



**FINAL DECISION  
SA Power Networks  
determination 2015–16 to  
2019–20**

**Attachment 14 – Control  
mechanisms**

October 2015

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## Note

This attachment forms part of the AER's final decision on SA Power Networks' 2015–20 distribution determination. It should be read with all 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

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## Shortened forms

Shortened form	Extended form
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

Shortened form	Extended form
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
TAR	total annual revenue
WACC	weighted average cost of capital

# 14 Control mechanisms for standard control services

A control mechanism imposes limits over the prices of direct control services and/or the revenues that a distribution network service provider can recover from customers. For standard control services, the NER requires the control mechanism be of the prospective CPI-X form (or some incentive-based variant).<sup>1</sup>

This attachment sets out the revenue cap formulae as the control mechanism for SA Power Networks' standard control services for the 2015–20 regulatory control period. It discusses:

- how we will apply the revenue cap
- how we will determine compliance with the price controls<sup>2</sup>
- the mechanism through which SA Power Networks will recover distribution use of system (DUoS) charges—including adjustments for revenue under or over recovery—in the 2015–20 regulatory control period<sup>3</sup>
- how SA Power Networks must report to us on its recovery of designated pricing proposal charges and jurisdictional scheme amounts<sup>4</sup>
- the procedures SA Power Networks must apply for assigning or reassigning retail customers to tariff classes.<sup>5</sup>

The control mechanisms applying to SA Power Networks' alternative control services are set out separately in attachment 16.

## 14.1 Final decision

Our final decision for SA Power Networks' is as follows:

- The control mechanism for standard control services is a revenue cap.
- Section 14.4.5 contains the revenue cap formulae that give effect to the control mechanism for standard control services.<sup>6</sup> The revenue cap for any given regulatory year is the total annual revenue, or TAR, for standard control services calculated using the formula in Figure 14.1.
- The side constraints applying to the price movements of each SA Power Networks tariff class must be consistent with the formula in Figure 14.2.

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<sup>1</sup> NER, cl. 6.2.6(a).

<sup>2</sup> NER, cl. 6.12.1(13).

<sup>3</sup> NER, cl. 6.12.1(11).

<sup>4</sup> NER, cl. 6.12.1(19), 6.12.1(20).

<sup>5</sup> NER, cl. 6.12.1(17).

<sup>6</sup> NER, cl. 6.12.1(11).

- SA Power Networks must demonstrate compliance with the control mechanism for standard control services in accordance with Figure 14.1—including adjustments for DUoS revenue under or over recovery in accordance with appendix A of this attachment.
- SA Power Networks 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 B of this attachment.<sup>7</sup>
- SA Power Networks must report to us its jurisdictional scheme amounts recovery in accordance with appendix C of this attachment.
- Appendix D of this attachment specifies the procedures SA Power Networks must apply in assigning retail customers to tariff classes or reassigning retail customers from one tariff class to another.

## 14.2 SA Power Networks' revised proposal

SA Power Networks' revised proposal generally accepted our preliminary decision on the control mechanism for standard control services.<sup>8</sup> However, SA Power Networks considered a DUoS factor be added to the revenue cap formulae to allow the pass through of DUoS revenue under or over recovery adjustments in coming years.<sup>9</sup>

## 14.3 AER's assessment approach

Our final framework and approach (final F&A) set the control mechanism for standard control services as a revenue cap.<sup>10</sup> The basis of the revenue cap must be of the prospective CPI-X form (or some incentive based variant).<sup>11</sup>

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.

Our final F&A set out a generic formula to give effect to the control mechanism for standard control services.<sup>12</sup> The generic formula requires parameters that need to be specified with more precision in order to be implemented. This final decision clarifies our position regarding the control mechanism formula and its respective parameters.

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<sup>7</sup> We referred to this as the 'TUoS unders and overs account' 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)).

<sup>8</sup> SA Power Networks, *Revised regulatory proposal 2015–2020*, pp. 49–51.

<sup>9</sup> SA Power Networks, *Revised regulatory proposal 2015–2020*, p. 51.

