



Independent Pricing and Regulatory Tribunal

# Electricity network operator licence fees

Review of fees for DNSPs and TransGrid

**Energy Network Regulation— Final Report**  
June 2016





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# 1 Introduction

Licensed electricity network operators in NSW are required to pay annual licence fees under the conditions of their respective licences. This requirement applies to three distribution network service providers (DNSPs):<sup>1</sup> Ausgrid, Endeavour Energy and Essential Energy, and one transmission network service provider (TNSP):<sup>2</sup> TransGrid.

The Minister for Industry, Resources and Energy (the Minister) determines the licence fees. The NSW Government has requested that IPART review and recommend licence fees for the licensed electricity network operators in NSW to the Minister.

This report presents our recommended licence fees, explains the methodology that we applied to calculate them, and provides the review period and indexation we will apply. These are our final recommendations to the Minister.

## 1.1 What have we been asked to do?

The NSW Government has requested IPART conduct a review of the previous methodology for calculating licence fees and recommend to the Minister licence fees that are based on:

- ▼ IPART's efficient costs of administering the licences and electrical safety/reliability obligations of the electricity networks
- ▼ an estimation of the networks' share of these administration costs, and
- ▼ estimates of prospective administration costs rather than setting fees retrospectively based on actual costs.

This is to ensure that the costs of administering the licences are recovered from the licensees. The Minister will remain responsible for setting licence fees and the NSW Government will remain the administrative body collecting licence fees.

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<sup>1</sup> Under the Distribution Network Service Provider's licence.

<sup>2</sup> Under a Transmission Operator's Licence.

## 1.2 How we conducted this review

In addition to the detailed analysis described below, we undertook a public consultation for this review to ensure we recommend cost reflective licence fees. This was targeted at the DNSPs and TransGrid and open to other interested parties.

Our Draft Report and all stakeholder submissions are available to view on our website.

Table 1.1 provides the timetable for our review process.

Once we have provided our recommendations, the Minister will set licence fees for the licensed DNSPs and TransGrid. The new licence fees will apply from 1 July 2016 and will be indexed annually for the following four years. We will review the methodology for calculating licence fees again before the next 5-year operating licence period begins in 2020.

**Table 1.1 Review timetable**

<b>Key milestones</b>	<b>Timing</b>
Publish Draft report	18 April 2016
Receive submissions to Draft Report	13 May 2016
Deliver Final Report and Recommendations to the Minister	June 2016
New licence fees commence	1 July 2016

## 1.3 What does the rest of this report cover?

The rest of this report provides more detailed information on this review and our methodology and approach:

- ▼ Chapter 2 explains the context for the review, including the role of the operating licences, the privatisation process and the cost of IPART's regulatory role.
- ▼ Chapter 3 outlines our methodology to calculate the level at which the annual licence fees should be set.
- ▼ Chapter 4 provides our recommendations to the Minister on the licence fees for the DNSPs and TransGrid starting 1 July 2016.



## 1.4 Licence fees

The licence fees that we recommend to the Minister are provided in Table 1.2:

**Table 1.2 Licence fees**

<b>Network operator</b>	<b>Recommended licence fee for 2016-17 (\$)</b>
TransGrid	653,000
Endeavour Energy	666,000
Ausgrid	995,000
Essential Energy	644,000

**Source:** IPART calculations.

## 2 Context for the review

The sections below outline:

- ▼ the role of operating licences for distribution and transmission networks
- ▼ the privatisation process, and
- ▼ the cost of IPART's regulatory function.

### 2.1 The role of operating licences for distribution and transmission networks

DNSPs and TransGrid have operating licences that specify the conditions under which the licence holder may operate electricity distribution or transmission systems. A licence is subject to conditions imposed by or under the *Electricity Supply Act 1995* (NSW) (ESA). The Minister may also add, remove or amend licence conditions.

The Minister issues licences for the distribution and transmission of electricity in NSW. IPART administers the licensing regime on behalf of the Minister. This means that we will monitor compliance with licence conditions and enforce and review licences where required.<sup>3</sup> We also advise the Minister on annual licence fees that are imposed on DNSPs and TransGrid.<sup>4</sup>

<sup>3</sup> ESA Schedule 2, clause 8A and sections 77 and 87.

<sup>4</sup> Ministerially-imposed licence condition 13.

