



# **NETWORK TARIFFS AND CHARGES 2000-01**

**September 2000**

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## Definitions

“Act”	means the <i>Utilities Commission Act 2000</i>
“Code”	means <i>Electricity Networks (Third Party Access) Code</i> attached as a schedule to the <i>Electricity Networks (Third Party Access) Act 2000</i> , as amended
“Commission”	means the Utilities Commission established on commencement of the Act
“Interim Commissioner”	means the person appointed by the Treasurer to fulfil the role of regulator under the Code until the Commission was established on commencement of the Act
“PAWA”	means the Power and Water Authority of the Northern Territory
“PAWA Networks”	means the business division of PAWA with operating responsibility for the electricity networks owned by PAWA

**CHAPTER****1****INTRODUCTION**

1.1 On 30 August 2000, the Commission approved network tariff schedules for use by the Power and Water Authority from 1 October 2000. The approval instruments and approved schedules are at Appendix A. The approved tariffs and charges are the maximum that the Authority can charge for standard network access services in each of its regulated electricity networks.

1.2 The Code requires “regulatory accountability through transparency and public disclosure of regulatory processes and the basis of regulatory decisions” (clause 63(d)). The purpose of this paper is therefore to provide a summary of the information on which the approval is based and a statement of reasons for granting the approval.

1.3 As such, it should be noted that this paper deals only with:

- The tariffs applying during the 2000-01 financial year. [The network tariffs applying between 1 April and 30 June were approved by the Commission on 23 March 2000.]
- The Commission’s approval of individual tariffs and charges. [The Commission’s determination of the underlying revenue caps is documented separately in its *Revenue Determinations, 2000-01 to 2002-03* paper issued in June 2000.]

1.4 Finally, the Code requires that the Commission approve “reference” tariffs, that is the tariffs which a network provider cannot exceed when charging for a standard service (clause 73). The Code provides that, within the constraint of the maximum approved (that is, reference) tariff, the tariffs to apply are to be matters for commercial negotiation between the network user and the network provider. Unless otherwise stated, all reference in this paper to “network tariffs” are to reference (or maximum) tariffs.

**CHAPTER****2****BACKGROUND****Preceding tariffs**

2.1 All references in this paper to changes in tariffs (or to the impact of pricing changes) involve a comparison of the tariffs proposed for 2000-01 with the approved tariffs applying from 1 April to 30 June 2000.

2.2 Because of the tight timeframes involved in establishing the network tariffs and charges to apply from 1 April to 30 June 2000, the Commission was not able to conduct the approval process for those tariffs and charges in as open or transparent a manner as it would normally require.

2.3 As a consequence, the tariffs and charges approved by the Commission to apply from 1 April were simply structured on a cents per kilowatt-hour basis. The approved tariffs are at Appendix B.

2.4 At that time, the Commission also foreshadowed that its assessment of the structure of network tariffs to apply from 1 July 2000 would be conducted in a more open and transparent manner.

**Darwin-Katherine transmission line costs**

2.5 Also, in the network tariffs approved from 1 April 2000, the Commission did not approve recovery of PAWA's Darwin-Katherine transmission line (DKTL) costs, foreshadowing that this would be subject to further consideration.

2.6 The network tariffs which have now been approved by the Commission to apply from 1 October 2000 include the recovery of PAWA's DKTL costs. Chapter 6 explains the Commission's decision in this regard.

**Pricing Principles Statement**

2.7 The Code requires that, prior to approval of any network tariffs, the Commission must have approved a "pricing principles statement" prepared by the network provider (PAWA Networks).

2.8 On 31 March 2000, the Commission granted an interim approval of the draft *Pricing Principles Statement* submitted by PAWA Networks on 13 March, on the basis that final approval would be considered prior to approval of the tariffs and charges to apply in 2000-01.

2.9 Chapter 3 explains the Commission's decision to approve a modified *Pricing Principles Statement* on 25 August 2000.

## **Decision to extend initial tariffs beyond 30 June 2000**

2.10 On 27 April 2000, PAWA provided the Commission with a schedule of proposed network tariffs to apply from 1 July 2000.

