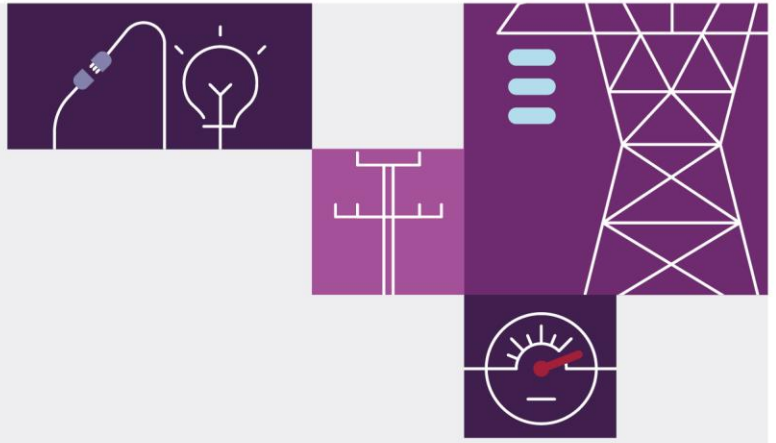


REVENUE METHODOLOGY FOR VICTORIA'S ELECTRICITY TRANSMISSION SYSTEM



ISSUE DATE: 15 March 2023





Important notice

This document was prepared for the purposes of clause S6A.4.2(c) of the National Electricity Rules.

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1 Introduction

1.1 Purpose

AEMO has declared network functions in Victoria under section 50C of the National Electricity Law (NEL) and is entitled to charge network users for the services it provides in doing so. See section 5 below.

Under the National Electricity Rules (NER), AEMO is required to have:

- a Revenue Methodology setting out the method for calculating the amount which AEMO can recover for the provision of prescribed transmission services in Victoria; and
- a Pricing Methodology setting out the principles as to how the amount to be recovered is converted into prices and charges for the provision of those services.

While AEMO's Pricing Methodology has been approved by the Australian Energy Regulator (AER), this Revenue Methodology is not subject to AER approval. However, in formulating an amendment to this document, AEMO must consult with the public unless specified otherwise.

In this Revenue Methodology, AVP (or AEMO Victorian Planning) refers to AEMO when carrying out its declared network functions in respect of Victoria under the NEL and the NER. AVP is also the Co-ordinating Network Service Provider (CNSP) for Victoria.

1.2 Background

AVP provides shared transmission services by means of, or in connection with, the declared shared network system in Victoria, plans future requirements of the declared shared network, procures augmentations and non-network services and connects new generators and loads to the system. Since October 2021, AVP also has been recognised as the System Strength Service Provider and responsible for the provision of system strength transmission services in Victoria.

This document:

- Establishes how AVP calculates the amount which AVP can recover for the provision of prescribed transmission services in Victoria (this is referred to as AVP's TUOS revenue requirement). In the Pricing Methodology, this is also referred to as the maximum allowed revenue or MAR
- Discusses and outlines the allocation of costs between different service categories
- Describes how any under and over recovery of revenue in a particular year will be treated
- Details how AVP will report its annual charges.

