

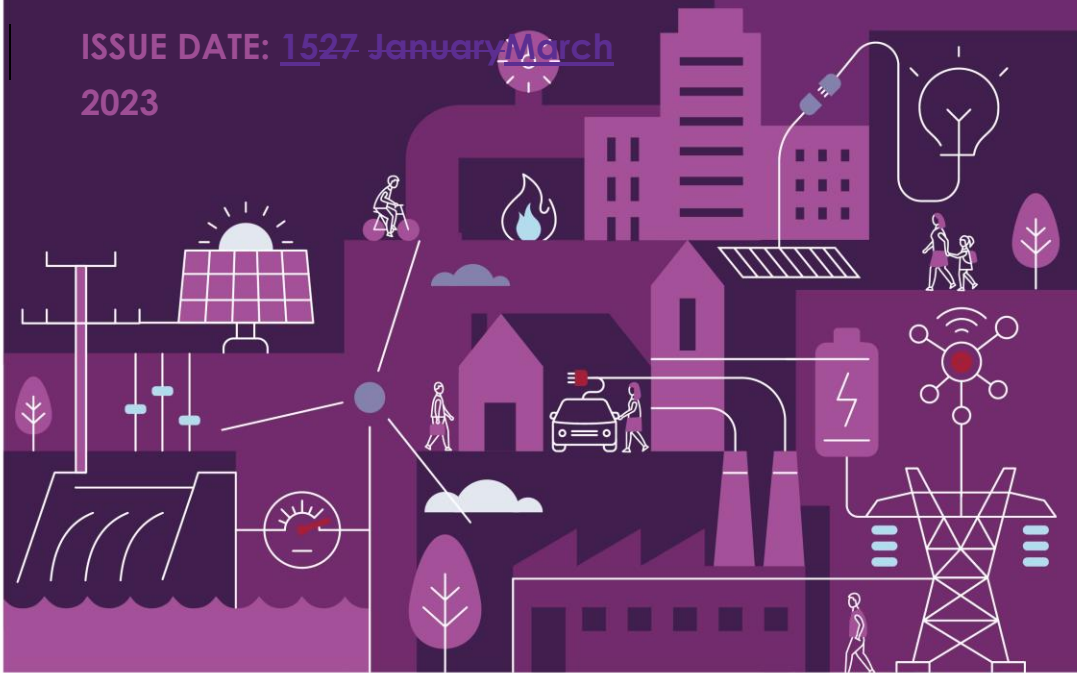
# REVENUE METHODOLOGY FOR VICTORIA'S ELECTRICITY TRANSMISSION SYSTEM

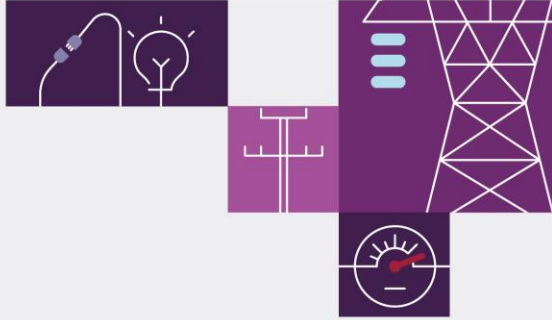


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ISSUE DATE: ~~1527 January~~ March  
2023





## Important notice

### Purpose

This document was prepared for the purposes of clauseSection S6A.4.2(cG) of the National Electricity Rules. AEMO must have a revenue methodology (which will not be subject to the AER's approval) setting out the method for calculating AEMO's maximum allowed revenue for the provision of prescribed transmission services for each regulatory year.

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The National Electricity Rules (NER) and the National Electricity Law (NEL) will prevail over this document to the extent of any inconsistency.

### Disclaimer

This document or the information in it may be subsequently updated or amended.

This document does not constitute legal or business advice and should not be relied on as a substitute for obtaining detailed advice about the National Electricity Law, NEL, the National Electricity Rules, NER, or any other applicable laws, procedures or policies. AEMO has made reasonable efforts to ensure the quality of the information in this document but cannot guarantee its accuracy or completeness.

