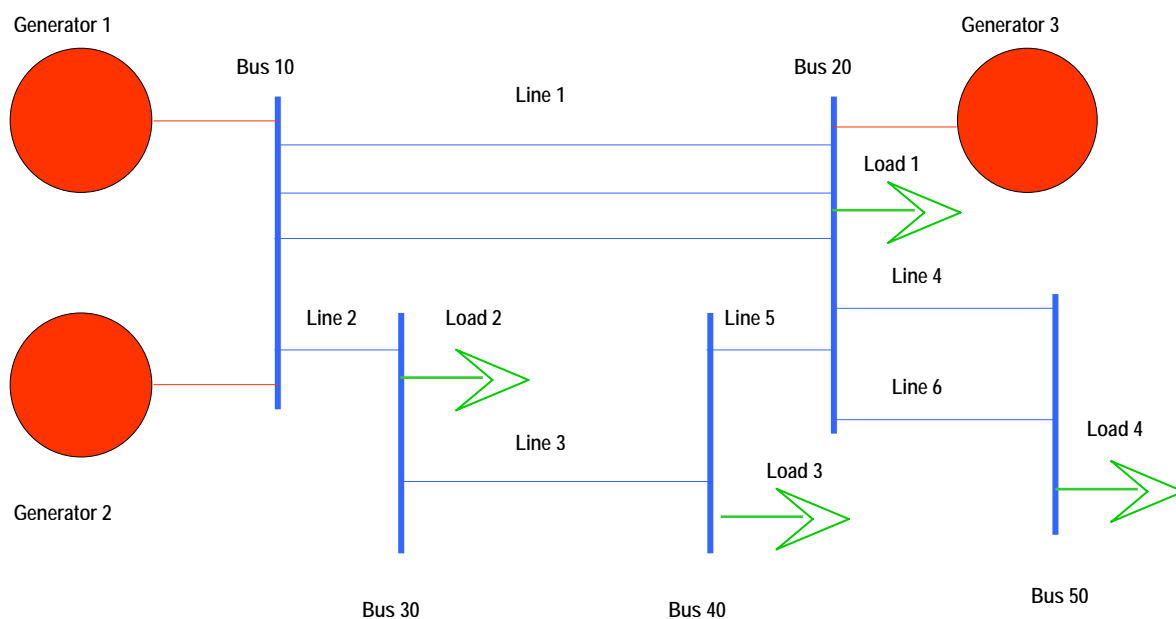
- allocate each of these Additional Assets to either the Prescribed TUOS Services or the Prescribed Common Transmission Services categories of Prescribed Transmission Services.
- 1.44 VENCORP will allocate each of the Additional Assets to either the Prescribed TUOS Services or the Prescribed Common Transmission Services categories in accordance with the provisions of schedule 6.2 of the Old NER, insofar as those provisions relate to the allocation of assets to the transmission use of system service and the common service classes of transmission services.
- 1.45 VENCORP will use the ORC of the Additional Assets and the allocation of the Additional Assets to the Prescribed TUOS Services and the Prescribed Common Transmission Services categories to determine VENCORP's own Attributable Cost Shares (**VENCORP's Attributable Cost Shares**). As a result, VENCORP does not currently anticipate that it will be necessary to apply the Priority Ordering Rules in relation to any of the Additional Assets in determining VENCORP's Attributable Cost Shares.
- 1.46 VENCORP will then use VENCORP's Attributable Cost Shares and its MAAR to calculate its ASRRs for the Prescribed TUOS Services and Prescribed Common Transmission Services categories (**VENCORP's ASRRs**).
- 1.47 Following this, in accordance with VENCORP's role as the Co-ordinating Network Service Provider for the Victorian region, VENCORP will determine the aggregate ASRR for each of the Prescribed TUOS Services and Prescribed Common Transmission Services categories for the Victorian region by summing:
- SP AusNet's ASRR for each of the Prescribed TUOS Services and Prescribed Common Services categories; and
 - VENCORP's ASRR for the Prescribed TUOS Services and Prescribed Common Transmission Services categories respectively.
- 1.48 Neither VENCORP nor SP AusNet are party to any agreement under rule 6A.29.3 of the Current NER in respect of the joint allocation of their AARRs and those of TNSPs in one or more interconnected regions. Accordingly, the only financial transfers occurring under rule 6A.27.4 of the Current NER are those occurring between TNSPs within the Victorian region, namely VENCORP and SP AusNet, in accordance with rule 6A.23.4 (as modified by rule 9.8.4F(e)(2)), which provides:
- 'The portion of the aggregate annual revenue requirement referable to shared network services is recoverable by a Regulated owner from VENCORP.'*
- 1.49 Under rule 3.6.5(a)(5)(ii) of the Current NER, charges are:
- payable by VENCORP, if the Victorian region is the importing region, that reflect the extent of use of a network located in the exporting region to transfer electricity from the exporting region to the Victorian region; and

- receivable by VENCORP, if the Victorian region is the exporting region, that reflect the extent of use of the Victorian region to transfer electricity from the Victorian region to the importing region.
- 1.50 The amount of these charges must be agreed by the jurisdictions in which the importing and exporting regions are located and must not exceed the Settlements Residue relating to the transferred electricity which is allocated to the importing region under rule 3.6.5(a)(5)(i) (see rule 3.6.5(a)(5)(iii) of the Current NER).
- 1.51 The Victorian and South Australian jurisdictions have in place an agreement under rule 3.6.5(a)(5)(iii) of the Current NER, under which VENCORP either pays a charge to, or receives a charge from, ElectraNet if the Victorian region is the importing region or exporting region respectively. VENCORP will take any amounts received or payable into account under this agreement in making the adjustment to the non-locational component of the ASRR for Prescribed TUOS Services in respect of 'any remaining *settlements residue* ... which is expected to be distributed or recovered (as the case may be) to or from the *Transmission Network Service Provider* in accordance with clause 3.6.5(a)' (see rule 6A.23.3(2)(ii) of the Current NER). (The adjustments to the non-locational component of the ASRR for Prescribed TUOS Services are discussed in greater detail in section 3 below.)
- 1.52 The Victorian and New South Wales jurisdictions do not currently have in place any agreement under rule 3.6.5(a)(5)(iii) of the Current NER. Accordingly, no payments are currently made or received by VENCORP under rule 3.6.5(a)(5)(ii) in respect of the interconnection of the Victorian and Snowy regions. If such an agreement were entered into during the period in which this Pricing Methodology is to apply, any resultant payments made or received by VENCORP would be treated in the same manner as those payments made or received by VENCORP in relation to the interconnection of the Victorian and South Australian regions.

Worked Example of VENCORP's Application of Interim Requirements

- 1.53 Assume that the Victorian Network is as depicted by Figure 1 below, which illustrates a small power system which has 3 generators and 4 load points.

