



FINAL DECISION
ActewAGL distribution
determination
2015–16 to 2018–19

Attachment 14 – Control
mechanism

April 2015

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Note

This attachment forms part of the AER's final decision on ActewAGL's revenue proposal 2015–19. It should be read with other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 - Annual revenue requirement

Attachment 2 - Regulatory asset base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency benefit sharing scheme

Attachment 10 - Capital expenditure sharing scheme

Attachment 11 - Service target performance incentive scheme

Attachment 12 - Demand management incentive scheme

Attachment 13 - Classification of services

Attachment 14 - Control mechanism

Attachment 15 - Pass through events

Attachment 16 - Alternative control services

Attachment 17 - Negotiated services framework and criteria

Attachment 18 - Connection policy

Attachment 19 - Pricing methodology

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Shortened forms

Shortened form	Extended form
AARC	average annual revenue cap
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	expenditure forecast assessment Guideline for electricity distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure

RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

14 Control mechanism for standard control services

The control mechanism imposes limits over the prices of direct control services, and/or the revenue from these services. For standard control services, the National Electricity Rules (NER) state that the control mechanism must be of the prospective CPI–X form (or some incentive-based variant).¹

This attachment sets out the final formulae for ActewAGL's control mechanism, the average revenue cap, for the 2015–19 regulatory control period. It discusses:

- how we will apply the average revenue cap.
- how we will determine compliance with the control mechanism.²
- the mechanism through which ActewAGL will recover distribution use of system (DUoS) charges in the 2015–19 regulatory control period.³
- how ActewAGL must report to us on its recovery of designated pricing proposal charges and jurisdictional scheme amounts.⁴
- the procedures ActewAGL must apply for assigning or reassigning retail customers to tariff classes.⁵

14.1 Final decision

Our final decision for ActewAGL is as follows:

- the control mechanism for standard control services provided by ActewAGL is an average revenue cap.⁶
- Figure 14.1 in section 14.5.3 contains the formula that gives effect to the control mechanism for standard control services.⁷
- the side constraints applying to the price movements of each ActewAGL tariff class must be consistent with the formula in Figure 14.2 below.
- ActewAGL must submit as part of its annual pricing proposal, a record of the amount of revenue recovered from designated pricing proposal charges and associated payments in accordance with appendix A of this attachment.⁸

¹ NER, cl 6.2.6(a).

² NER, cl 6.12.1(13).

³ NER, cl 6.12.1(11).

⁴ NER, cl 6.12.1(19) and 6.12.1(20).

⁵ NER, cl 6.12.1(17).

⁶ AER, *Stage 1 framework and approach paper: ActewAGL: Transitional regulatory control period 1 July 2014 to 30 June 2015, Subsequent regulatory control period 1 July 2015 to 30 June 2019*, March 2013, p. 28.

⁷ NER, cl 6.12.1(11).

- ActewAGL must report to us its jurisdictional scheme amounts recovery in accordance with appendix B of this attachment.
- appendix C of this attachment specifies the procedures ActewAGL must apply for assigning retail customers to tariff classes or reassigning retail customers from one tariff class to another.

14.2 ActewAGL's revised proposal

ActewAGL broadly considered that the AER's draft decision on the control mechanism for standard control services is appropriate.⁹ It disagreed with some aspects of the draft decision, including:

- the definition of the B-factor
- removal of the T-factor from the control mechanism formula
- the specification of the side constraint.¹⁰

14.3 AER's assessment approach

Our stage 1 framework and approach (F&A) decided the control mechanism for standard control services would be an average revenue cap. The basis must be of the prospective CPI-X form (or some incentive-based variant).¹¹ We also stated we would finalise particular aspects of the control mechanism during the distribution determination process.¹²

In determining the control mechanism for standard control services, we considered the factors in clause 6.2.5(c) of the NER for each revenue adjustment mechanism and its application. This approach:

- satisfies the requirements of the NER
- confirms our decision in the stage 1 F&A to apply an average revenue cap for ActewAGL's standard control services in the 2015–19 regulatory control period.

14.3.1 Inter-relationships

In the draft decision, we stated the B-factor should account for:

⁸ We referred to this as the 'TUoS unders and overs account' in the draft decision and in previous distribution determinations. In this final decision, we use the term 'designated pricing proposal charges' to reflect the wording of the NER (cl 6.12.1(19)).

⁹ ActewAGL, *Revised regulatory proposal: 2015–19 Regulatory control period: Distribution services provided by the ActewAGL distribution electricity network in the Australian Capital Territory*, January 2015, p. 505.

¹⁰ ActewAGL, *Revised regulatory proposal: 2015–19 Regulatory control period: Distribution services provided by the ActewAGL distribution electricity network in the Australian Capital Territory*, January 2015, pp. 505–506.