2.11 On 1 June 2000, the Commission advised PAWA that, in accordance with clause 78(3) of the Code, the Commission was unable to approve the proposed tariff schedules, on the grounds that in the Commission's opinion they did not in all respects comply with the principles laid down in Chapter 7 of the Code. This decision reflected the fact that the Commission had not yet approved the *Pricing Principles Statement*.

2.12 Accordingly, as provided for under clause 78(6), the tariffs approved by the Commission for use during the April to June 2000 period continued to apply beyond 30 June 2000. As the Commission has subsequently only approved network tariffs to apply from 1 October 2000, the tariffs approved for use between 1 April and 30 June 2000 also applied between 1 July and 30 September 2000.

## **Commission's approach**

2.13 In assessing the tariff proposals put forward by PAWA, the Commission retained the services of a team from the Independent Pricing and Regulatory Tribunal (IPART) of New South Wales to assist the Commission with its 'pricing

2.14 The primary role played by the IPART team has been:

- to advise the Commission about the most practical and appropriate ways of dealing with the regulator's statutory obligations regarding the approval of network tariffs and charges; and
- to undertake the initial assessments of the proposed pricing schedules submitted by PAWA for approval, and their underlying methodologies, and to identify any amendments necessary before the regulator's approval would be warranted given the requirements of the Code.

## PAWA's pricing proposals

2.15 On 27 April 2000, PAWA provided the Commission with a schedule of proposed network tariffs to apply from 1 July 2000. As part of a process involving the Commission, PAWA submitted revised tariff schedules on two occasions thereafter before submitting a final set of proposals on 21 August.

2.16 Unless otherwise specified, all references in this paper to PAWA's "proposed network tariff schedules" are to the proposed schedules (and supporting documentation) submitted by PAWA Networks on 21 August 2000.

2.17 Following the Commission's approvals of these schedules, PAWA has prepared a version of its submission suitable for publication. A copy of PAWA's, *Electricity Network Pricing (Public) Submission* can be seen on the Commission's website ([www.utilicom.nt.gov.au](http://www.utilicom.nt.gov.au)).

**CHAPTER****3****PRICING PRINCIPLES STATEMENT****Requirements of the Code**

3.1 Under clauses 75(5) and (6) of the Code, the Commission is required to approve a *Pricing Principles Statement*

“...setting out details of principles and methods to be used [by PAWA Networks] for defining the individual standard network access services to be supplied by the network provider [PAWA Networks] and for determining the reference tariffs to apply to those services.”

**Provisional arrangements**

3.2 PAWA Networks forwarded a draft *Pricing Principles Statement* to the Interim Commissioner on 13 March 2000.

3.3 On 31 March 2000, the Commission issued a provisional approval of the principles underlying the network tariffs applying between 1 April and 30 June.

3.4 The terms of the provisional arrangements were set out by the Interim Commissioner to PAWA on 24 February. Among other things, the provisional approval was granted on the basis that wider consideration of a *Pricing Principles Statement* would take place prior to establishing the network tariffs to apply from 1 July 2000.

**Consultative processes**

3.5 In April 2000, the Commission issued a discussion paper to assist interested parties in developing their comments on the draft *Pricing Principles Statement*. It identified the key issues raised by the draft Statement, from the Commission's perspective. A copy of the discussion paper can be seen on the website ([www.utilicom.nt.gov.au](http://www.utilicom.nt.gov.au)).



3.6 The Commission invited interested parties to provide comments on PAWA Networks' draft *Pricing Principles Statement*, in letter or submission form, by Friday 12 May 2000.

3.7 On 5 May 2000, a round-table was conducted chaired by the Utilities Commissioner. The issues canvassed were set out in an agenda document (at Appendix C).

3.8 The NT Power Group provided a submission on the subject on 15 May 2000.

## Commission's assessment

3.9 Under clause 75(6), the Commission is to approve a *Pricing Principles Statement* for use by PAWA Networks unless, in the Commission's opinion, the statement is not consistent with the principles in clause 74.