Figure 1 - Sample Power System



- 1.54 For simplicity, assume also that the Victorian Network is not interconnected with the transmission network(s) of any other region.
- 1.55 Finally, assume that VENCORP's MAAR is \$27.57m.
- 1.56 SP AusNet notifies VENCORP of SP AusNet's ASRRs and its operating and maintenance costs incurred in the provision of Prescribed Common Transmission Services. Assume:
 - 1.56.1 SP AusNet's ASRR for Prescribed TUOS Services is \$20m; and
 - 1.56.2 SP AusNet's ASRR for Prescribed Common Transmission Services is \$5.18m.
- 1.57 In the sample power system depicted in Figure 1 above, the following network elements are Additional Assets - that is, they provide Shared Network Services that are operated and maintained by SP AusNet under network service agreements with VENCORP and the costs of which are not included in the determination of SP AusNet's AARR:
 - line 1, between Bus 10 and Bus 20;
 - line 3, between Bus 30 and Bus 40; and
 - line 5, between Bus 40 and Bus 20.
- 1.58 As the costs of these network elements are not reflected in SP AusNet's AARR or SP AusNet's ASRRs, VENCORP will separately:
 - 1.58.1 determine the ORC for each of these Additional Assets; and

1.58.2 allocate each of these Additional Assets to either the Prescribed TUOS Services or Prescribed Common Transmission Services categories of Prescribed Transmission Services (in accordance with the requirements of schedule 6.2 of the Old NER relating to the allocation of assets to the transmission use of system services and the common services classes of transmission services).

1.59 Assume:

Table 1 - ORC for Additional Assets

Additional Assets	Allocation to Category of Prescribed Transmission Services	ORC (\$m)
Line 1	Prescribed TUOS Services	121.5
Line 3	Prescribed TUOS Services	44.8
Line 5	Prescribed Common Transmission Services	76.5
Total ORC for Additional Assets	All	242.8
Total ORC for Additional Assets	Prescribed TUOS Services	166.3
Total ORC for Additional Assets	Prescribed Common Transmission Services	76.5

1.60 VENCORP then calculates its Attributable Cost Shares for the Prescribed TUOS Services and Prescribed Common Transmission Services as follows.

Table 2 - Attributable Cost Shares

Category of Prescribed Transmission Services	Total ORC (\$m) of Additional Assets	Attributable Cost Shares
Prescribed TUOS Services	166.3	0.68
Prescribed Common Transmission Services	76.5	0.32
Total	242.8	1.0

1.61 VENCORP then calculates its ASRRs for the Prescribed TUOS Services and Prescribed Common Transmission Services categories of Prescribed Transmission Services as follows:

$$ASRR_{tuos} = MAAR \times \text{Attributable Cost Share}_{tuos}$$

$$= \$27.57 \times 0.68$$

$$= \$18.745$$

$$ASRR_{pcts} = MAAR \times \text{Attributable Cost Share}_{pcts}$$

$$= \$27.57 \times 0.32$$

$$= \$8.82$$

1.62 VENCORP then sums SP AusNet's ASRRs for the Prescribed TUOS Services and Prescribed Common Transmission Services categories and its ASRRs for the respective categories as follows:

Table 3 – Total ASRRs for Victorian region

Category of Prescribed Transmission Services	SP Aust Net's ASRRs (\$m)	VENCORP's ASRRs (\$m)	Total ASRRs for Victorian region (\$m)
Prescribed TUOS Services	\$20	\$18.745	\$38.745
Prescribed Common Transmission Services	\$5.18	\$8.82	\$14

2 Allocation of the ASRR for Prescribed TUOS Services to Connection Points

Overview of the Interim Requirements

2.1 Rules 6A.23.3(c), (d) & (e) of the Current NER set out the following principles for the allocation of the ASRR for Prescribed TUOS Services to connection points:

- '(c) Subject to paragraph (e), the *ASRR for prescribed TUOS services* is to be allocated to transmission network connection points of Transmission Customers in the following manner:
 - (1) a share of the ASRR (the **locational component**) is to be adjusted by subtracting the estimated auction amounts expected to be distributed to the Transmission Network Service Provider under rule 3.18.4 from the connection points for each relevant directional interconnector and this adjusted share is to be allocated as between such connection points on the basis of the estimated proportionate use of the relevant transmission system assets by each of those customers, and the CRNP methodology and modified CRNP methodology represent two permitted means of estimating proportionate use;
 - (2) the remainder of the ASRR (the **pre-adjusted non-locational component**) is to be adjusted:
 - (i) by subtracting the amount (if any) referred to in paragraph (e);
 - (ii) by subtracting or adding any remaining settlements residue (not being settlements residue referred to in sub paragraph (1) but including the portion of settlements residue due to intraregional loss factors) which is expected to be distributed or recovered (as the case may be) to or from the Transmission Network Service Provider in accordance with rule 3.6.5(a);
 - (iii) for any over-recovery amount or under-recovery amount;
 - (iv) for any amount arising as a result of the application of rule 6A.23.4(h) and (i); and

(v) for any amount arising as a result of the application of prudent discounts in rule 6A.26.1(d)-(g),

(the **adjusted non-locational component**) and this adjusted non-locational component is to be recovered in accordance with rule 6A.23.4.

- (d) The shares of the *ASRR* referred to in paragraph (c) are to be either:
- (1) a 50% share allocated to the locational component referred to in subparagraph (c)(1) and a 50% share allocated to the pre-adjusted non-locational component referred to in subparagraph (c)(2); or
 - (2) an alternative allocation to each component, that is based on a reasonable estimate of future network utilisation and the likely need for future transmission investment, and that has the objective of providing more efficient locational signals to Market Participants, Intending Participants and end-users.
- (e) If the result of the adjustment referred to in paragraph (c)(1) would be a negative locational component for the connection points of the relevant directional interconnector then the locational component will be deemed to be zero and the absolute value of that negative amount is to be subtracted from the pre-adjusted non-locational component under paragraph (c)(2)(i)."

2.2 The principles for the allocation of the *ASRR* for Prescribed TUOS Services can be summarised into four steps, as follows:

- 2.2.1 Determine the locational component of the *ASRR* for Prescribed TUOS Services, either 50% of the *ASRR* for Prescribed TUOS Services or based on future network utilisation.
- 2.2.2 Adjust the locational component of the *ASRR* by auction amounts.
- 2.2.3 Allocate the adjusted locational component of the *ASRR* to connection points on the basis of the estimated proportionate use of the relevant transmission system assets by each of those customers - the CRNP methodology and modified CRNP methodology are two permitted means for performing this allocation.
- 2.2.4 Adjust the non-locational component of the *ASRR* for:
 - any remaining settlement residues;
 - the amount of any over- or under-recovery of the *AARR* in previous years;
 - the amount of any anticipated under-recovery in the relevant financial year by reason of application of the 2% cap on the annual change in prices for

the recovery of the locational component of the ASRR in accordance with rule 6A.23.4(f); and

- the amount of any anticipated under-recovery in the relevant financial year by reason of prudent discounts applied in accordance with rule 6A.26.1(d)-(g).

2.3 As discussed above, the AER's Agreed Interim Requirements require the proposed Pricing Methodology to be consistent with Part C of Chapter 6 of the Old NER.