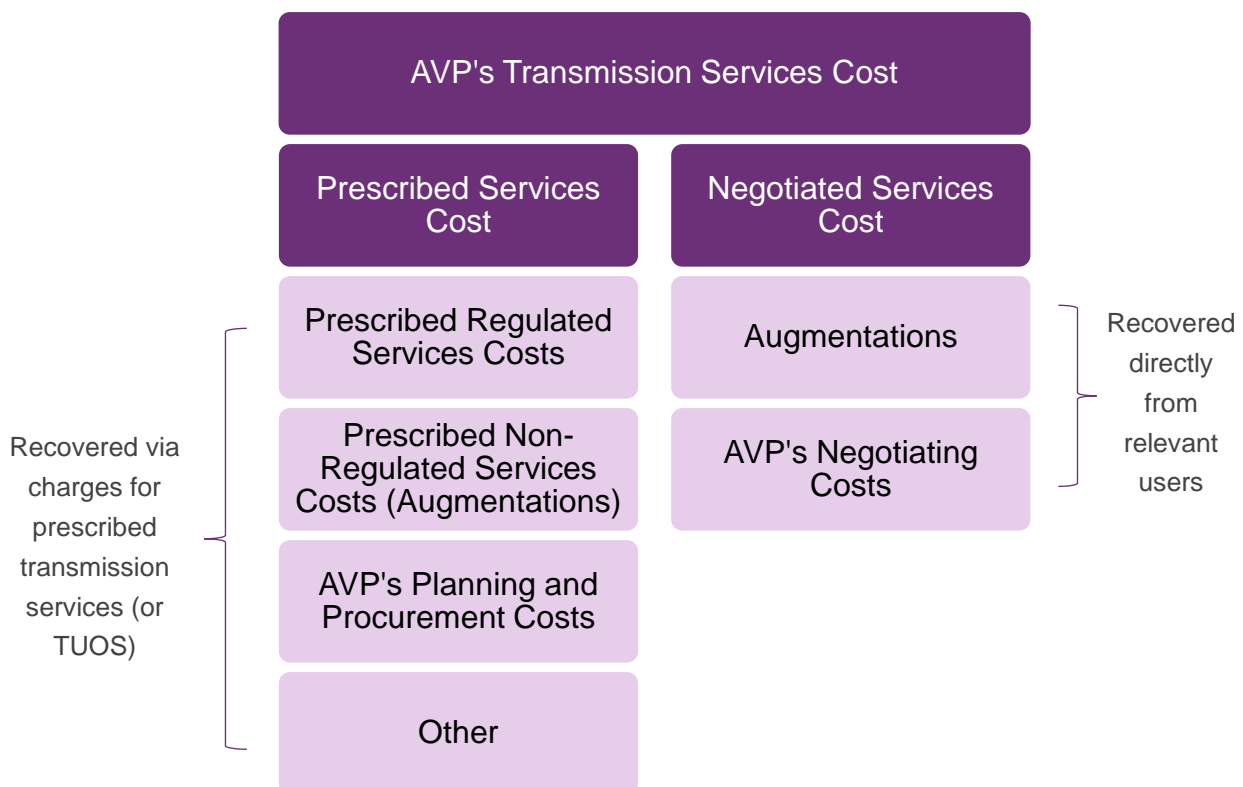
2 AVP's Transmission Services

AVP does not own any element of the transmission system. Rather, it procures, through contracts, services from network and non-network service providers and provides transmission services or equivalent to network users through service agreements known as use of system agreements (UOSAs).

Transmission services provided to network users are classified as negotiated services or prescribed services. The costs to provide prescribed transmission services are recovered from network users via transmission use of system (TUOS) charges¹. These network users are distribution businesses and customers that are directly connected to the transmission system. All costs incurred in providing negotiated services are recovered directly from the connecting parties.

Chart 1 outlines the cost elements and how they are being allocated between the service categories.

Chart 1 AVP's Victorian Transmission Services Cost Components



¹ In some circumstances, funding may be secured from other sources (e.g. direct government funding) in which case, such costs are not included in AVP's TUOS revenue requirement.



2.1 Negotiated Services

Negotiated services are provided to single network users or a small group of network users. Typically, this will be for a new generator or large load connecting to the transmission system. The costs incurred to provide negotiated services will be recovered directly from that user and are excluded from the calculation of AVP's TUOS revenue requirement.

2.2 Prescribed Services

All other services are determined by identifying future requirements. This requires an analysis of the existing service capabilities, future demand projections, generation connection locations, technological advancements, policy drivers and economic considerations.

If this analysis identifies a shortfall in the existing capability of the transmission system new services will be identified and procured only if the benefits of procuring the service exceed the cost. This cost-benefit analysis may be subject to a public consultation process to enable all network users to understand why they are likely to incur additional charges and for network and non-network asset owners to identify and submit innovative and efficient solutions to meet the identified needs. In this way any additions to the system are identified and provided in the most economic manner and the increased capability of the system best meet consumers' needs. These services are defined as prescribed transmission services. AVP may sometimes be required by Ministerial Order under the NEVA to undertake or procure services as defined in the Order. More details on this can be found below at Section 3.4.5.

System strength transmission services are included in prescribed services.

Prescribed services costs are recovered from network users through prescribed transmission services (or TUOS) charges². Most TUOS charges are allocated to distribution businesses with some allocated to large customers directly connected to the transmission system.

Prescribed services are the subject of this revenue methodology.

3 Components of TUOS Revenue Requirement

AVP's TUOS revenue requirement consists of the following elements:

- Prescribed regulated services costs
- Prescribed non-regulated services costs
- AVP's planning, procurement and other costs
- Other

² Unless recovered via other sources as described above.