3.10 In summary, clause 74 requires the reference tariffs to:

- be cost reflective in principle;
- facilitate competition in the Territory's electricity supply industry;
- provide equitable user prices, and involve a common approach for all network users;
- provide clear pricing signals to network users;
- ensure that appropriate investment in the network takes place in the longer term;
- promote price stability; and
- be administratively simple to apply.

3.11 On 19 May, the Commission advised PAWA that it could not be sure that the draft *Pricing Principles Statement* submitted by PAWA was in all respects consistent with the objectives set out in clause 74 of the Code, and requested certain modifications in content and style (see Appendix D).

3.12 Subsequently, PAWA provided redrafts to the Commission, with the draft finally approved by the Commission being submitted on 11 August 2000.

## Statement's approval

3.13 On 25 August, the Commission advised PAWA that it was finally satisfied that the draft *Pricing Principles Statement* reflected the modifications which the Commission had previously sought in response to earlier drafts prepared by PAWA Networks (see letter at Appendix E).

3.14 Accordingly, as provided for by clause 75(6), the Commission approved the Statement for use by PAWA Networks, on the grounds that the statement is consistent with the principles laid down in clause 74 of the Code.

3.15 As a result, the approved *Pricing Principles Statement* forms a basis upon which the Commission will assess the network tariffs proposed annually by PAWA Networks during the first regulatory control period. The Commission will approve the network tariff schedules submitted by PAWA Networks unless the proposed tariffs and charges – either in whole or in part – do not comply with the approved statement of principles, being an elaboration on the principles laid down in Chapter 7 of the Code.

3.16 A copy of PAWA's approved *Pricing Principles Statement* can be seen on the Commission's website ([www.utilicom.nt.gov.au](http://www.utilicom.nt.gov.au)).

**CHAPTER****4****METHODOLOGY UNDERLYING PAWA'S  
PROPOSED NETWORK TARIFFS**

4.1 On 21 August 2000, PAWA Networks submitted the proposed tariff schedules which the Commission subsequently approved. PAWA's *Electricity Network Pricing (Public) Submission* can be seen on the Commission's website ([www.utilicom.nt.gov.au](http://www.utilicom.nt.gov.au)).

4.2 The Commission also had access to PAWA's financial modelling which has not been publicly released. The Commission's role is to assess this confidential material, and to report generally about the appropriateness of that material.

4.3 This chapter briefly overviews the nature of the underlying methodology and financial modelling.

**Methodology**

4.4 PAWA has established the *level* of its proposed network tariffs by reference to the revenue caps approved by the Commission, and has established the *structure* of those tariffs by the application of the fully distributed cost (FDC) principles and methodology summarised in the approved *Pricing Principles Statement*.

4.5 The proposed network tariffs for contestable customers involve a standing charge as well as both demand and energy related components. This tariff is designed to achieve, among other things, signals to customers that demand carries responsibility for system capacity and hence cost, and to provide incentive to customers to manage their demand on the system.

4.6 The proposed network tariffs for non-contestable customers consist of a standing charge and an energy charge only, although the energy charge includes a component to reflect demand.

## The financial model

4.7 PAWA provided a spreadsheet model in support of its proposals which:

- provides a high level allocation of costs to high and low voltage cost pools which provide the basis for the derivation of the proposed charges;
- calculates the expected charges under the proposals for tranche 1 (T-1), tranche 2 (T-2) and tranche 3 (T-3) contestable customers; and
- provides a crosscheck to ensure that the resultant tariffs are consistent with the revenues caps set by the Commission.

4.8 The cost allocation module is a high-level model that:

- allocates aggregate costs to high and low voltage cost pools based on asset values;
- allocates the high and low voltage cost pools to broad classes of customers based on the basis of energy flows using an average ¢/kWh rate;
- assumes T-1 customers are large customers connected to the high voltage system;
- enters assumptions on the split of tariffs between the demand, energy and fixed components directly into the model; and
- allows estimated tariff structures to be mapped back to the cost pools established and adjusted on the basis of professional judgment and expectations of customer acceptability.