2.4 Rule 6.4.3B of the Old NER governed the determination of the usage component of customer transmission use of system service costs (which usage component is analogous to the locational component of the ASRR for Prescribed TUOS Services under the Current NER) and its allocation to transmission customers' connection points. Rule 6.4.3B of the Old NER is substantively similar to the provisions of the Current NER governing the determination of the locational component of the ASRR for Prescribed TUOS Services and its allocation to connection points. One key difference, however, is that rule 6.4.3B of the Old NER requires that allocation of the usage component to transmission customers' connection points *must* be undertaken using either:

- (1) the *cost reflective network pricing* method set out in schedule 6.4, unless the AER has approved the use of a modified *cost reflective network pricing* method; or
- (2) a modified *cost reflective network pricing* method, based on the description of the modified *cost reflective network pricing* in schedule 6.4, provided that the AER has approved the use of a modified *cost reflective network pricing* method'.

2.5 By contrast, rule 6A.23.3(c)(1) provides only that CRNP and modified CRNP are 2 permitted methodologies for the allocation of the locational component of the ASRR for Prescribed TUOS Services to connection points. It does not require one or other of these methodologies to be used.

2.6 The effect of the AER's Agreed Interim Requirements is, as VENCORP understands it, to mandate the use (for allocation of the locational component of the ASRR for Prescribed TUOS Services to connection points) of either:

- the CRNP methodology set out in schedule 6.4 of the Old NER; or
- a modified CRNP methodology of the kind described in schedule 6.4 of the Old NER, if the AER approves that modified CRNP methodology in approving the Proposed Pricing Methodology.⁴

⁴ While schedule 6A.3 in the Current NER contains a description of the CRNP and modified CRNP methodologies, VENCORP has been guided by the description of the CRNP and modified CRNP methodologies in schedule 6.4 of the Old NER in preparing VEN_DOCS-213343-v2-Proposed_Pricing_Methodology.DOC

- 2.7 Rule 6.4.3C governed the determination of the costs to be recovered through customer TUOS general charges (which costs are analogous to the non-locational component of the ASRR for Prescribed TUOS Services determined in accordance with rule 6A.23.3(c)(2) of the Current NER).
- 2.8 The adjustments prescribed by rule 6.4.3C of the Old NER (to be made in determining the costs to be recovered through customer TUOS general charges) differ somewhat from the adjustments prescribed by rule 6A.23.3(c)(2) of the Current NER (to be made in determining the non-locational component of the ASRR for Prescribed TUOS Services). For example, rule 6.4.3C of the Old NER provided for an adjustment to be made in respect of:
- the estimated recovery, if any, from Negotiated Use of System Services Charges agreed with Market Network Service Providers (rule 6.4.3C(b)(2) of the Old NER); and
 - the amount, if any, which the TNSP is required to pay Generators or Market Network Service Providers connected to its transmission network, to reflect the transmission service cost savings resulting from the connection of the Generator or Market Network Service Provider (rule 6.4.3C(c)(3)).
- 2.9 VENCORP is of the view, however, that rule 6A.23.3(c)(2) is intended to exhaustively prescribe the adjustments to be made in determining the non-locational component of the ASRR for Prescribed TUOS Services. Accordingly, rule 6.4.3C of the Old NER is inconsistent with rule 6A.23.3(c)(2) to the extent that rule 6.4.3C specifies additional adjustments and rule 6A.23.3(c)(2) of the Current NER prevails to the extent of the inconsistency because:
- 2.9.1 VENCORP must comply with the Current NER, including those of its provisions governing transmission pricing and charges; and
- 2.9.2 the Agreed Interim Requirements, which purport to require that the Methodology be consistent with Part C of Chapter 6 of the Old NER, state that this requirement is subject to the overarching requirement that the proposed Pricing Methodology be consistent with the Pricing Principles for Prescribed Transmission Services set out in rule 6A.23 of the Current NER.

this proposed Pricing Methodology. This is because it is the CRNP and modified CRNP methodologies, as described in schedule 6.4 of the Old NER, with which VENCORP's allocation of the locational component of the ASRR for Prescribed TUOS Services is required by the AER's Agreed Interim Requirements to comply. The CRNP and modified CRNP methodologies described in schedule 6A.3 in the Current NER are 'permitted [but not required] means' of allocating the locational component to connection points under rule 6A.23.3(c)(2) of the Current NER. In any event, VENCORP understands that, in defining CRNP and modified CRNP in schedule 6A.3 of the Current NER, it was not the AEMC's intent to change the definition of CRNP and modified CRNP from that which was set out in schedule 6.4 of the Old NER. Rather, the description of CRNP and modified CRNP is intended to be more high-level than that in schedule 6.4 of the Old NER.

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- 2.10 In accordance with rule 9.8.4F(c)(3), VENCORP is responsible for allocating the ASRR for Prescribed TUOS Services and Prescribed Common Transmission Services and SP AusNet is responsible for allocating the ASRR for Prescribed Entry Services and Prescribed Exit Services.
- 2.11 VENCORP will use the CRNP methodology for determining the adjusted locational component of the ASRR for Prescribed TUOS Services and allocating it to connection points. In particular, VENCORP will use the software package TPRICE to estimate the proportionate use of the relevant transmission system assets by each transmission customer, and so allocate the adjusted locational component of the ASRR for Prescribed TUOS Services to connection points. TPRICE is the CRNP software given interim approval by NECA under rule 6.8.1 of the then National Electricity Code.
- 2.12 The adjusted locational component, determined using the CRNP method, is a 50% share of the ASRR for Prescribed TUOS Services. As discussed in paragraph 5 of schedule 6.4 of the Old NER:
- 'This method is used to determine the usage component of *transmission use of system service* costs for a *connection point* for each relevant *connection point* by implementing the *cost reflective network pricing* method described in paragraphs 2 to 5 of this schedule 6.4, **with the costs of the *transmission network* elements determined as 50% of the full cost which is allocated to each by the relevant calculations**'. [Emphasis added]
- 2.13 The AEMC recognised that the CRNP methodology provides for a 50-50 split of Prescribed TUOS Services into the locational and non-locational components:
- '... the AARR is currently allocated to Prescribed TUoS services partly to connection points on a locational basis using the CRNP or modified CRNP methodology, and partly recovered through a postage-stamped price. The split between the CRNP and postage-stamped components is currently 50/50, but this can vary under the modified CRNP.
-
- The Proposed Rule also provides for a default split of 50 percent between locational and postage-stamped portions of the ASRR, unless the TNSP can demonstrate that a methodology with an alternative split is warranted to provide amore efficient locational price signals.⁵
- 2.14 VENCORP will make the adjustments to the non-locational component of the ASRR for Prescribed TUOS Services set out in rule 6A.23.3(c)(2) of the Current NER. VENCORP observes

⁵ AEMC 2006 *Proposed National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006*, Rule Proposal Report, 24 August 2006, Sydney.

that, as one of these adjustments relates to the application of the cap on the annual percentage change in prices for the locational component of the ASRR for Prescribed TUOS Services under rules 6A.23.4(h) & (i), determination of the adjusted non-locational component will necessarily occur *after* the calculation of prices for recovery of the locational component.

