



## **Proposed 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

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

#### **1. Title of Rule**

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

#### **2. Commencement**

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

#### **3. Interpretation**

- (a) A reference in this Rule to an “existing” or “old” Part, heading, rule, clause or paragraph is a reference to a Part, heading, rule, clause or paragraph in Chapter 6 of the National Electricity Rules immediately before the commencement of this Rule.
- (b) Notes do not form part of this Rule.
- (c) References in square brackets refer to Parts, headings, rules, clauses or paragraphs in the Draft National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006.

#### **4. New Part J and Schedule 6A.4 of [draft] Chapter 6A of the National Electricity Rules**

A new Part J of draft Chapter 6A is inserted after Part I of draft Chapter 6A in the National Electricity Rules as set out in Schedule 1.

A new schedule 6A.4 of draft Chapter 6A is inserted after schedule 6A.3 of draft Chapter 6A as set out in Schedule 1.

***[Drafting Note:***

*This Proposed Rule is a complementary amending instrument to the Draft National Electricity Amendment (Economic Regulation of Transmission Services) 2006 hereafter referred to as the “Draft Revenue Rule”. Both Rules will be made simultaneously.]*

**Schedule 1**

**New Part J of Chapter 6A of the National Electricity Rules**

(Clause 4)

**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 (Pricing Principles)*.
- (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* and complies with the requirements of the *Pricing Methodology Guidelines*.
- (f) Rules 6A.27-6A.31 make provision for other pricing related matters, including prudent discounts, billing and settlements between *Transmission Network Service Providers*, prudential requirements and information requirements in relation to pricing.

**6A.22.2 Definitions**

*[Drafting Note:*

*The definitions relevant to Part J will be retained in this Part, and signpost definitions will be inserted in Chapter 10 Glossary, in conjunction with the changes arising from the Draft Revenue Rule. For the purposes of first round consultation, the National Electricity (Pricing of Prescribed Transmission Services) Rule 2006 (hereafter referred to as the “Proposed Pricing Rule”) does not include comprehensive consequential amendments, including to Chapter 10.]*

In this Part J:

**aggregate annual revenue requirement (AARR)** has the meaning in clause 6A.22.3.

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**annual service revenue requirement (ASRR)** has the meaning in clause 6A.22.4.

**attributable cost share** has the meaning in clause 6A.22.5.

**attributable connection point cost share** has the meaning in clause 6A.22.6.

**categories of prescribed transmission services** means, for the purposes of pricing:

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

**common transmission services** means *prescribed transmission services* that ensure the integrity of a *transmission system* and 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*.

**cost reflective network pricing methodology or CRNP methodology or modified CRNP methodology** means the cost allocation methodologies described in schedule 6A.4, which may be clarified and explained in the *Pricing Methodology Guidelines* made by the AER in accordance with rule 6A.24.

**over-recovery amount** means 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.

**postage-stamped** means the application of a unit price that is the same for all *transmission connection points* within a *region*.

**prescribed entry services** means *entry services* that are *prescribed transmission services* by virtue of the operation of [draft] clause 11.5.11.

**prescribed exit service** means *exit services* that are *prescribed transmission services* by virtue of the operation of [draft] clause 11.5.11 and *exit services* provided to *Distribution Network Service Providers*.

**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 final decision as referred to in clause 6A.26.13.

### **Pricing Principles for Prescribed Transmission Services or Pricing Principles**

The principles set out in rule 6A.24.

**prescribed transmission use of system services** means *prescribed transmission service* provided to a *Transmission Customer* for use of the *transmission network* for the conveyance of electricity 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

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- (b) are not *common transmission services, prescribed entry services or prescribed exit services*.

**stand-alone amount** means, for a category of *prescribed transmission services*, the costs of a *transmission system* asset or operating and maintenance costs that would have been incurred had that *transmission system* asset been developed, or that operating and maintenance cost been incurred, exclusively to provide that *category of prescribed transmission services*.

