



## **Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006**

under the National Electricity Law as applied by:

- (a) the National Electricity (South Australia) Act 1996;
- (b) the Electricity (National Scheme) Act 1997 of the Australian Capital Territory;
- (c) the National Electricity (New South Wales) Act 1997 of New South Wales;
- (d) the Electricity - National Scheme (Queensland) Act 1997 of Queensland;
- (e) the Electricity - National Scheme (Tasmania) Act 1999 of Tasmania;
- (f) the National Electricity (Victoria) Act 2005 of Victoria; and
- (g) the Australian Energy Market Act 2004 of the Commonwealth.

The Australian Energy Market Commission makes the following Rule under the National Electricity Law.

John Tamblyn

Chairman

Australian Energy Market Commission

**Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006**

**1. Title of Rule**

This Rule is the *Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006*.

**2. Commencement**

This Rule commences operation on [date to be inserted].

**3. Interpretation**

Notes do not form part of this Rule.

**4. Amendment of National Electricity Rules**

The National Electricity Rules are amended as set out in Schedule 1.

## Schedule 1

## Amendment of National Electricity Rules

(Clause 4)

*[Drafting Note: The amendments set out below under item 1 of Schedule 1 have been drafted on the basis of the draft version of the National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006, as this Amending Rule had not been finally made at the date of release of this Draft Rule.]*

### [1] New Part J of Chapter 6A

After Part I of Chapter 6A, insert:

## Part J – Prescribed Transmission Services - Regulation of Pricing

### 6A.22 Introduction

#### 6A.22.1 Outline of Part J

- (a) This Part J regulates the prices that may be charged by *Transmission Network Service Providers* for the provision of *prescribed transmission services*.
- (b) Rule 6A.23 sets out general rules for *pricing methodologies*.
- (c) Rule 6A.24 sets out the *Pricing Principles for Prescribed Transmission Services*.
- (d) Rule 6A.25 requires the AER to develop and publish *Pricing Methodology Guidelines*.
- (e) Rule 6A.26 requires a *Transmission Network Service Provider* to submit a proposed *pricing methodology* to the AER for approval and requires the AER to approve that methodology if it gives effect to and is consistent with the *Pricing Principles for Prescribed Transmission Services* and complies with the requirements of the *Pricing Methodology Guidelines*.
- (f) Rules 6A.27 - 6A.30 make provision for other pricing related matters, including prudent discounts, billing and settlements between *Transmission Network Service Providers*, and prudential requirements.

#### 6A.22.2 Aggregate annual revenue requirement (AARR)

For the purposes of this Part J, the *aggregate annual revenue requirement (AARR)* for *prescribed transmission services* provided by a *Transmission Network Service Provider*, is the *maximum allowed revenue* referred to in clause 6A.3.1, adjusted in accordance with clause 6A.3.2, and adjusted;

- (a) for any over-recovery amount or under-recovery amount; and
- (b) by subtracting the following amounts:
  - (1) estimated revenues from *auction proceeds* distributed to the *Transmission Network Service Provider* under clause 3.18.4 and from *settlements residue*; and
  - (2) operating and maintenance costs incurred in the provision of *prescribed common transmission services*.

### **6A.22.3 Annual service revenue requirement (ASRR)**

For the purposes of this Part J, the *annual service revenue requirement (ASRR)* for a *Transmission Network Service Provider* is the portion of the *AARR* for *prescribed transmission services* provided by a *Transmission Network Service Provider* that is allocated to each *category of prescribed transmission services* for that provider and that is calculated by multiplying the *AARR* by the *attributable cost share* for that category of services in accordance with the principles in clause 6A.24.2.

### **6A.22.4 Meaning of attributable cost share**

- (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 clause 6A.24.2, substantially reflect the ratio of:
  - (1) the costs of the *transmission system* assets directly attributable (on a causation basis) 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 (on a causation basis) 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 costs that are referable to values contained in the accounts of the *Transmission Network Service Provider*.

### **6A.22.5 Meaning of attributable connection point cost share**

- (a) For a *Transmission Network Service Provider* for *prescribed entry services* and *prescribed exit services*, the *attributable connection point cost share* for that provider for each of those categories of services must substantially reflect the ratio of:
  - (1) the costs of the *transmission system* assets directly attributable (on a causation basis) to the provision of *prescribed entry services* or *prescribed exit services* respectively, at a *transmission network connection point*; to
  - (2) the costs of all the *Transmission Network Service Provider's transmission system* assets directly attributable (on a causation basis) to the provision of *prescribed entry services* or *prescribed exit services*, respectively.

- (b) The costs of the *transmission system* assets referred to in paragraph (a) refers to optimised replacement cost or to costs that are referable to values contained in the accounts of the *Transmission Network Service Provider*.

## **6A.23 Pricing for prescribed transmission services – pricing methodologies**

- (a) In making a *transmission determination* under Part E of Chapter 6A, the *AER* must include a decision to approve a proposed *pricing methodology* as part of that *transmission determination*.
- (b) A *Transmission Network Service Provider* must comply with the *pricing methodology* approved by the *AER* as part of a *transmission determination* that applies to that provider, and any other applicable requirements in the *Rules*, when the provider is setting the prices that may be charged for the provision of *prescribed transmission services*.
- (c) A *pricing methodology* is a methodology, formula, process or approach that, when applied by a *Transmission Network 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 Customers*; 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.
- (d) The *pricing methodology* proposed by a *Transmission Network Service Provider* and approved by the *AER* in accordance with rule 6A.26, must give effect to and be consistent with:
  - (1) the *Pricing Principles for Prescribed Transmission Services*; and
  - (2) the *Pricing Methodology Guidelines*.

## **6A.24 Pricing Principles for Prescribed Transmission Services**

### **6A.24.1 Introduction**

- (a) This rule 6A.24 sets out the principles that constitute the *Pricing Principles for Prescribed Transmission Services*.
- (b) The *Pricing Principles for Prescribed Transmission Services* are to be given effect to by *pricing methodologies*.