- Over recovery or under recovery from previous years

Each of these is discussed below in turn.

3.1 Prescribed Regulated Services

The majority of AVP's TUOS revenue requirements are determined by the AER's revenue regulatory arrangements for declared transmission system operators. Under these arrangements the declared transmission system operator's revenue is determined after it submits a proposal to the AER, typically every five years, for sufficient revenue to enable it to continue providing transmission services to AVP. The declared transmission system operator then charges AVP in-line with the AER approved amounts and AVP then incorporates these amounts into its TUOS revenue requirement.

There are currently two network asset owners (AusNet Services and Murraylink) in Victoria whose revenues are determined by the AER in this way.

3.2 Prescribed Non-Regulated Services

From time to time AVP contracts for transmission services (for the use of network assets) and non-network services (for the use of non-network alternatives³) in respect of the declared shared network that are not regulated by the AER.

The cost of these services including system strength service payments, which AVP may procure under a competitive tendering process⁴, are charged to AVP under an agreement between the service provider and AVP.

In the case of augmentations, the terms of these contracts are typically for 30 years or in line with the technical life of the assets involved. The charges largely reflect the annualised cost of the service being provided.

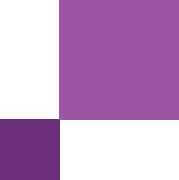
In the case of the service being provided by a service provider who is subject to AER regulated revenue, depending on the terms of the contract, the network assets used to provide the transmission service may be rolled into the service provider's regulated asset base (RAB) at the commencement of a subsequent revenue period, subject to AER approval. Alternatively, it can continue to be charged under contract.

3.3 Planning, procurement and other costs

AVP incurs other costs for the provision of prescribed shared transmission services, including in carrying out the declared network functions (see section 5) for example in respect of planning, authorising and contracting for augmentation of the declared shared network. These costs are ring-fenced and accounted for separately from AEMO's other functions costs.

³ This includes services provided by other networks (e.g., distribution and other networks) as an equivalent but equally or more efficient alternative to a transmission network service required to meet an identified need.

⁴ AVP competitively tenders where a service is determined to be contestable under clause 8.11.6 of the NER.



In addition to the declared network functions, AEMO has other functions, for example as the operator of the national electricity market (NEM) and as the national transmission planner. In allocating costs between its various functions, AEMO has adopted the principles that the allocation must be:

- fair and reasonable
- practical to implement and maintain
- based on the accrual basis of accounting and is in accordance with applicable Australian Accounting Standards
- based on a full cost recovery basis
- consistent with legal requirements.

Where practicable, costs will be directly allocated to the function that the cost relates to. Where it is not practicable to allocate costs directly to a function, AEMO will use an allocation methodology that is consistent with the principles outlined above.

3.4 Other

3.4.1 Revenue

AVP receives additional revenue over and above the revenue from TUOS charges in carrying out the declared network functions, including interest on cash held at bank and revenue from generators paying system strength charges.

This additional revenue reduces the overall TUOS revenue requirement.

3.4.2 Settlement Residue

In the NEM, settlement residue is the difference between the amount AEMO collects from market customers and the amount AEMO pays to generators for spot market transactions.

This revenue primarily relates to settlement residue that AVP, as the CNSP for Victoria, receives in accordance with the NER. Settlement residue components can be either positive or negative dollar adjustments to the TUOS revenue requirement.

3.4.3 Net Charges/Receipts from Inter-Regional TUOS

Inter-regional transmission charging arrangements provide a mechanism for exporting regions in an interconnected system to charge importing regions a modified load export charge (MLEC) for facilitating the transport of electricity.

The MLEC applying to each neighbouring region is determined on a net basis, reflecting that all regions both import and export electricity. The net charges or receipts from Victoria's neighbouring regions are then incorporated into the TUOS revenue requirement. If the net amount is a charge, it means an increase adjustment to the TUOS revenue requirement, and if a receipt, it means a reduction adjustment to the TUOS revenue requirement.

3.4.4 National Transmission Planner costs

A portion of AEMO's National Transmission Planner costs is allocated to AVP in its capacity as a CNSP for Victoria.

AVP makes a number of subsequent adjustments to the prices it charges for under its Pricing Methodology, including an adjustment to recover Victoria's allocation of the national transmission planner function fees.