<sup>10</sup> AER, *Final framework and approach for SA Power Networks: Regulatory control period commencing 1 July 2015*, April 2014, p. 41; NER, cl 6.8.1(b)(2)(ii).

<sup>11</sup> NER, cl. 6.2.6(a).

<sup>12</sup> AER, *Final framework and approach for SA Power Networks: Regulatory control period commencing 1 July 2015*, April 2014, pp. 49–50.



## 14.4 Reasons for final decision

This section discusses the reasons for our final decision for each component of the revenue cap control mechanism, including the reporting on designated pricing proposal charges and jurisdictional scheme amounts.

### 14.4.1 Application of the revenue cap

#### Total annual revenue

The revenue cap for any given regulatory year is the total annual revenue (TAR) for standard control services. Figure 14.1 contains the revenue cap formulae.

#### Intra-period adjustment to the weighted average cost of capital

As per our preliminary decision, changes to the TAR resulting from the trailing average cost of debt update will be implemented through annual revisions to the X factors. Further discussion on this adjustment can be found in attachment 3—rate of return—which discusses the WACC annual adjustment and attachment 1—annual revenue requirement—which details issues relating to X factors.

#### Incentive scheme adjustments (I factor)

The I factor will include the final carryover amount from the conclusion of the demand management incentive scheme (DMIS) applied to SA Power Networks in the 2010–15 regulatory control period.<sup>13</sup> This amount is not known at the time of making the final decision and must therefore be applied via the control mechanism. Specifically, the DMIS adjustment includes:

- any amount of the allowance unspent or not approved by the AER over the period
- the time value of money accrued or lost as a result of the expenditure profile selected by the distributor
- any approved forgone revenue adjustment.<sup>14</sup>

This adjustment will be calculated by SA Power Networks using the method set out in the DMIS and added or deducted from the TAR in its 2016–17 pricing proposal. We will approve these amounts as part of our assessment of that pricing proposal.

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<sup>13</sup> AER, *Preliminary decision: SA Power Networks' determination 2015–16 to 2019–20: Attachment 14—Control mechanism*, April 2015, p. 8.

<sup>14</sup> AER, *Demand management incentive scheme: Energex, Ergon Energy and ETSA Utilities 2010–15*, October 2008, p. 17.

## S factor adjustment

As per our preliminary decision, an S factor will apply in the revenue control mechanism to account for any rewards or penalties related to the service target performance incentive scheme. The service scheme applying to SA Power Networks in the 2015–20 regulatory control period is discussed in attachment 11—STPIS.

## Annual adjustment (B factor)

We have reinstated the B factor in the final decision revenue cap formulae to include the true-up of any under or over recoveries of revenue related to DUoS charges. SA Power Networks proposed the inclusion of a DUoS factor to perform the same function.<sup>15</sup> However, we have made provision for this adjustment via the B factor as it is consistent with how this adjustment is applied in other jurisdictions. Therefore we do not accept SA Power Networks' proposed DUoS factor.

The B factor was included in our final F&A revenue cap formulae to encompass the sum of annual adjustment factors in year *t*, including adjustments for the unders and overs account. It was omitted in our preliminary decision because we considered:

- that adjustments for DUoS charge revenue recovery would already be accounted for through the DUoS unders and overs account which is how this adjustment had been accounted for previously in other jurisdictions
- no other adjustments were required under the B factor.<sup>16</sup>

However, we acknowledge our preliminary decision approach potentially reduces transparency in the process for setting prices. This occurs because the calculated TAR is not the total amount of revenue SA Power Networks is allowed to recover from customers. In practice the total amount of revenue would be determined by the calculated TAR *plus* an adjustment for the amount calculated in the DUoS unders and overs account. Such an approach can be misleading to customers and stakeholders, as it is not transparent as to why SA Power Networks is allowed to recover more revenue than the TAR.

To overcome this, a more transparent approach is to include the amount calculated in the DUoS unders and overs account in the TAR via the B factor. Because the latter is a subset of the former, this ensures the published TAR is the total amount of revenue SA Power Networks is allowed to recover from its customers.<sup>17</sup>

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<sup>15</sup> SA Power Networks, *Revised regulatory proposal 2015–2020*, p. 51

<sup>16</sup> AER, *Preliminary decision: SA Power Networks' determination 2015–16 to 2019–20: Attachment 14—Control mechanism*, April 2015, p. 9.