### **6A.24.2 Principles for the allocation of the AARR to categories of prescribed transmission services**

The *aggregate annual revenue requirement* for *prescribed transmission services* provided by a *Transmission Network Service Provider* is to be allocated in accordance with the following principles:

- (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 the same portion of the *AARR* is not allocated more than once.
- (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 transmission use of system 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 transmission use of system 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*; and
  - (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*.

### **6A.24.3 Principles for the allocation of the ASRR to transmission network connection points**

The *annual service revenue requirement* for a *Transmission Network Service Provider* for each *category of prescribed transmission services* is to be allocated to each *transmission network connection point* in accordance with the following principles:

- (a) The whole of the *ASRR* for *prescribed entry services* is to be allocated to a *transmission network connection point* of a *Generator* in accordance with the *attributable connection point cost share* for *prescribed entry services* that are provided by the *Transmission Network Service Provider* at that *connection point*.
- (b) The whole of the *ASRR* for *prescribed exit services* is to be allocated to *transmission network connection points* of *Transmission Customers* in

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accordance with the *attributable connection point cost share* for *prescribed exit services* that are provided by the *Transmission Network Service Provider* at that *connection point*.

- (c) The *ASRR* for *prescribed transmission use of system services* is to be allocated to *transmission network connection points* of *Transmission Customers* in the following manner:
  - (1) a portion of the *ASRR* (the **locational component**) 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; and
  - (2) the remainder of the *ASRR* (the **non-locational component**) is to be allocated as between such *connection points* on a *postage-stamped* basis.
- (d) The shares of the locational and non-locational components are to be either:
  - (1) a 50% share allocated to each component; 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) The *ASRR* for *prescribed common transmission services* and the operating and maintenance costs incurred in the provision of those services, must be allocated to *Transmission Customer* and *Network Service Provider* *transmission network connection points* on a *postage-stamped* basis.

### 6A.24.4 Price structure principles

- (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)-(g).
- (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 transmission use of system services* – locational component; and
  - (5) *prescribed transmission use of system services* – non-locational component.
- (c) Prices for *prescribed entry services* and *prescribed exit services* must be a fixed annual amount.

- (d) Prices for *prescribed common transmission services* must be on a *postage-stamped* basis.
- (e) Prices for recovering the locational component of providing *prescribed transmission use of system services* must be based on demand or consumption at times of greatest utilisation of the *transmission network* and for which *network* investment is most likely to be contemplated.
- (f) Prices for recovering the locational component of the *ASRR* for the provision of *prescribed transmission use of system 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) Prices for recovering the non-locational component of providing *prescribed transmission use of system services* must be on a *postage-stamped* basis.

## **6A.25 Pricing Methodology Guidelines for Prescribed Transmission Services**

### **6A.25.1 Making and amendment of Pricing Methodology Guidelines**

- (a) The *AER* must, in accordance with the *transmission consultation procedures*, make guidelines (the *Pricing Methodology Guidelines*) relating to the preparation by a *Transmission Network Service Provider* of a proposed *pricing methodology*.
- (b) The *Pricing Methodology Guidelines*:
  - (1) must give effect to, and be consistent with, the *Pricing Principles for Prescribed Transmission Services*;
  - (2) may be amended or replaced by the *AER* from time to time in accordance with the *transmission consultation procedures*; and
  - (3) must be *published* by the *AER*.
- (c) The *AER* must develop and publish the first *Pricing Methodology Guidelines* by 30 September 2007 and there must be *Pricing Methodology Guidelines* in force at all times after that date.
- (d) In the event of an inconsistency between the *Rules* and the *Pricing Methodology Guidelines* the *Rules* prevail to the extent of that inconsistency.

### **6A.25.2 Contents of Pricing Methodology Guidelines**

The *Pricing Methodology Guidelines* may specify or clarify:

- (a) the form which a proposed *pricing methodology* is to take;
- (b) the information that is to accompany a proposed *pricing methodology* being information that is necessary to allow the *AER* to form a view as to whether the proposed methodology is consistent with and gives effect to, the *Pricing Principles for Prescribed Transmission Services* and the requirements of this Part J; and

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- (c) what parts (if any) of a proposed *pricing methodology* or the information accompanying it, will not be publicly disclosed without the consent of the *Transmission Network Service Provider*.

### **6A.26 Procedures for approval of pricing methodology by AER**

*[Drafting Note: The procedures for approval of a pricing methodology will be integrated with the new Part E created by the National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006, when made. For the purposes of consultation, the procedure set out in this Draft Rule has been drafted in a stand alone format. The procedure for approval of a proposed pricing methodology is to be the same procedure for setting of a revenue determination and for approving a negotiating framework.]*

#### **6A.26.1 Pricing methodology determinations**

- (a) The *pricing methodology*, which the *AER* approves as part of a *transmission determination* for a *Transmission Network Service Provider*, must set out requirements for the calculation and setting of prices that may be charged by that provider for *prescribed transmission services* in accordance with this Part J.
- (b) A *pricing methodology* applies for the duration of the relevant *regulatory control period*, and subject to clause 6A.26.15, may not be amended during that period.

#### **6A.26.2 Submission of proposed methodology and information**

- (a) A *Transmission Network Service Provider* must submit to the *AER* a proposed *pricing methodology* relating to the *prescribed transmission services* that are provided by means of, or in connection with, a *transmission system* that is owned, controlled or operated by that provider, 13 months before the expiry of the applicable *transmission determination* that applies to those services.
- (b) A proposed *pricing methodology* must:
  - (1) give effect to and be consistent with the *Pricing Principles for Prescribed Transmission Services*; and
  - (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.