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# Contents

<a href="#">1 Introduction</a>	<a href="#">6</a>
<a href="#">1.1 Purpose</a>	<a href="#">6</a>
<a href="#">1.2 Background</a>	<a href="#">6</a>
<a href="#">2 AVP's Transmission Services</a>	<a href="#">13</a>
<a href="#">2.1 Negotiated Services</a>	<a href="#">15</a>
<a href="#">2.2 Prescribed Services</a>	<a href="#">15</a>
<a href="#">3 Components of TUOS Revenue Requirement</a>	<a href="#">16</a>
<a href="#">3.1 Prescribed Regulated Services</a>	<a href="#">16</a>
<a href="#">3.2 Prescribed Non-Regulated Services</a>	<a href="#">17</a>
<a href="#">3.3 Planning, procurement and other costs</a>	<a href="#">18</a>
<a href="#">3.4 Other</a>	<a href="#">19</a>
<a href="#">3.4.1 Revenue</a>	<a href="#">19</a>
<a href="#">3.4.2 Settlement Residue</a>	<a href="#">19</a>
<a href="#">3.4.3 Net Charges/Receipts from Inter-Regional TUOS</a>	<a href="#">20</a>
<a href="#">3.4.4 National Transmission Planner costs</a>	<a href="#">20</a>
<a href="#">3.4.5 AusNet Increment</a>	<a href="#">20</a>
<a href="#">3.4.6 Ministerial Orders under the NEVA</a>	<a href="#">20</a>
<a href="#">3.5 Over recovery or under recovery from previous years</a>	<a href="#">21</a>
<a href="#">4 Reporting on this Revenue Methodology</a>	<a href="#">21</a>
<a href="#">5 Declared Network Functions</a>	<a href="#">21</a>
<a href="#">6 Interpretation</a>	<a href="#">22</a>
<del><a href="#">1 Introduction</a></del>	<del><a href="#">5</a></del>
<del><a href="#">1.1 Purpose</a></del>	<del><a href="#">5</a></del>
<del><a href="#">1.2 Background</a></del>	<del><a href="#">6</a></del>
<del><a href="#">2 AVP's Transmission Services</a></del>	<del><a href="#">12</a></del>
<del><a href="#">2.1 Negotiated Services</a></del>	<del><a href="#">14</a></del>
<del><a href="#">2.2 Prescribed Services</a></del>	<del><a href="#">14</a></del>
<del><a href="#">3 Components of TUOS Revenue Requirement</a></del>	<del><a href="#">15</a></del>
<del><a href="#">3.1 Prescribed Regulated Services</a></del>	<del><a href="#">15</a></del>
<del><a href="#">3.2 Prescribed Non-Regulated Services</a></del>	<del><a href="#">16</a></del>
<del><a href="#">3.3 Planning, procurement and other costs</a></del>	<del><a href="#">17</a></del>
<del><a href="#">3.4 Other</a></del>	<del><a href="#">18</a></del>
<del><a href="#">3.4.1 Revenue</a></del>	<del><a href="#">18</a></del>

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<b>3.4.2 Settlement Residue</b>	<b>18</b>
<b>3.4.3 Net Charges/Receipts from Inter-Regional TUOS</b>	<b>19</b>
<b>3.4.4 National Transmission Planner costs</b>	<b>19</b>
<b>3.4.5 AusNet Increment</b>	<b>19</b>
<b>3.4.6 Ministerial Orders under the NEVA</b>	<b>19</b>
3.5 Over-recovery or under-recovery from previous year	20
4 Reporting on this Revenue Methodology	20
5 Declared Network Functions	20
6 Interpretation	21
445566677788888891	Introduction 5
2 The Victorian Electricity Transmission System	5
3 Providing Services	6
3.1 Negotiated Services	7
3.2 Prescribed Services	7
4 Calculating Prescribed Revenue Requirements	8
4.1 Australian Energy Regulator (AER) determined regulated revenue	8
4.2 Augmentations	8
4.3 Planning and Procurement costs	9
4.4 Other	10
4.4.1 Revenue	10
4.4.2 Over-recovery or under-recovery from previous year	10
4.4.3 National Transmission Planner costs	10
4.4.4 AusNet Increment	10
4.4.5 Ministerial Orders under the National Electricity (Victoria) Act (NEVA)	11
5 Reporting on this Revenue Methodology	11



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## Figures

Figure 1	5
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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

AEMO, as the Victorian Coordinating Network Service Provider (CNSP), provides shared transmission services to users of the Declared Transmission System (DTS) for its region. As part of AEMO's declared network functions, AEMO AVP provides shared transmission services by means of, or in connection with, the declared shared network Transmission System (DTS) in Victoria, services Victoria, planning of future requirements of the declared shared network DTS, the procuring of augmentations and non-network services and connecting new generators and loads to the system. Since October 2021, AVP AEMO also has been recognised as the System Strength Service Provider and responsible for the provision of system strength transmission services in Victoria. Throughout this document, AVP (AEMO Victorian Planning) refers to AEMO in its Victorian Planning role.

