FINAL DECISION

Power and Water Corporation Distribution Determination 2019 to 2024

Attachment 15 Alternative control services

April 2019

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to Power and Water Corporation for the 2019–2024 regulatory control period. It should be read with all other parts of the final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Return on debt transition

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 13 – Control mechanisms

Attachment 15 – Alternative control services

Attachment 18 – Tariff structure statement

Attachment A – Negotiating framework

Contents

Shortened forms

Shortened form	Extended form
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CCP 13	Consumer Challenge Panel, sub-panel 13
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIAM	demand management innovation allowance (mechanism)
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
LED	Light Emitting Diode
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NT NER or the rules	National Electricity Rules As in force in the

Shortened form	Extended form
	Northern Territory
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
SCS	standard control services
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

15 Alternative control services

This attachment sets out our final decision on Power and Water's alternative control services: ancillary network services and metering.

Alternative control services are customer specific or customer requested services and so the full cost of the service is attributed to a particular customer, or group of customers, benefiting from the service. We set service specific prices to provide a reasonable opportunity to the distributor to recover the efficient cost of each service from customers using that service. This is in contrast to standard control services where costs are spread across the general network customer base.

15.1 Final decision

Our final decision is to accept Power and Water's revised proposal in relation to ancillary network services (incorporating our minor modelling changes), including the changes Power and Water made in response to our draft decision. Specifically, these changes related to creating a specific after hour fee for reconnections and after-hours rate for other ancillary network services, changing the description and scope of several fees and shifting to a single fee for meter disconnections and reconnections.

For metering services, our final decision is to accept only part of Power and Water's revised proposal. Specifically, our final decision is to accept Power and Water's proposal on standard life of assets and approach to labour escalation forecasts. However we do not accept Power and Water's return on debt proposal to use a trailing approach, and instead adopt a return on debt transition mechanism.

The details of our final decision is set out in the following sections:

- 15.4 - Ancillary network services
- 15.5 - **Error! Reference source not found.**.

15.2 Power and Water Corporation's revised proposal

Power and Water's revised proposal accepted our draft decision for ancillary network services. Power and Water also submitted a revised fee-based services model, consistent with our draft decision, which provided Power and Water with an opportunity to review their fee-based charges. This arose because of our concerns over Power and Water's approach to after hour fees. Power and Water had also requested scope to properly review their fees, and we were aware that there were potential input errors.[1] Power and Water's revised proposal updated their overhead allocations and corrected

[1] AER, *Draft Decision: Power and Water Corporation distribution determination 2019 to 2024 - Attachment 15 - Alternative Control Services*, September 2018, p. 10.

their input input costs. This also led to changes to labour rates for both fee-based and quoted services.[2]

For metering, Power and Water accepted the majority of our draft decision. This included new asset classes being removed from the roll-forward model (RFM), changes from forecast depreciation to actual depreciation, and the removal of a proposed opex step change relating to Southern Region metering technical staff. Power and Water did not accept our decision on the standard life of metering assets, re-emphasising their initial proposal of a standard life of 15 years.[3]

15.3 Assessment approach

Our final decision assessment approach is the same as for our draft decision. In terms of labour rates, in our draft decision we indicated that while our consultant, Marsden Jacob, had provided maximum reasonable labour rates, we considered them efficient for our purposes.[4] We maintain this view for our final decision.

In reaching our final decision, we have considered additional information submitted by Power and Water, both with their revised proposal and in response to our information requests. We have also taken stakeholder submissions into account.

15.4 Ancillary network services

Ancillary network services share the common characteristic of being non-routine services provided to individual customers as requested. Ancillary network services are either grouped as 'fee based' or 'quoted' services, depending on how the service price is determined.

We determine fee based service prices for the next regulatory control period as part of our determination, based on the cost inputs and the average time taken to perform each service. These services tend to be homogenous in nature and scope, and can be costed in advance of supply with reasonable certainty. By comparison, prices for quoted services are based on quantities of labour and materials, with the quantities dependent on a particular task. Prices for quoted services are determined at the time of a customer's enquiry and reflect the individual requirements of the customer's service request. For this reason, it is not possible to list prices for quoted services in this decision.

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2 Power and Water Corporation, *Revised regulatory proposal 1 July 2019 to 30 June 2024*, 29 November 2018, pp. 76–77.

