



DRAFT DECISION

Ausgrid

Adjustment Determination

November 2018

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Note

This adjustment determination should be read with:

- our remade draft decision on the Ausgrid remade electricity distribution determination for the 2014-19 regulatory control period¹
- our draft decision on the Ausgrid electricity distribution determination for the 2019-24 regulatory control period²

¹ AER, *Draft Decision: Ausgrid 2014–19 electricity distribution determination*, November 2018.

² AER, *Draft Decision: Ausgrid Distribution Determination 2019 to 2024: Attachment 13: Control mechanisms*, November 2018.

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Invitation for submissions

Interested parties are invited to make submissions on this draft decision paper by 20 December 2018.

Submissions should be sent to: AusgridRemittal2014-19@aer.gov.au

Alternatively, submissions can be sent to:

Sebastian Roberts
General Manager, Transmission & Gas
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested. Parties wishing to submit confidential information should:

- (1) clearly identify the information that is the subject of the confidentiality claim
- (2) provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be placed on our website.³

³ For further information regarding our use and disclosure of information provided to us, see the *ACCC/AER Information Policy* (June 2014), which is available on our website: <https://www.aer.gov.au/publications/corporate-documents/accc-and-aer-information-policy-collection-and-disclosure-of-information>

1 Background

This adjustment determination was brought about by:

- the appeal of our final decision for the Ausgrid 2014–19 electricity distribution determination (2015 final decision), and the subsequent remaking of our 2015 final decision⁴
- the Australian Energy Market Commission's (AEMC) rule change regarding cross period revenue smoothing

Under the National Electricity Rules, we are required to make an adjustment determination in order to ensure Ausgrid recovers only the revenue to which it is entitled and should not receive any windfall gains or losses as a result of the appeals process.⁵ This adjustment determination relates to any additional revenue Ausgrid can recover from distribution standard control services and transmission standard control services.

1.1 Remaking of our 2015 final decision

In April 2015, we published our final decision on the 2014–19 electricity distribution determination for Ausgrid.

In response, Ausgrid sought merits review of our final decision. The Australian Competition Tribunal (Tribunal) set aside our determination and remitted our decision to us to be remade.⁶

In March 2016, we sought judicial review of the Tribunal's decisions in the Full Federal Court. The Court upheld our appeal regarding imputation credits (or gamma), but dismissed our appeal regarding return on debt and operating expenditures (opex). As a result, we were tasked with revisiting our decisions on the latter aspects.

On 15 August 2018, Ausgrid submitted a proposal outlining its suggested approach to remaking our determination for the 2014–19 regulatory control period.⁷ Some consumer groups also provided their views on the proposal. Ausgrid's proposal and consumer groups' feedback are published on our website.

We published our 2014–19 remade draft decision for Ausgrid on 22 November 2018.⁸

⁴ AER, *Draft Decision: Ausgrid 2014–19 electricity distribution determination*, November 2018.

⁵ NER, cl 8A.14.5.

⁶ In accordance with its orders regarding return on debt; imputation credits (gamma); and operating expenditure.

⁷ Ausgrid, *Proposal - Remittal of 2014-19 revenue determination*, 15 August 2018.

⁸ AER, *Draft Decision: Ausgrid 2014–19 electricity distribution determination*, November 2018.

1.2 AEMC revenue smoothing rule change

During the appeal process, Ausgrid entered into enforceable undertakings with the AER to set prices for the 2016–17 to 2018–19 regulatory years. It was acknowledged the revenue Ausgrid collected through undertakings could differ, perhaps significantly, from the revenue it would be entitled to under the remade determination.

If so, this could cause significant fluctuation in network tariffs between the remaining years of the 2014–19 regulatory period, at the time of the appeals, and the first year of the next (2019-24) regulatory period. Ausgrid therefore submitted a rule change request to the AEMC to provide a mechanism to minimise potential price volatility for its customers that may occur as a result of the appeals and remittal decision.⁹

On 1 August 2017, the AEMC published its NSW revenue smoothing final rule which provides such a mechanism.¹⁰ This adjustment determination is made under this final rule.¹¹

⁹ Ausgrid submitted the rule change request jointly with the other NSW electricity distributors, Essential Energy and Endeavour Energy.

¹⁰ NER, rule 8A.14.

¹¹ NER, cl 8A.14.5. We anticipate making our 2014-19 remade final decision for Ausgrid prior to 1 May 2019.

2 Our draft decision

Below, we set out our draft decisions for the:

- distribution variation amount (see section 2.1)
- transmission variation amount (see section 2.2)

2.1 Distribution variation amount

Our draft decision is that the distribution variation amount is \$41.1 million at 30 June 2019.¹²

Ausgrid is to recover this amount from customers in the 2019–24 regulatory control period. We will incorporate this amount in our upcoming final decision on the 2019–24 distribution determination for Ausgrid.¹³ In particular, we will incorporate this amount as an increase to Ausgrid's building block revenue requirement for distribution standard control services in net present value terms.

The derivation of this amount is detailed in our remade draft decision on the Ausgrid electricity distribution determination for the 2014–19 regulatory control period (remade draft decision).¹⁴

As noted in our remade draft decision, we will not know Ausgrid's actual revenues for the 2014–19 regulatory control period until after the regulatory control period expires.¹⁵ Our final decision on the 2019–24 distribution determination for Ausgrid will set out how we will ensure Ausgrid earns only the revenue to which it is entitled for distribution standard control services.¹⁶

2.2 Transmission variation amount

Our draft decision is that the transmission variation amount is –\$352.0 million at 30 June 2019.¹⁷

Ausgrid is to return this amount to customers in the 2019–24 regulatory control period. We will incorporate this amount in our upcoming final decision on the 2019–24 distribution determination for Ausgrid.¹⁸ In particular, we will incorporate this amount as

¹² NER, cl 8A.14.5(b)(1).

¹³ NER, cl 8A.14.5(c)(1) and (3).

¹⁴ AER, *Draft Decision: Ausgrid 2014–19 electricity distribution determination*, November 2018, and distribution PTRM.

¹⁵ AER, *Draft Decision: Ausgrid 2014–19 electricity distribution determination*, November 2018.

¹⁶ NER, cll. 8A.14.1 (definition for 'revenue recovery principle') and 8A.14.5(d); AER, *Draft Decision: Ausgrid 2014–19 electricity distribution determination*, November 2018.

¹⁷ NER, cl 8A.14.5(b)(2).

¹⁸ NER, cl 8A.14.5(c)(2) and (4).

a reduction to Ausgrid's building block revenue requirement for transmission standard control services in net present value terms.

The derivation of this amount is detailed in our remade draft decision.¹⁹

As noted in our remade draft decision, we will not know Ausgrid's actual revenues for the 2014–19 regulatory control period until after the regulatory control period expires.²⁰ Our upcoming final decision on the 2019–24 distribution determination for Ausgrid will set out how we will ensure Ausgrid earns only the revenue to which it is entitled for transmission standard control services.²¹

¹⁹ AER, *Draft Decision: Ausgrid 2014–19 electricity distribution determination*, November 2018, and transmission PTRM.

²⁰ AER, *Draft Decision: Ausgrid 2014–19 electricity distribution determination*, November 2018.

²¹ NER, cl. 8A.14.1 (definition for 'revenue recovery principle') and 8A.14.5(d); AER, *Draft Decision: Ausgrid 2014–19 electricity distribution determination*, November 2018.