AEMO is responsible for planning and investing in augmentations to Victoria's electricity Transmission Network and connecting new generators and loads to the system. AEMO is required to develop and publish a revenue methodology that sets out the method for calculating the AEMO's maximum allowed revenue (MAR) how it calculates its Victorian electricity Transmission Use of System (TUOS) charges for the provision of prescribed transmission services for each regulatory year for network users. The revenue methodology is not subject to the AER's approval, however, in formulating an amendment to this document, AEMO must consult with the public unless specified otherwise.

This document:

- Establishes how AVP AEMO 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

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Methodology, this is also referred to as the maximum allowed revenue or MAR, the amount to be recovered from its transmission user of system (TUOS) charges revenue requirement

- 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 AVPAEMO will report its annual charges.

In addition to this Revenue Methodology, AEMO also has a pricing methodology (that is approved by the Australian Energy Regulator) which sets out how the TUOS prices and charges are calculated.

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## ~~2 The Victorian Electricity Transmission System~~



~~The Victorian electricity transmission system consists of various transmission lines and transformers that link power stations to the distribution system. The transmission network operates at voltages of 500 kV, 330 kV, 275 kV, and 220 kV. The 500 kV transmission network primarily transports bulk electricity from generators in the Latrobe Valley in Victoria's east, to the major load centre of Melbourne, and then onto the major smelter load and interconnection with South Australia in the west. Strongly meshed 220 kV transmission lines supply the metropolitan area and major regional cities of Victoria.~~

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~~The 330 kV transmission lines connect Victoria with the Snowy and New South Wales regions of the National Electricity Market (NEM), while transmission at 275 kV provides the interconnection with South Australia. Recent developments have connected two high voltage direct current (DC) interconnectors to the Victorian transmission network. One of the DC links forms the second connection with South Australia (Murraylink) while the other brings Tasmania into the NEM by connecting it with Victoria (Basslink).~~

—The electricity transmitted through the transmission system is transformed to lower voltages at terminal stations, where it then supplies the distribution system. The total value of the system is around \$2 billion and the total circuit distance of major transmission lines is approximately 6,000 kilometres.

—Figure 1 below provides a map of the existing Victorian electricity transmission network.

Figure 1\*

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## 32 AEMO AVP's Transmission Providing Services

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

Transmission services can be provided to network users are in one of two ways, via classified as negotiated services or prescribed services or as directed by a Ministerial Order under the National Electricity Act Victoria (NEVA). The costs to provide prescribed transmission services are recovered from network users via transmission use of system (TUOS) charges<sup>1</sup>. These network users are distribution businesses and customers that are directly connected to the transmission system. All costs incurred in providing negotiated services will be recovered directly from the connecting parties<sup>2</sup>.

Chart 1 outlines the cost elements and how they are being allocated between the different service categories. The differences between the elements and the charging are represented in Chart 1 below.