3 Power and Water Corporation, *Revised regulatory proposal 1 July 2019 to 30 June 2024*, 29 November 2018, pp. 68–75.

4 AER, *Draft Decision: Ausgrid distribution determination 2019 to 2024 - Attachment 15 - Alternative Control Services*, November 2018, p. 14.

15.4.1 Ancillary network services—Final decision

X-Factors

Our final decision X-factors for ancillary network services have changed from our draft decision because of our revised labour escalation forecasts.

Power and Water also proposed different X-factors for the following fee-based services to reflect declining costs as smart meters (able to be controlled remotely) replace meters which cannot be controlled remotely:

- disconnection (and final read)
- reconnection
- reconnection - after hours.

We accept Power and Water's proposal to apply specific X-factors for these services, however we have made minor adjustments to reflect our revised labour escalation forecasts. Our final decision X-factors for ancillary network services, including these specific services, are listed in appendix A.

Fee based services

Our final decision is to accept Power and Water's proposed charges for their fee-based services (incorporating our modelling changes for higher labour escalators and to correct how escalators are applied in Power and Water's model). While these have changed (some significantly) by comparison to the prices in our draft decision, this was expected given Power and Water was reviewing their pricing approach. However, as almost all of these fees still fall within the maximum charge from applying the recommended maximum labour rates and any service benchmark times from our consultant, Marsden Jacob, we therefore accept them.

Our final decision includes approval of:

- a specific after hour fee for reconnections; and an after-hours rate of 123 per cent[5] applicable to other services on weekdays; with weekend and public holidays treated as quoted services.
- changes to the description and scope of several fees between Power and Water's initial and revised proposal.
- a shift to a single fee for meter disconnections and meter reconnections irrespective of the meter type, rather than separate disconnection and reconnection fees for type 4 smart meters as compared to other meter types.[6]

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[5] Power and Water's revised proposal referred to an after-hours rate of 123 per cent and 125 per cent in different sections. Power and Water confirmed that the after-hours rate it proposed was 123 per cent as per their Tariff Structure Statement.

New fees

Our final decision is to approve the following new fees proposed by Power and Water in their revised proposal, as we consider they fall within our service classification:

- a prepayment vending charge
- a prepayment meter support charge
- a prepayment meter software charge
- a class 3 solar assessment
- after-hours surcharge.[7]

New ancillary network services within the regulatory control period

Consistent with our draft decision, if new services arise during the 2019–24 regulatory control period with characteristics that are the same or essentially the same as other alternative control services,[8] we consider that they should be priced as a quoted service until the next regulatory period. Any new ancillary network service and pricing methodology should be disclosed through each distributor's annual pricing process.

Quoted services

Power and Water proposed revised labour rates that correct the inflation calculation from their initial proposal, and an updated overhead methodology.[9] While these labour rates are higher than our draft decision, they remain under the maximum efficient amount recommended by our consultant. We also note that while our draft decision accepted Power and Water's proposed labour rates 'in-principle', we applied a correction for inflation.[10] We therefore accept Power and Water's proposed revised labour rates, subject to our modelling change to apply our higher revised labour escalators. The labour rates still remain within the maximum efficient amount even with the application of these escalators.

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6 Power and Water Corporation, *Revised regulatory proposal 1 July 2019 to 30 June 2024*, 29 November 2018, pp.75–76.

7 Power and Water Corporation, *Revised regulatory proposal 1 July 2019 to 30 June 2024*, 29 November 2018, pp.75–76.

8 Service classification is set out in attachment 12 of our draft decision (see: AER, *Power and Water Corporation 2019–24 - Distribution determination – final decision – Overview*, April 2019, section 5.1). We generally classify services in groupings rather than individually. This obviates the need to classify services one-by-one and instead defines a service cluster, such that where a service is similar in nature it would require the same regulatory treatment. This provides distributors with flexibility to alter the exact specification (but not the nature) of a service during a regulatory control period.

9 Power and Water Corporation, *Revised regulatory proposal 1 July 2019 to 30 June 2024*, 29 November 2018, p.76; Power and Water Corporation, *Tariff structure statement - explanatory statement,* 29 November 2018, pp. 39–40.