4.9 The model requires the direct input of key parameters reflecting judgment and technical expertise. The exercise of judgment is an essential part of any cost allocation model. In this case the role of judgment is more explicit and possibly greater due to the limited data currently available to PAWA Networks.

4.10 The assumptions that are direct inputs to the model include:

- adjustments from the revenue cap, to take account for example of tariff negotiations;
- for each component of the asset base, the proportions of allocated capital and operating costs that are respectively demand, energy and customer related;
- adjustments to the calculated allocation of costs between high voltage (HV) and low voltage (LV) customers; and
- the allocation between HV and LV customers of total energy consumption.

**CHAPTER****5****ASSESSMENT AGAINST THE  
REQUIREMENTS OF THE CODE****Requirements of the Code**

5.1 Clause 74 of the Code sets out the objectives of network pricing.

*"The reference tariffs are –*

- (a) in principle to be cost reflective, to facilitate contestability in the Territory electricity supply industry, to provide equitable user prices and to ensure that appropriate investment in the network takes place in the longer term;*
- (b) to involve a common approach for all network users, with the actual tariff with respect to a particular network access service only differing between users because of –*
  - (i) the user's geographical and electrical location;*
  - (ii) the quantities in which the relevant network access service is to be supplied or is supplied;*
  - (iii) the pattern of network usage;*
  - (iv) the technical characteristics or requirements of the user's load or generation;*
  - (v) the nature of the plant or equipment required to provide the network access service; and*
  - (vi) the periods for which the network access service is expected to be supplied;*
- (c) to be transparent and published in order to provide pricing signals to network users;*
- (d) to promote price stability; and*
- (e) to reflect a balancing of the quest for detail against the administrative costs of doing so which would be passed through to end-use customers."*

5.2 Also, section 6(2) of the Act specifies that, in performing any of its regulatory function:

*“...the Commission must have regard to the need –*

- (a) to promote competitive and fair market conduct;*
- (b) to prevent misuse of monopoly or market power;*
- (c) to facilitate entry into relevant markets;*
- (d) to promote economic efficiency;*
- (e) to ensure consumers benefit from competition and efficiency;*
- (f) to protect the interests of consumers with respect to reliability and quality of services and supply in regulated industries;*
- (g) to facilitate maintenance of the financial viability of regulated industries; and*
- (h) to ensure an appropriate rate of return on regulated infrastructure assets.”*

5.3 In evaluating PAWA's network tariff proposals, the Commission has distilled the various objectives identified in the Code and the Act into the following criteria:

- cost reflectivity;
- efficiency;
- equity and price stability;
- facilitation of competition;
- consistency; and
- transparency.

## **Cost reflectivity**

5.4 The tariffs proposed should be derived by reference to an acceptable cost of supply model. The Commission recognises that there are many possible cost of supply models, each of which reflects a range of feasible options, and that considerable judgment is also required in practice.

5.5 PAWA Networks advocated that a tariff, especially for network services only and for large and sophisticated customers, should explicitly reflect and signal costs of capacity required for supply and that these costs are best reflected into tariffs through:

- a “customer connection” charge or “service availability” charge, generally on a cents per day or dollars per month basis;
- a charge related to capacity required or used, generally based on contracted or measured maximum kilo-watts (kW) or, more

properly kilo-volt-amperes (kVA), generally on a monthly or annual basis; and

- a charge related to energy used, generally based on kilo-watt-hours (kWh).

5.6 Accordingly, the tariff proposal put forward by PAWA is for a structured tariff, rather than a simple cents per kilowatt hours tariff.

