



TasNetworks Revised Cost Allocation Method

June 2015

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Shortened forms

Table text heading

AER	Australian Energy Regulator
CAM	Cost Allocation Method
Distributor, DNSP	Distribution Network Service Provider
NEL	National Electricity Law
NEM	National Electricity Market
Rules, NER	National Electricity Market Rules
guidelines	Distribution Cost Allocation Guidelines

1 Introduction

1.1 Summary

On 16 June 2015 TasNetworks submitted a revised Cost Allocation Method/Methodology (CAM)—see Appendix A to this paper.¹ TasNetworks is a licensed entity providing electricity distribution and transmission services in Tasmania. A CAM is used to separately account for the costs of providing electricity distribution and transmission services, including from other services the Network Service Provider (NSP) might provide. TasNetworks proposed its new CAM take effect from 1 July 2015.

We have determined TasNetworks' proposed CAM:

- accords with the requirements of the National Electricity Law (NEL) and National Electricity Rules (the rules)
- gives effect to and is consistent with our Distribution Cost Allocation Guidelines (distribution guidelines) and Transmission Cost Allocation Guidelines (transmission guidelines).¹

Accordingly, we have approved TasNetworks' proposed CAM under clauses 6.15.4(c)(f) and 6A.19.4(c)(f) of the rules.

1.2 Background

We are responsible for regulating revenues of electricity distribution and transmission businesses in the National Electricity Market (NEM) in accordance with the NEL and the rules. Chapter 6 of the rules deals with economic regulation of electricity distribution services. Chapter 6A deals with electricity transmission services.

Cost allocation concerns attributing a regulated business's costs, or allocating shared costs, between distribution/transmission service categories and non-regulated business sections. The different service categories are defined in the NEL and the rules.

TasNetworks is both a Distribution Network Service Provider (DNSP) and a Transmission Network Service Provider (TNSP).² TasNetworks has proposed a single CAM to cover both its distribution and transmission services and its non-regulated services. TasNetworks previously had two separate approved CAMs for the now defunct Aurora and Transend. As those entities no longer exist TasNetworks has submitted a new CAM for our approval.

For electricity distribution, the CAM allocates costs between:

¹ Chapter 6 (distribution) of the rules refers to a *Cost Allocation Method* while Chapter 6A (transmission) refers to a *Cost Allocation Methodology*. TasNetworks has proposed a revised Cost Allocation Method/Methodology in compliance with both Chapter 6 and Chapter 6A. For convenience, in this paper we use Cost Allocation Method. This should be read as also meaning Cost Allocation Methodology in respect of TasNetworks' role as a TNSP.

² TasNetworks was created by the merger of Aurora (DNSP) and Transend (TNSP). As part of the organisational restructure, Aurora's electricity retailing business was separated. The new distribution and transmission NSP, TasNetworks, took effect from 1 July 2014.

- direct control services, comprising:
 - standard control services
 - alternative control services
- negotiated distribution services
- unclassified, or unregulated, services.

In our distribution determinations we classify distributor services to the above categories based on factors specified by the rules. For transmission we are not required to classify services as the separate categories of services are already defined by the rules. For transmission, the CAM allocates costs between:

- prescribed transmission services
- negotiated transmission services
- unregulated services.

The prices charged by NSPs for the different categories of services depend on costs incurred in providing those services. It is therefore important cost allocation between service classifications accurately and fairly represents costs incurred in providing those services. We rely upon historical and forecast costs allocated in accordance with an approved CAM to determine prices charged, or revenues raised, by NSPs such as TasNetworks.

While TasNetworks combines DNSP and TNSP roles, for regulatory purposes TasNetworks comprises two separate ring fenced entities—a TasNetworks DNSP and a TasNetworks TNSP. TasNetworks will submit to us for assessment separate distribution and transmission regulatory proposals. We will assess those proposals under separate processes. Shared costs, such as some corporate costs for example, will be allocated to either the distribution or transmission business.

Distribution and transmission regulatory proposals, the regulatory arrangements proposed by DNSPs and TNSPs to us for a particular regulatory control period, must comply with an approved CAM. The revised CAM subject to this decision paper will be used by TasNetworks to develop its separate distribution and transmission regulatory proposals. TasNetworks will also use its revised CAM to report to us annually for its separate distribution and transmission regulated businesses.

Following our approval TasNetworks' proposed CAM will remain relevant to its statutory accounts, reporting and regulatory proposals until we approve a further CAM variation.

2 The rule requirements

2.1 The rule requirements

For DNSPs:

- Clause 6.15.4(a) of the rules requires a DNSP to submit to us for approval a document setting out its proposed CAM.
- Clause 6.15.4(b) requires that a CAM give effect to and be consistent with our distribution guidelines.
- Clause 6.15.4(c) provides for us to approve or refuse to approve a CAM submitted under paragraph (a).
- Clause 6.15.4(f) provides for a DNSP to amend its CAM from time to time, subject to our approval.

