



Electricity licence fees 2021-22  
Review of methodology

# Draft Report

August 2021

Energy >>

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## Energy Networks Regulation Committee Members

The Committee members for this review are:

Ms Sandra Gamble, Chair  
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## Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

## Submissions are due by Monday, 20 September 2021

We would prefer to receive them electronically via our online submission form [Lodge a submission](#)

You can also send comments by mail to:

Electricity network operator licence fee consultation  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop, Sydney NSW 1240

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our [website](#) as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

We may choose not to publish a submission - for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.

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## Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

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# 1 Introduction

Ausgrid, Endeavour Energy, Essential Energy and TransGrid, the licensed Electricity Network Operators (**ENOs**), are required to pay licence fees (annual or otherwise) under the conditions of their licences.<sup>a</sup> IPART recommends annual licence fees to the Minister for Energy and Environment (**Minister**), who is responsible for determining the fees.

In June 2016, we published a report on our methodology used to calculate licence fees.<sup>b</sup> We are now proposing to review our licence fee methodology.

This draft report explains the methodology that we propose to calculate licence fees and proposes an annual fee setting mechanism. Our methodology estimates the efficient cost of regulating the licensed ENOs and recovers this cost through their licence fees. We do not recover the cost of regulating unlicensed ENOs, who do not pay licence fees. This report also details the proposed licence fees for 2021–22.

We are seeking stakeholder feedback on this report before providing our final recommendations to the Minister.

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<sup>a</sup> Electricity network operator licence condition 20 (Ausgrid, Endeavour Energy and Essential Energy) and licence condition 17 (TransGrid).

<sup>b</sup> IPART, *Electricity network operator licence fees – Review of fees for DNSPs and TransGrid* – Final Report, June 2016.

## 2 Context for the review

### 2.1 Background

In 2016, we conducted a review and recommended to the Minister, licence fees based on IPART's efficient costs of administering the licences and the electrical safety obligations of the licensed ENOs. These costs were to be recovered through the ENOs' licence fees.

The licence fees for each licensed ENO were based on:

- estimates of prospective costs for administering the licences, and the electrical safety and other legislative obligations of the ENOs' electricity networks (rather than being retrospectively based on actual costs), and
- an estimation of each licensed ENOs' share of these costs.

As part of the 2016 review, we proposed to conduct a further review of the methodology at a future date. We are now reviewing our methodology for calculating licence fees. The methodology recovers the cost of regulating licensed ENOs only.

Following this review, we will recommend licence fees to the Minister, who is responsible for setting licence fees. We propose that licence fees based on the new methodology be applied from 2021–22. The draft licence fees that we propose to recommend to the Minister under the proposed methodology are provided in **Table 2-1**.

Table 2-1 Draft licence fees for 2021-22 (\$)

Network Operator	Draft licence fee (\$)
Ausgrid	\$543,000
Endeavour Energy	\$433,000
Essential Energy	\$477,000
TransGrid	\$398,000
<b>Total</b>	<b>\$1,851,000</b>

Source: IPART calculations

### 2.2 We are seeking feedback on this draft report

We are conducting public consultation for this review. We are consulting with the ENOs and other stakeholders.

#### List of issues we seek comment on

IPART seeks comments on the following:

1. The proposed methodology for setting licence fees, specifically:
  - the measures selected for size and complexity of a network, and
  - the weighting of components contributing to size and complexity of a network.

2. The apportionment of Regulatory Costs between licensed ENOs.
3. The use of the Sydney CPI adjusted by IPART's annual productivity factor for indexation of licence fees.
4. The proposed schedule for setting licence fees, specifically the review period.
5. The recommended licence fees for 2021-22, which would be indexed and applied each following financial year under this methodology, until we update the methodology again.

We invite all interested parties to make submissions in response to this draft report by 20 September 2021 using the following link. For further information, see page ii for information on how to make submission.

 Have your say

Your input is critical to our review process.

[Submit feedback »](#)

You can get involved by making a submission.

## 2.3 Our indicative timetable for the review

**Table 2-2** provides an indicative timetable for our review process. We will update this timetable on our website as the review progresses.

Once we have provided our recommendations, the Minister will set licence fees for the network operators. We expect that our Final Report and recommendations will be publicly released once this decision is made.

The new licence fees will apply for the financial year 2021-22 and will be indexed annually each year thereafter.<sup>c</sup>

We will review the methodology for calculating licence fees again as needed or if any significant changes to our regulatory functions require an adjustment to be made.

Table 2-2 Indicative review timetable

Key milestone	Timing
Publish Draft Report	30 August 2021
Submissions to Draft Report due	20 September 2021
Deliver Final Report and recommendations to the Minister	Late October 2021
Licence fees issued for 2021-22	Late 2021

<sup>c</sup> Refer to section 3.5 for details of how we propose to index the licence fees.