10 AER, *Draft Decision - Power and Water Corporation distribution determination 2019-24*, September 2018, p. 11.

15.4.2 Ancillary network services—Reasons for final decision

Fee based services

Power and Water's revised proposal updated their labour rates from their initial proposal based on a holistic review of their model, correction of inputs and updating of their overhead allocation. We reviewed the revised fees from this model against the maximum efficient amounts based on the labour rates and service times for certain benchmarked services recommended by our consultants, Marsden Jacob.[11]

We found that all of Power and Water's proposed fees were below the maximum amounts using the Marsden Jacob recommendations, except for two services that included amounts for materials in building up the proposed fee. These services are:

- exchange or replace meter – three phase
- exchange or replace meter – single phase.

Our analysis indicated that the main reason these proposed charges were above what we consider the efficient maximum was due to the level of overheads applied. Power and Water applied the same overhead rate to materials as labour.[12] We queried this with Power and Water, and the rationale provided was that the overhead rates were based on the ratio of overheads to total direct costs from 2017–18. If they changed the overhead rates to be based on direct labour costs, then it would change their overhead percentages and they would still ultimately reach the same outcome (i.e. the overheads for all other services would increase marginally).[13]

Power and Water's overhead rate is much lower than the maximum 61 per cent recommended by our consultant, and consequentially their labour rates are much lower than the maximum efficient amounts. The proposed fees for these two services are also only marginally higher than the maximum efficient amounts (by 10 per cent and 1 per cent respectively) and the volumes for 'exchange or replace meter - three phase' are relatively low. Given this, our final decision is to accept all proposed fee-based service charges.

After hour services

One of the primary drivers for not accepting Power and Water's proposed charges in our draft decision was their approach to after hour fees. Power and Water had proposed to charge an additional fee of $563.36 from 3pm on weekdays.[14] They also

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11 Marsden Jacob Associates, *Review of Alternative Control Services - Advice to Australian Energy Regulator - PUBLIC version*, September 2018.

12 14.09 per cent and 23.29 per cent for network and corporate overheads respectively based on Power and Water's fee-based and quoted services model.

13 Power and Water, Response to information request #048 - ACS - fee-based service charges in revised proposal, 18 February 2019.

14 AER, *Draft Decision - Power and Water Corporation distribution determination 2019-24*, September 2018, p. 15-18.

advised that all after hour fees charged in 2017–18 related to reconnections. This meant that the proposed after-hours fee was significantly higher than the proposed reconnection fee prior to 3pm.

Power and Water's revised proposal included the following in relation to after-hours fees:

- the 3:00 pm cut-off be extended to 4:00pm
- a specific after-hour reconnection fee be charged
- an after hour surcharge of 123 per cent for all other after hour services during the week
- weekend/public holiday work to be charged on a quoted basis.

We consider that this approach is more reasonable. We note that Jacana Energy's submission on the revised proposal did not deal with after-hours arrangements, but its submission to Power and Water's initial proposal raised concerns with the 3pm cut-off and referenced a 4pm cut off in other jurisdictions.[15]

In relation to the specific after hours reconnection cost, our draft decision was that around a 70 to 75 per cent mark-up on the base reconnection fee would be appropriate, accepting that additional labour costs are incurred in providing services after hours. Power and Water's revised proposal proposed an 86 per cent mark-up for 2019–20. However, this is off a lower base reconnection fee than our draft decision, as Power and Water is taking into account the transition from manually read meters to smart meters with remote capabilities (discussed below). While Power and Water has proposed a mark-up higher than what our draft decision indicated was reasonable, our final decision is to accept it as:

- Power and Water has extended their after-hours cut off time to 4pm, hence we expect they will provide fewer after hour services.
- Power and Water's base charge for reconnection is significantly below the maximum recommended by our consultant, Marsden Jacob. On a dollar basis, the after-hours 'surcharge' Power and Water is applying is less than 70 per cent of the maximum base reconnection charge.
- the use of contractors for after-hours reconnection services means that there may be some variance in overtime rates negotiated by Power and Water with individual contractors.[16]

The after-hours surcharge of 123 per cent for all other after hour fee based services during the week falls within our general maximum after-hours rate of 175 per cent recommended by Marsden Jacob.[17] It also compares favourably to other businesses.

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15 Jacana Energy, *Power and Water distribution determination* - 16 May 2018, p. 3.

16 Power and Water Corporation, *Tariff structure statement - explanatory statement,* 29 November 2018, p. 37.

Based on the above discussion, our final decision is to accept the after hour components of Power and Water's revised proposal.