Chart 1 AEMO's AVP's Victorian Transmission Charging Services Cost Components

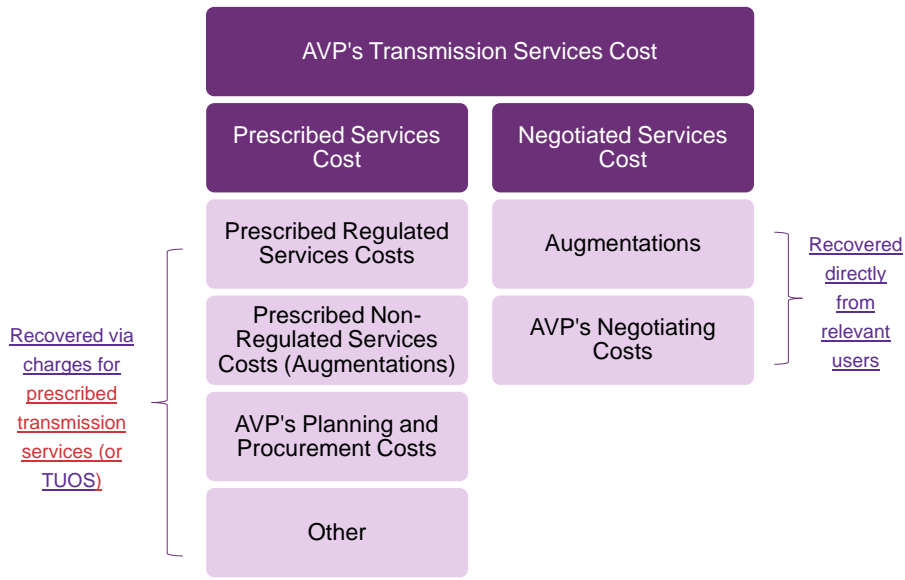
<sup>1</sup> In some circumstances, funding may be secured from other sources (e.g. direct government funding) in which case, such costs are not included in AEMO's TUOS revenue requirement.

<sup>2</sup> In some circumstances, funding may be secured from other sources (e.g. direct government funding) in which cases, such costs are not included in AEMO's maximum allowed revenue.

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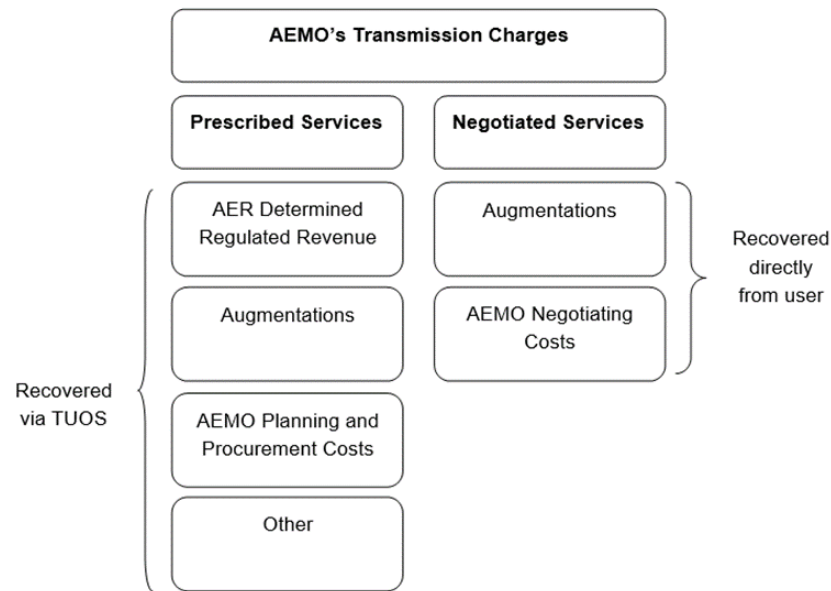
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### **3.12.1**        **Negotiated Services**

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, in some cases, services are identified by an individual or small group of dedicated users. Typically this will be for a new generator looking to connect to the transmission system or large loads. In these cases any charges associated with those services will be recovered from that user. All costs incurred by AEMO in negotiating any augmentations will be charged to that party. These services are defined as negotiated transmission services and the charges from these services are excluded from the calculation of AEMO's AVP's maximum allowed revenue and TUOS revenue requirement charges.

### **3.22.2**        **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 will ~~will~~ may be subjected 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 consumer's' needs. These services are defined as prescribed transmission services. AEMOAVP 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 Pprescribed services.

Prescribed services costs are recovered from network users through prescribed transmission services (or TUOS) Transmission Use of Service (TUOS) charges<sup>3</sup>. Most TUOS charges are allocated to distribution businesses with some allocated to ~~to~~ large customers directly connected to the transmission system.

Prescribed services are the subject of this revenue methodology.

<sup>3</sup> Unless recovered via other sources as described above.

## 43 Calculating components of Prescribed TUOS Revenue Requirements

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

- Australian Energy Regulator (AER) regulated revenue Prescribed regulated services costs<sup>4</sup> for Victoria;
- Augmentations Prescribed non-regulated Sservices costs
- AEMOAVP's Pplanning, and procurement and other costs;
- Other
- Over recovery or under recovery from previous years Accumulated surplus or deficit

Each of these is discussed below in turn.