### 3 How we propose to calculate licence fees

Our proposed methodology for calculating licence fees includes the following steps:

1. Estimating IPART's total efficient costs for regulating all ENOs, then estimating the proportion of these costs that are applicable to the licensed ENOs (**Regulatory Costs**)
2. Allocating the Regulatory Costs between the licensed ENOs for 2 key functions based on:
  - our assessment of the workload that may be attributed to the administration of compliance with the licence conditions applicable to each of the licensed ENOs
  - developing a 'network indicator' model of relative size and complexity of each licensed network, to estimate the workload for the regulation of each licensed ENO's safety obligations
3. Determining licence fees for each of the licensed ENOs based on their allocation of IPART's Regulatory Costs.

This methodology allows us to determine licence fees and allow the NSW Government to recover IPART's total costs for regulating the licensed ENOs. Licence fees will be applied to the four licensed network operators: Ausgrid, Essential Energy, Endeavour Energy and TransGrid.

We note that although IPART also regulates non-licensed ENOs (e.g. Sydney Trains, Directlink, Metro Trains Sydney and Lord Howe Island Board), they are not required to pay any licence fees. We have therefore subtracted our estimated costs for regulating the non-licensed ENOs from our calculations of licence fees.

#### 3.1 We have estimated IPART's costs for regulating ENOs

We have assessed IPART's efficient costs for regulating all ENOs against the applicable obligations detailed in [operating licences](#), the *Electricity Supply Act 1995* and the *Electricity Supply (Safety and Network Management) Regulation 2014*.

We have assessed our costs as \$1.99 million. We have included in our assessment:

- the direct costs, overheads and on costs, of full time and part time staff working to regulate ENOs
- the cost of both internal and external legal advice associated with regulating ENOs
- the costs of consultants that we may utilise in performing our role
- the cost of the Energy Networks Regulation Committee (a delegate of the Tribunal), and Tribunal costs associated with regulating ENOs.

IPART also regulates a number of ENOs who do not have licenses. We estimate 7% of the workload of regulating ENOs is associated with non-licensed ENOs, and 93% for regulating TransGrid, Ausgrid, Endeavour Energy and Essential Energy.<sup>d</sup>

**We are proposing IPART's Regulatory Costs of \$1,851,000 (\$1.99 million x 93%) be recovered from the 4 licensed ENOs through their licence fees.**

The cost of regulating the licensed and non-licensed ENOs has reduced significantly since 2016. Our total annual cost of \$1.99 million in this draft report is lower than the annual cost of \$3.013 million estimated in 2016 for 2016-17 licence fees under the existing methodology.

The variance between our 2016 and 2021 cost estimate is attributed in part to the 2016 estimate being based on the newly established function transferred to IPART and the scope of the work known at the time. Our lower estimates in 2021 also reflect our efficiencies gained from more established IPART and licensed ENO processes. This is because the cost of setting up the new regulatory framework and supporting the ENOs to respond to the new requirements is higher than the cost of ongoing regulation.

## 3.2 We have estimated the workload attributable to licence conditions

We have reviewed our past work to regulate each function for each licensed ENO. Based on our review of this information, we have estimated that 50% of the work that we do to regulate the licensed ENOs is associated with compliance with licence obligations.

Within the 50%, we have identified a number of licence obligations that have a high impact on our workload and estimate that these contribute a weighting of 45% within this total. We have allocated this cost between licensed ENOs according to which high impact licence obligations are relevant to them. The remaining 5% weighting is associated with low impact workload licence obligations which have been similarly apportioned.

**Table 3-1** shows each of the major obligations<sup>e</sup> of the ENOs' licences. We have apportioned:

- 2.5% of our Regulatory Costs to each licensed ENO for each applicable 'High impact workload' licence obligation (a total of 45%)
- 0.7% to of our Regulatory Costs to each licensed ENO for each applicable 'Low impact workload' licence obligation (a total of 5%).

<sup>d</sup> Our estimates are based on analysis of the workload associated with briefings presented to the Energy Networks Regulation Committee.

<sup>e</sup> We have indicated N/A where a licence obligation does not apply to an ENO.



We chose to apportion our costs according to high impact workload obligations and low impact workload obligations but have not identified high workload ENOs and low workload ENOs. We note the cost of regulating licence obligations is somewhat dependent on how compliant each licensed ENO is with each of their high impact licence obligations. However, we decided that the complexity of high impact workload licence obligations was the far more consistent driver of workload, irrespective of the level of compliance.