¹¹ AER, *Stage 1 framework and approach paper: ActewAGL: Transitional regulatory control period 1 July 2014 to 30 June 2015, Subsequent regulatory control period 1 July 2015 to 30 June 2019*, March 2013, p. 31.

¹² AER, *Stage 1 framework and approach paper: ActewAGL: Transitional regulatory control period 1 July 2014 to 30 June 2015, Subsequent regulatory control period 1 July 2015 to 30 June 2019*, March 2013, pp. 37–38.

- approved pass through amounts
- residual metering asset costs from alternative control exit fees.¹³

ActewAGL did not agree with our classification of residual metering asset costs as standard control services. ActewAGL in turn did not agree with the draft decision to include residual metering asset costs in the B-factor.¹⁴ In this final decision, the transfer of meters will be classified as an alternative control service not a standard control service (see alternative control services attachment 16). Hence, the B-factor in the control mechanism formula does not include residual metering asset costs (see Figure 14.1).

14.4 Reasons for final decision

Our stage 1 F&A deliberately set out a generic formula to give effect to the control mechanism for standard control services.¹⁵ The NER requires our stage 1 F&A to include a formula for the control mechanism.¹⁶ The control formula requires parameters that we complete in our final distribution determination. This final decision clarifies our position regarding the control formula and its respective parameters.

14.5 Application of the average revenue cap

Average annual revenue cap

In this final decision, the average revenue cap for any given regulatory year is the average annual revenue cap (AARC) for distribution services.¹⁷ Figure 14.1 contains the formula that gives effect to the average revenue cap.¹⁸

Incentive Adjustment

As the service standards attachment discusses, we will apply a Service Target Performance Incentive Scheme (S-factor) to ActewAGL in the 2015–19 regulatory control period. Figure 14.1 includes the S-factor as a parameter in the control mechanism formula.

Intra-period adjustment to WACC

¹³ AER, *Draft decision: ActewAGL distribution determination 2015–16 to 2018–19: Attachment 14: Control mechanisms*, November 2014, p. 12.

¹⁴ ActewAGL, *Revised regulatory proposal: 2015–19 Regulatory control period: Distribution services provided by the ActewAGL distribution electricity network in the Australian Capital Territory*, January 2015, pp. 505 and 516.

¹⁵ AER, *Stage 1 framework and approach paper: ActewAGL: Transitional regulatory control period 1 July 2014 to 30 June 2015, Subsequent regulatory control period 1 July 2015 to 30 June 2019*, March 2013, pp. 37–38.

¹⁶ NER, cl 6.8.1(b)(2)(ii) and 11.56.4(l)(1).

¹⁷ In the draft decision, we stated the average revenue cap for any given regulatory year is the average annual revenue requirement (AARR) for distribution services. 'AARR' is the acronym for 'aggregate annual revenue', which is a defined term in the NER. This final decision uses 'average annual revenue cap' to avoid confusion.

¹⁸ NER, cl 6.12.1(11).

ActewAGL stated our draft decision did not address the proposal to include annual adjustment for the cost of debt in the B-factor.¹⁹ The draft decision did not address this suggestion in the main text, but defined the X_t parameter of the control mechanism and side constraint formulas as:

the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the rate of return attachment calculated for the relevant year.²⁰

We maintain this definition for this final decision.²¹ For the avoidance of doubt, we will revise the X factors to implement any changes to revenue resulting from updates to return on debt.

The attachment on the cost of capital discussed annual adjustment of the WACC. The revenue attachment details issues relating to 'X-factors'.

Transitional adjustment (T-factor)

In its revised proposal, ActewAGL suggested implementing a transitional (or glide) path to the opex allowance we determine, if we reject ActewAGL's opex proposal. ActewAGL suggested using the T-factor to implement the glide path.²² As we discuss in the opex attachment 7, we will not implement a transition path for ActewAGL. We therefore maintain our draft decision not to include the T-factor in the control mechanism and side constraint formulas.

Annual adjustment (B-factor)

We have amended the definition of the B-factor since the draft decision. As with the draft decision, the B-factor amount will still account for approved pass through amounts. However, it will no longer account for residual metering asset costs as we discuss below (see section 14.3.1).

ActewAGL understood it can recover amounts related to its 2013 vegetation management cost pass through application via the B-factor in its 2015–16 pricing proposal.²³ ActewAGL stated it did not recover these pass through amounts in the 2014–15 transitional year. We agree with ActewAGL and we previously noted that

¹⁹ ActewAGL, *Revised regulatory proposal: 2015–19 Regulatory control period: Distribution services provided by the ActewAGL distribution electricity network in the Australian Capital Territory*, January 2015, p. 515.

²⁰ AER, *Draft decision: ActewAGL distribution determination 2015–16 to 2018–19: Attachment 14: Control mechanisms*, November 2014, pp. 12–13.

²¹ We have added to the definition of X_t for the side constraints formula to be consistent with the NER. See Figure 14.2.

