

Indicative control mechanism formulae for 6-month extension of Victorian 2016-2020 distribution proposals

This document sets out the indicative control mechanism formulae the AER expects to apply for the 6-month extension of the 2016-20 regulatory control period. This information should be treated as indicative only, and checked against the AER's decision for the 6-month extension period (expected in late September).

For more information, please see the documents available on the AER's website in relation to the 2016-20 and/or 2021-26 reset determination for each distribution network.

Revenue-capped services

The revenue cap to be applied to standard control services will be as set in the amended Post-Tax Revenue Model (PTRM), with no other factors applied:¹

$$TAR_t \geq \sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij} \quad TAR_t = AR_t$$

The revenue cap to be applied to revenue-capped type 5 and 6 metering services will be as set in the amended metering PTRM, with no other factors applied:

$$TARM_t \geq \sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij} \quad TARM_t = AR_t$$

The side constraint mechanism to apply to standard control services and metering services will be just CPI and the 2% allowance as there is no X-factor to apply, and no other adjustments need to be discounted from the permissible percentage:²

$$\frac{\left(\sum_{i=1}^n \sum_{j=1}^m d_t^{ij} q_t^{ij} \right)}{\left(\sum_{i=1}^n \sum_{j=1}^m d_{t-1}^{ij} q_t^{ij} \right)} \leq (1 + \Delta CPI_t) \times (1 + 2\%)$$

Price-capped services

The price cap to be applied to type 7 metering services will be escalated for CPI:

$$\bar{p}_t^i \leq \bar{p}_{t-1}^i (1 + \Delta CPI_t)$$

The price cap to apply to ancillary network services will be escalated for CPI and X-factor:

$$\bar{p}_t^i \leq \bar{p}_{t-1}^i (1 + \Delta CPI_t)(1 - X_t)$$

¹ The AER is currently considering AusNet's proposal to apply a cost pass-through for the 2019/20 bushfire season. If required, the AER would amend the standard control services revenue cap control mechanism formula (i.e. $TAR=AR+C$). The side constraint mechanism would also be adjusted to discount the movement created by the cost pass-through from the permissible percentage.

² See footnote 1.

The price cap to apply to metering exit fees and public lighting services will not be escalated:

$$\bar{p}_t^i \leq \bar{p}_{t-1}^i$$

Notes:

- CPI for the extended period will be measured as:

$$\Delta CPI_t = \frac{CPI_{Jun\ t-1}}{CPI_{Jun\ t-2}} - 1$$

- No amounts for incentive schemes, cost pass-throughs, or licence fees will be incorporated into revenue for the extended period.³
- Unders/overs accounts will not be included for the extended period, and will instead be applied in the 2021-26 period.
- The X-factor for ancillary network services is intended to reflect an updated labour escalation forecast for the extended period and will be calculated in line with the calculation of the 21-25 draft decision. This should reflect half of the forecast yearly change in the State utilities sector real wages for Victoria for 21-22.

³ See footnote 1.