Table 3-1 Licence obligations of ENOs

Licence obligation	Ausgrid	Endeavour Energy	Essential Energy	TransGrid	Total
<b>Higher impact workload (45%)</b>					
Critical infrastructure	2.5%	2.5%	2.5%	2.5%	<b>10%</b>
Distribution reliability	2.5%	2.5%	2.5%	N/A	<b>7.5%</b>
Public lighting code	2.5%	2.5%	2.5%	N/A	<b>7.5%</b>
Transmission reliability standards	N/A	N/A	N/A	2.5%	<b>2.5%</b>
Investigation and management of safety and reliability incidents (distribution)	2.5%	2.5%	2.5%	N/A	<b>7.5%</b>
General licence administration	2.5%	2.5%	2.5%	2.5%	<b>10%</b>
<b>Lower impact workload (5%)</b>					
Compliance with obligations under the EP&A Act	0.7%	0.7%	N/A	0.7%	<b>2.1%</b>
Distribution districts	0.7%	0.7%	0.7%	N/A	<b>2.1%</b>
Investigation and management of safety and reliability incidents (transmission)	N/A	N/A	N/A	0.7%	<b>0.7%</b>
<b>Total allocation of function to Regulatory Costs</b>	<b>13.9%</b>	<b>13.9%</b>	<b>13.2%</b>	<b>8.9%</b>	<b>50%</b>

Note: Numbers may not add to totals due to rounding.

### 3.3 We have developed a network Indicator model to estimate our regulation of safety obligations

We have estimated that the remaining 50% of the work that we do to regulate the licensed ENOs is associated with their safety management system obligations.<sup>f</sup> We consider that the size and complexity of a network directly determines the workload required by IPART to fulfil its regulation of the licensed ENOs' safety management systems.

<sup>f</sup> Safety obligations also apply to non-licensed network operators. However, we have not included the individual costs of regulating each non-licensed network operator in our licence fee calculations.

We have developed a 'network indicator model'<sup>9</sup> to estimate the size and complexity of each licensed ENO's network, to allow us to apportion our costs for the regulation of their safety management systems. Our network indicator model is divided equally into 2 Regulatory Cost drivers in relation to a licensed ENO's:

1. customer base
2. network asset base.

### 3.3.1 We have assessed each licensed ENO's customer base

The size of a network's customer base affects the complexity of a network due to the supply requirements of the customers. We have selected 3 measures to represent the licensed ENO's customer base which are:

- customer numbers
- load delivered
- workload (measured by revenue).

We consider that each of these measures contributes equally to the size and complexity. As the customer base comprises 50% to the network indicator model, each of these measures contributes one sixth to the network indicator model.

### 3.3.2 We have assessed each licensed ENO's asset base

The asset base information for a network helps determine the physical size of the network. We have selected 3 measures to represent the licensed ENO's network assets which are:

- network length
- load delivered
- regulatory asset base (RAB).

We consider that each of these measures also contributes equally to the size and complexity of each licensed ENO's network assets. As the asset base comprises 50% to the network indicator model, each of these measures contributes one sixth to the network indicator model.

We note as load delivered is included in both the customer base and network asset categories, load delivered therefore contributes a third (i.e. 2 x one sixth) to the network indicator model.

### 3.3.3 We have apportioned costs for safety regulation

We have used published data and data submitted to IPART to populate **Table 3-2**, which shows each of the measures used in the network indicator model, and each licensed ENO's relative

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<sup>9</sup> We also utilised the network indicator model in our 2016 review of electricity licence fees.

proportion within each measure in parentheses. For example, we have summated the revenue of all licensed ENOs, then calculated each licensed ENO's proportion of total revenue.

Table 3-2 Data for network indicator model measures

Network operator	Revenue <sup>a</sup> (\$m)/ (%)	Network length <sup>b</sup> (km)/ (%)	Customers <sup>c</sup> (No.)/ (%)	RAB <sup>a</sup> (\$m)/ (%)	Load <sup>a</sup> (GWh)/ (%)
Ausgrid	1,537 (36%)	48,834 (16%)	1,779,577 (48%)	17,057 (42%)	25,840 (21%)
Endeavour Energy	829 (20%)	59,300 (19%)	1,068,686 (29%)	7,258 (18%)	16,831 (14%)
Essential Energy	1,016 (24%)	183,612 (60%)	874,668 (23%)	9,143 (23%)	12,249 (10%)
TransGrid	837 (20%)	13,103 (4%)	21 (0%)	7,004 (17%)	65,976 (55%)
<b>Total</b>	100%	100%	100%	100%	100%

a. AER Determination 2019-24 for Ausgrid, Endeavour Energy and Essential Energy; and AER Determination 2018-23 for TransGrid, 2021-22 values.

b. Ausgrid, *Distribution and Transmission Annual Planning Report*, December 2020; Endeavour Energy, *2017-18 year in review*; Essential Energy, *Annual report 2019-20*; and TransGrid *FY20 Annual Review*.

c. Quarter 4 2020-21 reliability and performance reports submitted to IPART and IPART, *Electricity network operator licence fees – Review of fees for DNSPs and TransGrid – Final Report*, June 2016.