- 2.15 In respect of the adjustment in relation to the application of prudent discounts, VENCORP notes that none of its customers currently receive prudent discounts. However, in the event that a customer does receive prudent discounts in the future, VENCORP will adjust, in accordance with rule 6A.26.1(d)-(g), the non-locational component of the ASRR for Prescribed TUOS Services for the amount of any anticipated under-recovery arising from prudent discounts applied.

Worked Example of VENCORP's Application of Interim Requirements

- 2.16 The allocation of the ASRR for Prescribed TUOS Services between the locational component and the non-locational component occurs in applying the CRNP methodology, using TPRICE. The CRNP methodology simultaneously allocates the locational component of the ASRR for Prescribed TUOS Services to transmission customers' connection points with the Victorian Network.
- 2.17 VENCORP notes at the outset that, while TPRICE utilises cost inputs and produces cost allocation outputs for the financial year in which the transmission prices being calculated are to apply (i.e. year t), the operating conditions utilised by TPRICE to produce its cost allocation outputs relate to the previous financial year (i.e. year $t-1$).
- 2.18 In order to allocate the ASRR for Prescribed TUOS Services between the locational and the non-locational components, and to allocate the locational component to customers' connection points, TPRICE requires the following input data:
- 2.18.1 a static model of the Victorian Network in year t ;
 - 2.18.2 an electrical loadflow model of the Victorian Network in year t ;
 - 2.18.3 a cost model detailing the ORC for each network element in the static model of the Victorian Network in year t ; and
 - 2.18.4 load and generation data for the 10 days in the period 1 November to 31 March (**Summer Period**) in which the system experiences the highest system demand and peak flows on all transmission network elements in the Victorian Network in year $t-1$ (consistent with the description of the CRNP methodology set out in Schedule 6.4 of the Old NER, in particular paragraph 4 of Schedule 6.4).
- 2.19 Assume the static model of the Victorian Network utilised by TPRICE is as set out in Figure 1 above. Assume also that the ORC for each of the Additional Assets in year t are as set out in Table 1 in the section 2 worked example (reproduced in Table 4 below) and that the ORC for the remaining assets in the Victorian network in year t , notified by SP AusNet to VENCORP in accordance with rule 9.8.4F(d) of the Current NER, are as set out in Table 4 below.

Table 4 – ORC of network elements in Victorian Network in year t

Assets	ORC (\$m)
Line 1	121.5
Line 2	58.5
Line 3	44.8
Line 4	100.0
Line 5	76.5
Line 6	173.6

2.20 TPRICE utilises the ORC for each of the assets attributable to the provision of Prescribed TUOS Services in allocating a locational component to each connection point. As discussed in Section 2, line 5 is attributable to the provision of Prescribed Common Transmission Services. Assume also that of SP AusNet's assets, line 2 is attributable to the provision of Prescribed Common Transmission Services. Accordingly, the ORC input data required by TPRICE would not include the ORC for lines 2 and 5.

2.21 An example of TPRICE's resultant data output for year t is set out in Table 5 below.

Table 5 – TPRICE Output Data in year t

Load	Bus Name	Cost (\$m)
1	Bus 20	6.720
2	Bus 30	1.138
3	Bus 40	1.823
4	Bus 50	9.692
Total		19.373

2.22 That is, TPRICE produces a locational cost allocation for each connection point in the Victorian Network in year t. The sum of all these locational cost allocations is the locational component of the ASRR for Prescribed TUOS Services, which is \$19.373m for year t.

2.23 Assuming that the ASRR for the Victorian region for Prescribed TUOS Services is as derived in the worked example in section 2 above, namely \$38.745m, the non-locational component of the ASRR for Prescribed TUOS Services is also \$19.373m (i.e. \$38.745m - \$19.373m). As is expected, the CRNP methodology allocates 50% of the ASRR for Prescribed TUOS Services to the locational component and 50% to the non-locational component.

2.24 The non-locational component is to be adjusted in accordance with rule 6A.23.3(c)(2). However, as one of the required adjustments relates to the application of the cap on the annual percentage change in prices for the locational component of the ASRR for Prescribed TUOS Services under rules 6A.23.4(h) & (i), determination of the adjusted non-locational component will necessarily occur *after* the calculation of prices for recovery of the locational component.

3 Development of Prices for Recovery of ASRR

Overview of the Interim Requirements

3.1 Rule 6A.23.4 of the Current NER sets out the following principles for the development of prices for recovery of the ASRR for Prescribed TUOS Services and Prescribed Common Transmission Services:

- '(a) A Transmission Network Service Provider is to develop separate prices for the recovery of the ASRR in accordance with the principles set out in paragraphs (b)-(i).
- (b) Separate prices are to be developed for each category of prescribed transmission services, being:
 - (1) prescribed entry services;
 - (2) prescribed exit services;
 - (3) prescribed common transmission services;
 - (4) prescribed TUOS services – locational component; and
 - (5) prescribed TUOS services – the adjusted non-locational component.
- ...
- (d) Prices for prescribed common transmission services must be on a postage stamp basis.
- (e) Prices for recovering the locational component of providing prescribed TUOS services must be based on demand at times of greatest utilisation of the transmission network and for which network investment is most likely to be contemplated.
- (f) Subject to paragraphs (g), (h), and (i), prices for recovering the locational component of the ASRR for the provision of prescribed TUOS services must not change by more than 2 per cent per annum compared with the load weighted average price for this component for the relevant region.
- (g) The change in price referred to in paragraph (f) may exceed 2 per cent per annum if, since the last time prices were set:
 - (1) the load at the connection point has materially changed;

- (2) in connection with that change, the Transmission Customer requested a renegotiation of its connection agreement with the Transmission Network Service Provider; and
 - (3) the AER has approved the change of more than 2 per cent per annum.
- (h) If, in the case of an increase in price, the application of paragraph (f) would result in the under-recovery of part of the locational component of the ASRR in charges for prescribed TUOS services, any shortfall may be recovered by adjusting upward the charges that would otherwise apply in respect of the adjusted non-locational component of prescribed TUOS services.
 - (i) If, in the case of a decrease in price, the application of paragraph (f) would result in over-recovery of the locational component of the ASRR through charges for prescribed TUOS services, any over-recovery must be offset by adjusting downward the charges that would otherwise apply in respect of the adjusted non-locational component of prescribed TUOS services.
 - (j) Prices for recovering the adjusted non-locational component of prescribed TUOS services must be on a postage-stamp basis.'

3.2 The rule 6A.23.4 pricing principles for the development of prices for the Prescribed TUOS Services and the Prescribed Common Transmission Services can be summarised as follows:

- 3.2.1 Prices for Prescribed Common Transmission Services and the adjusted non-locational component of the ASRR for Prescribed TUOS Services must be developed on a postage stamp basis.
- 3.2.2 Prices for Prescribed Common Transmission Services must recover both the ASRR for Prescribed Common Transmission Services and the operating and maintenance costs incurred in the provision of those Services.
- 3.2.3 Prices for the locational component of Prescribed TUOS Services must:
 - be based on demand 'at times of greatest utilisation of the transmission network and for which network investment is most likely to be contemplated'; and
 - must not change by more than 2% per annum compared with the load weighted average price for this component for the relevant region, here the Victorian region.