5.7 As to the cost modelling underpinning the proposed network tariffs, IPART advised that:

*“PAWA’s high-level cost allocation model relies on a number of assumptions and judgments which in other, more sophisticated, models could be supported from analysis within the costing model.*

*[However] given these assumptions and the imported data on energy and demand:*

- *the model is internally consistent;*
- *the model is consistent with the broad pricing principles approved by the Commission; and*
- *the prices calculated are consistent with the revenues determined by the Commission.”*

*... the model structure and approach falls within the range of acceptable industry practice given the constraints of the available data and absence of previous network cost models and is consistent with the broad pricing principles approved by the Commission.*

5.8 The Commission’s assessment is that the model is acceptable given the data limitations and that this is the first network cost allocation model developed by PAWA. While significant judgments are involved in the translation of the costs into prices, this is a necessary part of any practical pricing approach.

5.9 Given the data limitations under which tariff proposals were prepared, the Commission considers that the tariff structure meets the minimum requirements for cost reflectivity. However, by the next review, the Commission expects PAWA to have developed a more robust and complete model based on improved cost and load data.

## Efficiency

5.10 Tariffs should encourage efficient use of existing networks, while signalling future cost for new users or increased loads. Tariffs should also encourage appropriate investment decisions by end-users, generators and other providers of network services by signalling future network investment costs. This requires several elements.

### Cross subsidies

5.11 Tariffs should be free of cross-subsidies. The test for this is whether the tariffs for individual customers are between the stand-alone and incremental costs of supply.

5.12 PAWA submitted that all the proposed tariffs would fall between the low level of marginal cost and below the higher level of stand-alone costs, although it did not provide supporting analysis to demonstrate this. However, in response to a request from the Commission with respect to a specific group of customers, PAWA provided information demonstrating that the proposed tariffs cover the direct costs of the assets specific to this group and contributes to the recovery of shared costs, and so did not involve a cross-subsidy.

5.13 In the Commission' view, the network tariffs proposed by PAWA fall within the (very broad) range of cross-subsidy free prices.

### Marginal economic costs

5.14 The structure of tariffs (ie the balance of fixed, demand and energy components) should have regard to the forward-looking cost drivers. To the extent that prices need to exceed these levels to recover the overall revenue cap, the pursuit of efficiency requires that tariffs be such that the recovery of any gap between average and marginal costs has regard to the potential additional impacts on behaviour and seeks to reduce such distortions.

5.15 IPART advised that:

*"In principle, the structure of the charges proposed by PAWA is consistent with this approach. However, PAWA have not provided any information on the relative elasticity of consumption (in demand or energy terms) to changes in fixed charges, demand charges and usage charges, instead basing the weights for these items on professional judgment, the structure of the previous bundled tariff and a judgment on the acceptability of the different components, especially fixed charges, for customers. Theoretically, information would be necessary to assess the extent to which any re-balancing of the components of the tariffs would improve or reduce their efficiency.*

*...The addition of tariff choices and options may improve economic efficiency and could therefore be considered further by PAWA."*

5.16 PAWA referenced estimates by EnergyAustralia for its network which is centred on Sydney but were unable to provide estimates of marginal costs or indications of their relative magnitude for the PAWA system.

5.17 IPART advised that:

*"... inferences drawn from capital expenditure projects suggest that the demand charge may at least exceed the typical marginal cost for*



*increases in loads. Beyond this point the balance of the tariff components is a matter of judgment.*

### **Regional variations**

5.18 Variations in tariffs between regions should have regard to differences in future costs associated with increasing customer numbers and/or loads. Ideally, variations in tariffs between regions should also have regard to differences in the costs of meeting new or increased loads so as to provide efficient locational signals.

5.19 The tariffs proposed for the Tennant Creek Region are more than double those proposed for the other regions, reflecting the low and declining loads in the region.

### **Future network investment**

5.20 PAWA has not identified any areas of emerging constraints on network capacity. Given that no emerging constraints have been identified, it is appropriate that tariffs vary uniformly across the network over future periods.