## 2.2 Privatisation process and IPART functions

As part of the NSW Government’s leasing of electricity distribution and transmission service providers, it has transferred regulatory responsibility for electricity safety and reliability from the NSW Department of Industry to IPART. This transfer took effect from 4 June 2015 under the *Electricity Network Assets (Authorised Transactions) Act 2015* (ENAAAT Act). Our new functions are outlined in Table 2.1.

**Table 2.1 Energy network regulation functions undertaken by IPART**

Function	Description
Administration of Compliance with network operator licences	<ul style="list-style-type: none"> <li>▼ Monitor reporting of compliance with licence conditions.</li> <li>▼ Investigate potential licence breaches.</li> <li>▼ Investigate allegations of breaches from third parties.</li> <li>▼ Oversee audits against certain licence conditions.</li> <li>▼ Follow-up on audit outcomes.</li> <li>▼ Issue directions and penalties as appropriate.</li> </ul>
Administration of safety management systems	<ul style="list-style-type: none"> <li>▼ Guide and monitor reporting against safety management systems.</li> <li>▼ Investigate trends in reported data.</li> <li>▼ Oversee scheduled and ad hoc audits of safety management systems.</li> <li>▼ Follow-up on audit outcomes.</li> <li>▼ Issue directions and penalties as appropriate.</li> </ul>
Investigation and management of safety and reliability incidents	<ul style="list-style-type: none"> <li>▼ Monitor and analyse safety incident reports.</li> <li>▼ Maintain data and reporting system.</li> <li>▼ Investigate safety and reliability incidents.</li> <li>▼ Consult with industry as appropriate.</li> </ul>
Administration of compliance with obligations under the Environmental Planning & Assessment Act (EP&A Act)	<ul style="list-style-type: none"> <li>▼ Monitor and analyse reporting of compliance with <i>Environmental Planning and Assessment Act 1979</i> obligations.</li> <li>▼ Oversee ad hoc audits.</li> <li>▼ Issue directions as appropriate.</li> </ul>
Compliance with employment guarantees	<ul style="list-style-type: none"> <li>▼ Monitor reporting of compliance with employment guarantee obligations.</li> <li>▼ Investigate potential breaches.</li> <li>▼ Investigate allegations of breaches from third parties.</li> <li>▼ Issue directions and penalties as appropriate.</li> </ul>

We will also continue to advise the Minister on all issues relating to the DNSP and TransGrid licences.

This review of licence fees is intended to reflect the changes in administrative functions due to the changing ownership structure of the electricity networks.

### 2.3 What is the cost of performing IPART's regulatory function?

We have estimated the prospective costs of performing IPART's electricity network regulation (ENR) function at \$3.013 million in 2016-17, subject to inflation in future years.

This estimate was derived after consideration of our regulatory requirements and consultation with Energy Safe Victoria (ESV) - the Victorian regulator that undertakes a similar role. The ESV administers a broader regulatory role than IPART and the equivalent of IPART's role requires 15 to 20 full time equivalent employees (FTE).

IPART's ENR Unit is planned to comprise 12 FTEs with additional funding for expert support equivalent to three FTEs. Additional costs are budgeted for developing and maintaining a database for incident reporting.

## 3 How we calculated the licence fees

Our methodology for calculating licence fees includes the following steps:

1. Separating the overall costs of performing the regulatory role into IPART's five main regulatory functions.
2. Estimating the size and complexity of each network as a proxy for the level of administration required by IPART.
3. Allocating costs between all regulated networks for the administration of safety management systems (SMS), investigation and management of incidents and compliance with EP&A components based on a 'network indicator' model of relative size and complexity.
4. Apportioning licence administration costs between the licensed operators based on functions within the licence.
5. Apportioning employment guarantee costs based on the proportion of minimum employees in the ENAAT Act.<sup>5</sup>
6. Determining licence fees for each of the licensed entities based on their allocation of costs.

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<sup>5</sup> As defined by Clause 3 of Schedule 4 of the *Electricity Network Assets (Authorised Transactions) Act 2015*.

This methodology allows us to estimate licence fees to recover the costs involved in administering the electricity network licences. Licence fees will be applied to the four licensed network operators: Ausgrid, Essential Energy, Endeavour Energy and TransGrid. Our function and corresponding administration costs includes regulation of some non-licensed network operators - Sydney Trains, Directlink, Metro Trains Sydney, Lord Howe Island and ActewAGL<sup>6</sup>. These are not required to pay a licence fee.

The sections below explain the costs we are recovering, describe our cost allocation methodology and outline the review period and indexation of annual licence fees.