3.4.5 AusNet Increment

In accordance with the NER, AVP is required to pay AusNet the difference between AusNet's share of AEMO's participant fees and the provision made for those fees in AusNet Services 2022-27 revenue determination. If the difference is a negative amount, then it is deemed to be zero.

3.4.6 Ministerial Orders under the NEVA

From time to time, Ministerial Orders made under the NEVA may confer functions on AVP including requiring AVP to conduct competitive tenders or other procurement processes and contract for augmentation related services or specified non-network services. The Order will specify how AVP is to undertake or procure the service and may allow AVP to recover the associated costs (alternatively, the Victorian Government may fund AVP directly). Where an Order allows AVP to recover costs through charges in respect of prescribed transmission services, AVP will include those costs in its TUOS revenue requirement, to the extent provided in the Order.

3.5 Over recovery or under recovery from previous years

AVP includes any expected accumulated surplus or deficit from a prior year in determining the TUOS revenue requirement for each regulatory year.

If an accumulated surplus is expected in the current year, the revenue requirement for the forthcoming year is reduced. Conversely, if an accumulated deficit is expected in the current year the revenue requirement for the forthcoming year is increased. This adjustment ensures that AVP's revenue requirement is calculated on a full cost recovery and non profit basis.

4 Reporting on this Revenue Methodology

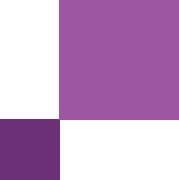
On an annual basis, prior to the commencement of the forthcoming year, AVP will publish a report that outlines the forecast revenue, costs and accumulated surplus or deficit for the current year, the budgeted revenue, costs and accumulated surplus or deficit for the forthcoming year.

This information will be published on AEMO's website prior to the commencement of the forthcoming year.

5 Declared Network Functions

The NEL and the NER confer various functions on AEMO, including the following declared network functions:

- a) to plan, authorise, contract for, and direct, augmentation of the declared shared network

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- b) to provide information about the planning processes for augmentation of the declared shared network
 - c) to provide information and other services to facilitate decisions for investment and the use of resources in the Victorian electricity industry
 - d) to provide shared transmission services by means of, or in connection with, the declared shared network
 - e) any other functions, related to the declared transmission system or electricity network services provided by means of or in connection with the declared transmission system, conferred on it under the NEL or the NER
 - f) any other functions, related to the declared transmission system or electricity network services provided by means of or in connection with the declared transmission system, conferred on it under a law of Victoria⁵.

AEMO may determine fees and charges for services provided under the NEL and the NER⁶, including in its capacity as AVP. The fees and charges for a service are to be determined on a non-profit basis that provides for full recovery of the costs of providing the service and consistently with the requirements of the NER.

In addition to specific rules that allow AEMO to recover particular costs through TUOS charges, the NER require that AEMO's expenditures in carrying out declared network functions, and the NTP function fees applicable to AEMO as CNSP, are to be recovered through fees charged as a Transmission Network Service Provider.⁷

6 Interpretation

- (a) In the event of any inconsistency between a provision of the NEL or the NER and a provision of this document, the provision of the NEL or the NER will prevail to the extent of the inconsistency.
- (b) This document is to be construed so as to give full effect to any right of recovery which AEMO has under the NEL, the NER, an order or any other instrument.
- (c) In this document, a reference to a section, rule or clause of any other document is to that section, rule or clause as amended, varied, replaced or substituted and includes any new section, rule or clause of the other document dealing with the same or substantially the same subject matter, even if it has been moved or renumbered.

⁵ Section 50C(1) of the NEL

⁶ Section 52 of the NEL. For this purpose, "service" includes the performance of statutory functions.

⁷ Clause 2.11.3(d) of the NER

Abbreviations

The following abbreviations are used in this revenue methodology.

Acronym/ Abbreviation	Meaning
AEMO	Australian Energy Market Operator Limited
AER	Australian Energy Regulator
AVP	AEMO Victorian Planner, ie AEMO when carrying out its declared network functions in respect of Victoria under the NEL and the NER
CNSP	Co-ordinating Network Service Provider
NEVA	National Electricity (Victoria) Act
MLEC	Modified Load Export Charge
NEL	National Electricity Law
NER	National Electricity Rules
RAB	regulated asset base
TUOS	Transmission Use of System
UOSA	Use of system Agreement