### 4.13.1 Australian Energy Regulator (AER) determined regulated revenue Prescribed Regulated Services

The majority of AEMO's AVP's TUOS revenue requirements charges are determined via by the Australian Energy Regulator (AER)'s revenue regulatory arrangements for declared transmission services system operators. Under these arrangements the declared transmission service system operator service provider'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 AEMOAVP. The declared transmission service system operator service provider then charges AEMOAVP in-line with the AER approved amounts and AEMOAVP 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, SP AusNet and Murraylink in this way.

Under these arrangements the network asset owner'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 existing transmission services to AEMO.

Following a public consultation process the AER will establish a revenue allowance for the five year period.

Further detail on its approach and the revenue allowances can be found on the AER's website.

<sup>4</sup>The AER may regulate some prescribed services provided by provided some TNSPs in Victoria (e.g., AusNet Services and Murraylink). AEMO's revenue requirement is not regulated by the AER.

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## 4.23.2 Augmentations Prescribed Non-Regulated Services

From time to time [AEMOAVP](#) contracts for transmission services (for the use of network assets) and non-network services (for the use of non-network alternatives<sup>5</sup>) 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 [AEMOAVP](#) may procure under a competitive tendering process<sup>6</sup>, are charged to [AEMOAVP](#) under an ~~network service~~ agreement between the service provider and [AEMOAVP](#).

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~~the next revenue period, subject to AER approval. Alternatively, it can continue to be charged under contract.

Where an augmentation is identified, there is an opportunity for multiple parties to build, own and/or operate elements of the transmission system.

A project will be constructed as a contestable process if:

- the capital cost of the augmentation is reasonably expected to exceed \$10 million and
- it can be provided as a distinct and definable service and will not have a material adverse effect on an incumbent network asset owner.

The cost of a new augmentation will be charged to AEMO for the remainder of the asset's life under a contract entered into with AEMO.

However, there are circumstances where AEMO will not be able to use competitive tendering provisions to procure new services. These include:

- if the cost to deliver the service is likely to be below \$10 million, or
- the service cannot be provided separably from existing services, or
- if AEMO deems that the delay in implementation arising from the contestability process would prejudice system security or it cannot economically or practicably be implemented

In these instances AEMO will negotiate directly with the network asset owner to whom the new service is required to be connected.

<sup>5</sup> 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.

<sup>6</sup> [AVPEMO](#) competitively tenders where a service is determined to be contestable under clause 8.11.6 of the [National Electricity Rules](#)NER.

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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 augmentation being provided by an asset owner who is subject to AER regulated revenue, the assets may be rolled into their regulated asset base (RAB) at the commencement of the next revenue period subject to AER approval. Alternatively it can continue to be charged under contract.

### 4.33.3 Planning, and Procurement and other costs

AEMOAVP incurs other costs for the provision of prescribed shared transmission services, including in carrying out the its '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.

~~AEMO performs numerous energy market roles and functions. As such, its systems and processes need to be structured to enable the revenue and expenses for each function to be recorded and reported on separately.~~

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 respect of allocating costs between its various different functions, AEMO 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 all of its legal requirements, including the [NEL and the NER — if the allocations under the NEL/NER causes us to conflict with accounting standards, I think we need to follow the NEL/NER. Let me know if I'm wide of the mark].

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 AEMO will use an allocation methodology that is consistent with the principles outlined above.

~~The methodology used to allocate indirect costs will be based on the number of AEMO full time equivalent employees (FTEs) working in each of the different functions.~~

~~It is on this basis that indirect costs will be allocated to functions. The allocation of indirect costs to functions will be completed on a monthly basis.~~

~~The allocation of FTEs to functions will be formally reviewed at least annually.~~

~~AEMO's operating costs relating to this role are accounted for separately from AEMO's other functions based on the approach outlined above.~~

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The operating costs for this role are categorised as follows:

- Labour
- Contractors
- Consulting
- Fees – Agency, Licence and Audit
- IT and Telecommunications expenses
- Occupancy expenses
- Depreciation and Amortisation expenses
- Other Expenses

#### 4.4.3.4 Other

##### 4.4.13.4.1 Revenue

~~AEMO AVP receives additional revenue (over and above the TUOS revenue) from TUOS charges in performing this role carrying out the declared network functions. This revenue AEMO may receive other revenue including interest on cash held at bank, funding from government to provide service under the Ministerial Orders and revenue relating to from generators paying system strength charges service, may include settlement residue receipts, interest earned on cash held and income for services provided in relation to connection applications.~~