Changes to descriptions of disconnection services and associated price changes

Power and Water's revised proposal appeared to show a significant price increase for several services. For example, the fee for 'disconnection and reconnection' was set at $233.79 in our draft decision, however in their revised proposal a fee of $731.79 for 'Temporary disconnection and reconnection – physical dismantling' was listed. In response to our information requests, Power and Water advised that some service descriptions in their initial proposal were confusing for stakeholders and they had consequently revised some of the service descriptions. Power and Water identified the correct services to compare following their service description changes.[18] When this is done, the price increases are less concerning and fall below the maximum efficient amount. Power and Water provided the below table for clarity.

2018/19 (Published)		PWC Proposed 2019/20 – IRP		AER Draft Determination	PWC Proposed 2019/20 – RRP	
Service	2018-19 (Excl. GST)	Service	2019-20 (Excl. GST)	2019-20 (Excl. GST)	Service	2019-20 (Excl. GST)
Remove and reinstate cable - single phase	$470.00	Remove and reinstate cable	$584.31	$598.62	**(A)** Temporary disconnection and reconnection - physical dismantling	$731.79
Remove and reinstate cable - 3 phase	$564.55					
Disconnection - Low Voltage - No Dismantling (Overhead)	$376.36	Temporary disconnection and reconnection	$228.19	$233.79	**(B)** Temporary disconnection and reconnection - no dismantling	$283.93
Temporary Removal of Supply	$344.55					
Pillar Box, Pit or Pole Top	$281.82	Disconnection - physical disconnection of the service mains at the connection to the network (Pillar Box, Pit or Pole Top) due to action or inaction of the network user or their agent	$249.14	$255.25	**(C)** Complex disconnection	$310.28

Source: Power and Water, *Response to information request #048 - ACS - fee-based service charges in revised proposal*, 18 February 2019, Table 1: ACS Charge - 2018-19, IRP and RRP.

Shift to a single fee for disconnection and reconnections rather than separate remote and manual fees

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17 Marsden Jacob Associates, *Review of Alternative Control Services - Advice to Australian Energy Regulator - PUBLIC version*, September 2018, p.11.

18 Power and Water, *Response to information request #048 - ACS - fee-based service charges in revised proposal*, 18 February 2019.

Power and Water initially proposed separate fees based on a meter's capability to be disconnected or reconnected remotely (i.e. a 'smart' meter), which we accepted in our draft decision. Power and Water's revised proposal included a shift to a single fee for meter disconnections and reconnections irrespective of the meter's remote communication capabilities.[19] Consequently, Power and Water's single proposed fee results in a significant increase in price for customers with a smart meter, whereas those with a manually read meter will see a marginal decrease.

Power and Water's justification is that as customers have limited control over when their meter gets upgraded and because this is a system wide benefit, all customers should benefit from the lower costs of smart meters.[20] Power and Water noted that this was also in line with our draft decision for metering.[21] Power and Water further proposed a decline in these charges over the regulatory period to recognise the gradual replacement of meters with smart meters through a bespoke X-factor. These two issues are illustrated below.

Table 15-1 Power and Water's proposed illustrative charges for metering disconnections and reconnections

Service	AER draft decision 2019-20	Revised proposal service	2019-20	2020-21	2021-22	2022-23	2023-24
Manually read Meters							
Disconnection	$71.74						
Reconnection		**All type 4 to 6 meters**					
Smart meters		Disconnection (and final read)	$66.5	$65.0	$63.5	$61.9	$60.3
Disconnection - with comms (remote charge)	$8.94	Reconnection					
Reconnection - with comms (remote charge)							

Note: these prices are from Power and Water's revised proposal and may not reflect what is ultimately approved through the annual pricing process, including because our final decision is to make slight adjustments to Power and Water's proposed X factors. After hour service is not shown.

Source: AER, *Draft Decision - Power and Water Corporation distribution determination 2019-24*, September 2018; Power and Water Corporation, *PWCR04.13P - ACS FB & QS Model - 29 Nov 18 - Public.*

[19] Power and Water Corporation, *Revised regulatory proposal 1 July 2019 to 30 June 2024*, 29 November 2018, p. 75.

[20] Power and Water Corporation, *Revised regulatory proposal 1 July 2019 to 30 June 2024*, 29 November 2018, p. 75.

[21] Power and Water Corporation, *Tariff structure statement - explanatory statement,* 29 November 2018, pp. 37–38.