### 3.1 Apportioning total costs between functions

We separated IPART’s role into five main functional areas, and assigned a weighting to each. The weightings represent our best estimate of the amount of time and resources we will spend on each function. The weightings are shown in Table 3.1 below.

**Table 3.1 Weight of functions undertaken by IPART**

Function	Weighting (%)
Compliance with network operator licences	30
Administration of safety management systems	30
Investigation and management of safety and reliability incidents	30
Compliance with obligations under the EP&A Act	5
Compliance with employment guarantees	5
<b>Total</b>	<b>100</b>

These weightings in Table 3.1 are based on IPART’s expected workload during a ‘business as usual’ environment. We expect the first three functions are likely to encompass the bulk of IPART’s administrative work and they have each been allocated a 30% weighting. Compared with the administration of the other functions, these involve:

- ▼ more frequent and detailed data collection
- ▼ more frequent analysis and reporting to the Tribunal
- ▼ greater complexity and expertise, and
- ▼ greater interaction with network operators and other parties.

<sup>6</sup> Since our Draft Report, we have included a small portion of the ActewAGL network to our calculations because its network crosses from the Australian Capital Territory into New South Wales.

We expect that administering the *NSW Code of Practice for Authorised Network Operators* under the *Environmental Planning and Assessment Act 1979* (EP&A Act) and the employment guarantees will be less time-consuming and they have each been allocated a 5% weighting.

Not all functions apply to all network operators. The main distinctions are whether they have a licence and whether they will be privatised (partial or full), i.e. the 'transacted networks'. This is discussed further in section 3.2.3.

The weighting of IPART's functions described above has only a small impact on the allocation of costs between each network. However, weighting the different administrative functions provides the flexibility to accommodate changes to work programs and resource allocation for each network in future.

### **3.2 Apportioning costs of functions to the networks**

We considered two options for apportioning the costs of each function between the networks.

**Option 1** - Allocating costs based on the estimated share of IPART's resources required to regulate each network.

**Option 2** - Dividing licence costs equally between all networks.

We have adopted Option 1. Whilst Option 2 is simpler, it does not accurately reflect the share of administrative costs required to regulate each network and does not result in cost reflective licence fees.

We have devised a 'network indicator' model which allows us to estimate the proportion each network operator contributes to IPART's workload (excluding administration of the licence conditions and employment guarantees which are explained in section 3.2.3). The network indicator model is consistent with Option 1 above.

Calculating cost reflective licence fees using the network indicator model involves two steps:

1. Determining a combination of measures to estimate relative size and complexity of each network.
2. Based on these measures, calculating the proportion of costs that each network operator contributes to IPART's workload for each function it regulates.

### 3.2.1 Estimating relative size and complexity

To calculate how the costs should be allocated between network operators under Option 1, we consider that the size and complexity of a network directly determines the administrative workload required by IPART to fulfil its regulatory role for the administration of safety management systems, investigation and management of safety and reliability incidents and compliance with obligations under the EP&A ACT. How we approach the allocation of costs for the administration of licence conditions and employment guarantees is explained in section 3.2.2.

We have used a network operator's customer base and network asset information to measure network size and complexity. In terms of their contribution to the size and complexity of the network, we have allocated an equal weighting of 50% each to the costs driven by the customer base and to those driven by network assets. This is shown in Table 3.2.

**Table 3.2 Contribution of cost drivers to network complexity**

Type of cost driver	Weighting (%)
Customer base	50
Network assets	50
<b>Total</b>	<b>100</b>

#### Customer base

The size of a network's customer base affects the complexity of a network due to the supply requirements of the customers. This is measured by customer numbers, load delivered, and workload (measured by revenue), as follows:

- ▼ Customer numbers - higher customer numbers require more distribution and service components.
- ▼ Load delivered - higher load delivered requires more network components.
- ▼ Workload (measured by revenue size) - higher workload indicates greater complexity to manage the network. Revenue is an indicator of the size and success of the network in meeting its operating costs. It is therefore used as a proxy for a network's workload in providing supply to customers.

We consider that each of these measures contributes equally to the effect of the customer base on the complexity of the network. Therefore, we have allocated an equal weighting of 33.33% to each. These are then multiplied by the customer base weighting of 50% to produce their contribution to total size and complexity. This is shown in Table 3.3.