#### **6A.26.3 Preliminary examination and determination of non-compliance with Pricing Methodology Guidelines**

- (a) If the *AER* determines that:
  - (1) a proposed *pricing methodology* submitted by a *Transmission Network Service Provider*; or
  - (2) information contained in or accompanying such a proposed methodology,

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does not comply with the requirements referred to in clause 6A.26.2(b), the *AER* must notify the provider of that determination as soon as practicable after receiving that proposed *pricing methodology* or information.

- (b) A determination referred to in paragraph (a) must be accompanied by written reasons that set out:
  - (1) the requirements that have not been complied with, and the respects in which the proposed *pricing methodology* or information does not comply with the relevant requirements of clause 6A.26.2(b); and
  - (2) in the case of information which does not comply with those requirements, the reason that the submission of information in accordance with those requirements would assist the *AER* in assessing the proposed *pricing methodology*.

### **6A.26.4 Resubmission of proposed pricing methodology or information**

If the *AER* notifies a *Transmission Network Service Provider* of a determination under clause 6A.26.3, the provider must, within one month of that notice, resubmit its proposed *pricing methodology* or the required information in a form that complies with the relevant requirements referred to in clause 6A.26.3.

### **6A.26.5 Consultation**

- (a) Except to the extent that the *Pricing Methodology Guidelines* provide it will not be publicly disclosed (and, in that case, the relevant *Transmission Network Service Provider* has not otherwise consented), the *AER* must *publish*:
  - (1) the proposed *pricing methodology*; and
  - (2) the accompanying information,submitted or resubmitted to it by the provider under this rule 6A.26.
- (b) The *AER* must *publish* the documents referred to in paragraph (a) as soon as practicable after the *AER* determines that the proposed *pricing methodology* and accompanying information comply with the requirements of clause 6A.26.2(b), together with an invitation for written submissions.
- (c) Any person may make a written submission to the *AER* on the proposed *pricing methodology* within the time specified in the invitation referred to in paragraph (b), which must not be earlier than 30 *business days* after the invitation for submissions is *published* under that paragraph.

### **6A.26.6 Making of draft decision**

- (a) The *AER* must consider any written submissions made under clause 6A.26.5 and must make a draft decision in relation to a proposed *pricing methodology* of a *Transmission Network Service Provider*.
- (b) If the *AER* refuses to approve any aspect of a proposed *pricing methodology*, the *AER*'s draft decision must include details of the changes required or matters to be addressed before the *AER* will approve the proposed methodology.

#### **6A.26.7 Publication of draft decision and consultation**

- (a) The *AER* must, as soon as practicable but not later than 6 months after the relevant date referred to in clause 6A.26.2(a), *publish*:
  - (1) its draft decision and reasons;
  - (2) notice of the making of the draft decision; and
  - (3) an invitation for written submissions on its draft decision.
- (b) Any person may make a written submission to the *AER* on the draft decision within the time specified in the invitation referred to in paragraph (a).

#### **6A.26.8 Submission of revised methodology**

- (a) In addition to making such other written submissions as it considers appropriate, a *Transmission Network Service Provider* may, not more than 30 *business days* after the *publication* of a draft decision, submit to the *AER* a revised proposed *pricing methodology*.
- (b) A revised proposed *pricing methodology* must:
  - (1) give effect to and be consistent with the *Pricing Principles for Prescribed Transmission Services*;
  - (2) comply with the requirements of, and must contain or be accompanied by such information as is required by, the *Pricing Methodology Guidelines*.
- (c) A *Transmission Network Service Provider* may only make the revisions referred to in paragraph (a) to incorporate the substance of any changes required by, or to address matters raised in, the draft decision.
- (d) Except to the extent that the *Pricing Methodology Guidelines* provide it will not be publicly disclosed (and, in that case, the *Transmission Network Service Provider* has not otherwise consented), the *AER* must publish any revised proposed *pricing methodology* that is submitted by the *Transmission Network Service Provider* under paragraph (a), together with the accompanying information, as soon as practicable after receipt by the *AER*.

#### **6A.26.9 Making of final decision**

The *AER* must consider any submissions made on the draft decision, or on any revised proposed *pricing methodology* submitted to it under clause 6A.26.8, and must make a final decision.

#### **6A.26.10 Refusal to approve methodology**

If the *AER's* final decision is to refuse to approve the proposed *pricing methodology*, the *AER* must include in its final decision an amended *pricing methodology* which is:

- (a) determined on the basis of the current proposed *pricing methodology*; and
- (b) amended from that basis only to the extent necessary to enable it to be approved in accordance with the *Rules*.

### **6A.26.11 Contents of and reasons for decisions**

- (a) A draft or final decision is a decision by the *AER* on the *Transmission Network Service Provider's* current proposed *pricing methodology*, in which the *AER* either approves or refuses to approve that methodology and sets out reasons for its decision.
- (b) The reasons given by the *AER* for a draft or final decision must set out the basis and rationale of the decision, including reasons for the making of any decisions, the giving or withholding of approval and the exercise of any discretions, for the purpose of the decision.

### **6A.26.12 Circumstances in which pricing methodology must be approved**

- (a) This clause 6A.26.12 sets out the circumstances in which the *AER* must approve a proposed *pricing methodology* for the purposes of a draft or final decision.
- (b) The *AER* must approve a *Transmission Network Service Provider's* current proposed *pricing methodology* if the *AER* is satisfied that the methodology:
  - (1) gives effect to and is consistent with the *Pricing Principles for Prescribed Transmission Services*; and
  - (2) complies with the requirements of the *Pricing Methodology Guidelines*.
- (c) If a *Transmission Network Service Provider's* revised proposed *pricing methodology* submitted under clause 6A.26.8(a):
  - (1) contains the changes required under clause 6A.26.6(b); or
  - (2) does not contain those changes but otherwise (in the *AER's* view) adequately addresses the matters which prompted the *AER* to require those changes,

then, except to the extent that:

- (3) either or both of the following apply:
  - (i) other changes have been made in the revised proposed *pricing methodology* by the provider; or
  - (ii) the information contained in or accompanying the revised proposed *pricing methodology* differs from that contained in or accompanying the previous proposed methodology; and
- (4) the changes would justify the *AER*, in its final decision, in refusing to approve the proposed methodology under paragraph (b),

the *AER's* final decision must be to approve that revised proposed *pricing methodology*.