Our final decision is to accept Power and Water's proposed merging of these charges, consistent with our draft decision to not differentiate between customers with a smart meter and those without.[22]

We also accept Power and Water's approach of basing the metering mix on the forecasts from their proposal to install smart meters with remote communications, and the implementation of bespoke X factors. We have made minor changes to the calculation of the X factors in our model to reflect our revised labour escalators.

Jacana Energy's submission

Jacana Energy's (Jacana) submission of 18 January 2019 raised concerns with two ancillary network services. First, Jacana raised concerns with Power and Water applying a 'network tariff change request' charge as:

> the assignment of customers to a network tariff is the responsibility of the Network Provider. It follows that the costs associated with processing tariff changes should be borne by PWC and not the retailer or the customer; and
>
> the annual assignment of customers results in increased financial risk to retailers due to the misalignment that will arise between the network and retail tariffs levied on those customers whose consumption moves under the annual threshold during the course of the year. The assignment of customers to a network tariff should be subject to review on an ongoing basis to ensure that customers are assigned to the appropriate network tariffs and are not paying more than they should.[23]

In response to our information request, Power and Water advised that the fee only applies to a formal request by a retailer to review network tariff assignment or reassign a customer outside of the annual process for tariff assignments (and option of a free six month review on new connection assignments).

It does not apply to tariff changes resulting from the customer changing their meter type. Power and Water also advised that if they have made an error in tariff assignment, then they will correct it free of charge. Power and Water further noted that a network tariff change request is a low volume service which has costs, which Power and Water should have a reasonable opportunity to recover.[24]

Based on the information provided by Power and Water, we accept their reasoning, and our final decision is to not make any change to this service or its charge based on Jacana's submission. We accept that the fee is reasonable and the circumstances in which it will be charged provides Power and Water with a reasonable opportunity to recover their efficient costs.

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[22] AER, *Draft Decision - Power and Water Corporation distribution determination 2019-24*, September 2018, p. 15-25.

[23] Jacana Energy, *Submission on draft decision and Power and Water's revised proposal - 18 January 2019*, pp. 1-2.

[24] Power and Water, *Response to information request #055 - ACS - network tariff change request*, 20 March 2019.

Jacana's second concern related to the introduction of a 'Disconnection (and Final Read)' charge for a customer that fails to pay, or moves out. Jacana argued that this exposed retailers to charges that they may not be able to recover, and the proposed fee should be included in the original connection charge to ensure it is recovered. Jacana also raised concerns with the combined dollar impact of this change to a customer moving in and out.[25]

In response to our information request Power and Water has submitted that:

- their approach is similar to other distributors
- they are aiming for cost-reflective charges and it would not be appropriate to charge a disconnection fee on connection as there is no way of knowing when that service will be provided (if at all)
- the charges imposed are not an increase. Rather, they are making these charges visible instead of embedding them in charges across their general network customer base (standard control services).[26]

Our final decision is that we accept Power and Water's arguments as this fee appears to be cost reflective and able to be attributed to specific customers.

Quoted services

In our draft decision we accepted Power and Water's proposed labour rates in principle, as they fell below those considered efficient by our consultant, Marsden Jacob. However, we considered that Power and Water did not adjust all their inputs correctly to $2019–20, and we therefore adjusted their proposed labour rates by 2.45 per cent to account for a single year of inflation.[27]

In their revised proposal, Power and Water has revised their labour rates to escalate them from 2017–18 to 2019–20.[28] Power and Water also revised their method of applying overheads, and increased the amount of overhead applied to their labour rates. While this means that the revised labour rates are higher than our draft decision, they are still within the maximums considered efficient by our consultant, including once our revised labour escalators are applied. Given the modelling errors and changes in methodology, we accept these revised labour rates as shown in Table 15-2 below.

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[25] Jacana Energy, *Submission on draft decision and Power and Water's revised proposal - 18 January 2019*, p. 3.

[26] Power and Water, *Response to information request #048 - ACS - fee-based service charges in revised proposal*, 18 February 2019.

[27] AER, *Draft Decision - Power and Water Corporation distribution determination 2019-24*, September 2018, p. 15-11.

[28] Power and Water Corporation, *Tariff structure statement - explanatory statement,* 29 November 2018, p. 39.

Table 15-2 Total (base plus on-costs plus overheads) labour rates for quoted services ($2019–20)

Power and Water / AER labour category	AER draft decision	Power and Water Revised Proposal	AER final decision*
Admin	78.60	86.65	87.19
Technical / Technical Specialist	119.65	131.90	132.71
Engineering	140.30	154.67	155.62

* AER final decision labour rates are slightly higher due to the application of our labour escalators.