²² ActewAGL, *Revised regulatory proposal: 2015–19 Regulatory control period: Distribution services provided by the ActewAGL distribution electricity network in the Australian Capital Territory*, January 2015, pp. 518–519.

²³ ActewAGL, *Revised regulatory proposal: 2015–19 Regulatory control period: Distribution services provided by the ActewAGL distribution electricity network in the Australian Capital Territory*, January 2015, pp. 505, and 515–516.

ActewAGL is to recover this pass through in the 2015–16 regulatory year.²⁴ We have included this pass through amount in the definition of the B-factor for the avoidance of doubt (see Figure 14.1). ActewAGL stated the consumption forecast we included in our draft decision differed significantly from its consumption forecast. If we maintain our consumption forecast in the draft decision, ActewAGL proposed to include a consumption forecast correction adjustment in the B-factor. This adjustment would manage the risk of significant under- or over-recovery of revenue relative to efficient cost, given the significant uncertainty about future consumption.²⁵

We do not agree with the inclusion of a consumption forecast correction adjustment in the B-factor. As we discuss in the capex attachment 6, this final decision accepts ActewAGL's consumption forecasts in its revised regulatory proposal. More importantly, consumption forecasts will invariably differ from actual consumption. Our draft and final decisions use consumption forecasts that we consider are reasonable, based on robust methods and inputs. On the other hand, the volume risk is on the distributor under an average revenue cap. ActewAGL itself stated the distributor (not the consumer) should bear the volume risk because distributors are best placed to manage such risk.²⁶ Adding a consumption forecast correction adjustment would effectively alter the control mechanism away from an average revenue cap. This would be in contravention of the NER.²⁷

Removal of the DUoS unders and overs account

As we noted in section 14.1, an average revenue cap will apply to ActewAGL's standard control services in the 2014–15 and 2015–19 regulatory control periods. This is consistent with our decision on the control mechanism in the stage 1 F&A and our draft decision.²⁸ Due to an administrative oversight, the draft decision included a requirement for ActewAGL to maintain a DUoS unders and overs account.²⁹ This final decision removes the requirement for ActewAGL to maintain a DUoS unders and overs account. This includes removing the $DUOS_t$ parameter from the side constraint formula.

While a revenue cap control mechanism requires an unders and overs account, an average revenue cap does not require such an account. This is because revenue can

²⁴ AER website: <http://www.aer.gov.au/node/27236> (accessed 24 March 2015).

²⁵ ActewAGL, *Revised regulatory proposal: 2015–19 Regulatory control period: Distribution services provided by the ActewAGL distribution electricity network in the Australian Capital Territory*, January 2015, pp. 505 and 516.

²⁶ AER, *Stage 1 Framework and approach paper: ActewAGL: Transitional regulatory control period 1 July 2014 to 30 June 2015: Subsequent regulatory control period 1 July 2015 to 30 June 2019*, March 2013, pp. 35–36.

²⁷ NER, cl 6.12.3(c).

²⁸ AER, *Stage 1 Framework and approach paper: ActewAGL: Transitional regulatory control period 1 July 2014 to 30 June 2015: Subsequent regulatory control period 1 July 2015 to 30 June 2019*, March 2013, p. 28; AER, *Draft decision: ActewAGL distribution determination 2015–16 to 2018–19: Attachment 14: Control mechanisms*, November 2014, p. 7.

²⁹ AER, *Draft decision: ActewAGL distribution determination 2015–16 to 2018–19: Attachment 14: Control mechanisms*, November 2014, pp. 15–16.

vary under an average revenue cap according to outturn sales.³⁰ We discussed this fact in the stage 1 F&A.³¹ This was the case in the 2009–14 regulatory control period where ActewAGL did not maintain a revenue unders and overs account under the same form of control.

Under and over recovery mechanism for designated pricing proposal charges

We will apply an under and over recovery mechanism for designated pricing proposal charges to smooth the impact of over and under recovery into tariffs year on year. See appendix A for the under and over recovery mechanism for designated pricing proposal charges.

This method creates a smoothing of the under and over recovery amounts for designated pricing proposal charges because it provides more updated and accurate estimated and forecast data. It is also consistent with our approach for ActewAGL in the 2009–14 regulatory control period and is consistent with the requirements of the NER.³²

14.5.1 Reporting on jurisdictional scheme amounts

Jurisdictional schemes amounts are those ActewAGL must pay pursuant to Australian Capital Territory government requirements.³³ We must decide how ActewAGL will report recovery of jurisdictional scheme amounts for each year of the regulatory control period. This includes adjustments necessary in subsequent pricing proposals to account for over or under recovery of those charges.³⁴

We approve ActewAGL's proposed method of reporting on jurisdictional scheme amounts. It is consistent with the requirements of clause 6.18.7A(c) of the NER. See appendix B for the under and over recovery mechanism for jurisdictional schemes.