### **6A.26.13 Notice of final decision and making of pricing methodology determination**

- (a) The *AER* must as soon as practicable, but not later than 2 months before the commencement of the relevant *regulatory control period*, publish:

- (1) notice of the making of the final decision; and
  - (2) the final decision, including the reasons required to be included in it.
- (b) The *AER* must, as soon as practicable after making its final decision, make the *pricing methodology* as part of a *transmission determination* to which the final decision relates.

#### **6A.26.14 Publication of pricing methodology and transmission network prices**

A *Transmission Network Service Provider* must publish:

- (a) a current copy of its *pricing methodology* on its website; and
- (b) the prices for each of the *categories of prescribed transmission services* to apply for the following *financial year*, by 15 May each year for the purposes of determining *distribution service* prices as outlined in Part C of Chapter 6.

#### **6A.26.15 Amendment of pricing methodology for wrong information or error**

- (a) The *AER* may only amend an existing *pricing methodology* during a *regulatory control period* where it appears to the *AER* that:
  - (1) the methodology was approved on the basis of information provided by or on behalf of the relevant *Transmission Network Service Provider* to the *AER* that was false or misleading in a material particular; or
  - (2) there was a material error in approving the methodology.
- (b) If the *AER* amends a *pricing methodology* under paragraph (a), the amended methodology applies from the date of that decision for the remainder of the relevant *regulatory control period*.
- (c) If the *AER* amends a *pricing methodology* under paragraph (a)(2), the amended methodology must only vary from the existing *pricing methodology* to the extent necessary to correct the relevant error.
- (d) The *AER* may only amend a *pricing methodology* under this clause 6A.26.15, if it has first consulted with the relevant *Transmission Network Service Provider* and such other persons as it considers appropriate.

### **6A.27 Prudent discounts**

#### **6A.27.1 Agreements for prudent discounts for prescribed transmission services**

- (a) Subject to this clause 6A.27.1, the prices for *prescribed transmission services* that are determined in accordance with the *pricing methodology* of a *Transmission Network Service Provider*, are the maximum prices that a provider is entitled to charge for the provision of the relevant *prescribed transmission services*.

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- (b) A *Transmission Network Service Provider* may, but is not required to, agree with a *Transmission Network Customer* (the **beneficiary**) to charge lower prices for *prescribed transmission use of system services* and *prescribed common transmission services* provided to that beneficiary, than the prices determined in accordance with the provider's *pricing methodology*.
- (c) Subject to this clause 6A.27.1, a *Transmission Network Service Provider* that agrees to charge a beneficiary reduced charges for *prescribed transmission use of system services* or *prescribed common transmission services* (**reduced charges**), may recover the difference between the revenue that would be recovered by the application of the maximum prices referred to in paragraph (a) and the reduced charges (the **discount amount**) from either or both charges:
  - (1) to other *Transmission Customers* for the non-locational component of *prescribed transmission use of system services*; and
  - (2) for *prescribed common transmission services*,in accordance with the provider's *pricing methodology*.
- (d) A *Transmission Network Service Provider* may recover up to 70 per cent of a discount amount through the charges referred to in paragraphs (c)(1) & (2).
- (e) A *Transmission Network Service Provider* may recover greater than 70 percent of the discount amount if:
  - (1) the discount amount is no larger than that necessary to prevent the charges referred to in subparagraphs(c)(1)&(2) altering the beneficiary's behaviour to the point of adopting the most attractive alternative in place of the course of action the beneficiary would have adopted if no such charges were levied; and
  - (2) the giving of the discount would not place other customers of the *Transmission Network Service Provider* in a worse position than if the discount was not offered.
- (f) Where for any reason the *Transmission Network Service Provider* does not recover the proportion of a discount amount that the provider is entitled to recover from other *Transmission Customers* under this clause in the *financial year* in which the reduced charges apply, the *Transmission Network Service Provider* may recover the difference through the charges for the non-locational component of *prescribed transmission use of system services* to apply in a subsequent *financial year*, in accordance with the provider's *pricing methodology*.

### **6A.27.2 Application to AER for approval of proposed prudent discount amounts**

- (a) This clause applies where a *Transmission Network Service Provider* has agreed or proposes to agree, to reduced charges in accordance with clause 6A.27.1 and seeks to recover greater than 70 per cent of the discount amount through the charges referred to in clause 6A.27.1(c)(1)&(2) to its other *Transmission Customers* (the **proposed recovery amount**).

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- (b) A *Transmission Network Service Provider* may apply to the *AER* for approval to recover the proposed recovery amount.
- (c) A *Transmission Network Service Provider* seeking approval must submit to the *AER* a written application in accordance with any relevant requirements of the *information guidelines* in force under clause 6A.17.2.
- (d) If the *AER* determines that the requirements of clause 6A.27.1(e) are satisfied, the *AER* may approve the recovery of the proposed recovery amount, taking into account the matters referred to in paragraph (i).
- (e) If the *AER* determines that the requirements of clause 6A.27.1(e) are not satisfied, the *AER* may refuse the recovery of the proposed recovery amount, and must set out its reasons.
- (f) If the *AER* does not make a decision referred to in paragraphs (d) or (e) within 60 *business days* from the date it receives the *Transmission Network Service Provider's* application and accompanying evidence under paragraph (c), then, on the expiry of that period, the *AER* is taken to have approved the recovery of the proposed recovery amount.
- (g) A *Transmission Network Service Provider* must provide the *AER* with such information as the *AER* requires for the purpose of making a determination under paragraphs (d) or (e) within the time specified by the *AER* in a notice provided to the provider by the *AER* for that purpose.

