



Electricity licence fees 2021–22  
Review of methodology

# Final Report

October 2021

Energy >>

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## Energy Networks Regulation Committee Members

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## The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from [IPART's website](#).

## 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 published a draft report on 30 August 2021 for consultation, on our review of our methodology for calculating licence fees. The draft report contained draft licence fee amounts to be applied from 2021–22 under the proposed methodology.<sup>c</sup>

We have completed this review. This Final Report explains the methodology that we intend to use to calculate licence fees and proposes an annual fee setting adjustment. 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 details our recommended licence fees for 2021–22 and is structured as follows:

- Section 2, Context for the review – including background, outcomes from the consultation on the draft report and an overview of the review’s timeframes and milestones.
- Section 3, How we calculated licence fees – explaining the methodology we used to allocate our costs and the licence fee setting mechanism to adjust the fees each year until we review the methodology again.

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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.

<sup>c</sup> IPART, *Electricity licence fees 2021-22 Review of methodology* – Draft Report, August 2021.

## 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 have now finalised our review of our methodology for calculating licence fees. We note this 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 recommend that licence fees based on the new methodology be applied from 2021–22. The licence fees that we recommend to the Minister under the final methodology are provided in **Table 2-1**.

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

Network Operator	Recommended 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 sought feedback on the draft report

We conducted public consultation for this review between 30 August 2021 and 20 September 2021 with the ENOs and other stakeholders.

The list of issues we sought stakeholder feedback on is at **Box 1**.

### Box 1 List of issues we sought comment on in draft report

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.

Source: IPART, *Electricity licence fees 2021–22 Review of methodology* –Draft Report, August 2021.

## 2.3 We have considered stakeholder submissions

We received 2 submissions to the draft report from members of the public and one submission from Ausgrid. All submissions are available on our website.

Of the submissions from members of the public, one related to retail electricity prices and is not specifically related to this review.<sup>d</sup> The other submission supported “reducing the licensing costs to the providers, and those costs passed on the consumers”.<sup>e</sup>

Ausgrid generally supported the methodology indicating that it is “logical and that the proposed outcomes are fair.”<sup>f</sup> We did not receive any submissions from the other ENOs.

We consider we have addressed the stakeholder comment on licensing costs in our review as we are proposing substantially lower regulatory costs be recovered from licence fees (see section 3.1).

<sup>d</sup> F. Santos, submission to IPART draft report, 3 September 2021.

<sup>e</sup> B. Watson-Will, submission to IPART draft report, 3 September 2021.

<sup>f</sup> Ausgrid submission to IPART draft report, 20 September 2021.

## 2.4 Overview of timetable for the review

**Table 2-2** provides an overview of the timetable of our review conducted.

Once we have provided our recommendations, the Minister will set licence fees for the network operators. We expect that our Final Report 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>9</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 Timetable for this review

Key milestone	Timing
Draft Report published	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	Anticipated late 2021

<sup>9</sup> Refer to section 3.5 for details of how we propose to index the licence fees.

## 3 How we calculated licence fees

Our estimated costs and final methodology are unchanged following our consultation and therefore our recommended fees are as per our draft report. Our final methodology 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 which is unchanged from our draft report. 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>h</sup>

**We calculated licence fees based on IPART's Regulatory Costs of \$1,851,000 (\$1.99 million x 93%) to be recovered from the 4 licensed ENOs.**

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 report is lower than the annual cost of \$3.013 million estimated in 2016 for 2016–17 licence fees under the previous 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 associated with regulating each function for each licensed ENO. 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% weighting, 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 of the ENOs' licences.<sup>i</sup> 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>h</sup> Our estimates are based on analysis of the workload associated with briefings presented to the Energy Networks Regulation Committee.

<sup>i</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>High 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>Low 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>j</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>j</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 maintained the use of the 'network indicator model'<sup>k</sup> from our draft report 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>k</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>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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>	<b>16.6%</b>	<b>16.6%</b>	<b>16.6%</b>	<b>16.6%</b>	<b>33.3%</b>	<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 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 recommended 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 recommended licence fees for each licensed ENO for 2021–22. The licence fees are shown in **Table 3-6**.

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

Network Operator	Recommended 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 index the licence fees and 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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