14.5.2 Side constraints

We made the following amendments to the side constraints formula:

- we removed the $DUOS_t$ parameter as we discussed in section 14.5.

³⁰ The average revenue cap controls for a distributor's revenue per unit of electricity transported (\$ per kWh), rather than the distributor's total revenue. In this sense, the average revenue cap is more similar to the price cap than the revenue cap form of control.

³¹ AER, *Stage 1 Framework and approach paper: ActewAGL: Transitional regulatory control period 1 July 2014 to 30 June 2015: Subsequent regulatory control period 1 July 2015 to 30 June 2019*, March 2013, p. 35.

³² NER, cl 6.12.1(19) and 6.18.7; AER, *Final decision: Australian Capital Territory distribution determination 2009–10 to 2013–14*, 28 April 2009, pp. 182–183.

³³ The ACT jurisdictional schemes are: the feed-in tariff scheme (including the new scheme for large customers), the Utilities Network Facilities Tax (UNFT) and the Energy Industry Levy (EIL).

³⁴ NER, cl. 6.12.1 (20).

- we removed the $TUOS_t$ parameter.³⁵
- we replaced the ' PT_t ' parameter with ' B_t ' to be consistent with the revenue cap formula (see Figure 14.1).
- we amended the definition of the X_t parameter to be consistent with the permissible percentage.³⁶
- the draft decision required that the percentage increase in the weighted average revenue in year t is both ' \leq ' and ' $=$ ' the permissible percentage.³⁷ We amended the formula such that the percentage increase in the weighted average revenue in year t is ' \leq ' the permissible percentage.

ActewAGL stated the constituent decisions relevant to this attachment centre on the control mechanism and that side constraints do not form part of the control mechanism. Since the NER does not require us to make a constituent decision on side constraints, ActewAGL considered the inclusion of a formula for side constraints is not permissible. If we include a formula for side constraints, ActewAGL stated it must only reflect the requirements of clause 6.18.6 of the NER.³⁸

We interpret ActewAGL as suggesting the side constraint formula should only include X, CPI and 2 per cent as parameters. ActewAGL appears to suggest, for example, that we should not include the S_t parameter in the side constraint formula.³⁹ We do not agree with this interpretation of the NER. We consider the control mechanism and the side constraint are closely linked and, in most cases, the parameters of the side constraint formula should reflect those of the control mechanism. Specifying the side constraint formula in the distribution determination also provides transparency to distributors regarding our expectations for pricing proposals.

The control mechanism formula generally accounts for factors outside of CPI and X, including the S-factor that we mentioned previously. Other expenditures the X factor does not capture include license fees and other levies, and expenditures relating to transitional provisions. If we do not include such factors in the side constraint formulae, we would restrict distributor's ability to reflect such factors in its prices.

³⁵ Side constraints relate to a distributor's provision of standard control services (see NER, cl 6.18.6(a)). Designated pricing proposal charges and the associated unders and overs account are not standard control services (see NER, chapter 10)..

³⁶ NER, cl 6.18.6(c).

³⁷ AER, *Draft decision: ActewAGL distribution determination 2015–16 to 2018–19: Attachment 14: Control mechanisms*, November 2014, p. 13.

³⁸ ActewAGL, *Revised regulatory proposal: 2015–19 Regulatory control period: Distribution services provided by the ActewAGL distribution electricity network in the Australian Capital Territory*, January 2015, p. 514.

³⁹ Phone conversation between AER and ActewAGL staff, 20 March 2015.

We note the parameters in the side constraint formulas in our previous distribution determinations reflect those of the control mechanism. Previous jurisdictional regulators also adopted this approach.⁴⁰

14.5.3 Control mechanism formulas

Prescribed (Distribution) services

ActewAGL's pricing proposals must submit to the AER proposed tariffs and charging parameters. ActewAGL's average revenues for standard control services must be consistent with the AARC formula in Figure 14.1.

Figure 14.1 Average revenue cap formula

1. $AARC_t \geq \frac{\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_{t-2}^{ij}}{kWh \text{ transported}_{t-2}} \quad i=1, \dots, n \text{ and } j=1, \dots, m \text{ and } t=1, \dots, 5$
2. $AARC_t = AAR_t \pm \frac{B_t}{kWh \text{ transported}_{t^*}}$
3. $AAR_t = AAR_{t-1}(1 + \Delta CPI_t)(1 - X_t)(1 + S_t)$

Where:

$AARC_t$ is the average annual revenue cap (in cents/kWh) in year t.

p_t^{ij} is the price of component i of tariff j in year t.

q_{t-2}^{ij} is the quantity of component i of tariff j in year t-2.

AAR_t is the average annual smoothed revenue in year t. For the 2015-16 regulatory year, AAR_{t-1} is the average annual smoothed expected revenue in the Post Tax Revenue Model for 2014-15.

$kWh \text{ transported}_{t-2}$ is the audited total kWh in year t-2.