5.21 PAWA did not provide information on the differences in the need for, and cost of, augmentation across the regions or within the regions. However, IPART advised that:

*“...some example capital expenditure projects in the Darwin region were cited which suggest possible costs. This very limited information suggests that demand charges may at least exceed the typical augmentation costs associated with increased demand.”*

5.22 The floor for the individual components of the charges (eg the demand and fixed components) should also have regard to differences in future costs associated with increasing customer numbers and/or loads. IPART advised that:

*“PAWA have not provided any systematic estimates of marginal cost associated with increased loads or customers. Some indicative estimates of the costs associated with additional load were derived from the examination of a small number of capital expenditure projects. The inferred marginal costs were below the lowest demand tariff.”*

### **Equity and price stability**

5.23 Price stability is an important criterion for pricing, as excessive price shocks can be inequitable and involve significant adjustment costs. Large changes in prices can be particularly inequitable as users may have made substantial long-term commitments based on past prices and the expectations they have engendered.

5.24 PAWA provided estimates of the per kWh network charges facing customers in the T-1 to T-4 tranches. These were compared with the initial network tariffs currently being paid by each tranche.

5.25 The T-1 and T-2 tranches had the largest spread of per kWh charges and variation in percentage changes of such charges. On the data presented, no customers in the T-3 and T-4 tranches would see significant increases and most would benefit from substantial reductions in network tariffs.

5.26 The DKTL charge aside, most customers in these tranches will see reductions or increases of less than 10% but six customers will see reductions of more than 20% while three see increases of more than 20%. One customer faces an increase of 44%. However PAWA has made provisions for the negotiation of network charges and it is not expected the customers will in fact see such large increases.

5.27 PAWA did not quantify the effect of any re-balancing of charges or increases in the recovery of costs from residential customers.

5.28 The Commission considers that, provided tariff negotiations with individual customers avoid the few instances of excessive increases indicated by the scheduled tariffs, the proposed tariffs are not inconsistent with the broad equity objectives.

## Facilitation of competition

5.29 Facilitation of competition is the central objective of access regimes. To achieve this, prices and access conditions should not unnecessarily advantage or disadvantage any generator or retailer competing in the upstream or downstream markets

5.30 At this stage, PAWA faces only one significant competitor. Both are integrated retailers and generators and have existing generation capacity. The proposed approach sets network tariffs that do not vary if a user switches retailer/generator. This is an essential requirement for competitive neutrality.

5.31 However, IPART advised that:

*“... no basis has been established for charging new generators, nor is it clear whether the network charges are charges on the retailer or generator or split between the two. Nor has the basis for charging new generators been established. Whilst these issues may not be significant as long as the only participants are combined generators and retailers, PAWA will need to address these issues in future pricing proposals.”*

5.32 Given the current structure of the industry and market participants, the Commission accepts that the proposed tariffs are consistent with the objective of facilitating competition. However, as part of its next set of proposed tariffs schedule, PAWA is requested to clarifying the extent of generator liability for

network charges and the basis upon which new generators are to be charged for network access.

## **Consistency**

5.33 The level of tariffs should be consistent over time and changes in levels should be predictable. Consistency relates to both past approaches to pricing and future prices. Users and market participants take long term decisions – often involving significant capital costs – on the basis of the price structures they face. Significant or unpredictable changes to network charges can impose large costs on customers.

5.34 PAWA was unable to comment on the network charges which may have been implicit in the previous bundled tariffs, but noted that there are similarities between the structure of the proposed network tariffs and the bundled demand time-of-use tariff available prior to 1 April 2000.

5.35 Since the initial network tariffs were based on energy flows, the change to a hybrid structure will adversely affect those customers with peakier loads. However, this change has been foreshadowed for some time and PAWA have indicated that they are committed to this approach over the medium term.

5.36 With regard to future prices, PAWA anticipates that the network revenue caps will remain substantially stable, with growth in system assets being offset by growth in customers or customer energy delivered. Hence, in the general, network tariff elements should remain relatively stable.

## **Transparency**

5.37 The basis of charging should be transparent.

5.38 While the level of disclosure of information falls short of the Commission's initial expectations, this reflects mainly the data limitations facing PAWA Networks in its startup stand-alone phase.

5.39 PAWA's attention has been drawn to the shortcomings, and the Commission anticipates that PAWA will be able to demonstrate progress in its next annual tariff submission.