<sup>17</sup> The TAR is published in the annual pricing proposal.

Wrapping the DUoS revenue under and over recovery into the B factor mechanism is consistent with our final F&A.<sup>18</sup> Appendix A of this attachment sets out the method in which to calculate the under or over recovery amount to be included in the B factor.

## **Annual adjustment (C factor)**

As per our preliminary decision, the C factor will include any AER approved cost pass through amounts during 2015–20 regulatory control period.

## **Calculation of the consumer price index escalation**

The method for calculating the consumer price index (CPI) escalation is based on the annual movement between the Australian Bureau of Statistics' (ABS) published December quarter data. The application of this calculation is set out in Figure 14.1.

### **14.4.2 Reporting on designated pricing proposal charges**

We must decide how SA Power Networks will report on the recovery of designated pricing proposal charges for each year of the 2015–20 regulatory control period and how to account for any under or over recovery of revenue associated with those charges.<sup>19</sup> Continuing the preliminary decision method, we will apply an under and over recovery mechanism to facilitate this reporting and to account for the true-up of under and over recovery of revenue. This approach is consistent with the DUoS revenue under and over recovery mechanism and requirements of the NER.<sup>20</sup> The operation of this method is detailed in appendix B.

### **14.4.3 Reporting on jurisdictional scheme amounts**

We must decide how SA Power Networks will report on the recovery of jurisdictional scheme amounts for each year of the 2015–20 regulatory control period and how to account for any under or over recovery of revenue of those charges.<sup>21</sup> Continuing the preliminary decision method, we will apply an under and over recovery mechanism to facilitate this reporting and account for the true-up of under and over recovery of revenue. This approach is consistent with the DUoS revenue under and over recovery mechanism and requirements of the NER.<sup>22</sup> The operation of this method is detailed in appendix C.

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<sup>18</sup> AER, *Final framework and approach for SA Power Networks: Regulatory control period commencing 1 July 2015*, April 2014, p. 50.

<sup>19</sup> NER, cl. 6.12.1 (19).

<sup>20</sup> NER, cll. 6.12.1(19), 6.18.7.

<sup>21</sup> NER, cl. 6.12.1 (20).

<sup>22</sup> NER, cl. 6.18.7A.

#### 14.4.4 Side constraints

Figure 14.2 sets out the side constraints formula. For each year after the first year of a regulatory control period, side constraints will apply to the weighted average revenue to be raised from each tariff class. In accordance with the NER, the permissible percentage increase is the greater of CPI–X plus 2 per cent or CPI plus 2 per cent.<sup>23</sup> Recovery of certain revenues, such as those to accommodate pass throughs, is disregarded in deciding whether the permissible percentage has been exceeded.<sup>24</sup>

We have amended the side constraints formula from our preliminary decision to include the DUoS unders and overs account adjustments in the B factor.

#### 14.4.5 Control mechanism formulae

SA Power Networks must submit annual pricing proposals to us with proposed tariffs and charging parameters.<sup>25</sup> To the extent possible, SA Power Network's pricing proposals should publicly disclose the separate charging parameters relating to DUoS, designated pricing proposal charges and jurisdictional scheme amounts.

That is, for each tariff and charging parameter element, SA Power Networks must show the breakdown of the DUoS, designated pricing proposal charges and jurisdictional scheme amounts separately—not just in combination.

This presentation style has been a common practice of distributors in other jurisdictions. It enables regulators, retailers, policy makers and consumers to see the varied pricing impacts and effects of the different charging parameter elements.

SA Power Networks' revenues must be consistent with the total annual revenue formulae and side constraint formulae set out below.

#### Figure 14.1 Revenue cap formulae

- $$TAR_t \geq \sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij} \quad i=1,\dots,n \text{ and } j=1,\dots,m \text{ and } t=1,\dots,5$$
- $$TAR_t = AR_t + I_t + B_t + C_t \quad t = 1,2,\dots,5$$
- $$AR_t = AR_{t-1}(1 + \Delta CPI_t)(1 - X_t)(1 + S_t) \quad t = 1,2,\dots,5$$

where;

$TAR_t$  is the total annual revenue in year t.