$kWh \text{ transported}_{t^*}$ is the forecast total kWh in year t.

B_t is the approved pass through amounts (positive or negative) with respect to regulatory year t, as determined by the AER. For the avoidance of doubt, ActewAGL will recover the approved vegetation clearance pass through via this B-factor in its 2015-16 pricing proposal.⁴¹

$$\Delta CPI_t = \left[\frac{CPI_{Mar,t-2} + CPI_{Jun,t-2} + CPI_{Sep,t-1} + CPI_{Dec,t-1}}{CPI_{Mar,t-3} + CPI_{Jun,t-3} + CPI_{Sep,t-2} + CPI_{Dec,t-2}} \right] - 1$$

⁴⁰ For example, see Essential Services Commission (Victoria), *Electricity distribution price review 2006-10: Final decision: Volume 2: Price determination*, December 2008, pp. 12, and 25-26.

⁴¹ AER website: <http://www.aer.gov.au/node/23172> (accessed 24 March 2015).

CPI means the all groups index number for the weighted average of eight capital cities as published by the ABS, or if the ABS does not or ceases to publish the index, then *CPI* will mean an index which the AER considers is the best estimate of the index.

X_t the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the return on debt appendix I calculated for the relevant year.

S_t is the STPIS factor sum of the raw s-factors for all reliability of supply and customer service parameters (as applicable) to be applied in year t.⁴² S_t for 2015–16 and 2016–17 are set at zero.

Side constraints

ActewAGL must demonstrate in its pricing proposal that proposed DUoS prices for the next year (t) will meet the side constraints formula in Figure 14.2 for each tariff class.⁴³

Figure 14.2 Side constraints

$$\frac{\left(\sum_{j=1}^m d_t^j q_t^j\right)}{\left(\sum_{j=1}^m d_{t-1}^j q_t^j\right)} \leq (1 + \Delta CPI_t)(1 - X_t)(1 + 2\%)(1 + S_t) \pm B_t$$

where each tariff class has up to 'm' components, and where:

d_t^j is the proposed price for component 'j' of the tariff class for year t

d_{t-1}^j is the price charged for component 'j' of the tariff class in year t-1

q_t^j is the forecast quantity of component 'j' of the tariff class in year t

$$\Delta CPI_t = \left[\frac{CPI_{Mar,t-2} + CPI_{Jun,t-2} + CPI_{Sep,t-1} + CPI_{Dec,t-1}}{CPI_{Mar,t-3} + CPI_{Jun,t-3} + CPI_{Sep,t-2} + CPI_{Dec,t-2}} \right] - 1$$

CPI means the all groups index number for the weighted average of eight capital cities as published by the ABS, or if the ABS does not or ceases to publish the index, then *CPI* will mean an index which the AER considers is the best estimate of the index.

X_t the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in

⁴² In the formulas in the STPIS attachment, the AR_{t+1} is equivalent to AR_t in this formula. Calculations of the S factor adjustment are to be made accordingly.

⁴³ NER, cl. 6.18.6

accordance with the formula specified in the return on debt appendix I calculated for the relevant year. If $X > 0$, then X will be set equal to zero for the purposes of the side constraint formula

B_t is the approved pass through amounts (positive or negative) with respect to regulatory year t , as determined by the AER. For the avoidance of doubt, ActewAGL will recover the approved vegetation clearance pass through via this B-factor in its 2015–16 pricing proposal.⁴⁴

S_t is the STPIS factor sum of the raw s-factors for all reliability of supply and customer service parameters (as applicable) to be applied in year t .⁴⁵ S_t for 2015–16 and 2016–17 are set at zero.

With the exception of the CPI and X factors, the percentage for each of the other factors above can be calculated by dividing the incremental revenues for each factor by the expected revenues for regulatory year $t-1$ (based on the prices in year $t-1$ multiplied by the forecast quantities for year t).

Prescribed (transmission) services

In its pricing proposals, ActewAGL must demonstrate that revenues for its prescribed (transmission) services are consistent with the MAR formula in Figure 14.3.

Figure 14.3 Revenue cap formula for prescribed (transmission) services

$$MAR_t = AR_t \pm PT_t$$

$$AR_t = AR_{t-1}(1 + \Delta CPI_t)(1 - X_t)$$

Where:

MAR_t is the maximum allowable average revenue in year t .

AR_t is the annual smoothed expected revenue in year t . For the 2015–16 regulatory year, AR_{t-1} is the annual smoothed expected revenue in the Post Tax Revenue Model for 2014–15.

PT_t is an annual adjustment factor that reflects the pass through amounts approved by the AER with respect to regulatory year t .

ΔCPI_t is the annual percentage change in the Australian Bureau of Statistics (ABS) Consumer Price Index All Groups, Weighted Average of Eight Capital Cities from December in year $t-2$ to December in year $t-1$.

