

Annual pricing control mechanism

FY2028 –32 System Control and Market
Operator Charges Review

May 2026

Contents

1.	Overview	2
2.	Revenue Requirement	2
2.1	Under and over recoveries calculation	3
2.2	Cost pass-through calculation	3

3.	Price setting	4
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1. Overview

This attachment sets out our proposed mechanism for setting annual prices for the FY2028–32 regulatory period.

The Utilities Commission’s 2027–32 System Control and Market Operator charges review framework and process paper of 8 September 2025 (the Commission’s approach) set out the approach to deriving an adjusted annual revenue requirement. This included:

- escalating the annual revenue requirement approved by the Commission in the 2027–32 Review (which is now to be expressed in real FY2027 dollars) to account for inflation
- adjusting for under and over recovery amounts in previous years in accordance with a set formula including application of an 18-month WACC adjustment given under/over recovery occurs on a 2-year backward looking basis
- adding pass-through amounts in the year following an approved pass-through event.

We propose a different approach to the recovery of approved cost pass-through amounts. Our proposed mechanism allows large or “lumpy” pass-through amounts to be recovered over more than one year where this is appropriate to smooth customer impacts. The proposed recovery profile (including the recovery period and the annual amounts) would be set out in the relevant pass-through claim.

2. Revenue Requirement

The Total Annual Revenue (TAR) for each year of the FY2028–32 regulatory period is to be calculated as:

$$TAR_t = AR_t \prod_{k=FY2027}^t (1 + \Delta CPI_k) + B_t + C_t$$

Where:

t = the regulatory year for which TAR is being calculated.

TAR_t = total annual revenue to be recovered in year t , expressed in nominal dollars.

AR_t = the annual revenue requirement for year t approved by the Commission in the determination, expressed in real FY2027 dollars.

ΔCPI_k = the annual percentage change in the ABS CPI (All Groups, Weighted Average of Eight Capital Cities) for the December quarter in year k .

$\prod_{k=FY2027}^t$ = the product operator, meaning multiply $(1 + \Delta CPI_k)$ for each year k from FY2027 up to and including year t .

B_t = the balance of over/under recoveries from the previous years adjusted for the time value of money in accordance with the calculation outlined in section 2.1.

C_t = the sum of approved cost pass-through amounts to be included in in year t in accordance with section 2.2.

2.1 Under and over recoveries calculation

The balance of any under and over recoveries is calculated as:

$$B_t = (TAR_{t-2} - D_{t-2}) \times (1 + WACC_{t-2})^{0.5} \times (1 + WACC_{t-1})$$

Where:

B_t = the unders/overs amount included in prices in year t .

TAR_{t-2} = the approved expected revenue (Total Annual Revenue) for year $t - 2$, calculated in accordance with the TAR formula for that year.

D_{t-2} = the actual system control (or market operator) revenue recovered in year $t - 2$.

$WACC_{t-1}$ and $WACC_{t-2}$ = the allowed nominal vanilla WACC values for years $t - 2$ and $t - 1$, respectively, used to adjust the under/over recovery for the time value of money.

The WACC adjustment applies an 18-month time value of money factor, reflecting that under/over recovery is assessed on a two-year backward-looking basis (i.e. the difference between approved expected revenue and actual revenue in year $t - 2$ is recovered through prices in year t). The exponent 0.5 applies a half-year WACC adjustment for year $t - 2$, and the remaining factor applies a full-year WACC adjustment for year $t - 1$.

2.2 Cost pass-through calculation

Under the Commission's approach, the balance of any cost pass-throughs is calculated as:

$$C_t = H_{t-2} \times (1 + WACC_{t-2})^{0.5} \times (1 + WACC_{t-1})$$

Where:

C_t = the balance of any pass-throughs to be recovered in year t .

H_{t-2} = the value of any cost pass-through approved by the Commission in year $t - 2$.

$WACC_{t-1}$ and $WACC_{t-2}$ = the allowed nominal vanilla WACC values for years $t - 2$ and $t - 1$, respectively, used to adjust the approved pass-through amount for the time value of money.

The WACC adjustment applies an 18-month time value of money factor, reflecting that cost pass-throughs are recovered in the year following an approved pass-through event – a two-year backward-looking basis (i.e. the difference between approved expected revenue and actual revenue in year $t - 2$ is recovered through prices in year t). The exponent 0.5 applies a half-year WACC adjustment for year $t - 2$, and the remaining factor applies a full-year WACC adjustment for year $t - 1$.

However, should the Commission approve our proposed alternative recovery profile for a pass-through amount (for example, to smooth recovery over more than one year), C_t will be calculated in accordance with that approved recovery schedule (including any time value of money adjustment specified by the Commission for that schedule).

3. Price setting

The TAR is converted to a System Control (or Market Operator) charge in accordance with the following equation:

$$P_t = TAR_t \div Q_t$$

Where:

P_t = the system control (or market operator) charge in year t , expressed in \$/kWh.

TAR_t = the total annual revenue to be recovered in year t .

Q_t = is the system control (or market operator) forecast quantity of energy consumption (kWh) consistent with the energy consumption forecast submitted in Power and Water's network pricing proposal to the AER in year t .

System Control charges are recovered from customers across all three regulated networks and Q_t is the sum of forecast energy consumption across the three regulated networks.

Market Operator charges are recovered from customers in the Darwin–Katherine regulated network only. For Market Operator charges, Q_t is the forecast energy consumption for the Darwin–Katherine regulated network.¹

¹ The consumption proportion for the Darwin–Katherine network will be updated annually based on Power and Water's consumption forecasts by regulated network.

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