Source: AER Analysis; Power and Water Corporation, *Tariff structure statement - explanatory statement,* 29 November 2018, p. 40.

15.5 Metering services

Metering assets are used to measure electrical energy flows at a point in the network to record consumption data for billing purposes.

Power and Water is responsible for supplying metering services in the Northern Territory. This includes the installation of new meters and replacement of existing meters, because metering contestability does not apply to the Northern Territory.

We are responsible for the economic regulation of metering services provided by Power and Water. Power and Water's type 1 to 6 metering services are classified as alternative control services, while type 7 metering services are classified as standard control services.[29]

15.5.1 Metering—Final decision

Power and Water accepted the majority of our draft decision,[30] including our:

- decision not to apply new asset classes to the current period in the RFM
- use of actual depreciation rather than Power and Water's proposed forecast depreciation
- decision not to accept a proposed opex step change relating to Southern Region metering technical staff.

Power and Water provided updated actual metering expenditure for the 2017–18 regulatory year. In their revised proposal, Power and Water also amended their proposal for their labour escalation forecast.

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[29] AER, *Power & Water Corporation 2019-24 – Draft decision – Attachment 12 – Classification of services,* September 2018, p. 7.

[30] Power and Water Corporation, *Power and Water Corporation Revised Regulatory Proposal 2019-24,* November 2018, pp. 70–71.

However, Power and Water did not accept our draft decision on the allocation of a standard life of 22.1 years to metering assets, or our return on debt transition.[31]

Our final decision is to:

- adopt a standard life of 15 years to metering assets, instead of the 22.1 years adopted in our draft decision
- maintain our return on debt transition as per our draft decision
- adopt updated labour escalation forecasts.

Our final decision includes Power and Water's metering model, updated to reflect actual metering expenditure in 2017–18, our final decision weighted average cost of capital, and the most recent CPI escalation. The final decision metering prices, effective for the first year of the 2019–24 regulatory period, resulting from these input updates, are set out in appendix B.

15.5.2 Metering—Reasons for final decision

Asset life

In their revised proposal, Power and Water maintained that the standard life for mechanical meter/electronic meter classes should be 15 years, consistent with our previous final decisions and the AEMC's Power of Choice review.[32] Considering this precedent, and our final decisions for other distributors for the same regulatory period, we accept Power and Water's proposal that the standard life of these assets should be 15 years.

Return on debt transition

Power and Water maintained their initial proposal position to move to a trailing average approach with no transition mechanism.[33] We have considered their proposal and provided justification for our decision in Attachment 3 - Rate of debt transition, which adopts a transition mechanism.[34]

Labour escalation forecasts

Power and Water proposed an updated labour escalation forecast in which they adopted an average of a new forecast from BIS Oxford and the forecast prepared by Deloitte Access Economics.[35] This approach is in line with our standard treatment of labour escalation forecasts, which we did not apply in our draft decision for Power and Water. In our draft decision, we applied only the forecasts from Deloitte Access

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31 Power and Water, *Revised Regulatory Proposal*, *1 July 2019 to 30 June 2024,* 29 November 2018, p. 69.

32 Power and Water, *Revised Regulatory Proposal, 1 July 2019 to 30 June 2024,* 29 November 2018, p. 69.

33 Power and Water, *Return on debt transition – response to the AER's draft decision*, November 2018, pp. 3–4.

34 AER, *Final decision – Power and Water Corporation distribution determination 2019-24*, April 2019.

35 Power and Water, *Revised Regulatory Propo*sal, *1 July 2019 to 30 June 2024,* 29 November 2018, p. 71.

Economics, as we found that the BIS Oxford forecasts provided in Power and Water's proposal were not appropriate. In their revised proposal, Power and Water provided updated BIS Oxford figures, which we have found to be acceptable for use.

We consider it appropriate to adopt an average of the forecasts provided by both Power and Water and AER's consultants. Our final decision incorporates this approach, with updated figures from Deloitte Access Economics as shown in Table 15-3.