For TNSPs:

- Clause 6A.19.4(a) of the rules requires a TNSP to submit to us for approval a document setting out its proposed CAM.
- Clause 6A.19.4(b) requires that a CAM give effect to and be consistent with our transmission guidelines.
- Clause 6A.19.4(c) provides for us to approve or refuse to approve a CAM submitted under paragraph (a).
- Clause 6A.19.4(f) provides for a TNSP to amend its CAM from time to time, subject to our approval.

2.2 Assessment process

TasNetworks submitted a draft of its proposed CAM on 28 May 2015. We assessed the draft proposed CAM. Resulting from this assessment, TasNetworks was provided with feedback that limited corrections were required to permit approval of the CAM.

The results of our assessment of TasNetworks' revised proposed CAM against the requirements of our guidelines are set out in sections 2 and 3 of this paper.

2.3 TasNetworks CAM revisions and structure

TasNetworks sought AER approval of the attached amended Cost Allocation Method (CAM) under clause 6.15.4(f) of the National Electricity Rules. TasNetworks submitted that the major driver of revisions to its CAM is the merger of the now defunct Aurora and Transend to create TasNetworks, including the divestment of Aurora's retail business.

We accept the organisational changes are significant and justify establishment of a new CAM for the new merged TasNetworks NSP.

3 Consistency with our cost allocation guidelines

This section sets out our assessment of TasNetworks' proposed CAM against the requirements of our guidelines.

3.1 TasNetworks CAM assessment

The format and content of TasNetworks' CAM are regulated by clause 3.2(a) of our distribution guidelines and clause 3.2 of our transmission guidelines. Table 1 compares TasNetworks' proposed CAM against the requirements of clause 3.2(a).

Clause 3.2(a) of the AER's Distribution Cost Allocation Guidelines

CAM references

&

Clause 3.2 of the AER's Transmission Cost Allocation Guidelines

DIST

A version history and date of issue for the document

Compliant. See page iii.

TRANS

3.2 (1) a version history and date of issue for the document

DIST

A statement of the nature, scope and purpose of the document and the way in which it is to be used by the distributor.

Compliant. See page 5

TRANS

3.2 (2) a statement of the nature, scope and purpose of the document and the way in which it is to be used by the TNSP

DIST

(3) Details of the accountabilities within the distributor for the document in order to set out clearly:

A. the distributor's commitment to implementing the CAM; and

B. responsibilities within the distributor for updating, maintaining and applying the CAM and for internally monitoring and reporting on its application.

Compliant. See page 6.

TRANS

3.2 (3) details of the accountabilities within the TNSP for the document in order to set out clearly:

A. the TNSP's commitment to implementing the cost allocation

methodology; and

B. responsibilities within the TNSP for updating, maintaining and applying the cost allocation methodology and for internally monitoring and reporting on its application.

DIST

A description of the distributor's corporate and operational structure to enable the AER to understand how the distributor is organised to provide its distribution services.

Compliant. See page 8.

TRANS

3.2 (4) a description of the TNSP's corporate and operational structure in order to enable the AER to understand how the TNSP is organised to provide its transmission services

DIST

A specification of the categories of distribution services that the distributor provides to which costs are to be attributed or allocated and the types of persons to whom those services are provided.

Compliant. See page 9.

TRANS

3.2 (5) a specification of the categories of transmission services that the TNSP

provides to which costs are to be attributed or allocated and the types of

persons to whom those services are provided

DIST

(6) The distributor's detailed principles and policies to be used for attributing costs directly to, or allocating costs between, categories of distribution services that meet the requirements of clause 2.2 of the Guidelines. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.

Compliant. See pages 13 to 19 and appendix 1.

TRANS

3.2 (6) the TNSP's detailed principles and policies to be used for attributing costs directly to, or allocating costs between, categories of transmission services that meet the requirements of clause 2.2 of these guidelines. For the

avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions

DIST

(7) A description of how the distributor will maintain records of the attribution or allocation of costs to, or between, categories of distribution services to enable any such attribution or allocation to be:

Compliant. See pages 12 & 19.

A. demonstrated to the AER, in accordance with clause 5.2 of these

Guidelines; and

B. audited or otherwise verified by a third party, including the AER, as required.

TRANS

3.2 (7) a description of how the TNSP will maintain records of the attribution or

allocation of costs to, or between, categories of transmission services in order to enable any such attribution or allocation to be:

A. demonstrated to the AER, in accordance with clause 5.2 of these guidelines and

B. audited or otherwise verified by a third party, including the AER, as required.

DIST

(8) A description of how the distributor will monitor its compliance with the CAM and the Guidelines.

Compliant. See page 19.

TRANS

3.2 (8) a description of how the TNSP will monitor its compliance with the cost

allocation methodology and these guidelines

DIST

(9) Details of the proposed date on which the CAM will commence, having regard for clause 4.1(d) of these Guidelines.

Compliant. See page 6.

TRANS

3.2 (9) details of the proposed date on which the cost allocation methodology will commence, having regard for clause 4.1(d) of these guidelines and

TRANS

3.2 (10) statement signed and dated by not less than two directors of a TNSP, which states whether in the directors' opinion, the information contained in the

cost allocation methodology is accurate and which confirms the TNSP's

intention to comply with the cost allocation methodology as approved by

AER.

Compliant. See page 21.