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<sup>23</sup> NER, cl. 6.18.6(c).

<sup>24</sup> NER, cl. 6.18.6(d).

<sup>25</sup> NER, cl. 6.18.2.

$P_t^{ij}$  is the price of component 'j' of tariff 'i' in year t.

$q_t^{ij}$  is the forecast quantity of component 'j' of tariff 'i' in year t.

$AR_t$  is the annual smoothed expected revenue for regulatory year t. For the first year of the 2015–20 regulatory control period, this amount will be equal to the smoothed revenue requirement for 2015–16 set out in the PTRM.

$I_t$  is the final carryover amount from the application of the DMIS from the 2010–15 distribution determination. This amount will be calculated using the method set out in the DMIS and deducted from/added to allowed revenue in the 2016–17 pricing proposal.

$B_t$  any under or over recovery of actual revenue collected through DUoS charges as calculated using the method in appendix A.

$C_t$  any AER approved cost pass through amounts during 2015–20 regulatory control period.

$\Delta CPI_t$  is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities<sup>26</sup> from the December quarter in year t–2 to the December quarter in year t–1, calculated using the following method :

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t–1

divided by

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t–2

minus one.

For example, for the 2015–16 year, t–2 is December quarter 2013 and t–1 is December quarter 2014 and in the 2016–17 year, t–2 is December quarter 2014 and t–1 is December quarter 2015 and so on.

$X_t$  is the X factor for each year of the 2015–20 regulatory control period as determined in the PTRM, and annually revised for the return on debt update in accordance with the formula specified in attachment 3—rate of return—calculated for the relevant year.

$S_t$  is the s-factor determined in accordance with the STPIS for regulatory year t.<sup>27</sup>

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<sup>26</sup> If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

**Figure 14.2 Side constraints**

$$\frac{\left(\sum_{i=1}^n \sum_{j=1}^m d_t^{ij} q_t^{ij}\right)}{\left(\sum_{i=1}^n \sum_{j=1}^m d_{t-1}^{ij} q_t^{ij}\right)} \leq (1 + \Delta CPI_t) \times (1 - X_t) \times (1 + 2\%) \times (1 + S_t) + I_t' + B_t' + C_t'$$

where each tariff class has "n" tariffs, with each up to "m" components, and where:

$d_t^{ij}$  is the proposed price for component 'j' of tariff 'i' for year t.

$d_{t-1}^{ij}$  is the price charged for component 'j' of tariff 'i' in year t-1.

$q_t^{ij}$  is the forecast quantity of component 'j' of tariff 'i' in year t.

$\Delta CPI_t$  is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities<sup>28</sup> from the December quarter in year t-2 to the December quarter in year t-1, calculated using the following method :

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t-1

divided by

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t-2

minus one.

For example, for the 2015-16 year, t-2 is December quarter 2013 and t-1 is December quarter 2014 and in the 2016-17 year, t-2 is December quarter 2014 and t-1 is December quarter 2015 and so on.

$X_t$  is the X factor for each year of the 2015-20 regulatory control period as determined in the PTRM, and annually revised for the return on debt update in accordance with the formula specified in attachment 3—rate of return—calculated for the relevant year. If  $X > 0$ , then X will be set equal to zero for the purposes of the side constraint formula.

$S_t$  is the s-factor determined in accordance with the STPIS for regulatory year t.<sup>29</sup>

<sup>27</sup> 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.

<sup>28</sup> If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

<sup>29</sup> 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.

$I_t'$  is the annual percentage change from the final carryover amount from the application of the DMIS from the 2010–15 distribution determination. This amount will be deducted from/added to allowed revenue in the 2016–17 pricing proposal.

$B_t'$  any under or over recovery of actual revenue collected through DUoS charges as calculated using the method in appendix A.

$C_t'$  any AER approved cost pass through amounts during 2015–20 regulatory control period.

With the exception of the CPI, X factor and S factor, the percentage for each of the other factors above can be calculated by dividing the incremental revenues (as used in the total annual revenue formula) 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  $t$ ).