Table 15-3 Labour escalation forecasts for Power and Water

WPI Forecast	Jun 2019	Jun 2020	Jun 2021	Jun 2022	Jun 2023	Jun 2024
Deloitte Access Economics	0.32%	0.28%	0.07%	0.30%	0.45%	0.53%
BIS Oxford Economics	0.65%	0.67%	1.07%	1.33%	1.49%	1.40%
Average	0.48%	0.47%	0.57%	0.82%	0.97%	0.96%

15.5.3 Metering—Submissions

Jacana Energy submitted that they support the alignment of type 7 metering arrangements[36] in the NT NER with those that are in place across the NEM.[37] CCP 13 noted that they support Power and Water's move to introduce smart meters, however did not comment on the planned rollout or the impact on metering prices.[38]

[36] In reclassifying metering services as an alternative control service, type 7 metering services (or unmetered services) continue to be classified as a standard control services. This is addressed in our classification of services attachment in our draft decision.

[37] Jacana Energy, *Submission on draft decision and Power and Water's revised proposal*, January 2019, p. 2.

[38] CCP 13, *Response to Power and Water Corporation revised proposal for a revenue reset for the 2019-24 regulatory period*, January 2019, p. 16.

A Ancillary network services prices

Table 15-4 Fee based ancillary network service charges for 2019–20, AER final decision ($2019–20)

Fee based service	AER final decision
Connection Services	
Disconnection (and final read)	$66.99
Reconnection	$66.99
Reconnection - after hours	$124.43
Temporary disconnection and reconnection - physical dismantling	$737.30
Provision of 3 phase service	$1,400.88
Standard temporary builder's connection	$657.68
Wasted visit fee	$153.36
Class 3 PV Assessment	$1,187.82
Class 1 & 2 PV service	$87.19
De-energisation / Re-energisation	
Temporary disconnection and reconnection - no dismantling	$286.07
Complex disconnection	$312.62
Meter Servicing (Fee based)	
Special meter test	$299.35
Exchange or replace meter – three phase	$660.39
Exchange or replace meter - single phase	$552.87
Relocation of meter	$312.62
Remove meter	$312.62
General meter inspection	$140.09
Special meter read - no appointment	$35.60
Special meter read - appointment	$77.00
Meter program change	$161.61
Non Standard Data Services	
Historical data requests	$197.14

Fee based service	AER final decision
Standing data requests	$43.59
Customer transfers	$174.37
Network tariff change request	$43.59
Prepayment Vending Charge	$0.48
Prepayment Meter Support Charge	$66.36
Miscellaneous services	
Installation of Minor Apparatus	$624.50

Source: AER Analysis; PWC, *PWCR04313C - ACS FB & QS Model - 29 Nov 18 - Confidential.*

Note: The AER approved figures for 2019–20 are marginally higher to those proposed by Power and Water, as we have used our revised labour escalators, as well as adjusting Power and Water's model to apply labour escalators more accurately in building up to their 2019–20 price.

Table 15-5 Quoted service ancillary network services hourly labour rates for 2019–20, final decision ($2019–20)

Power and Water / AER labour category	AER final decision
Admin	87.19
Technical / Technical Specialist	132.71
Engineering	155.62

Source: AER Analysis

Table 15-6 AER final decision on X factors for each year of the 2020–24 regulatory control period for ancillary network services (per cent)

	2020–21	2021–22	2022–23	2023–24
X factor for:				
Disconnection (and final read)	4.2045%	4.3853%	4.4436%	4.5521%
Reconnection				
Reconnection - after hours				
X factor for all other ancillary network services*	-0.5708%	-0.8187%	-0.9724%	-0.9642%

Source: AER analysis; PWC, *PWCR04313C - ACS FB & QS Model - 29 Nov 18 - Confidential* with AER revisions.

Note: * To be clear, labour escalators themselves are positive for each year of the regulatory control period. However, the labour escalators in this table are operating as de facto X factors. Therefore, they are negative.

B Metering service prices

Table 15-7 Metering X factors for 2020–24

Period	2020-21	2021-22	2022-23	2023-24
Metering X factor	-3.2700%	-3.2700%	-3.2700%	-3.2700%

Note: We do not apply an X factor for 2019-20 because we set the 2019-20 metering charges in this decision.

Table 15-8 Annual Metering Charges for 2019–20

	2019-20
1 Phase Meters (including prepayment)	$61.48
3 Phase Meters	$67.69
Dedicated CT and VT Meters	$114.65

Source: AER analysis.

Note: Prices for the remaining years of the period will be adjusted for actual CPI during the AER's annual pricing approval process.