PRELIMINARY DECISION
CitiPower distribution determination 2016 to 2020

Attachment 14 – Control mechanism

October 2015

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's preliminary decision on CitiPower's revenue proposal 2016–20. It should be read with all other parts of the preliminary decision.

The preliminary 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

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Attachment 17 - Negotiated services framework and criteria

Attachment 18 - f-factor scheme

Contents

Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AMI	Advanced metering infrastructure
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

Shortened form	Extended form
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

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 National Electricity Rules requires the control mechanism be of the prospective CPI–X form (or some incentive-based variant).[1]

This attachment sets out the revenue cap formulae as the control mechanism for CitiPower's standard control services for the 2016–20 regulatory control period. It discusses:

- how we will apply the revenue cap
- how we will determine compliance with the price controls[2]
- the mechanism through which CitiPower will recover distribution use of system (DUoS) charges—including adjustments for revenue under or over recovery—in the 2016–20 regulatory control period[3]
- how CitiPower must report to us on its recovery of designated pricing proposal charges and jurisdictional scheme amounts[4]
- the procedures CitiPower must apply for assigning or reassigning retail customers to tariff classes.[5]

The control mechanisms applying to CitiPower's alternative control services are set out separately in attachment 16.

14.1 Preliminary decision

Our preliminary decision for CitiPower is as follows:

- The control mechanism for standard control services is a revenue cap.[6]
- Section 14.4.5 contains the revenue cap formula that gives effect to the control mechanism for standard control services.[7] 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.

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1 NER, cl. 6.2.6(a).
2 NER, cl. 6.12.1(13).
3 NER, cl. 6.12.1(11).
4 NER, cll. 6.12.1(19), 6.12.1(20).
5 NER, cl. 6.12.1(17).
6 AER, *Final framework and approach for the Victorian Electricity Distributors: Regulatory control period commencing 1 January 2016*, October 2014, p. 73; CitiPower, *Regulatory proposal 2016–20*, April 2015, p. 251. (CitiPower, *Regulatory proposal*, April 2015).
7 NER, cl. 6.12.1(11).

- The side constraints applying to the price movements of each CitiPower tariff class must be consistent with the formula in Figure 14.2.
- CitiPower 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.
- CitiPower 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.[8]
- CitiPower 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 CitiPower must apply in assigning retail customers to tariff classes or reassigning retail customers from one tariff class to another.

14.2 CitiPower's proposal

CitiPower accepted that a revenue cap would apply to its standard control services in the 2016–20 regulatory control period.[9] CitiPower did not propose any specific inclusions for the control mechanism or clarifying assumptions. Rather, CitiPower proposed to adopt the control mechanism as set out in our final framework and approach (final F&A).[10]

14.3 AER's assessment approach

Our final F&A set the control mechanism for standard control services as a revenue cap.[11] The basis of the revenue cap must be of the prospective CPI–X form (or some incentive-based variant).[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 final F&A decision to apply a revenue cap for CitiPower's standard control services in the 2016–20 regulatory control period.

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

9 CitiPower, *Regulatory proposal*, April 2015, p. 251, CitiPower, *2016–20 Price reset: Price control*, April 2015.

10 AER, *Final framework and approach for the Victorian Electricity Distributors: Regulatory control period commencing 1 January 2016*, October 2014, pp. 73–88.

11 AER, *Final framework and approach for the Victorian Electricity Distributors: Regulatory control period commencing 1 January 2016*, October 2014, p. 73.

12 NER, cl. 6.2.6(a).

Our final F&A deliberately set out a generic formula to give effect to the control mechanism for standard control services.[13] The generic formula requires parameters that need to be specified with more precision in order to be implemented. This preliminary decision clarifies our position regarding the control mechanism formula and its respective parameters.

14.4 Reasons for preliminary decision

The following discusses the reasons for our preliminary 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 formula.

Our final F&A stated the revenue cap for any given regulatory year is the maximum allowable revenue for standard control services. However, we consider the use of maximum allowable revenue might be confused with *maximum allowed revenue* which is a defined term in the NER relating to transmission services. To avoid confusion, this preliminary decision uses 'total annual revenue' for clarity.

Intra-period adjustment to the weighted average cost of capital

We consider that changes to the TAR resulting from the trailing average cost of debt update should 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 parameter is for annual TAR adjustments relating to a distributor's performance against incentive schemes.[14] CitiPower did not propose any inclusions for the I factor. However, we will include the Victorian Government's f–factor scheme in the I factor for the 2016–20 regulatory control period. This inclusion is consistent with proposals from the other Victorian distributors and is consistent with our final F&A.[15]

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[13] AER, *Final framework and approach for the Victorian Electricity Distributors: Regulatory control period commencing 1 January 2016*, October 2014, pp. 87–88; NER, cl. 6.8.1(b)(2)(ii).