## A DUoS unders and overs account

To demonstrate compliance with its distribution determination during the 2015–20 regulatory control period, SA Power Networks must maintain a DUoS unders and overs account in its annual pricing proposal.<sup>30</sup>

SA Power Networks must provide the amounts for the following entries in their DUoS 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. the amount of revenue recovered from DUoS charges in respect of that year, less the total annual revenue for the year in question;
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.

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

In proposing variations to the amount and structure of DUoS charges, SA Power Networks is expected to achieve a closing balance as close to zero as practicable in its DUoS unders and overs accounts in each forecast year in its annual pricing proposals during the 2015–20 regulatory control period.

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<sup>30</sup> NER, cl. 6.18.2(b)(7).



**Table 14.1 Example calculation of DUoS unders and overs account  
(\$'000, nominal)**

	Year t-2 (actual)	Year t-1 (estimate)	Year t (forecast)
<b>(A) Revenue from DUoS charges</b>	<b>46 779</b>	<b>37 297</b>	<b>59 575</b>
<b>(B) Less TAR components for regulatory year =</b>	<b>43 039</b>	<b>43 012</b>	<b>59 927</b>
+ Annual smoothed revenues (ARt)	43 039	43 010	58 900
+ DMIS carryover amount (It)	0	0	1013
+ Approved pass throughs (Ct)	0	2	14
<b>(A minus B ) Under/over recovery of revenue for regulatory year</b>	<b>3740</b>	<b>-5715</b>	<b>-352<sup>a</sup></b>
<b><i>DUoS unders and overs account</i></b>			
Nominal WACC (per cent)	8.79%	8.79%	8.06%
Opening balance	1737	5791	339
Interest on opening balance	153	509	27
Under/over recovery for regulatory year	3740	-5715	-352
Interest on under/over recovery for regulatory year	161	-246	-14
<b>Closing balance</b>	<b>5791</b>	<b>339</b>	<b>0<sup>b</sup></b>

Notes: (a) Approved DUoS revenue under/over recovery for regulatory year.  
(b) SA Power Networks is expected to achieve a closing balance as close to zero as practicable in its DUoS unders and overs account in each forecast year in its annual pricing proposals in the 2015–20 regulatory control period.

## **B Designated pricing proposal charges unders and overs account**

To demonstrate compliance with its distribution determination during the 2015–20 regulatory control period, SA Power Networks must maintain a designated pricing proposal charges unders and overs account in its annual pricing proposal.<sup>31</sup>

SA Power Networks 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 SA Power Networks for the year in question;
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.

SA Power Networks must provide details of calculations as per the format set out in Table 14.2. 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, SA Power Networks is expected to achieve a closing balance as close to zero as practicable on its designated pricing proposal charges unders and overs account in each forecast year in its annual pricing proposals in the 2015–20 regulatory control period.

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<sup>31</sup> NER, cl. 6.18.2(b)(6), 6.12.1(19).

**Table 14.2 Example calculation of designated pricing proposal charges unders and overs account (\$'000, nominal)**

	Year t-2 (actual)	Year t-1 (estimate)	Year t (forecast)
<b>(A) Revenue from designated pricing proposal charges (DPPC)</b>	<b>40 077</b>	<b>34 944</b>	<b>36 609</b>
<b>(B) Less total transmission related payments=</b>	<b>34 365</b>	<b>38 734</b>	<b>39 200</b>
+ DPPC to be paid to TNSP	33 672	37 933	38 000
+ Avoided TUOS payments	572	734	800
+ Inter-distributor payments	121	67	400
<b>(A minus B) Under/over recovery of revenue for regulatory year</b>	<b>5712</b>	<b>-3790</b>	<b>-2591<sup>a</sup></b>
<b>DPPC unders and overs account</b>			
Nominal WACC (per cent)	8.28%	8.28%	8.06%
Opening balance	0	5944	2492
Interest on opening balance	0	492	201
Under/over recovery for regulatory year	5712	-3790	-2591
Interest on under/over recovery for regulatory year	232	-154	-102
<b>Closing balance</b>	<b>5944</b>	<b>2492</b>	<b>0<sup>b</sup></b>

Notes: (a) Approved DPPC revenue under/over recovery for regulatory year.  
(b) SA Power Networks is to achieve a closing balance as close to zero as practicable in its DPPC unders and overs account in each forecast year in its annual pricing proposals in the 2015–20 regulatory control period.