### **Consultation**

- (h) Before making a determination under paragraphs (d) or (e), the *AER* may consult with the relevant *Transmission Network Service Provider* and such other persons as the *AER* considers appropriate, on any matters arising out of an application to recover a proposed recovery amount as the *AER* considers appropriate.

### **Relevant factors**

- (i) In making a determination under paragraphs (d) or (e), the *AER* must take into account:
  - (1) the matters and proposals set out in the application referred to in paragraph (c);
  - (2) the requirements of clause 6A.27.1(e); and
  - (3) any other factors the *AER* considers relevant.
- (j) If the *AER* approves or is taken to approve recovery of the proposed recovery amount under paragraphs (d) or (f), that approval is valid so long as the agreement between the *Transmission Network Service Provider* and the *Transmission Customer* remains in effect and its terms are not renegotiated, except where the *Transmission Network Service Provider* has provided information in its application, that was materially false or misleading.
- (k) Where a *Transmission Network Service Provider* agrees to charge reduced charges in accordance with clause 6A.27.1, and no approval is granted under this clause 6A.27.2, the *AER* must review the discount amount in the

course of making a subsequent *revenue cap determination* for that provider, and if the recovery of any part of the discount amount does not comply with clause 6A.27.1(e), the *AER* may adjust (with interest) the *total revenue cap* of the *Transmission Network Service Provider* for the following *regulatory control period* in respect of the total amount that has been earned by the *Transmission Network Service Provider* and does not satisfy the requirements under the *Rules*.

- (l) A *Transmission Network Service Provider* may continue to recover discounts arising as a result of agreements that were entered into prior to 10 October 2001 so long as the agreement remains in effect and its terms are not renegotiated.

## **6A.28 Billing and Settlements Process**

This rule describes the manner in which *Transmission Customers* are billed for *prescribed transmission services* and how payments for those services are settled.

### **6A.28.1 Billing for prescribed transmission services**

- (a) For each *connection point* on its *transmission networks*, a *Transmission Network Service Provider* must calculate the *transmission service charges* payable by *Transmission Network Users* with *connection points* on the *transmission network* in accordance with the *transmission service prices* published under clause 6A.26.14.
- (b) A *Transmission Network Service Provider* must issue a bill to *Transmission Network Users* for *prescribed transmission services*.
- (c) Where the billing for a particular *financial year* is based on quantities which are undefined until after the commencement of the *financial year*, charges must be estimated from the previous year's billing quantities with a reconciliation to be made when the actual billing quantities are known and, where the previous year's billing quantities are unavailable or no longer suitable, nominated quantities may be used as agreed between the parties.
- (d) Where charges are to be determined for *prescribed transmission services* from *metering data*, these charges must be based on kW or kWh obtained from the *metering data* managed by *NEMMCO*.

### **6A.28.2 Minimum information to be provided in network service bills**

- (a) The following is the minimum information that must be provided with a bill for a *connection point* issued by a *Transmission Network Service Provider* directly to a *Transmission Customer* or other person with a *connection point* on the *transmission network*:
  - (1) the *connection point* identifier;
  - (2) the dates on which the *billing period* starts and ends;
  - (3) the identifier of the published *transmission service price* from which the *connection point* charges are calculated; and

- (4) measured quantities, billed quantities, agreed quantities, prices and amounts charged for each component of the total *transmission service* account.
- (b) In addition to the minimum information requirements set out in paragraph (a), a bill for a *connection point* issued by a *Transmission Network Service Provider* directly to a *Transmission Customer* must separately identify, for the total amount levied in relation to *prescribed transmission use of system services* in the *billing period* for that *connection point* each of the following components:
  - (1) charges for the locational and the non-locational component of *prescribed transmission use of system services*; and
  - (2) charges for *prescribed common transmission services*.

### **6A.28.3 Obligation to pay charges for prescribed transmission services**

A *Transmission Network User* must pay charges for *prescribed transmission services* properly charged to it and billed in accordance with the *pricing methodology* of the relevant *Transmission Network Service Provider* by the date specified in the bill.

### **6A.28.4 Settlement between Transmission Network Service Providers**

- (a) 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*.
- (b) Payments to be made between *Transmission Network Service Providers* within a *region* under paragraph (a) must be determined by the *Co-ordinating Network Service Provider* for that *region*.
- (c) Financial transfers payable under this clause 6A.28.4 must be paid in equal monthly instalments.

### **6A.28.5 Calculation of financial transfers between Transmission Network Service Providers**

- (a) If the *prescribed transmission use of system* revenue allocation and price and charge calculation under the *pricing methodology* of a *Transmission Network Service Provider* result in the allocation of some of a provider's revenue to a *Transmission Customer* in relation to a *connection point* with another *Network Service Provider* then financial transfers between *Network Service Providers* must be made in accordance with paragraph (b).
- (b) Financial transfers referred to in paragraph (a) must be determined by the *Co-ordinating Network Service Provider* as a fixed annual amount for the next *financial year*. The *survey period* for this allocation is the most recent full *financial year* for which operating data is available.

## **6A.29 Transmission Network Service Provider Prudential Requirements**

This rule sets out the arrangements by which *Transmission Network Service Providers* may minimise financial risks associated with investment in *transmission network* assets.