[14] The I factor excludes adjustments relating to performance against the service target performance incentive scheme which is applied under a specified S factor. The S factor is discussed below.

[15] AER, *Final framework and approach for the Victorian Electricity Distributors: Regulatory control period commencing 1 January 2016*, October 2014, pp. 87–88, 127.

The f–factor scheme provides financial incentives for the Victorian distributors to reduce the incidence of fire starts that can be attributable to electricity infrastructure, and to reduce the risk of loss or damage caused by fire starts.[16] Including the f–factor scheme in the I factor enables us to give effect to the rewards and penalties related to this incentive scheme in a distributor's total annual revenue. The annual adjustment amounts will be calculated as per the method in the relevant f–factor scheme. Our preliminary decision for the f–factor scheme to apply in the 2016–20 regulatory control period is set out in attachment 18.

Transitional adjustments (T factor)

The T factor parameter is for annual TAR adjustments relating to carryover or transitional adjustments arising from the 2011–15 regulatory control period CitiPower did not propose any inclusions for the T factor. However, we will include the final carryover amount from the demand management incentive scheme (DMIS) applied to in the 2011–15 regulatory control period. This inclusion is consistent with proposals from the other Victorian distributors and is consistent with the applicable DMIS and our final F&A.[17]

The final carryover amount is not known at the time of making the 2016–20 determination and must therefore be applied via the control mechanism. Specifically, the DMIS adjustment includes:

- any amount of 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.[18]

This adjustment will be calculated by CitiPower using the method set out in the DMIS and added or deducted from the TAR in its 2017 pricing proposal. We will approve these amounts as part of our assessment of that pricing proposal.

Annual adjustments (B factor)

The B factor parameter is for annual TAR adjustments required within the 2016–20 regulatory control period. Our final F&A noted that it is likely to incorporate but not be limited to adjustments for revenue under or over recovery.[19] CitiPower did not propose any inclusions for the B factor. However, we will include in the B factor:

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16 Energy and Resources Legislation Amendment Bill 2010, Explanatory Memorandum, p. 10.

17 AER, *Demand Management Incentive Scheme: Jemena, CitiPower, Powercor, SP AusNet and United Energy 2011–15*, April 2009; AER, *Final framework and approach for the Victorian Electricity Distributors: Regulatory control period commencing 1 January 2016*, October 2014, pp. 87–88.

18 AER, *Demand Management Incentive Scheme: Jemena, CitiPower, Powercor, SP AusNet and United Energy 2011–15*, April 2009, p. 17.

19 AER, *Final framework and approach for the Victorian Electricity Distributors: Regulatory control period commencing 1 January 2016*, October 2014, pp. 87–88.

- the recovery of license fee charges by the Victorian Essential Services Commission
- a true-up for the net present value of under or over recovery of revenue in regulatory year t–2
- any AER approved cost pass through amounts.

These inclusions are consistent with proposals from the other Victorian distributors and we accept this because it is consistent with our final F&A.[20]

We note the Victorian distributors are required to pay annual license fees to the Victorian Essential Services Commission. Historically these fees have been treated as a pass through and recovered through the revenue control mechanism—specifically as an addition to the weighted average price cap formulae which applied since 2001. We accept the continuation of this method for the 2016–20 regulatory control period but now within the context of a revenue cap.

Under a revenue cap, CitiPower's revenues will be adjusted annually to clear (or true-up) any under or over recovery of actual revenue collected through DUoS charges. With these arrangements, there is generally a two year lag between the year in which the DUoS under or over recovery of revenue occurs and the year in which adjustments are made to prices to 'clear' the under or over recovery. To account for this lag our method includes net present value adjustments. Again, this is consistent with past regulatory practice. These adjustments to the TAR will be made through the B factor and the operation of this method is detailed in appendix A.

S factor adjustment

The S factor parameter is for annual TAR adjustments relating to a distributor's performance against the service target performance incentive scheme. The scheme requires the S factor be applied as a percentage adjustment to annual revenue.[21] This is in contrast to incentive scheme adjustments under the I factor which are dollar amount adjustments.

Our preliminary decision has applied the S factor consistent with the scheme. CitiPower did not comment on the application of the S factor.

Our final F&A also included an S''' factor parameter to true-up service target performance incentive scheme related revenue adjustments across regulatory control periods.[22] However, it has not been included in our preliminary decision as it is not needed. Instead the S factor in the first two years of the 2016–20 regulatory control period will account for the true-up adjustments across regulatory control periods.