⁴⁴ AER website: <http://www.aer.gov.au/node/23172> (accessed 24 March 2015).

⁴⁵ In the formulas in the STPIS attachment, the AR_{t+1} is equivalent to AR_t in this formula. Calculations of the S factor adjustment are to be made accordingly.

X_t the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the return on debt appendix I calculated for the relevant year.

A Unders and overs account for designated pricing proposal charges

In accordance with clause 6.12.1(19) of the NER, we require ActewAGL to maintain an unders and overs account for designated pricing proposal charges. It must provide information on this account to us in its annual pricing proposal.

ActewAGL must provide the amounts for the following entries in its unders and overs account for designated pricing proposal charges for the most recently completed regulatory year (t-2), the current regulatory year (t-1) and the next regulatory year (t):

1. opening balance for year t-2, year t-1 and year t;
2. an interest charge for one year on the opening balance for each regulatory year (t-2, t-1 and t). These adjustments are to be calculated using the approved nominal WACC.
3. the amount of revenue recovered from designated pricing proposal charges in respect of that year, less the amounts of designated pricing proposal related payments made by ActewAGL in respect of that year;
4. an adjustment to the net amount in item 3 by six months of interest. These adjustments are to be calculated using the approved nominal WACC.
5. the total of items 1–4 to derive the closing balance for each year.

ActewAGL must provide details of calculations in the format set out in Table 14.1. Amounts provided for the most recently completed regulatory year (t-2) must be audited. Amounts provided for the current regulatory year (t-1) will be regarded as an estimate. Amounts for the next regulatory year (t) will be regarded as a forecast.

In proposing variations to the amount and structure of designated pricing proposal charges, ActewAGL is to achieve a zero expected balance on its unders and overs account for designated pricing proposal charges at the end of each of the forecast years in its annual pricing proposals in the 2015–19 regulatory control period.

Table 14.1 Example calculation of unders and overs account for designated pricing proposal charges (\$000, nominal)

	Year t–2 (actual)	Year t-1 (estimate)	Year t (forecast)
Revenue from designated pricing proposal charges	40,077	34,944	36,607 ^a
Less total transmission related payments	34,365	38,734	39,200
Transmission charges to be paid to TNSP	33,793	38,000	38,400
Avoided TUoS payments	572	734	800

Under/over recovery for regulatory year	5,712	-3,790	-2,593
Unders and overs account for designated pricing proposal charges			
Nominal WACC (per cent)	8.28	8.28	8.28
Opening balance	0	5,944	2,492
Interest on opening balance	0	492	206
Under/over recovery for regulatory year	5,712	-3,790	-2,593
Interest on under/over recovery for regulatory year	232	-154	-105
Closing balance	5,944	2,492	0

Notes: (a) Forecast revenue from designated pricing proposal charges will be set to achieve an expected zero balance in the unders and overs account for designated pricing proposal charges for year t.

B Reporting on recovery of jurisdictional schemes

To demonstrate compliance with its distribution determination in the 2015–19 regulatory control period, ActewAGL must maintain a jurisdictional schemes unders and overs account in its annual pricing proposal.⁴⁶

ActewAGL must provide the amounts for the following entries in its jurisdictional schemes unders and overs account for the most recently completed regulatory year (t–2), the current regulatory year (t–1) and the next regulatory year (t):

1. opening balance for year t–2, year t–1 and year t.
2. an interest charge for one year on the opening balance for each regulatory year (t–2, t–1 and t). These adjustments are to be calculated using the approved nominal WACC.
3. either the amount representing the revenue recovered from jurisdictional schemes charges applied in respect of that year or the amount included (such as the case of 2013–14) in the operating expenditure allowance within the 2009–14 distribution determination, less the amounts of all jurisdictional scheme related payments made by ActewAGL Distribution in respect of that year.
4. an adjustment to the net amount in item 3 by six months of interest. These adjustments are to be calculated using the approved nominal WACC.
5. the total of items 1–4 to derive the closing balance for each year.

Table 14.2 provides an example calculation of the jurisdictional schemes unders and overs account.

Table 14.2 Example calculation of jurisdictional schemes unders and overs account (\$000, nominal)

	Year t–2 (actual)	Year t–1 (estimate)	Year t (forecast)
Revenue from jurisdictional schemes	19,777	23,121	26,881
Jurisdictional scheme 1 payments	14,159	13,954	13,961
Jurisdictional scheme 2 payments	6,113	7,005	14,680

⁴⁶ NER, cl. 6.18.7A(a) to (c).

Total payments form jurisdictional scheme	20,272	20,959	28,641
Over (under) recovery for financial year	-495	2162	-1760
Overs and unders account			
Annual rate of interest applicable to balances (per cent)	8.79	8.79	8.06
Opening balance	-	- 517	1,693
Interest on opening balance	-	- 45	136
Over/ under recovery for financial year	- 495	2,162	-1,760
Interest on over/ under recovery	- 22	93	-69
Closing balance	- 517	1,693	0

C Assigning retail customers to tariff classes

We are required to decide on the principles governing assignment or reassignment of retail customers to or between tariff classes.⁴⁷ There is no requirement on ActewAGL to propose such procedures and consequently we must develop the required procedure.