~~TAEMO deducts this additional revenue reduces the overall from the amount to be recovered from TUO TUOS revenue requirement S charges.~~

#### 3.4.2 Settlement Residue

~~➤ In the NEM national electricity market (NEM), settlements residue is the difference between the amount AEMO AEMO collectsed from market customers and the amount AEMO AEMO paysid to generators for spot market transactions.~~

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

#### 4.4.2 Over recovery or under recovery from previous year

~~AEMO takes into account any expected accumulated surplus or deficit from the previous year in determining the amount to be recovered from TUOS charges.~~

~~If an accumulated surplus is expected in the current year, its revenue requirement for the forthcoming year is reduced. Conversely, if an accumulated deficit is expected in the current year the revenue requirement for the~~

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forthcoming year is increased. This adjustment ensures that AEMO's revenue requirement is calculated on a full cost recovery and no operating surplus basis.

### 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 in contrast a receipt, it means then a reduction adjustment to the TUOS revenue requirement.

#### 4.4.3.4 National Transmission Planner costs

A portion of AEMO's National Transmission Planner costs is allocated to AEMO AVP in its capacity as a Co-ordinating Network Service Provider (CNSP) in Victoria.

That portion is incorporated into its accounted for as part of TUOS charges revenue requirement. AEMO 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.

#### 4.4.3.4.5 AusNet Increment

In accordance with the National Electricity Rules (NER), AEMO 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's 2022-27 revenue determination. If the difference is a negative amount, then it is deemed to be zero.

#### 4.4.3.4.6 Ministerial Orders under the National Electricity (Victoria) Act (NEVA)

From time to time, Ministerial Orders made under the NEVA National Electricity (Victoria) Act (2005) may confer functions on AEMO 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 AEMO 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 AEMO AVP to recover costs through charges in respect of prescribed transmission services, AEMO AVP will include those costs in its TUOS revenue requirement, excluding any direct funding from third party to the extent provided in the Order, and may provide for the costs thereby incurred by AEMO to form part of AEMO's TUOS charges.

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#### 4.4.6 System Strength

### 3.5 Over recovery or under recovery from previous years

~~AEMOAVP takes into account~~ includes any expected accumulated surplus or deficit from ~~thea~~ prior ~~previous~~ year in determining the amount to be recovered from TUOS charges 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 AEMOAVP's revenue requirement is calculated on a full cost recovery and non profit basis.

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## 54 Reporting on this Revenue Methodology

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

This information will be published on AEMO's website ~~and all network customers will be advised in writing~~ prior to the commencement of the forthcoming year.

## 5 Declared Network Functions ~~National Electricity Law and National Electricity Rules~~

~~The NEL~~ National Electricity Law and the ~~NER~~ Rules confer various functions ~~impose several duties on AEMO, including the following in respect of its 'declared network functions'.~~ Under the National Electricity Law, these duties are:

- a) ~~to plan, authorise, contract for, and direct, augmentation of the declared shared network~~
- 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 adoptive jurisdiction's~~ Victorian electricity industry
- d) ~~to provide shared transmission services by means of, or in connection with, the declared shared network~~

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AEMO acknowledges the Traditional Owners of country throughout Australia and recognises their continuing connection to land, waters and culture. We pay respect to Elders past and present.

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 this Law or the Rules

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 the adoptive jurisdiction Victoria<sup>7</sup>.

AEMO may determine fees and charges for services provided under the Law NEL, and the NER Rules<sup>8</sup>, 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 Rules.

In addition to specific rules that allow AEMO to recover particular costs through TUOS charges, the NER rules require that AEMO's expenditures in carrying out declared network functions, and the NTP function fees applicable to AEMO as a Co-ordinating Network Service Provider CNSP, are to be recovered through fees charged as a Transmission Network Service Provider and not through participant fees.<sup>9</sup>

## 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.

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<sup>7</sup> Section 50C(1) of the NELational Electricity Law

<sup>8</sup> Section 52 of the NELational Electricity Law. For this purpose, "service" includes the performance of statutory functions.

<sup>9</sup> Clause 2.11.3(d) of the NER

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# Abbreviations

The following abbreviations are used in this revenue methodology.

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

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