## C Jurisdictional scheme amounts unders and overs account

To demonstrate compliance with its distribution determination during the 2015–20 regulatory control period, SA Power Networks must maintain a jurisdictional scheme amounts unders and overs account in its annual pricing proposal.<sup>32</sup>

SA Power Networks must provide the amounts for the following entries in its jurisdictional scheme amounts 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. the amount of revenue recovered from jurisdictional scheme amounts charges in respect of that year, less the amounts of all jurisdictional scheme related payments made by SA Power Networks for the year in question;
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 14.3 provides an example calculation of the jurisdictional scheme amounts unders and overs account. 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 jurisdictional scheme amounts , SA Power Networks is expected to achieve a closing balance as close to zero as practicable on its jurisdictional scheme amounts unders and overs account in each forecast year in its annual pricing proposal during the 2015–20 regulatory control period.

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<sup>32</sup> NER, cl. 6.12.1(20), 6.18.2(b)(6A).

**Table 14.3 Example calculation of jurisdictional scheme amounts unders and overs account (\$'000, nominal)**

	Year t-2 (actual)	Year t-1 (estimate)	Year t (forecast)
<b>(A) Revenue from jurisdictional schemes</b>	<b>19 777</b>	<b>23 121</b>	<b>26 881</b>
<b>(B) Less jurisdictional scheme payments for regulatory year =</b>	<b>20 272</b>	<b>20 959</b>	<b>28 641</b>
+ Jurisdictional scheme 1 payments	14 159	13 954	13 961
+ Jurisdictional scheme 2 payments	6 113	7 005	14 680
<b>(A minus B) Under/over recovery of revenue for regulatory year</b>	<b>-495</b>	<b>2 162</b>	<b>-1 760<sup>a</sup></b>
<b>Jurisdictional scheme amounts unders and overs account</b>			
Nominal WACC (per cent)	8.79%	8.79%	8.06%
Opening balance	0	-516	1 693
Interest on opening balance	0	-45	136
Over/ under recovery for financial year	-495	2 162	-1 760
Interest on over/ under recovery	-21	93	-70
<b>Closing balance</b>	<b>-516</b>	<b>1 693</b>	<b>0<sup>b</sup></b>

Notes: (a) Approved jurisdictional scheme amounts revenue under/over recovery for regulatory year.  
(b) SA Power Networks is to achieve a closing balance as close to zero as practicable on its jurisdictional scheme amounts unders and overs account in each forecast year in its annual pricing proposals in the 2015–20 regulatory control period.

## **D Assigning retail customers to tariff classes**

We are required to decide on the principles governing assignment or reassignment of retail customers (customers) to or between tariff classes.<sup>33</sup> Our decision on the principles that SA Power Networks is to adhere to in assigning and reassigning customers to tariff classes is outlined below.

### **D.1 AER's assessment approach**

We apply the principles set out in the NER when formulating provisions which SA Power Networks must apply with assignment or reassignment of customers to tariff classes.<sup>34</sup> A distributor's decision to assign a customer to a particular tariff class or to reassign a customer from one tariff class to another should be subject to an effective system of assessment and review.

### **D.2 Reasons for the final decision**

SA Power Network's revised proposal did not contain any discussion on the principles governing assignment or reassignment of customers to or between tariff classes as set out in our preliminary decision. However, we have amended the principles since our preliminary decision to include a specific process for assigning or reassigning customers to alternative control services.

We consider that the requirement to provide written notification to a customer's retailer for each tariff class assignment or reassignment for alternative control services is not practical. We consider that customers or their retailers essentially assign themselves to a tariff class when requesting the alternative control service they require. Therefore we have amended the principles below to facilitate a more practical approach regarding alternative control services.

### **D.3 Procedures for assigning or reassigning retail customers to tariff classes**

The procedure outlined in this section applies to direct control services.