C.1 AER's approach

Our draft decision described our approach to developing the principles governing assignment or reassignment of retail customers to tariff classes.⁴⁸ In particular, we did not approve ActewAGL's proposed procedure for assigning and reassigning retail customers to tariff classes. We required ActewAGL to amend its procedure to allow retail customers additional protection when they object to being assigned and/or re-assigned to a particular of tariff class.

We maintained this approach for the final decision.

C.2 Reasons for final decision

ActewAGL's revised proposal submitted that we are not allowed to amend its proposed procedures to assign and reassign customers to tariff classes because it was contrary to clause 6.18.4(b) of the NER. We do not accept this.

Clause 6.18.4(b) requires a distribution determination to contain provisions for an effective system of assessment and review of the basis of charging retail customers, where a particular tariff results in a basis of charge that varies according to the usage or load profile of the customer.

Clause 6.18.4(a) deals with the assignment or re-assignment of customers to tariff classes. It requires us to formulate provisions (such as developing procedures) that prescribe the assignment or reassignment of retail customers to tariff classes. These procedures are to be made having regard to the principles in clauses 6.18.4(a)(1)–(4). This clause does not restrict us from amending a regulatory determination to ensure that ActewAGL has a more effective system of assessment and review in customer assignment and re-assignment.

In particular, clause 6.18.4(a)(4) requires us to consider whether an effective system of assessment and review is in place to enable a retail customer to dispute a tariff class reassignment. The assignment or reassignment of a customer to a tariff class has a direct impact on the price the customer will be charged for direct control services. Customers dissatisfied by a decision of the internal review process should have access

⁴⁷ NER, cl 6.12.1(17).

⁴⁸ AER, *Draft decision: ActewAGL distribution determination 2015–16 to 2018–19: Attachment 14: Control mechanism for standard control services*, November 2014, pp. 23–24.

to the external review body. In the event of a dispute between a distributor and a customer about assignment or reassignment of a customer to a tariff class, such dispute may be able to be referred to us in accordance with Part 10 of the NEL and clause 6.22.1 of the NER.⁴⁹ We have amended ActewAGL's procedure for assigning customers to tariff classes so that the distributor must inform customers of the availability of the dispute resolution mechanism under Part 10 of the NEL.

C.2.1 Approach of notifying retailers instead of the affected customer

Our draft decision considered that ActewAGL should be obligated to notify retail customers in the event that their tariff class is reassigned by the distributor. After discussions and consultation with the NSW distributors, retailers and reviewing their submissions we accept that notification of tariff classes changes should be conducted through the customer's retailer.⁵⁰

We accept that notifying both the retail customer and the retailer may impose an additional cost on distributors. Further, notification sent by distributors to retail customers may also add a level of confusion. That is, the final bill paid by a retail customer will depend on the offer made by the retailer to that customer and not those applied by the distributor. As such, correspondence about network tariff class changes may cause confusion to the retail customer about their retail electricity bill.⁵¹

Our amended procedure for assigning customers to tariff classes applicable to ActewAGL's retail customers is set out below.

C.3 Procedures for assigning or reassigning retail customers to tariff classes

The procedures outlined in this section apply to all direct control services.

⁴⁹ Under Part 10 of the NEL, the AER has the function of resolving an access dispute between a network service user or prospective network user and a network service provider. An access dispute is a dispute about an aspect of access to an electricity network service that is specified under the NER to be an aspect about which the dispute resolution provisions in Part 10 of the NEL apply. Clause 6.22.1(a) in the NER provides that an access dispute for the purposes of Part 10 of the NEL includes a dispute between a DNSP and a Service Applicant about the terms and conditions of access to a direct control service.

⁵⁰ Ausgrid, *Revised regulatory proposal: Attachment 9.03: Proposed procedure for assigning or re-assignment of retail customers to tariff classes*, January 2015, pp. 2–6; Endeavour Energy, *Revised regulatory proposal: Attachment 9.02: Proposed procedure for assigning or re-assigning retail customers to tariff classes*, January 2015, pp. 2–4; Phone conference between AER staff Ausgrid and Endeavour Energy, 20 March 2015; Meeting between AER staff and Origin Energy; 23 March 2015; Phone conversation between AER staff and Essential Energy, 24 March 2015; Phone conversation between AER staff and EnergyAustralia, 24 March 2015; Phone conversation between AER staff and EnergyAustralia, March 2015.

⁵¹ Energy Australia, response to AER question regarding Proposed Procedure for Assigning or Re-Assignment of Retail Customers to Tariff Classes by Ausgrid, 23 March 2015; ActewAGL, Email to AER, 31 March 2015.