**under-recovery amount** means 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.

### 6A.22.3 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* for that provider for a *regulatory year* of a *regulatory control period*, adjusted:

- (a) in accordance with the adjustments referred to in [draft] clause 6A.3.2;
- (b) for any prudent discount under rule 6A.27;
- (c) for any *over-recovery amount* or *under-recovery amount*; and
- (d) 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 *common transmission services*.

### 6A.22.4 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 the multiplication of the *AARR* by the *attributable cost share* for that category of services in accordance with the principles in clause 6A.24.2.

### 6A.22.5 Meaning of attributable cost share

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.24.3, include or reflect either or both of:

- (a) a ratio of the costs of the *transmission system* assets directly attributable (on a causation basis) to the provision of a *category of prescribed transmission services*, as a proportion of the total costs of all the *Transmission Network*

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*Service Provider's transmission system* assets directly attributable (on a causation basis) to the provision of *prescribed transmission services*; and

- (b) a ratio of operating and maintenance costs directly attributable (on a causation basis) to the provision of a *category of prescribed transmission services*, as a proportion of all of the *Transmission Network Service Provider's* operating and maintenance costs directly attributable (on a causation basis) to the provision of *prescribed transmission services*;

where “costs of the *transmission system* asset” is referable to values contained in the accounts of the *Transmission Network Service Provider*.

### **6A.22.6 Meaning of attributable connection point cost share**

For a *Transmission Network Service Provider* for a *category of prescribed transmission services*, the *attributable connection point cost share* for that provider for that category of services must include or reflect either or both of:

- (a) a ratio of the costs of the *transmission system* assets directly attributable (on a causation basis) to the provision of *prescribed entry services* or *prescribed exit services* at a *transmission network connection point*, as a proportion of 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*; and
- (b) a ratio of operating and maintenance costs directly attributable (on a causation basis) to the provision of *prescribed entry services* or *prescribed exit services* at a *transmission network connection point*, as a proportion of all the *Transmission Network Service Provider's* operating and maintenance costs directly attributable (on a causation basis) to the provision of *prescribed entry services* or *prescribed exit services*,

where “costs of the *transmission system* asset” is 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*.

**[Drafting Note:**

*Clause 6A.2.2 of the Draft Revenue Rule would be amended to insert an additional paragraph, ie. "a determination that specifies the pricing methodology that applies to the provider"]*

- (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*.

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- (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*; and
  - (2) the *Pricing Methodology Guidelines*.

### **6A.24 Pricing Principles**

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

- (a) This rule 6A.24 sets out the principles that constitute the *Pricing Principles for Prescribed Transmission Services (Pricing Principles)*.
- (b) The *Pricing Principles* 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 (AARR)* 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. This allocation results in the *annual service revenue requirement (ASRR)* for that category of services.
- (b) The allocation of the *AARR* must be such that the same portion of the *AARR* is not allocated more than once.
- (c) 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 or operating and maintenance cost that would otherwise be attributed to the provision of more than one category of *prescribed transmission services*, is allocated as follows:

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- (1) to the provision of *prescribed entry services* and *prescribed exit services*, but only to the extent of the *stand-alone amount* for those *categories of prescribed transmission services*;
- (2) if any portion of the costs of a *transmission system* asset or operating and maintenance cost is not allocated to *prescribed entry services* and *prescribed exit services* under subparagraph (1), that portion is to be allocated to *prescribed transmission use of system 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 or operating and maintenance cost, is not attributed to *prescribed transmission services* under subparagraphs (1) and (2), that portion is to be attributed to *common transmission services*.

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

The *annual service revenue requirement (ASRR)* 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 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) Subject to paragraph (d), the *ASRR* for *prescribed transmission use of system services* is to be allocated to *transmission connection points of Transmission Customer* in the following manner:
  - (1) a portion of the *ASRR* (the **locational component**) is to be allocated as between such *Transmission Customer connection points* on the basis of the estimated proportionate use of the relevant *transmission system* assets by each of those customers and providers, and the *CRNP methodology* and *modified CRNP methodology* represents 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 *Transmission Customer connection points* by the application of a *postage-stamped price*.
- (d) In the case of the *ASRR* for *prescribed transmission use of system services*, the shares of the locational and non-locational components are to be either:

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- (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 *common services* must be allocated to *Transmission Customer* and *Network Service Provider connection points* by the application of a *postage-stamped price*.