We have weighted each of the percentages shown in **Table 3-2** to calculate the weighted network indicator model values in **Table 3-3**. That is, we have divided the relative percentages in the load column by 3, and all other relative percentages by 6 (refer to sections 3.3.1 and 3.3.2).

In **Table 3-4** the weighted network indicator model measures are summed for each licensed ENO and then multiplied by the 50% weighting allocated to safety obligations to determine its overall allocation to IPART regulatory costs.

Table 3-3 Weighted network indicator model measures

Network operator	Revenue (%)	Network length (%)	Customers (%)	RAB (%)	Load (%)	Total (%)
Ausgrid	36%/6 (6.1%)	16%/6 (2.7%)	48%/6 (8.0%)	42%/6 (7.0%)	21%/3 (7.1%)	<b>30.9%</b>
Endeavour Energy	20%/6 (3.3%)	19%/6 (3.2%)	29%/6 (4.8%)	18%/6 (3.0%)	14%/3 (4.6%)	<b>18.9%</b>
Essential Energy	24%/6 (4.0%)	60%/6 (10.0%)	23%/6 (3.9%)	23%/6 (3.8%)	10%/3 (3.4%)	<b>25.1%</b>
TransGrid	20%/6 (3.3%)	4%/6 (0.7%)	0%/6 (0.0%)	17%/6 (2.9%)	55%/3 (18.2%)	<b>25.1%</b>
<b>Total</b>	16.6%	16.6%	16.6%	16.6%	33.3%	<b>100%</b>

Table 3-4 Allocation of safety obligations to IPART regulatory costs

Network operator	Safety allocation (Network Indicator Model)	Total allocation of function to IPART regulatory costs
Ausgrid	30.9%	15.4%
Endeavour Energy	18.9%	9.5%
Essential Energy	25.1%	12.6%
TransGrid	25.1%	12.6%
<b>Total</b>	100%	50%

Note: Numbers may not add to totals due to rounding.

### 3.4 We have calculated draft licence fees for each licensed ENO

We have combined the information from **Table 3-1** and **Table 3-4** into **Table 3-5** to calculate the total percentage of our Regulatory Costs that is to be recovered from each licensed ENO through the proposed licence fee.

Table 3-5 Total obligations of licensed ENOs

Function	Ausgrid	Endeavour Energy	Essential Energy	TransGrid	Total
<b>Licence condition obligations (50%)</b>	13.9%	13.9%	13.2%	8.9%	50%
– High impact workload (45%)					
– Low impact workload (5%)					
<b>Safety Management System Obligations (50%)</b>	15.4%	9.5%	12.6%	12.6%	50%
– Network indicator model					
<b>Total allocation of licensed ENO to Regulatory Costs</b>	<b>29.4%</b>	<b>23.4%</b>	<b>25.8%</b>	<b>21.5%</b>	<b>100%</b>

We have multiplied the total percentage for each network operator in **Table 3-5** by our assessed Regulatory Cost of \$1.851 million to calculate the draft licence fees for each licensed ENO for 2021–22. The draft licence fees are shown in **Table 3-6**.

Table 3-6 Draft licence fees for 2021-22 (\$)

Network Operator	Draft licence fee (Rounded to '\$'000)
Ausgrid	\$543,000
Endeavour Energy	\$433,000
Essential Energy	\$477,000
TransGrid	\$398,000
<b>Total</b>	<b>\$1,851,000</b>

Source: IPART calculations

### 3.5 We will index licence fees annually

We propose to use the Sydney CPI adjusted by IPART's annual productivity factor to index licence fees each year. This ensures transparency and allows for costs to increase consistent with economy-wide movements in price, minus an allowance for efficiency. IPART's annual productivity factor is a rolling 15-year average of the Australian Bureau of Statistics' market sector value-added multifactor productivity based on quality adjusted hours worked.

Each year, we will make a recommendation to the Minister on the ENO licence fees for the applicable financial year.

### 3.6 We will review our methodology when required

We will review licence fee methodology again in the future as needed. This may occur, for instance, following changes to licence conditions or other legislation that leads to a significant change in IPART's workload, or a significant change in the obligations applicable to each ENO.

Between reviews, we will index the licence fees annually as detailed in Section 3.5. This approach provides some certainty to the networks and is simple to administer.

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**ISBN** 978-1-76049-523-7