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[20] AER, *Final framework and approach for the Victorian Electricity Distributors: Regulatory control period commencing 1 January 2016*, October 2014, pp. 87–88, 127.

[21] AER, *Electricity distribution network service providers: Service target performance incentive scheme: Appendix C*, November 2009, p. 32.

[22] AER, *Final framework and approach for the Victorian Electricity Distributors: Regulatory control period commencing 1 January 2016*, October 2014, p. 88.

Therefore, no additional S''' factor adjustment mechanism is required to address these adjustments.

We note this change in application from that stated in our final F&A has required the revenue cap formulae to be amended which is presented in Figure 14.1. The service target performance incentive scheme applying to CitiPower in the 2016–20 regulatory control period is discussed in attachment 11.

Calculation of the consumer price index escalation

We will apply the annual movement between the Australian Bureau of Statistics' (ABS) published June quarter data for calculating the consumer price index (CPI) escalation.[23] The use of the June quarter data will mean that CitiPower will apply an actual CPI escalation (rather than an estimated or 'placeholder' CPI escalation) when it submits its annual pricing proposals.[24] The use of an actual CPI escalation will allow the process for setting prices more transparent which is consistent with the intent of the Australian Energy Market Commission rule changes.[25]

14.4.2 Reporting on designated pricing proposal charges

We must decide how CitiPower will report on the recovery of designated pricing proposal charges for each year of the 2016–20 regulatory control period and how to account for any under or over recovery of revenue associated with those charges.[26] 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 the same as the DUoS revenue under and over recovery mechanism and is consistent with the requirements of the NER.[27] The operation of this method is detailed in appendix B.

14.4.3 Reporting on jurisdictional scheme amounts

We must decide how CitiPower will report on the recovery of jurisdictional scheme amounts for each year of the 2016–20 regulatory control period and how to account for any under or over recovery of revenue associated with those charges.[28] We will apply

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23 As the same timing of CPI escalation will be used for the RAB roll forward at the next regulatory reset for CitiPower in 2021, this change will allow us to update the actual CPI for RAB roll forward purposes well before the publication date of the AER's decision at the next reset. We note that there will be an overlapping issue of the September quarter CPI when the transition to the June quarter CPI occurs (this will occur in the distributors 2017 annual pricing proposals). This is because the CPI for the September quarter 2015 will be reflected in both 2016 and 2017 prices. However, we consider this is only a transitional issue and will not have a material impact on the CitiPower's prices or revenue.

24 Apart from the initial year of a regulatory control period.

25 AEMC, *Rule determination: National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014*, 27 November 2014, p. i.

26 NER, cl. 6.12.1 (19).

27 NER, cll. 6.12.1(19), 6.18.7.

28 NER, cl. 6.12.1 (20).

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 the same as the DUoS revenue under and over recovery mechanism and is consistent with the requirements of the NER.[29] The operation of this method is detailed in appendix C.

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.[30] Recovery of certain revenues such as those to accommodate pass throughs is disregarded in deciding whether the permissible percentage has been exceeded.[31]

14.4.5 Control mechanism formulae

CitiPower must submit annual pricing proposals to us with proposed tariffs and charging parameters.[32] To the extent possible, CitiPower'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, CitiPower 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 common a 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.

CitiPower's revenues must be consistent with the total annual revenue formulae and side constraint formulae set out below.

Although there are no prescriptive formulae for designated pricing proposal charges and jurisdictional scheme amounts in this preliminary decision, we are considering including them for the final decision. We will consult with distributors and stakeholders about the extent to which any such formulae should be included and their mathematical expression.

Figure 14.1 Revenue cap formulae

(1) $TAR_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} q_t^{ij}$ i=1,..,n and j=1,..,m and t=1,..,5

[29] NER, cl. 6.18.7A.
[30] NER, cl. 6.18.6(c).
[31] NER, cl. 6.18.6(d).
[32] NER, cl. 6.18.2.

(2) $TAR_t = AAR_t + I_t + T_t + B_t$ t = 1,2,…,5

(3) $AAR_t = AR_t(1+S_t)$ t = 1

(4) $AAR_t = AAR_{t-1}(1+\Delta CPI_t)(1-X_t)(1+S_t)$ t = 2,…,5

where;

TAR_t is the total annual revenue in year t.

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.

AAR_t is the adjusted annual smoothed revenue requirement for year t.

I_t is the annual adjustment f–factor scheme amount in year t. This amount will be calculated as per the method set out in the relevant f–factor scheme.