### 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* (*prescribed entry service price*, *prescribed entry service charge*);
  - (2) *prescribed exit services* (*prescribed exit service price*, *prescribed exit service charge*);
  - (3) *common transmission services* (*common transmission service price*; *common transmission service charge*);
  - (4) *prescribed transmission use of system services* – locational component (*Customer TUoS usage price*; *Customer TUoS usage charge*); and
  - (5) *prescribed transmission use of system services* – non-locational component (*Customer TUoS general price*; *Customer TUoS general charge*).
- (c) Prices for *prescribed entry services* and *prescribed exit services* must be a fixed annual amount.
- (d) Prices for *common transmission services* must be *postage-stamped*.
- (e) Prices for recovering the locational component of providing *prescribed 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 *postage-stamped*.

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### **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 its *Pricing Methodology*.
- (b) The *Pricing Methodology Guidelines*:
  - (1) must give effect to, and be consistent with, the *Pricing Principles*;
  - (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 [1 July 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 *pricing methodology* is consistent with and gives effect to, the *Pricing Principles* and the requirements of this Part J;
- (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*;
- (d) the types of *transmission system* assets and operating and maintenance costs that are typically developed or incurred in providing the different *categories of prescribed transmission services*;
- (e) the operation and application of the *CRNP methodology* and *modified CRNP methodology* as described in schedule 6A.4; and
- (f) application and meaning of the *attributable cost share*, the *attributable connection point cost share*, the *stand-alone amount* and “directly attributable (on a causation basis)”.

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

*[Drafting Note:*

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*The procedures for approval of a pricing methodology will be integrated with Part E as drafted in the Draft Revenue Rule. For the purposes of first round consultation, the Proposed Pricing Rule has been drafted as a stand alone procedure. Differences in the drafting are by way of simplification, and the intention is that the procedure for approval of a proposed pricing methodology is to be fully integrated with the procedure for determination of a Revenue Proposal and proposed negotiating framework.]*

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

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.

### **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*; 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,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

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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, as soon as practicable thereafter, resubmit its proposed *pricing methodology* or the required information in a form that complies with the relevant requirements.

### **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 be 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).

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### **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*;
  - (2) comply with the requirements of, and must contain or be accompanied by such information as is required by, the *Pricing Methodology Guidelines*.
- (c) 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.

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- (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*; 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 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* determination 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.

*[Drafting Note:*

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*The requirement in paragraph (b) reflects the existing requirement of clause 6.5.7. The Commission seeks comment as to the appropriate timing requirements for a Transmission Network Service Provider to publish its annual prices based on its pricing methodology.]*

### 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*.
- (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 *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 *Customer TUOS general charges* or *common transmission service charges* (**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:
  - (1) *Customer TUOS general charges* to other *Transmission Customers*; and
  - (2) *common transmission service charges*,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 *Customer TUOS general charges* or *common transmission service charges* to its other *Transmission Customers*.
- (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 *Customer TUOS general charges* and *common transmission service charges* 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

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*financial year* in which the reduced charges apply, the *Transmission Network Service Provider* may recover the difference through the *Customer TUOS general charges* 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 *Customer TUOS general charges* or *common transmission service charges* to its other customers (the **proposed recovery amount**).
- (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.

**[Drafting Note:**

*Draft clause 6A.17.2 (g) will be amended as follows:*

- (g) *The information guidelines may specify, for the purposes of clause 6.27.2:*
  - (1) *the circumstances in which a discount amount has arisen;*
  - (2) *details of the proposed recovery amount that the provider proposes to be recovered from the charges referred to in clause 6A.27.2; and*
  - (3) *evidence as to how the requirements of clause 6A.27.1(e) are satisfied; and*
  - (4) *such other information as may be required.]*
- (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 paragraph (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 paragraph (d) within the time specified by the *AER* in a notice provided to the provider by the *AER* for that purpose.

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### Consultation

- (h) Before making a determination under paragraph (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 paragraph (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);
  - (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 for the duration of the agreement between the *Transmission Network Service Provider* and the *Transmission Customer*, 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 [existing rule 6.7]

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 Customers* or other persons with *connection points* on the *transmission network* in accordance with the *transmission service prices* published under clause 6A.26.14.