### **6A.29.1 Prudential Requirements for prescribed transmission services**

- (a) A *Transmission Network Service Provider* may require a *Generator, Transmission Customer* or another person having a *connection point* on the *transmission network* to establish prudential requirements for either or both *connection services* and *transmission use of system services*. These prudential requirements may take the form of, but need not be limited to, capital contributions, pre-payments or financial guarantees.
- (b) Prudential requirements for *connection service* or *transmission use of system service* are a matter for negotiation between the *Transmission Network Service Provider* and the *Generator, Transmission Customer* or other person having a *connection point* on the *transmission network*, and the terms agreed must be set out in the *connection agreement* between the *Transmission Network Service Provider* and the *Generator, Transmission Customer* or other person having a *connection point* on the *transmission network*.

### **6A.29.2 Capital contribution or prepayment for a specific asset**

Where the *Transmission Network Service Provider* is required to construct specific assets to provide *connection service* or *transmission use of system service* to a *Generator, Transmission Customer* or another person having a *connection point* on the *transmission network*, the *Transmission Network Service Provider* may require that person to make a capital contribution or prepayment for all or part of the cost of the new assets installed and any contribution made must be taken into account in the determination of *transmission service* prices applicable to that person.

### **6A.29.3 Treatment of past capital contributions**

- (a) The treatment of capital contributions for *connection service* and/or *transmission use of system service* made prior to 13 December 1998, by *Generators, Transmission Customers* or other persons having a *connection point* on the *transmission network* must be in accordance with any contractual arrangements with the relevant *Transmission Network Service Providers* applicable at that time.
- (b) Where contractual arrangements referred to in paragraph (a) are not in place, the treatment of past capital contributions for *connection service* and/or *transmission use of system service* must be negotiated by the *Transmission Network Service Provider* and the *Generator, Transmission Customer* or other person having a *connection point* on the *transmission network* and, if a dispute arises and cannot be resolved, the matter must be referred to the *AER*.

**6A.30 Multiple Transmission Network Service Providers**

**6A.30.1 Multiple Transmission Network Service Providers within a region**

- (a) If *prescribed transmission services* within a *region* are provided by more than one *Transmission Network Service Provider*, the providers within that *region* must appoint a *Co-ordinating Network Service Provider* who is responsible for the allocation of all relevant *AARR* within that *region*, in accordance with this Part J.
- (b) Each *Transmission Network Service Provider* must determine the *AARR* for its own *transmission system* assets which are used to provide *prescribed transmission services* within each *region*.
- (c) To make the allocation referred to in paragraph (a), the *Co-ordinating Network Service Provider* must use the total *AARR* of all *Transmission Network Service Providers* providing *prescribed transmission services* within the relevant *region*.
- (d) The *Co-ordinating Network Service Provider* is responsible for making the allocation referred to in paragraph (a), in accordance with its *pricing methodology*, in relation to *Transmission Network Users'* and *Transmission Network Service Providers' transmission network connection points* located within the *region*.

**Note:** Rule 6A.23(c) distinguishes two aspects of a *pricing methodology* - allocation of *AARR* and determination of the structure of prices.

**6A.30.2 Single Transmission Network Service Provider within a region**

If *prescribed transmission services* within a *region* are provided by only one *Transmission Network Service Provider*, that provider is responsible for allocation of the *AARR* within that *region* and must liaise with the *Transmission Network Service Provider* similarly responsible in any other *interconnected regions*.

**6A.30.3 Allocation over several regions**

- (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.

**[2] New schedule 6A.4**

After schedule 6A.3, insert:

## Schedule 6A.4 – CRNP methodology and modified CRNP methodology

### S6A.4.1 CRNP methodology

**CRNP Methodology** (or cost reflective network pricing) is an allocation process that involves the following steps:

- (a) Attributing network ‘costs’ to *transmission system* assets: The **locational component** of the *ASRR* allocated to *prescribed transmission use of system services* is allocated to each asset used to provide *prescribed transmission use of system services* based on the ratio of the optimised replacement cost of that asset, to the optimised replacement cost of all *transmission system* assets used to provide *prescribed use of system services*. The allocation to each *transmission system* asset is the ‘**locational network asset cost**’.
- (b) Determining the baseline allocation of *generation to loads* using a ‘fault contribution matrix’.
- (c) Determining the allocation of dispatched *generation to loads* over a range of actual operating conditions from the previous *financial year*. The range of operating scenarios is chosen so as to include the conditions that result in most stress on the *transmission network* and for which *network* investment may be contemplated. For each operating scenario selected:
  - (1) a constrained allocation of *generation to loads* matrix must be developed, in which *generation* is allocated to serving *loads* on the basis of the fault contribution matrix;
  - (2) load flow analysis techniques are used to solve for *network* flows and to calculate the sensitivity of flows on each *network element* resulting from incremental changes in each *load*;
  - (3) the sensitivities are weighted by *load* to derive a ‘flow component’ magnitude in each *network element* due to each *load* for that hour;
  - (4) the relative utilisation of each *network element* by each *load* is calculated from the ‘flow component’ magnitudes, using only the flow components in the direction of the prevailing line flow.
- (d) When all the selected operating scenarios have been assessed, allocating the individual locational *network asset costs* to *loads* on a pro rata basis using the maximum ‘flow component’ that each *load* has imposed on each *network asset* across the range of operating conditions considered.
- (e) Summing the individual locational *network asset costs* allocated to each *load* to give the total amounts allocated to that *load*.

### S6A.4.2 Modified CRNP methodology

- (a) **Modified CRNP methodology** is an allocation process that involves replacing step 1 of the CRNP methodology referred to in clause S6A.4.1(a) with the following 3 steps:
  - (1) Allocating the *ASRR* allocated to *prescribed use of system services* to each *transmission system* asset used to provide *prescribed transmission use of system services* based on the ratio of the optimised

replacement cost of the that asset to the optimised replacement cost of all *transmission system* assets used to provide *prescribed transmission use of system services*. The amount so allocated to each asset is the asset's **gross network asset cost**.