3.3 In addition, as discussed above, the AER's Agreed Interim Requirements require the Proposed Pricing Methodology to be consistent with Part C of Chapter 6 of the Old NER. Rule 6.5 of the Old NER governed:

- customer TUOS usage prices, which are analogous to prices for the locational component of the ASRR for Prescribed TUOS Services under the Current NER;
- customer TUOS general prices, which are analogous to prices for the non-locational component of the ASRR for Prescribed TUOS Services under the Current NER; and
- transmission customer common services prices, which are analogous to prices for Prescribed Common Transmission Services under the Current NER.

3.4 The effect of the AER's Agreed Interim Requirements is to require prices under the Current NER to be developed in compliance with the requirements for the analogous prices under the Old NER. However, to the extent of any inconsistency between the requirements of rule 6A.23.4 of the Current NER set out above and the requirements of rule 6.5 of the Old NER the former prevails because:

3.4.1 VENCORP must comply with the Current NER, including those of its provisions governing transmission pricing and charges - the AER was not empowered to derogate from the Current NER in making the Agreed Interim Requirements; and

3.4.2 the Agreed Interim Requirements, which purport to require that the Methodology be consistent with Part C of Chapter 6 of the Old NER, state that this requirement is subject to the overarching requirement that the Proposed Pricing Methodology be consistent with the Pricing Principles set out in rule 6A.23 of the Current NER.

3.5 Accordingly, the following requirements set out in rule 6.5.4 of the Old NER apply to pricing for the locational component of the ASRR for Prescribed TUOS Services:

- the pricing must apply to connection points with transmission customers (other than Market Network Service Providers) and must:
 - reflect the conditions in the transmission network which influence network investment; and
 - be determined having regard to the objective to recover the non-locational component of the ASRR for Prescribed TUOS Services assuming that the level and pattern of use of the transmission network by each transmission customer is the same as in the 'survey period' (as defined in the Old NER) (rule 6.5.4(b) of the Old NER);
- be applied to actual use of the transmission system as measured by a meter or to a level of use which is agreed by the relevant TNSP and the relevant transmission customer (rule 6.5.4(d) of the Old NER).

3.6 While rule 6.5.4(c) of the Old NER contemplates that the pricing structure for customer TUOS usage prices may include combinations of one or more of demand based prices, energy based prices and fixed charges, rule 6A.23.4(e) of the Current NER:

- requires that pricing for the locational component of the ASRR for Prescribed TUOS Services be demand based; and
 - prevails over rule 6.5.4(c) of the Old NER.
- 3.7 Rule 6.5.4A of the Old NER prescribes a methodology for determining customer TUOS general prices (analogous to prices for the adjusted non-locational component of the ASRR for Prescribed TUOS Services). The resultant prices are on a postage-stamp basis.
- 3.8 Accordingly, there is no inconsistency between the provisions of the New NER and the Old NER insofar as they apply to prices for the adjusted non-locational component of the ASRR for Prescribed TUOS Services. The effect of the Agreed Interim Requirements is to require VENCORP to develop prices for the adjusted non-locational component of the ASRR for Prescribed TUOS Service in accordance with the methodology for determining customer TUOS general prices set out in rule 6.5.4A of the Old NER.
- 3.9 Therefore:
- 3.9.1 Two prices must be derived for the recovery of the adjusted non-locational component of the ASRR for Prescribed TUOS Services, namely:
- a price based on energy (\$/MWh) (**Energy Price**); and
 - a price based on capacity (\$/MW) (**Capacity Price**).
- 3.9.2 Either the Energy Price or the Capacity Price will apply to each connection point with a transmission customer.
- 3.9.3 The Energy Price is a price per unit of:
- historical metered energy offtake at a connection point in the financial year 2 years prior to that in which the Energy Price applies; or
 - if historical metered energy offtake is not available, actual metered energy offtake at the connection point in the financial year in which the Energy Price applies.
- 3.9.4 The Capacity Price is a price per unit of Contract Maximum Demand (**CMD**) for a connection point in the financial year in which the Capacity Price applies.
- 3.9.5 The value of the Energy and Capacity Prices must be determined so as to ensure that a Transmission Customer with a load factor in relation to its connection point which is equal to the median load factor across all connection points (**Median Load Factor Customer**) is indifferent between the use of the Energy Price and the Capacity Price to determine its charges in respect of the adjusted non-locational component.
- 3.9.6 The Capacity Price may only apply in relation to a connection point if the relevant transmission customer's connection or use of system agreement specifies:

- a CMD for the connection point; and
 - substantial penalties for exceeding the nominated CMD.
- 3.9.7 Subject to this requirement, the price that applies in relation to a connection point is the price that results in the lower estimated recovery from the charges for the adjusted non-locational component for that connection point.
- 3.9.8 Where the Energy Price is applicable, charges for a billing period must be calculated by multiplying the Energy Price by the Metered Energy offtake in either:
- the analogous billing period in the financial year 2 years prior to the financial year in which the Energy Price applies; or
 - if total metered energy offtake for the financial year 2 years prior to the financial year in which the Energy Price applies is not available, the actual billing period.
- 3.9.9 Where the Capacity Price is applicable, charges for a billing period must be calculated by multiplying the Capacity Price by the CMD for the connection point in that financial year and dividing this amount by the number of billing periods in the financial year in which the Capacity Price applies.
- 3.10 Rule 6.5.6 of the Old NER prescribes a substantively similar methodology for determining common services prices (analogous to prices for the recovery of the ASRR for Prescribed Common Transmission Services and the operating and maintenance costs incurred in the provision of those Services). The resultant prices are on a postage-stamp basis.
- 3.11 Once again, there is no inconsistency between the provisions of the Current NER and the Old NER insofar as they apply to prices for Prescribed Common Transmission Services. The effect of the Agreed Interim Requirements is to require VENCORP to develop prices for Prescribed Common Transmission Services in accordance with the methodology for determining common services prices set out in rule 6.5.6 of the Old NER.
- 3.12 That is, VENCORP must calculate and apply two prices, an Energy Price and a Capacity Price, in accordance with the methodology set out in paragraph 3.9 above, for the recovery of:
- 3.12.1 the ASRR for Prescribed Common Transmission Services; and
 - 3.12.2 the operating and maintenance costs incurred in the provision of those Services.

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- 3.13 The price for the locational component of Prescribed TUOS Services (previously described as the TUOS usage price) for a connection point are calculated using the agreed or forecast average of the maximum demands for the connection point on each of the 10 days on which the peak maximum demands in the Summer Period were experienced at that connection point

(Summer Average Maximum Demands). These Summer Average Maximum Demands are determined in consultation with each customer.