5.40 PAWA has prepared a version of its tariff submission to the Commission suitable for publication. Its original submission contained information regarding individual customers, and hence was commercially sensitive in nature.

5.41 The Commission is satisfied that the proposed tariffs meet minimum requirements of transparency.

**CHAPTER****6****NORTHERN GRID TARIFFS****Approval**

6.1 In its approval of 30 August 2000, the Commission agreed to the combining of the revenue caps determined previously by the Commission for PAWA's Darwin and Katherine networks, for the purpose of establishing tariffs and charges for the use of the 'Northern Grid' (that is, the inter-connected Darwin and Katherine distribution networks).

6.2 Moreover, the tariffs and charges approved for the Northern Grid incorporate an amount, in addition to the determined revenue caps, which the Commission has approved for the purpose of recovering the costs which PAWA pays to the operator of the transmission line connecting PAWA's Darwin and Katherine distribution networks.

**Common pricing**

6.3 The Commission's agreement to the combining of the network revenue caps for Darwin and Katherine established a single set of network tariffs for the combined Northern grid.

6.4 Combining the revenue caps in this way enables the costs of the transmission line which links Darwin and Katherine to being accommodated in the resultant network tariffs. While there is the possibility of some cross subsidisation between the two networks, the direction of this will vary as mining activity ebbs and flows.

**Preceding tariffs**

6.5 Recovery of PAWA's costs of the use of the Darwin-Katherine transmission line ("the DKTL cost") was outside the revenue caps determined for PAWA Networks with respect to the April to June 2000 period. Furthermore, the recovery of that amount was left (unregulated) to PAWA during that period, in effect on the proviso that no part of the amount was to be recovered from third-party users of PAWA's networks. In doing so, the Commission urged the parties involved to address the issues preventing the

Commission from adjudicating on the appropriateness of the amount and method of the recovery.

6.6 At the time, the Commission recognised that there were grounds for PAWA Networks recovering the DKTL cost only as long as PAWA was the sole payer for use of the DKTL. In these circumstances, and given the system (or meshed network) nature of the DKTL, there was a strong case for the DKTL cost to be recovered for all users of PAWA's Darwin and Katherine distribution networks. This required a network (not generation-related) charge.

6.7 The Commission also recognised that, were the operator of the DKTL to commence charging all users of the DKTL an appropriate transmission usage charge, PAWA Networks involvement in recovering PAWA's DKTL cost may not be warranted. Rather, it would be a matter for PAWA Generation/Retail to pass on its share of the overall DKTL costs to its end-use customers.

### **PAWA Network's proposed surcharge**

6.8 In determining the revenue caps for PAWA Networks for the financial year commencing 1 July 2000, the Commission once again excluded the DKTL cost. However, while PAWA remains the sole payer for the use of the DKTL, the Commission indicated it expected to approve a regulated DKTL surcharge to be imposed by PAWA Networks.

6.9 In its 2000-01 network tariff submission, PAWA proposed a surcharge that shared the DKTL cost across all users of the distribution part of the network in proportion to their use of the (inter-connected) system. The proposal was to take account of the usage by all end-use customers connected to the Darwin-Katherine system irrespective of their primary source of power.

6.10 The Commission acknowledges that treating the DKTL cost as a common cost in this way means that the DKTL-related charge met by an individual contestable customer would not change if the customer chose one supplier over another. The Commission endorses this approach as it gives rise to a competitively neutral outcome.

6.11 PAWA Networks agreed to structuring this DKTL surcharge on a flat cents per kWh basis. The Commission has approved the incorporation of a 0.474 ¢/kWh surcharge in the peak and off-peak energy charge components of the Northern grid network tariff, to be paid by all customers connected to the Darwin-Katherine system irrespective of their supplier.

6.12 PAWA Networks based this surcharge on an estimate of the DKTL cost in 2000-01 of \$5.287M. The Commission has indicated to PAWA that it is only prepared to use the amount currently payable by PAWA as a basis for the charges to apply in 2000-01. In doing so, the Commission is not implying that the current amount payable by PAWA is a reasonable amount in the longer term.