**Table 3.3 Contribution to customer base cost driver**

Customer base components	Weighting (%)	Contribution to total size and complexity (%)
Customer numbers	33.33	16.67
Load delivered	33.33	16.67
Workload/revenue	33.33	16.67
<b>Total</b>	<b>100</b>	<b>50</b>

**Note:** numbers may not add due to rounding.

### Network asset information

The asset information for a network helps determine the physical size of the network. The measures we have selected to measure size are network length, load delivered and the regulatory asset base (RAB).

- ▼ Network length - a longer network requires more and varied assets to provide supply. A longer network may in turn lead to greater administrative resources by IPART, to deal with a potentially higher number of incidents, pole failures, the complexity of a safety management system to manager a larger amount of assets and its commensurate maintenance workforce.
- ▼ Load delivered - higher load delivered requires more and larger assets to provide that load to customers.
- ▼ RAB - a higher RAB indicates the scale of regulated assets on a quantitative basis rather than geographically. The RAB was not included in our draft report, but has now been added as it also provides an indication of relative network size and complexity.

We consider that each of the three metrics contribute equally to the network asset complexity component. Since the draft report, we have added the RAB as an indicator and have correspondingly halved the weighting given to network length. Therefore, we have allocated one third (33.33%) to each metric. These are then multiplied by 50% to calculate their total contribution to size and complexity. This is shown in Table 3.4.

**Table 3.4 Contribution to network assets cost driver**

Network asset component	Weighting (%)	Contribution to total size and complexity (%)
Network length	33.33	16.67
Load delivered	33.33	16.67
RAB	33.33	16.67
<b>Total</b>	<b>100</b>	<b>50</b>

**Note:** numbers may not add due to rounding.

## Summary of contributions to size and complexity

Based on these calculations, the rounded contribution of each component to total size and complexity is summarised in Table 3.5.

**Table 3.5 Contribution to size and complexity of each cost driver**

Network asset component	Contribution to total size and complexity (%)
Customer numbers (N)	17
Load delivered (L)	33
Workload/revenue (R)	17
Network length (l)	17
RAB	17
<b>Total</b>	<b>100</b>

**Note:** numbers may not add due to rounding.

## Network indicator model

To calculate each network's share of total costs by function, each network's figures for the individual components described above must be calculated as a proportion of the sum total for all networks to which that function applies.

This proportion is then weighted by the contributions shown in Table 3.5 to determine the network's overall network impact.

This calculation is shown by the following equation:

Network Impact by function per individual Network Operator:

$$NI_{NO} = \frac{R_{NO}}{R_{Tot}} * \frac{1}{6} + \frac{l_{NO}}{l_{Tot}} * \frac{1}{3} + \frac{N_{NO}}{N_{Tot}} * \frac{1}{6} + \frac{L_{NO}}{L_{Tot}} * \frac{1}{6} + \frac{RAB_{NO}}{RAB_{Tot}} * \frac{1}{6}$$

Where:

$R$  = revenue

$l$  = network length

$N$  = customer numbers

$L$  = load delivered

$RAB$  = Regulatory asset base

$NI$  = network impact

$NO$  = network operator, and

$Tot$  = total for all network operators to which a function applies.



The proportions derived from the network indicator model apply to the regulatory costs of all functions excluding administration of the licence conditions and employment guarantees.

#### Apportioning licence administration costs

In our draft report, we had applied the network indicator model to the costs of administering licence fees. However, we have reassessed this approach and have instead allocated costs based on a break-down of certain components within licence conditions and our assessment of the workload that may be attributed to each. These components are the generic licence management, critical infrastructure licence conditions and DNSP reliability reporting. Each component is expected to comprise the same amount of work, and to be consistent across licence holders.

The resulting contributions to the licence fee allocations are provided in Table 3.6.

**Table 3.6 Licence administration work breakdown (%)**

<b>Network operator</b>	<b>Licence management</b>	<b>Critical infrastructure</b>	<b>Reliability</b>	<b>Total</b>
TransGrid	10	10	0	<b>20</b>
Endeavour Energy	10	10	10	<b>30</b>
Ausgrid	10	10	10	<b>30</b>
Essential Energy	10	0	10	<b>20</b>

#### Administration of Employment Guarantees

To estimate the impact a network operator has on the administration of employment guarantees we used the relative 'appropriate staffing level' for the transacted networks provided by the ENAAT Act (see Table 3.8).