- 3.14 Customers will initially be billed for the locational component based on the *forecast* Summer Average Maximum Demands for the financial year for their respective connection points for the first 9 months of that financial year (i.e. for the months of July to March inclusive). Once the *actual* Summer Average Maximum Demands for the financial year are available, following the end of the Summer Period, a billing adjustment is made to the charges for the locational component for the period April to June inclusive to reflect the variance between actual and forecast Summer Average Maximum Demands. As a result, the charges for the locational component ultimately paid by the customer for the financial year to the end of March are based on the *actual* Summer Average Maximum Demands. The charges for the locational component billed in each of the remaining three months of the financial year (i.e. for the months April to June inclusive) are based on the *actual* Summer Average Maximum Demands.
- 3.15 Prices for the non-locational component of Prescribed TUOS Services will be developed by VENCORP as follows:
- 3.15.1 Consistent with the method of recovery under the Chapter 6 of the Old rules, VENCORP will calculate two non-locational component prices, one based on contract demand and the other based on historical energy usage.
 - 3.15.2 These two prices will be calculated in such a way that the Median Load Factor Customer would be indifferent to which of the two prices applies. The non-locational component prices will be the same for each exit point on VENCORP's transmission network.
 - 3.15.3 Customers will be charged at each exit point or group of exit points on the basis of the price that results in the lower estimated recovery from charges for the non-locational component at that point. However, the contract demand based price will only be available to the handful of customers that are then party to a use of system agreement with VENCORP which specifies a maximum contract demand.
 - 3.15.4 Where charges for the non-locational component are to be calculated using the capacity price, the charges will be determined by multiplying the capacity price by the CMD determined in accordance with the customer's connection agreement and multiplying this amount by the number of days in the billing period.
 - 3.15.5 Where the charges are billed on the basis of energy, the monthly charge will be determined by multiplying the energy price by the total energy consumption at that exit point in the equivalent billing period in the financial year in which the non-locational component charge is to apply.
 - 3.15.6 Where energy consumption history is unavailable for an exit point for the entire financial year which came to an end twelve months prior to the commencement of the financial year in which the non-locational component charge is to apply, energy

consumption within the current billing period will be used. VENCORP will advise customers when current data rather than historical data is to be used.

- 3.16 VENCORP will develop prices for Prescribed Common Transmission Services in a substantively similar method to that used to develop prices for the non-locational component of the ASRR for Prescribed TUOS Services. In accordance with rule 6A.23.3(f) of the Current NER, these prices will recover:
- 3.16.1 the aggregate ASRR for Prescribed Common Transmission Services for the Victorian region determined by VENCORP as the Co-ordinating Network Service Provider for the region;
 - 3.16.2 SP AusNet's operating and maintenance costs incurred in the provision of Prescribed Common Transmission Services to VENCORP, which were deducted by SP AusNet from its Maximum Allowable Revenue in deriving its AARR in accordance with rule 6A.22.1 of the Current NER and were notified to VENCORP in accordance with rule 9.8.4F(d) of the Current NER (as discussed in section 2 above); and
 - 3.16.3 VENCORP's additional operating and maintenance costs incurred in the provision of those Prescribed Common Transmission Services to transmission customers (if any), which were deducted by VENCORP from its MAAR analogous to the Maximum Allowable Revenue of other TNSPs in deriving its MAAR analogous to the AARR of other TNSPs.⁶
- 3.17 Consistent with rule 6.5.6 of the Old NER, VENCORP will levy two Common Transmission Service prices, one for energy and one for capacity. These two prices will be calculated in the same way as prices for the non-locational component of the ASRR for Prescribed TUOS Services.

Worked Example of VENCORP's Application of Interim Requirements

- 3.18 The worked example in section 2 derived the following ASRRs for the Victorian region:
- 3.18.1 an ASRR for Prescribed TUOS Services of \$38.745m; and
 - 3.18.2 an ASRR for Prescribed Common Transmission Services of \$14m.
- 3.19 The worked example in section 3 derived:
- 3.19.1 the following allocation of the ASRR for Prescribed TUOS Services between the locational component and the non-locational component:
 - a locational component of the ASRR for Prescribed TUOS Services in the amount of \$19.3725m; and

⁶ The Victorian transmission pricing derogation requires that, in relation to Prescribed Transmission Services provided by VENCORP, both the term Maximum Allowable Revenue and the term AARR are to be read as a reference to the MAAR (see rules 9.8.4B(a)(2)(ii) & 9.8.4F(c)(2)(i)(C) of the Current NER).

- a non-locational component of the ASRR for Prescribed TUOS Services in the amount of \$19.3725m; and

3.19.2 the following allocation of the locational component of the ASRR for Prescribed TUOS Services to each of the connection points in the Victorian Network depicted in Figure 1 above:

Table 6 – TPRICE Output Data in year t

Load	Bus Name	Cost (\$m)
1	Bus 20	6.720
2	Bus 30	1.138
3	Bus 40	1.823
4	Bus 50	9.692
Total		19.373

3.20 Set out below is a worked example of how this data for year t, derived in the worked examples in section 2 and 3, would be used by VENCORP to develop prices in year t for:

- 3.20.1 recovery of the locational component of providing Prescribed TUOS Services;
- 3.20.2 Prescribed Common Transmission Services; and
- 3.20.3 recovery of the adjusted non-locational component of providing Prescribed TUOS Services.

Prices for Locational Component of providing Prescribed TUOS Services

3.21 The following data is required for calculation of prices for recovery of the locational component of the ASRR for Prescribed TUOS Services in year t:

- 3.21.1 the locational cost allocation for each connection point with a transmission customer in the Victorian Network for year t generated by TPRICE, reproduced in Table 7 below; and
- 3.21.2 the forecast Summer Average Maximum Demands for each of those connection points in year t-2 set out in Table 7 below.

Table 7 – Allocated Locational Cost and Summer Average Maximum Demand

Load	Bus Name	Allocated Cost (\$M) in year t	Summer Average Maximum Demand (MW) in year t-2
1	Bus 20	6.720	686.27
2	Bus 30	1.138	245.10
3	Bus 40	1.823	245.10
4	Bus 50	9.692	294.12

3.22 As the Summer Average Maximum Demands set out in Table 7 above are the *actual* Summer Average Maximum Demands in year t-2, it is necessary to forecast Summer Average Maximum Demand for each connection point for year t prior to calculating prices for recovery of the locational component for year t. VENCORP does this using a global load growth factor for the years t-1 and t, which it forecasts based on its forecasts of demand in year t-1 and year t for the Victorian Network and which may, accordingly, vary from year to year.

3.23 Assume for year t-1 that the global load growth factor forecast by VENCORP is 2% and for year t the forecast global load growth factor is 3%. VENCORP would apply:

- the global growth factor for year t-1 of 2% to the Summer Average Maximum Demands for year t-2 set out in Table 7 above to derive forecasts of Summer Average Maximum Demand for each connection point for year t-1; and
- the global growth factor for year t of 3% to these forecast Summer Average Maximum Demands for year t-1 to derive forecasts of Summer Average Maximum Demand for each connection point for year t.