T_t is the final carryover amount from the application of the DMIS from the 2011–15 regulatory control period. This amount will be calculated using the method set out in the DMIS and will be deducted from/added to allowed revenue in the 2017 pricing proposal.

B_t is the sum of:

- the recovery of license fee charges by the Victorian Essential Services Commission indexed by one and a half years of interest, calculated using the following method:

  $L_{t-1}(1+WACC_{t-1})(1+WACC_{t-2})^{1/2}$

  where:

  L_{t-1} are the licence fees paid by CitiPower to the Victorian Essential Services Commission in the financial year ending in June of regulatory year t–1,

  $WACC$ is the approved nominal weighted average cost of capital (WACC) for the relevant regulatory year,
- any under or over recovery of actual revenue collected through DUoS charges in regulatory year t–2 as calculated using the method in appendix A,
- the AER approved pass through amounts (positive or negative) with respect to regulatory year t.

AR_t is the annual smoothed revenue requirement as stated in the Post Tax Revenue Model (PTRM) for year t (when year t is the first year of the 2016–20 regulatory control period).[33]

S_t is the s-factor determined in accordance with the service target performance incentive scheme (STPIS) for regulatory year t.[34]

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[35] from the June quarter in year t–2 to the June quarter in year t–1, calculated using the following method:

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

divided by

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

minus one.

For example, for the 2017 regulatory year, t–2 is June quarter 2015 and t–1 is June quarter 2016 and for the 2018 regulatory year, t–2 is June quarter 2016 and t–1 is June quarter 2017 and so on.

X_t is the X factor for each year of the 2016–20 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..

Figure 14.2 Side constraints

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

[33] Our final F&A stated that if necessary an adjustment for inflation may be required to the annual smoothed revenue requirement for year t. However, as the annual smoothed revenue requirement for year t as stated in our preliminary decision PTRM is in nominal dollars there is no need to adjust it for inflation. This approach is consistent with past regulatory practice.

[34] For the first two years of the 2016–20 regulatory control period, the value of S_t is to be adjusted to account for the change in revenue requirements between the regulatory control periods, as explained in attachment 11. In the formulas in the STPIS, the $AR_{(t+1)}$ is equivalent to AR_t in this formula. Calculations of the S factor adjustment are to be made accordingly.

[35] 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.

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.

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[36] from the June quarter in year t–2 to the June quarter in year t–1, calculated using the following method:

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

divided by

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

minus one.

For example, for the 2017 regulatory year, t–2 is June quarter 2015 and t–1 is June quarter 2016 and for the 2018 regulatory year, t–2 is June quarter 2016 and t–1 is June quarter 2017 and so on.

X_t is the X factor for each year of the 2016–20 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 SPTIS for regulatory year t.[37]

$I_t^{'}$ is the annual percentage change from the f–factor scheme amount in year t. This amount will be calculated as per the method set out in the relevant f–factor scheme.

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[36] 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.

[37] For the first two years of the 2016–20 regulatory control period, the value of S_t is to be adjusted account for the change in revenue requirements between the regulatory control periods, as explained in attachment 11. In the formulas in the STPIS, the $AR_{(t+1)}$ is equivalent to AR_t in this formula. Calculations of the S factor adjustment are to be made accordingly.

$T_t^{'}$ is the annual percentage change from the final carryover amount from the application of the DMIS from the 2011–15 regulatory control period. This amount will be calculated using the method set out in the DMIS and will be deducted from/added to allowed revenue in the 2017 pricing proposal.

$B_t^{'}$ is annual percentage change from the sum of:

- the recovery of license fee charges by the Victorian Essential Services Commission indexed by one and a half years of interest, calculated using the following method:

  $$L_{t-1}\left(1+WACC_{t-1}\right)\left(1+WACC_{t-2}\right)^{1/2}$$

  where:

  L_{t-1} are the licence fees paid by CitiPower to the Victorian Essential Services Commission in the financial year ending in June of regulatory year t–1,

  $WACC$ is the approved nominal weighted average cost of capital (WACC) for the relevant regulatory year,

- any under or over recovery of actual revenue collected through DUoS charges in regulatory year t–2 as calculated using the method in appendix A,
- the AER approved pass through amounts (positive or negative) with respect to regulatory year t.