### 3.2.2 Calculating the share of IPART costs

We use the methods above to calculate the network impacts for each function using the following steps:

1. Identify the network operators to which the function applies (see Table 3.7).
2. Source appropriate data for each network operator for each size and complexity indicator and for the Employment Guarantees (see Table 3.8).
3. Calculate the relative weight each network operator contributes to the total for each indicator. (This includes all network operators for the SMS and incident reporting functions and just the transacted operators for the EP&A Act compliance function.)
4. Multiply this by the estimated contribution of each indicator size and complexity, as presented in Table 3.5 (see Table 3.9 for results).
5. Multiply the result for each function by the estimated proportion it contributes to IPART's costs (see Table 3.10).
6. Apply the total proportion for each network to IPART's total costs to calculate licence fees for each licensed network (see Table 3.10).

#### Regulatory functions applying to networks

Different proportions are derived to account for the involvement of different network operators under each function, as follows:

- ▼ administration of safety management systems (SMS) and incidents applies to all network operators
- ▼ compliance with network operator licences applies to TransGrid, Ausgrid, Endeavour Energy and Essential Energy
- ▼ compliance with obligations under the EP&A Act applies to TransGrid, Ausgrid and Endeavour Energy, and
- ▼ compliance with obligations for employment guarantees applies to TransGrid, Ausgrid and Endeavour Energy.

The functions applying to each network are summarised in Table 3.7 with relevant functions marked by a 'Y'.

**Table 3.7 Regulatory functions applying to networks**

Network	Compliance with network operator licences	Admin of safety management systems	Investigation and management of safety and reliability incidents	Compliance with obligations under the EP&A Act	Compliance with employment guarantees
TransGrid	Y	Y	Y	Y	Y
Endeavour Energy	Y	Y	Y	Y	Y
Ausgrid	Y	Y	Y	Y	Y
Essential Energy	Y	Y	Y	-	-
Sydney Trains	-	Y	Y	-	-
Directlink	-	Y	Y	-	-
Metro Trains Sydney	-	Y	Y	-	-
Lord Howe Island	-	Y	Y	-	-
ActewAGL	-	Y	Y	-	-

**3.2.3 Contribution to cost of IPART functions**

The network data inputs for the equation described above for each network operator are provided in Table 3.8.

**Table 3.8 Network data**

Network	Revenue	Network length	Customers	Load	Regulatory Asset Base	Minimum employee numbers in ENAAT Act
	(\$m)	(km)	(No.)	(GWh)	(\$M)	Act
TransGrid <sup>a</sup>	887	12,900	21	64,200	6,242	1,000
Endeavour Energy <sup>a</sup>	3,174	35,000	933,557	16,128	5,944	2,100
Ausgrid <sup>a</sup>	1,739	48,996	1,680,000	25,630	14,752	3,570
Essential Energy	1,738.7	187,025	824,459	13,098	7,187	N/A
Sydney Trains	111 <sup>b</sup>	1,612 <sup>d</sup>	1 <sup>e</sup>	8,023 <sup>b</sup>	780 <sup>b</sup>	N/A
Directlink	4.4	64	1 <sup>e</sup>	319 <sup>b</sup>	31 <sup>b</sup>	N/A
Metro Trains Sydney	4.5 <sup>b</sup>	66	1 <sup>e</sup>	328 <sup>b</sup>	32 <sup>b</sup>	N/A
Lord Howe Island	2.3	15 <sup>c</sup>	369	5.9 <sup>f</sup>	4.5 <sup>g</sup>	N/A
ActewAGL <sup>h</sup>	0.2 <sup>i</sup>	45	89	0.6	1.5 <sup>i</sup>	N/A
Total	7,498	285,723	3,438,498	127,732	34,974	6,670

<sup>a</sup> Transacted network operator.

<sup>b</sup> Parameter has been scaled by network length against TransGrid.

<sup>c</sup> Estimated.

<sup>d</sup> Network length estimated based on 1:1 ratio to rail length.

<sup>e</sup> Directlink supplies only Essential Energy, and Sydney Trains and Metro Trains Sydney networks are considered to supply only their train networks.

<sup>f</sup> Parameter has been scaled based on the number of customers compared with the average of that parameter per customer at Ausgrid, Endeavour Energy and Essential Energy.

<sup>g</sup> Parameter has been scaled by network length against Ausgrid.

<sup>h</sup> Only considers the portion of ActewAGL's network that is in NSW

<sup>i</sup> Parameter has been scaled based on the number of customers compared with the average of that parameter per customer at Essential Energy

**Note:** Some of this information was not readily available for Directlink, Sydney Trains, Metro Trains Sydney, Lord Howe Island and ActewAGL, and has been scaled based on known values from similar networks.