- (2) Adjusting individual gross *network* asset costs: the individual gross *network* asset costs determined in subparagraph (1) must each be multiplied by a factor (between 0 and 1) that depends on the utilisation of each asset. The resulting amount for each asset is the **locational network asset cost** while the remainder is the **non-locational network asset cost**.
- (3) Determining the non-locational component: the sum of the non-locational *network* asset cost represents the non-locational component of the *ASRR* for *prescribed transmission use of system services*.

### [3] Consequential amendments to Chapter 6A

*[Drafting Note: The Draft Pricing Rule does not contain consequential amendments to the new Chapter 6A (to be created by the National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006), as this Amending Rule was not final at the date of release of this Draft Rule. However, the following new matters are proposed a result of this Draft Rule.*

- Clause 6A.2.2 to be amended to insert an additional paragraph, ie. “a determination that specifies the *pricing methodology* that applies to the provider”.
- Clause 6A.17.2 to be amended to add two further matters as follows:
  - (g) The *information guidelines* may specify, for the purposes of clause 6A.27.2:
    - (4) the circumstances in which a discount amount has arisen;
    - (5) details of the proposed recovery amount that the provider proposes to be recovered from the charges referred to in clause 6A.27.2;and
    - (6) evidence as to how the requirements of clause 6A.27.1(e) are satisfied; and
    - (7) such other information as may be required.]
    - (h) The *information guidelines* may provide for:
      - (8) information that must be exchanged by *Network Service Providers* to permit the cost allocation and calculation of prices for the *interconnected transmission systems* on the electrical characteristics and the *aggregate annual revenue requirement* of each optimised *network* asset and *connection asset* in *interconnected transmission systems*

- (9) the information that each *Transmission Network Service Provider* must supply to a *Co-ordinating Network Service Provider* and other *Transmission Network Service Providers* for the purposes of cost allocation under the provider's *pricing methodology*, including:
    - (i) electrical parameters for each optimised element of the *network* and the *network* configuration;
    - (ii) hourly *load* data for each exit point for the *survey period*;
    - (iii) hourly *generation* data for each entry point for the *survey period*;
    - (iv) *voltage* control arrangements and *voltage* profile;
    - (v) the *ASRR* for the *categories of prescribed transmission use of system services* and *common transmission services*.
  - (10) the derivation of hourly *load* data from *metering data* by the aggregation of the *energy meter* reading figures in respect of each hour.
- Confidentiality of network pricing information – rule 6A.18 to be amended to apply the regime for information disclosure to pricing information.

## [4] Chapter 10 – Glossary

In Chapter 10, delete the following definitions:

### **annual revenue requirement**

An amount representing the revenue requirement of a *Transmission Network Service Provider* (other than a *Market Network Service Provider*) for an asset calculated in accordance with clause 6.4.1(c).

### **common service charge**

The amount per *billing period* determined by a *Transmission Network Service Provider* under clause 6.5.6 for a *connection point* with a *Transmission Customer* connected to the *Transmission Network Service Provider's transmission network* and payable by the *Transmission Customer* to recover *common service* costs.

### **common service price**

Either the price per unit of *metered energy* offtake or the price per unit of contracted capacity determined under clause 6.5.6 for application to *connection*

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*points with Transmission Customers connected to a transmission network in the region or regions over which the cost allocation under clause 6.4 is being made, which is used to determine common service charges.*

### **Customer TUOS general charge**

The charge per *billing period* determined by a *Transmission Network Service Provider* under clause 6.5.4A for a *connection point* with a *Transmission Customer* connected to the *Transmission Network Service Provider's* transmission network and payable by the *Transmission Customer* to recover the balance of the *aggregate annual revenue requirement* referred to in clause 6.4.3C.

### **Customer TUOS general price**

Either the price per unit of *metered energy* offtake or the price per unit of contracted capacity determined under clause 6.5.4A for application to *connection points* with *Transmission Customers* connected to a *transmission network* in the *region* or *regions* over which the cost allocation under clause 6.4 is being made, which is used to determine the *Customer TUOS general charge* for each *connection point* with a *Transmission Customer* connected to a *transmission network* in the *region* or *regions*.

## **[5] Chapter 10 – Glossary**

In Chapter 10, insert, in alphabetical order, the following new definitions:

### **AARR**

The *aggregate annual revenue requirement* for prescribed transmission services.

### **annual service revenue requirement**

Has the meaning set out in clause 6A.22.3.

### **ASRR**

The *annual service revenue requirement*.

### **attributable cost share**

Has the meaning set out in clause 6A.22.4.

**attributable connection point cost share**

Has the meaning set out in clause 6A.22.5.

**categories of prescribed transmission services**

For the purposes of pricing for *prescribed transmission services*:

- (a) *prescribed entry services*;
- (b) *prescribed exit services*;
- (c) *prescribed common transmission services*; and
- (d) *prescribed transmission use of system services*.

**cost reflective network pricing methodology or CRNP methodology or modified CRNP methodology**

The cost allocation methodologies described in schedule 6A.4.

**over-recovery amount**

Any amount by which the revenue earned from the provision of *prescribed transmission services* in previous *financial years* exceeds the sum of the *AARR* in those *financial years*, grossed up by the application of an annual interest rate approved by the *AER* for this purpose.

**prescribed common transmission services**

*Prescribed transmission services* that provide equivalent benefits to all *Transmission Customers* who have a *connection point* with the relevant *transmission network* without any differentiation based on their location within the *transmission system*.

**prescribed entry services**

*Entry services* that are *prescribed transmission services* by virtue of the operation of clause 11.5.11.

**prescribed exit services**

*Exit services that are prescribed transmission services by virtue of the operation of clause 11.5.11 and exit services provided to Distribution Network Service Providers.*

**prescribed transmission use of system services**

*Prescribed transmission services that:*

- (a) provide different benefits to *Transmission Customers* who have a *connection point* with the relevant *transmission network* depending on their location within the *transmission system*; and
- (b) are not *prescribed common transmission services, prescribed entry services or prescribed exit services.*

**pricing methodology**

For a *Transmission Network Service Provider*, means the pricing methodology approved by the *AER* for that *Transmission Network Service Provider* and included in a *transmission determination* as referred to in clause 6A.26.13.