#### **Assignment of existing retail customers to tariff classes at the commencement of the 2015–20 regulatory control period**

1. SA Power Networks' customers will be taken to be "assigned" to the tariff class which SA Power Networks was charging that customer immediately prior to 1 July 2015 if:
  - (a) they were an SA Power Networks customer prior to 1 July 2015, and

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<sup>33</sup> NER, cl. 6.12.1(17).

<sup>34</sup> NER, cl. 6.18.4.

(b) they continue to be a customer of SA Power Networks as at 1 July 2015.

### **Assignment of new retail customers to a tariff class during the forthcoming regulatory control period**

2. If, after 1 July 2015, SA Power Networks becomes aware that a person will become a customer of SA Power Networks, then SA Power Networks must determine the tariff class to which the new customer will be assigned.
3. In determining the tariff class to which a customer or potential customer will be assigned, or reassigned, in accordance with paragraphs 2 or 5, SA Power Networks must take into account one or more of the following factors:
  - (a) the nature and extent of the customer's usage
  - (b) the nature of the customer's connection to the network<sup>35</sup>
  - (c) whether remotely-read interval metering or other similar metering technology has been installed at the customer's premises as a result of a regulatory obligation or requirement.
4. In addition to the requirements of paragraph 3, SA Power Networks, when assigning or reassigning a customer to a tariff class, must ensure:
  - (a) customers with similar connection and usage profiles are treated equally
  - (b) customers who have micro-generation facilities are not treated less favourably than customers with similar load profiles without such facilities.

### **Reassignment of existing retail customers to another existing or a new tariff class during the 2015–20 regulatory control period**

5. SA Power Networks may reassign an existing customer to another tariff class in the following situations:
  - (a) SA Power Networks receives a request from the customer or customer's retailer to review the tariff to which the existing customer is assigned; or
  - (b) SA Power Networks believes that:
    - i. an existing customer's load characteristics or connection characteristics (or both) have changed such that it is no longer appropriate for that customer to be assigned to the tariff class to which the customer is currently assigned, or
    - ii. a customer no longer has the same or materially similar load or connection characteristics as other customers on the customer's existing tariff, then SA Power Networks may reassign that customer to another tariff class.

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<sup>35</sup> We interpret 'nature' to include the installation of any technology capable of supporting time based tariffs.

In determining the tariff class to which a customer will be reassigned, SA Power Networks must take into account paragraphs 3 and 4 above.

### **Notification of proposed assignments and reassignments and rights of objection for standard control services**

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



11. If a customer or customer's retailer objects to SA Power Networks' tariff class assignment SA Power Networks must provide the information set out in paragraph 7 above and adopt and comply with the arrangements set out in paragraphs 8, 9 and 10 above in respect of requests for further information by the customer or customer's retailer and resolution of the objection.

### **Notification of proposed assignments and reassignments and rights of objection for alternative control services**

12. SA Power Networks must make available information on tariff classes and dispute resolution procedures referred to in paragraph 7 above to retailers operating in SA Power Networks' distribution area.
13. If SA Power Networks receives a request for further information from a customer or customer's retailer in relation to a tariff class assignment or reassignment, then it must provide such information within a reasonable timeframe. If SA Power Networks reasonably claims confidentiality over any of the information requested, then it is not required to provide that information. If the customer or customer's retailer disagrees with such confidentiality claims, he or she may have resort to the dispute resolution procedures referred to in paragraph 7 above, (as modified for a confidentiality dispute).
14. If a customer or customer's retailer makes an objection to SA Power Networks about the proposed assignment or reassignment, SA Power Networks must reconsider the proposed assignment or reassignment. In doing so SA Power Networks must take into consideration the factors in paragraphs 3 and 4 above, and notify the customer or customer's retailer in writing of its decision and the reasons for that decision.
15. If an objection to a tariff class assignment or reassignment is upheld by the relevant body noted in paragraph 7 above, then any adjustment which needs to be made to tariffs will be done by SA Power Networks as part of the next network bill.

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

16. Where the charging parameters for a particular tariff result in a basis charge that varies according to the customer's usage or load profile, SA Power Networks will set out in its pricing proposal a method of how it will review and assess the basis on which a customer is charged.