Using the ‘network indicator’ equation outlined in section 3.2.2 and the steps described in section 3.2.3, Table 3.9 shows how much time we expect to spend on each function for each DNSP and TNSP.

**Table 3.9 Proportions of network operator impact on IPART’s functions**

	<b>Impact on licence functions (%)</b>	<b>Impact on SMS and incident functions (%)</b>	<b>Impact on EP&amp;A functions (%)</b>	<b>Impact on Employment Guarantees (%)</b>
TransGrid	20.0	22.5	28.9	15.0
Endeavour Energy	30.0	17.1	25.4	31.5
Ausgrid	30.0	31.8	45.7	53.5
Essential Energy	20.0	25.6	-	-
Sydney Trains	-	2.8	-	-
Directlink	-	0.1	-	-
Metro Trains Sydney	-	0.1	-	-
Lord Howe Island	-	0.0	-	-
ActewAGL	-	0.0	-	-
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

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

We then multiplied these figures by each function’s contribution to IPART’s workload (provided earlier in Table 3.1). For ease of calculation we have combined the weighting for administration of SMS (30%) and investigation and management of safety and reliability incidents (30%) for a total of 60%. This is because both these functions apply to all network operators. These results are displayed in Table 3.10.

We then sum the total proportion each network contributes to IPART’s costs and multiply this by IPART’s total cost of \$3.013 million, to calculate the licence fee for each network. These results are also displayed in Table 3.10.

**Table 3.10 Impact of each network operator on IPART’s regulatory cost, by function**

Network operator	Licence compliance (%)	SMS and incident (%)	EP&A (%)	Employment guarantees (%)	Total Allocation (%)	Share of costs (\$) <sup>a</sup>
TransGrid	6.0	13.5	1.4	0.7	21.7	653,000
Endeavour Energy	9.0	10.3	1.3	1.6	22.1	666,000
Ausgrid	9.0	19.1	2.3	2.7	33.0	995,000
Essential Energy	6.0	15.4	0	0	21.4	644,000
Sydney Trains	0	1.7	0	0	1.7	51,000
Directlink	0	0.1	0	0	0.1	2,000
Metro Trains Sydney	0	0.1	0	0	0.1	2,000
Lord Howe Island	0	0.0	0	0	0.0	-
ActewAGL	0	0.0	0	0	0.0	-
<b>Total</b>	<b>30</b>	<b>60</b>	<b>5</b>	<b>5</b>	<b>100<sup>b</sup></b>	<b>3,013,000<sup>b</sup></b>

<sup>a</sup> Share of costs rounded to the nearest \$1,000.

<sup>b</sup> Numbers may not add due to rounding.

## 4 Recommended licence fees for 2016-17

Based on the methodology outlined in section 3, the licence fees that we recommended to the Minister are provided in Table 4.1.

While the cost of administration has been allocated to the nine regulated networks, only the costs of the four licensed networks will be recovered through a licence fee. This is because non licensed networks are not required to pay licence fees.

**Table 4.1 Licence fees for 2016-17**

Network operator	Fee (\$)
TransGrid	653,000
Endeavour Energy	666,000
Ausgrid	995,000
Essential Energy	644,000

Source: IPART calculations.

### 4.1 How often we will review and recommend licence fees

We have established a licence fee review period that aligns with the legislated licence review period. Between reviews, we will index the fees annually. This approach provides some certainty to the networks and is simple to administer. We will also review licence fees outside of this period if directed to do so by the Minister. This may occur, for instance, following changes to licence conditions or other legislation that leads to a significant increase in IPART’s workload.

Clause 11 of Schedule 2 of the ESA establishes a 5-year review period for distribution and transmission operator licences, commencing at the commencement of the clause. The first review period will end on 4 June 2020.

To align, the fees recommended in this paper therefore apply for a 4-year period (2016-17 to 2019-20). We will review the licence fee during the second half of 2019-20 and recommend licence fees for the 5-year period commencing 1 July 2020. This timing also aligns with the end of employment guarantee requirements for the transacted networks. Any review will involve stakeholder consultation.

#### How we will index licence fees

In our Draft Report, we had proposed using the NSW budget escalation to index fees. However, we found this is no longer a readily accessible figure and would be less transparent and would reduce certainty for the licensed network operators.

Instead, we will use the Sydney CPI adjusted by IPART's annual productivity factor. 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.

In June each year, we will make a recommendation to the Minister on the electricity network operator licence fees for the following financial year.