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- (b) A *Transmission Network Service Provider* must issue a bill to *Transmission Network Customers* 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 *transmission service* charges are to be determined 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 clause 6.7.2(a), a bill for a *connection point* issued by a *Transmission Network Service Provider* directly to a *Transmission Customer* must separately identify the *Customer TUOS usage charge*, *Customer TUOS general charge* and *common transmission service charge* components of the total amount levied in relation to *prescribed transmission use of system services* in the *billing period* for that *connection point*.

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

A *Transmission Network Customer* 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*.

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- (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

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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 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* may agree to appoint a *Co-ordinating Network Service Provider* who is responsible for the allocation of all relevant *AARR* within that *region*.
- (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) The *Co-ordinating Network Service Provider* must use the total *AARR* of all *Transmission Network Service Providers* providing *prescribed transmission services* within the *region*.
- (d) The *Co-ordinating Network Service Provider* is responsible for the allocation in accordance with the *Pricing Principles*, in relation to *Transmission Network Users'* and *Transmission Network Service Providers'* *connection points* to *transmission networks* located within the *region*.

#### **6A.30.1 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* for the *transmission networks* in that *region* and must liaise with the *Transmission Network Service Provider* similarly responsible in any other *interconnected regions*.

#### **6A.30.2 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

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providers for *interconnected regions* to undertake the allocations 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.

### 6A.31 Information Requirements – Regulation of Pricing [existing rule 6.9]

*[Drafting Note: The current requirements in existing clause 6.9.1 – Transmission Network data from Network Service Providers are proposed for inclusion in the information guidelines developed by the AER under the [draft] clause 6A.17.2. That clause would be amended (after paragraph (g)) as follows:*

- (h) The *information guidelines* may provide, for the purposes of rule 6A.31:
  - (1) 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*
  - (2) 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*.
- (d) The derivation of hourly *load* data from *metering data* by the aggregation of the *energy meter* reading figures in respect of each hour.

### 6A.32 Confidentiality of pricing information

[Existing clause 6.9.2 (Confidentiality of network pricing information) provides:

“All information used by a *Transmission Network Service Provider* for the purposes of *transmission service pricing* is *confidential information* and must be treated in accordance with clause 8.6.”]

*[Drafting Note: The Commission seeks comment as to an appropriate regime for dealing with confidentiality of information in light of the proposed changes to the pricing regime]*

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### 6A.33 Transition to new Part J: prices for prescribed exit and entry services under existing agreements

If the terms of a *connection agreement* entered into on or before 24 August 2006, provide for the calculation and determination of prices for services that are *prescribed entry services* or *prescribed exit services* by virtue of the operation of [draft] clause 11.5.11, the prices for those services may continue to be calculated or determined under and in accordance with those agreements despite any requirements of Part J of Chapter 6A.

*[Drafting Note: The Commission seeks comment on this proposed savings and transitional rule, and on any other matters that should be the subject of such savings rules.]*

## Schedule 6A.4 – Pricing Methodology Guidelines

### S6A.4.1 CRNP methodology and modified CRNP methodology

The *Pricing Methodology Guidelines* may clarify and explain the *CRNP methodology* and the *modified CRNP methodology* in accordance with the following descriptions:

- (a) **CRNP Methodology** (or cost reflective network pricing) is an allocation process that involves the following steps:
  - (1) 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’.
  - (2) Determining the baseline allocation of *generation* to *loads* using a ‘fault contribution matrix’.
  - (3) 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:
    - (i) 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;
    - (ii) 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*;

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- (iii) the sensitivities are weighted by *load* to derive a ‘flow component’ magnitude in each *network* element due to each *load* for that hour;
  - (iv) 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.
- (4) 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.
- (5) Summing the individual locational *network* asset costs allocated to each *load* to give the total amounts allocated to that *load*.
- (b) **Modified CRNP methodology** is an allocation process that involves replacing step 1 of the CRNP methodology in paragraph (a)(1) 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*.
-