3.24 The resultant forecasts of Summer Average Maximum Demand for year t are set out in Table 8 below.

Table 8 - Allocated Locational Cost and Forecast Summer Average Maximum Demand

Load	Bus Name	Allocated Cost (\$M) in year t	Forecast Summer Average Maximum Demand (MW) in year t
1	Bus 20	6.720	721.0
2	Bus 30	1.138	257.5
3	Bus 40	1.823	257.5
4	Bus 50	9.692	309.0

3.25 The uncapped price for each connection point for recovery of the locational component can now be calculated. This is done by dividing the allocated locational component in year t for each connection point by the forecast summer demand in year t for that connection point. For example, the uncapped price for load 1 in year t (\$/MW) is calculated as follows:

$$UCL_{i,t} = AL_{i,t} \div AD_{i,t}$$

where:

$UCL_{i,t}$ = uncapped price for locational component for Load i in year t

$AL_{i,t}$ = allocated locational component for Load i in year t

$AD_{i,t}$ = forecast average demand for Load i in year t

$$UCL_{1,t} = 6,720,000 \div 721$$

$$= 9,320.$$

3.26 The resultant uncapped prices in year t for recovery of the locational component of the ASRR for Prescribed TUOS Services are set out in Table 9 below.

Table 9 – Uncapped prices for locational component in year t

Load	Bus Name	Allocated Cost (\$M) in year t	Forecast Summer Average Maximum Demand (MW) in year t	Uncapped Price (\$/MW) in year t
1	Bus 20	6.720	721.0	9,320
2	Bus 30	1.138	257.5	4,420
3	Bus 40	1.823	257.5	7,079
4	Bus 50	9.692	309.0	31,365

3.27 Finally, it is necessary to apply the cap on annual changes in prices for the locational component established by rule 6A.23.4(f) of the Current NER (**Cap**) to determine capped prices for the locational component. The Cap requires that the load-weighted average price for the locational component in year t does not represent an increase of more than 2% on the load-weighted average price for the locational component in year t-1.

Prices for Prescribed Common Transmission Services

3.28 Prices for Prescribed Common Transmission Services recover both the ASRR for Prescribed Common Transmission Services and the operating and maintenance costs incurred in the provision of those Services (see rule 6A.23.3(f) of the Current NER). Accordingly, the first step in calculating prices for Prescribed Common Transmission Services is to calculate the costs to be recovered. That is, it is necessary to sum:

- 3.28.1 the ASRR for the Victorian region for Prescribed Common Transmission Services;
- 3.28.2 SP AusNet's operating and maintenance costs incurred in the provision of Prescribed Common Transmission Services (notified to VENCORP in accordance with rule 9.8.4F(d) of the Current NER); and
- 3.28.3 VENCORP's operating and maintenance costs incurred in the provision of Prescribed Common Transmission Services.

3.29 As noted at the outset, in the worked example in section 2, VENCORP derived an ASRR for Prescribed Common Transmission Services of \$14m. Assume that SP AusNet notified VENCORP that its operating and maintenance costs incurred in the provision of Prescribed Common Transmission Services are in the amount of \$600,000, while VENCORP's analogous costs are in the amount of \$400,000. The total costs to be recovered for Prescribed Common Transmission Services is \$15m.

3.30 In order to calculate the two prices for Prescribed Common Transmission Services in year t, namely the Energy Price and the Capacity Price, the CMD and annual energy consumption data for each transmission customer's connection point set out in Table 10 below is required.

Table 10 - Individual Connection Point CMD and Annual Energy Consumption

Load	Bus Name	Contract Maximum Demand (MW) in year t	Annual Energy (GWh) in year t-2
1	Bus 20	730.0	3250.0
2	Bus 30	265.0	1100.0
3	Bus 40	260.0	1090.0
4	Bus 50	315.0	1400.0
Total			6840.0

3.31 For the purpose of calculating the Energy Price and the Capacity Price for Prescribed Common Transmission Services, it is necessary to identify the Median Load Factor Customer and its CMD. Assume the Median Load Factor Customer is Load 3, with a CMD of 260 in year t. Assume also that the energy factor for this Median Load Factor Customer (i.e. the annual energy consumption of the Median Load Factor Customer in year t-2 divided by the sum of all customers' annual energy consumption for that year) is 15.9%.⁷

3.32 The Energy Price and the Capacity Price for recovery of the costs of providing Prescribed Common Transmission Services are then calculated by solving the following simultaneous equations:

$$(AB_{t-2} \times CSe_t) + (CCMD_t \times CSC_t) = CSC_t \quad (1)$$

and

$$(ME_{t-2} \times CSe_t) = (MCMD_t \times CSC_t) \quad (2)$$

where:

AB_{t-2} = total annual billable energy (MWh) in year t-2 for all connection points at which the Energy Price for Prescribed Common Transmission Services applies in year t

CSe_t = Prescribed Common Transmission Services energy price in year t

$CCMD_t$ = sum of CMDs for all connection points at which the Capacity Price for Prescribed Common Transmission Services applies in year t

CSC_t = Prescribed Common Transmission Services capacity price in year t

CSC_t = total costs of providing Prescribed Common Transmission Services in year t

⁷ In the 'real world', in which there are a far greater number of connection points than the 4 depicted in the simplified model of the power system illustrated in Figure 1 and assumed for the purposes of this worked example, the energy factor for the Median Load Factor Customer would be significantly smaller, e.g. 2.5%.

ME_{t-2} = Median Load Factor Customer's annual energy consumption in year t-2

$MCMD_t$ = Median Load Factor Customer's contract maximum demand in year t

3.33 Using the known values of CSC_t , ME_{t-2} and $MCMD_t$, the equations set out in paragraph 4.32 above are solved simultaneously and iteratively to determine:

- the Energy Price, i.e. CSe_t ;
- the Capacity Price, i.e. CSc_t ;
- the sum of the CMDs for all connection points at which the Capacity Price applies in year t, i.e. $CCMD_t$; and
- the total annual billable energy (MWh) in year t-2 for all connection points at which the Energy Price for Prescribed Common Transmission Services applies in year t, i.e. AB_{t-2}

Prices for Adjusted Non-locational Component of providing Prescribed TUOS Services

3.34 As set out above, the non-locational component for provision of Prescribed TUOS Services is \$19.373m. Following the calculation of prices for recovery of the locational component of the ASRR for Prescribed TUOS Services, it is necessary to determine the adjusted non-locational component. In this worked example, VENCORP must adjust the non-locational component for:

- 3.34.1 the amount of any over- or under-recovery of the ASRRs for the Victorian region for Prescribed TUOS Services and Prescribed Common Transmission Services in previous years;⁸
- 3.34.2 the amount of any anticipated under-recovery by reason of the cap on the annual change in prices for the recovery of the locational component.

3.35 In this example, no adjustments are required for any remaining settlement residues because the assumed simplified Victorian Network set out in Figure 1 above is not interconnected with the transmission network in any other region (see paragraph 2.33 above). No adjustments are made for any anticipated under-recovery arising from prudent discounts because VENCORP does not have any current, or currently anticipated, prudent discounts.

⁸ To date, SP AusNet has not under- or over-recovered its ASRR for Prescribed Exit Services or its ASRR for Prescribed Exit Services. If it was to do so, however, the amount of this under- or over-recovery would have to be notified by SP AusNet to VENCORP in accordance with rule 9.8.4F(d) of the Current NER and VENCORP would have to adjust the non-locational component for this amount also in deriving the adjusted non-locational component.