Assignment of existing retail customers to tariff classes at the commencement of the 2015-19 regulatory control period

1. ActewAGL's retail customers will be taken to be “assigned” to the tariff class which ActewAGL was charging that retail customer immediately prior to 1 July 2015 if:
 - they were an ActewAGL retail customer prior to 1 July 2015
 - they continue to be a retail customer of ActewAGL as at 1 July 2015.

Assignment of new retail customers to a tariff class during the 2015-19 regulatory control period

2. If, after 1 July 2015, ActewAGL becomes aware that a person will become a retail customer of ActewAGL, then ActewAGL must determine the tariff class to which the new retail customer will be assigned.
3. In determining the tariff class to which a retail customer or potential retail customer will be assigned, or reassigned, in accordance with paragraphs 2 or 5 of this section, ActewAGL must take into account one or more of the following factors:⁵²
 - a. the nature and extent of the retail customer’s usage
 - b. the nature of the retail customer’s connection to the network⁵³
 - c. whether remotely-read interval metering or other similar metering technology has been installed at the retail customer's premises as a result of a regulatory obligation or requirement.
4. In addition to the requirements of paragraph 3 above, ActewAGL, when assigning or reassigning a retail customer to a tariff class, must ensure:
 - a. retail customers with similar connection and usage profiles are treated equally⁵⁴
 - b. retail customers who have micro-generation facilities are not treated less favourably than retail customers with similar load profiles without such facilities.⁵⁵

Reassignment of existing retail customers to another existing or a new tariff during the 2015-19 regulatory control period

6. ActewAGL may reassign a retail customer to another tariff class if the existing retail customer's load characteristics or connection characteristics (or both) have changed such that it is no longer appropriate for that retail customer to be assigned to the tariff class to which the retail customer is currently assigned. Or a retail customer no longer has the same or materially similar load or connection

⁵² NER, cl 6.18.4(a)(i).

⁵³ The AER interprets 'nature' to include the installation of any technology capable of supporting time based tariffs.

⁵⁴ NER, cl 6.18.4(2).

⁵⁵ NER, cl 6.18.4(3).

characteristics as other retail customers on the retail customer's existing tariff class, then it may reassign that retail customer to another tariff class. In determining the tariff class to which a retail customer will be reassigned, ActewAGL must take into account paragraphs 3 and 4.

Objections to proposed assignments and reassignments

5. ActewAGL must notify the customer's retailer in writing of the tariff class to which the retail customer has been assigned or reassigned, prior to the assignment or reassignment occurring.
6. A notice under paragraph 6 above must include advice informing the customer's retailer that they may request further information from ActewAGL and that the customer's retailer may object to the proposed reassignment. This notice must specifically include:
 - a. a written document describing ActewAGL's internal procedures for reviewing objections. An electronic copy of the document may be provided to the customer's retailer via email if the retailer expressly consents.
 - b. that if the objection is not resolved to the satisfaction of the retailer under ActewAGL's internal review system within a reasonable timeframe, then, to the extent resolution of such disputes are within the jurisdiction of the ACT Civil and Administrative Tribunal or like officer, the customer's retailer is entitled to escalate the matter to such a body.
 - c. that if the objection is not resolved to the satisfaction of the customer's retailer under ActewAGL's internal review system and the body noted in clause 7.b. above, then the customer's retailer is entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the NEL.
7. If ActewAGL receives a request for further information from a retailer, then it must provide such information within a reasonable timeframe. If ActewAGL reasonably claims confidentiality over any of the information requested by the retailer, then it is not required to provide that information to the customer's retailer. If the retailer disagrees with such confidentiality claims, he or she may have resort to the dispute resolution procedures referred to above (as modified for a confidentiality dispute).
8. If, in response to a notice issued in accordance with paragraph 7 above, a customer's retailer makes an objection to ActewAGL about the proposed assignment or reassignment, ActewAGL must reconsider the proposed assignment or reassignment. In doing so ActewAGL must take into consideration the factors in paragraphs 3 and 4, and notify the customer's retailer in writing of its decision and the reasons for that decision.
9. If a retailer's objection to a tariff class assignment or reassignment is upheld by the relevant body noted in paragraph 7 (b) and (c) above, then any adjustment which needs to be made to tariffs will be done by ActewAGL as part of the next annual review of prices.
10. If a customer's retailer objects to ActewAGL's tariff class assignment ActewAGL must provide the information set out in paragraph 7 \ and adopt and comply with

the arrangements set out in paragraphs 8, 9 and 10 in respect of requests for further information by the customer's retailer and resolution of the objection.

System of assessment and review of the basis on which a retail customer is charged

11. Where the charging parameters for a particular tariff result in a basis of charge varying according to the retail customer's usage or load profile, ActewAGL must set out in its annual pricing proposal a method by which it will review and assess the basis on which a retail customer is charged.