**Pricing Methodology Guidelines**

Guidelines made by the *AER* under rule 6A.25 that contain the matters set out in clause 6A.25.2.

**Pricing Principles for Prescribed Transmission Services**

The principles set out in rule 6A.24.

**stand-alone amount**

For a *category of prescribed transmission services*, the costs of a *transmission system* asset that would have been incurred had that *transmission system* asset been developed, exclusively to provide that *category of prescribed transmission services.*

**under-recovery amount**

Any amount by which the sum of the *AARR* in previous *financial years* exceeds the revenue earned from the provision of *prescribed transmission services* in those previous years, grossed up by the application of an annual interest rate approved by the *AER* for this purpose.

**[6] Chapter 10 – Glossary**

In Chapter 10, omit the current corresponding definitions and substitute the following definitions:

**aggregate annual revenue requirement**

For *prescribed transmission services*, the meaning in clause 6A.22.2 and for any other service, the calculated total annual revenue to be earned by an entity for a defined class or classes of service.

**common service**

A service that ensures the integrity of a *distribution system* and benefits all *Distribution Customers* and cannot reasonably be allocated on a locational basis.

**Co-ordinating Network Service Provider**

A *Network Service Provider* appointed by multiple *Transmission Network Service Providers* to allocate *AARR* in accordance with rule 6A.30.

**entry charge**

The charge payable by an *Embedded Generator* to a *Distribution Network Service Provider* for an *entry service* at a *distribution network connection point*.

**entry cost**

For each *distribution network connection point*, the amount of the *aggregate annual revenue requirement* for all individual assets classified as *entry service* assets which provide *entry service* for the *connection point*.

**exit charge**

The charge payable by a *Distribution Customer* to a *Distribution Network Service Provider* for *exit service* at a *distribution network connection point*.

**exit cost**

For each *distribution network connection point*, the amount of the *aggregate annual revenue requirement* for all individual assets classified as *exit service* assets which provide *exit service* for the *connection point*.

**[7] Savings and transitional rules**

After rule 11.5, insert:

**11.6 Rules consequent on making the National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006**

**11.6.1 Definitions**

Subject to this rule 11.6, in this rule 11.6:

**Pricing Rule commencement date** means the date on which the National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 commences operation.

**existing assets** means *transmission system* assets in existence as at 24 August 2006.

**SPAusNet** means SP Australia Networks (Transmission) Pty Ltd ACN 49 092 329461.

**ElectraNet** means ElectraNet Pty Ltd ACN 094 482 416 trading as Electranet.

**relevant provider** means SPAusNet, V

**transitioned prescribed entry services** means, for the purposes of clauses 11.6.3, services that are *prescribed entry services* by virtue of the operation of clause 11.5.11.

**transitioned connection agreement** means a *connection agreement* entered into on or before 24 August 2006.

**VENCorp** means the Victorian Energy Networks Corporation established under the Gas Industry Act 1994(Vic) and continued under the Gas Industry Act 2001(Vic).

### 11.6.2 Attributable cost share for existing transmission assets

- (a) Despite clause 6A.22.4(b), for existing assets, each *Transmission Network Service Provider* must assess which of its existing assets are directly attributable (on a causation basis) to the provision of each *category of prescribed transmission services* as at 24 August 2006, for the purposes of clause 6A.22.4(a).
- (b) Despite clause 6A.22.5(b), for existing assets, each *Transmission Network Service Provider* must assess which of its existing assets are directly attributable (on a causation basis) to the provision of *prescribed entry services* or *prescribed exit services* at a *transmission network connection point* as at 24 August 2006, for the purposes of clause 6A.22.5(a).

### 11.6.3 Prices for prescribed entry services under existing agreements

- (a) This clause 11.6.3 applies to the calculation and determination of prices for transitioned *prescribed entry services*, where a transitioned *connection agreement*:
  - (1) makes no provision as to the prices for those services; or
  - (2) provides that prices for those services are to be calculated and determined in accordance with applicable pricing rules under the National Electricity Rules, as in force from time to time (or words to that effect).
- (b) Transitioned *prescribed entry services* may be treated as *negotiated transmission services* for the purpose only of calculating and determining prices for those services, and the rules for calculating and determining prices for *negotiated transmission services* in Part D of Chapter 6A may be applied to transitioned *prescribed entry services* for that purpose.
- (c) Transitioned *prescribed entry services* may be treated as *negotiated transmission services* for the purposes of cost allocation under Part G.
- (d) For the avoidance of doubt, nothing in this clause 11.6.3 alters the status of transitioned *prescribed entry services* as *prescribed transmission services*.

### 11.6.4 Application of new Part J to Transmission Network Service Providers

Subject to this rule 11.6, a *Transmission Network Service Provider* is not required to submit a proposed *pricing methodology* to the AER under the new Part J until a date that is 13 months before the expiry of a current *regulatory control period*.

### 11.6.5 Reliance on agreed interim guideline for SPAusNet, VenCorp and ElectraNet

- (a) In this clause 11.6.5:
  - agreed interim requirements** means interim requirements that are equivalent to the requirements of the Pricing Methodology Guidelines referred to in rule 6A.25 and have been developed in consultation with the relevant providers for the purposes of a proposed 2008 pricing methodology.
  - relevant provider** means SPAusNet, ElectraNet or VENCORP.

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**2008 pricing methodology** means a pricing methodology to be made in 2008 for a relevant provider.

- (b) For the purpose of making a 2008 pricing methodology, anything that must be done in accordance with the Pricing Methodology Guidelines must instead be done in accordance with the agreed interim requirements.
-