- 3.36 Assume that the resultant adjusted non-locational component of the ASRR for Prescribed TUOS Services is \$15.373m.
- 3.37 For the purpose of calculating the Energy Price and the Capacity Price for the recovery of this adjusted non-locational component in year t, it is necessary to identify the Median Load Factor Customer and its CMD. As discussed in paragraph 4.31 above, the Median Load Factor Customer is Load 3, with a CMD of 260 in year t. Again, assume that the energy factor for this Median Load Factor Customer is 15.9% in year t.
- 3.38 The Energy Price and the Capacity Price for the recovery of the adjusted non-locational component of the ASRR for Prescribed TUOS Services are then calculated by solving the following simultaneous equations:

$$(AB_{t-2} \times NLe_t) + (CCMD_t \times NLC_t) = NLC_t \quad (1)$$

and

$$(ME_{t-2} \times NLe_t) = (MCMD_t \times NLC_t) \quad (2)$$

where:

AB_{t-2} = total annual billable energy (MWh) in year t-2 for all connection points at which the Energy Price for recovery of the adjusted non-locational component applies in year t

CSc_t = Prescribed Common Transmission Services capacity price in year t

NLe_t = adjusted non-locational component energy price in year t

$CCMD_t$ = sum of CMDs for all connection points at which the Capacity Price for recovery of the adjusted non-locational component applies in year t

NLC_t = adjusted non-locational component capacity price in year t

NLC_t = adjusted non-locational component in year t

ME_{t-2} = Median Load Factor Customer's annual energy consumption in year t-2

$MCMD_t$ = Median Load Factor Customer's contract maximum demand in year t

- 3.39 Once again, using the known values of NLC_t , ME_{t-2} and $MCMD_t$, the equations set out in paragraph 4.38 above are solved simultaneously and iteratively to determine:

- the Energy Price, i.e. NLe_t ;
- the Capacity Price, i.e. NLC_t ;
- the sum of the CMDs for all connection points at which the Capacity Price for recovery of the adjusted non-locational component applies in year t, i.e. $CCMD_t$; and
- the total annual billable energy (MWh) in year t-2 for all connection points at which the Energy Price for recovery of the adjusted non-locational component applies in year t, i.e. AB_{t-2} .

4 Equalisation Adjustment

Overview of the Interim Requirements

4.1 As recognised by the Agreed Interim Requirements (at paragraph 2.1(a)(1)), VENCORP's Shared Transmission Network Use Charges must be consistent with rule 9.8.4F of the Current NER. For this reason, the Agreed Interim Requirements provide that VENCORP's 2008 Pricing Methodology must, to the extent practicable, be consistent with rule 9.8.4F.

4.2 Rule 9.8.4F(h) of the Current NER relevantly provides that:

'VENCORP must, in allocating the portion of its shared transmission network use charges that is to be recovered from each Distributor to which it provides prescribed TUOS services and prescribed transmission common services in each financial year of a relevant regulatory period, adjust that portion in accordance with rule 9.8.4(a)(3).'

4.3 Rule 9.8.4(a)(3), in turn, provides that:

'each Distributor has the benefit or burden of an equalisation adjustment for each financial year equal to the amount of the adjustment specified for that Distributor in the column headed "Equalisation Adjustment" in the following table

TABLE	
Business	Equalisation Adjustment (\$'000) Note 2)
TXU Electricity Ltd	(4,939)
Powercor Australia Ltd	(19,011)
AGL Electricity Limited	5,171
CitiPower Pty Ltd	5,920
United Energy Ltd	12,859

multiplied by the relevant factor determined in accordance with the following table:

TABLE	
If the <i>financial year</i> falls within the period:	then the relevant factor is:
1 July 2001 – 30 June 2005	.80
1 July 2005 – 30 June 2010	.60
1 July 2010 – 30 June 2015	.40
1 July 2015 – 30 June 2020	.20
thereafter	0

VENCorp's Application of the Interim Requirements

- 4.4 In accordance with the requirements of rules 9.8.4F(h) and 9.8.4(a)(3) of the Current NER, VENCORP will apply a one-twelfth share of each distributor's equalisation adjustment for the relevant financial year to that distributor's aggregate monthly Shared Transmission Network Use Charges. Accordingly, the equalisation adjustment will in no way affect VENCORP's determination of the prescribed transmission service and prescribed common service prices and charges for the use of the Shared Transmission Network.
- 4.5 More specifically, VENCORP will calculate the equalisation adjustment for each distributor for the relevant financial year by multiplying:
- the equalisation adjustment for that distributor set out in the first table appearing in rule 9.8.4(a)(3) of the Current NER; by
 - the relevant factor for the relevant financial year set out in the second table appearing in rule 9.8.4(a)(3).
- 4.6 Once VENCORP has calculated the equalisation adjustment for a distributor for the relevant financial year, it will divide the amount of that equalisation adjustment by twelve to determine the amount of the monthly equalisation adjustment for that distributor in that financial year. It will then gross up or reduce (as the case may be) the amount of the distributor's aggregate prescribed transmission service and prescribed common service charges for each month in the relevant financial year by the distributor's monthly equalisation adjustment in that year.

Worked Example of VENCORP'S Application of Interim Requirements

- 4.7 In the financial year 2008/09, the relevant factor set out in the second table appearing in rule 9.8.4(a)(3) of the Current NER is 0.6. Accordingly, to determine the equalisation adjustment for each distributor for the 2008/09 financial year, VENCORP will multiply the equalisation adjustment amount set out in the first table appearing in rule 9.8.4(a)(3) for that distributor by the figure of 0.6. For example, for TXU Electricity Ltd, the equalisation adjustment for financial year 2008/09 is calculated as follows: $(\$4,939,000) \times 0.6 = (\$2,963,400)$.
- 4.8 The resultant equalisation adjustments for each distributor for the 2008/09 financial year are set out in Table 11 below.

Table 11 – Equalisation adjustments for 2008/09

Distribution Business	Equalisation Adjustment (\$ per annum)		
	Exclusive of GST	GST	Total
TXU (SPI Networks)	-\$2,963,400	-\$296,340	-\$3,259,740
Powercor Australia	-\$11,406,600	-\$1,140,660	-\$12,547,260
AGL Electricity	\$3,102,600	\$310,260	\$3,412,860
CitiPower	\$3,552,000	\$355,200	\$3,907,200
United Energy	\$7,715,400	\$771,540	\$8,486,940

- 4.9 The equalisation adjustments set out in Table 11 above are then divided by 12 to determine the monthly equalisation adjustment for 2008/09 for each distributor. For example, for TXU Electricity Ltd, the monthly equalisation adjustment for the 2008/09 financial year is calculated as follows: $(\$2,963,400) / 12 = (\$246,950)$.
- 4.10 Each distributor's aggregate prescribed transmission service and prescribed common service charges in each month of the 2008/09 financial year will then be grossed up or reduced by that distributor's monthly equalisation adjustment for that financial year. For example, TXU Electricity Ltd's monthly aggregate prescribed transmission service and prescribed common service charges in each month of the 2008/09 financial year will be reduced by \$246,950.