Customer & Consumer Panel

Transmission Pricing - Pre-reading | 21 August 2015

It is recommended that Powerlink's Transmission Pricing Overview sheet be read in conjunction with this pre-reading material. All definitions are contained in the Overview sheet.

Possible Pricing Changes

Powerlink is currently considering how it could provide more valued outcomes to its customers and ultimately, to electricity end users (consumers) in relation to transmission pricing. It should be recognised that the impact of proposed changes below may be significantly different between customers who are directly connected to Powerlink's transmission network (such as large loads or mines) and end users of electricity (ie. residential consumers). These initial options are driven by two different timeframes below.

Revenue Proposal for 2018-22 Regulatory Period

Powerlink must submit a Pricing Methodology as part of its Revenue Proposal to the Australian Energy Regulator (AER) in January 2016. This provides an opportunity for Powerlink to propose changes to its current Pricing Methodology[1] to provide stronger transmission pricing signals to consumers, which may better reflect the costs of providing transmission services and influence consumer behaviour. Some possible options for change include:

From	To	Impact
Cost Reflective Network Pricing (CRNP)	Modified - CRNP	Stronger locational utilisation based pricing signal.
CRNP - backward-looking approach to establishing asset values (based on sunk costs)	Long Run Marginal Cost (LRMC) - forward looking (or potentially avoidable cost) approach to establishing asset values	LRMC signals future costs of investing in the network. Charges reflect the expected additional costs arising from additional consumption. Pricing framework more consistent between transmission and distribution networks.
50/50 Locational and Non-locational revenue split	70/30 or alternative Locational and Non-locational revenue split	Stronger weighting on locational prices. Better reflects costs to supply each connection point. Reduced postage stamped charges.
Maximum demand and average demand based locational prices	Maximum demand only based locational price	Stronger locational pricing signal which better reflects costs to supply each connection point.

Business as Usual (outside revenue reset timeframe)

The annual transmission pricing process under the National Electricity Rules (Rules) requires TNSPs to estimate total revenue collections for the current financial year and develop forecast revenues and transmission prices for the forthcoming financial year, about 3-6 months before the start of the financial year to which the prices relate. As a result, various inputs must be estimated (for example, inter- and intra-regional settlements residues[2] and CPI) or forecast (in particular, energy and demand from customers) which are outside Powerlink's control. Due to the price setting process and the level of uncertainty in these inputs at the time transmission charges are prepared, forecast transmission charges at individual connection points may vary from year to year.

Powerlink seeks feedback from direct connect customers about whether there is interest in developing a mechanism to provide greater price predictability over a number of years. Given the limitations in the transmission pricing provisions of the Rules such a mechanism would likely be by way of a non-prescribed service.

Questions for Feedback:

1. Should Powerlink propose any of the changes in the table above in its Pricing Methodology as part of its 2018-22 Revenue Proposal?
2. What (if any) other key pricing changes should be proposed in Powerlink's Revenue 2018-22 Proposal?
3. Should Powerlink investigate options for providing more price predictability?

1. Powerlink's Pricing Methodology is available on our website at: www.powerlink.com.au
2. Settlements residues are basically the total financial differences in the electricity that is bought and sold within Queensland (intra-regional) and across the Qld-NSW border (inter-regional).