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 the distribution determination applicable to it during the 2016–20 regulatory control period, CitiPower must maintain a DUoS unders and overs account in its annual pricing proposal.[38]

CitiPower must provide the amounts for the following entries in their DUoS unders and overs account for the most recently completed regulatory year (t–2) and the next regulatory year (t):

1. The amount of revenue recovered/to be recovered from DUoS charges, less the TAR for the regulatory years t–2 and t.
2. The calculated under/over recovery of revenue for regulatory years t–2 and t.
3. An interest charge for two years on the under/over recovery of revenue for regulatory year t–2. This adjustment is to be calculated using the respective approved nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.[39] The WACC applied for each year will be that approved by the AER for the relevant year.
4. Sum of items 2–3 to derive a closing balance for regulatory year t–2.
5. Opening balance in regulatory year t which is the closing balance in item 4.
6. Offsetting over/under recovery of revenue amount in item 5 to derive a closing balance as close to zero as practicable for regulatory year t. This amount will become the approved DUoS revenue under/over recovery for regulatory year t.

CitiPower 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 provide for the next regulatory year (t) will be regard as a forecast.

In proposing variations to the amount and structure of DUoS charges, CitiPower 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 during the 2016–20 regulatory control period.

As this is the first time CitiPower will be subject to a revenue cap form of control mechanism there will be no adjustments for under or over recovery of revenue until regulatory year t is 2018. Therefore, the DUoS unders and overs account must show a zero under/over recovery of revenue for regulatory year t–2 when regulatory year t is 2016 and 2017.

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[38] NER, cl. 6.18.2(b)(7).

[39] For clarity, two WACC adjustments are applied: one for a year of interest between year t–2 and year t–1; and a second for a year of interest between year t–1 and year t. The WACC for each year will be that approved by the AER for the respective year, such that rolling WACC's are applied.

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

	Year t–2 (actual)	Year t (forecast)
(A) Revenue from DUoS charges	**46 779**	**40 306**
(B) Less TAR for regulatory year =	**43 039**	**40 306**
+ Adjusted annual smoothed revenues (AARt)	34 820	44 393
+ f–factor scheme amount (It)	–12	14
+ DMIS carryover amount (Tt)	1013	0
+ Sum of annual adjustments (Bt) =	7218	–4101
+ *DUoS revenue under/over recovery approved*	*5369*[a]	*–4123*[b]
+ *License fee recovery*	*25*	*22*
+ *Approved pass through amounts*	*1824*	*0*
(A minus B) Under/over recovery of revenue for regulatory year	**3740**	**0**
DUoS unders and overs account		
Nominal WACC t–2 (per cent)	5.00%	
Nominal WACC t–1 (per cent)	5.00%	
Opening balance	n/a	4123
Under/over recovery of revenue for regulatory year	3740	–4123[b]
Interest on under/over recovery for 2 regulatory years	383	n/a
Closing balance	**4123**	**0**[c]

Notes: (a) Approved DUoS revenue under/over recovery for regulatory year t–2.
(b) Amount should offset the closing balance for DUoS unders and overs account for year t–2.
(c) CitiPower 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 2016–20 regulatory control period.

B Designated pricing proposal charges unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2016–20 regulatory control period, CitiPower must maintain an designated pricing proposal charges unders and overs account in its annual pricing proposal.[40]

CitiPower must provide the amounts for the following entries in its designated pricing proposal charges under and overs account for the most recently completed regulatory year (t–2) and the next regulatory year (t):

1. The amount of revenue recovered/to be recovered from designated pricing proposal charges, less the amount of designated pricing proposal charges related payments for the regulatory years t–2 and t.
2. The calculated under/over recovery of revenue for regulatory years t–2 and t.
3. An interest charge for two years on the under/over recovery of revenue for regulatory year t–2. This adjustment is to be calculated using the respective approved nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.[41] The WACC applied for each year will be that approved by the AER for the relevant year.
4. Sum of items 2–3 to derive a closing balance for regulatory year t–2.
5. Opening balance in regulatory year t which is the closing balance in item 4.
6. Offsetting over/under recovery of revenue amount in item 5 to derive a closing balance as close as practicable to zero for regulatory year t. This amount will become the approved designated pricing proposal charges revenue under/over recovery for regulatory year t.

CitiPower must provide details of calculations in the format set out in Table 14.2. Amounts provided for the most recently completed regulatory year (t–2) must be audited. 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, CitiPower is expected to achieve a closing balance as close to zero as practicable in its designated pricing proposal charges unders and overs account in each forecast year in its annual pricing proposals during the 2016–20 regulatory control period.

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[40] NER, cll. 6.18.2(b)(6), 6.12.1(19).

[41] For clarity, two WACC adjustments are applied: one for a year of interest between year t–2 and year t–1; and a second for a year of interest between year t–1 and year t. The WACC for each year will be that approved by the AER for the respective year, such that rolling WACC's are applied.

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

	Year t–2 (actual)	Year t (forecast)
(A) Revenue from designated pricing proposal charges (DPPC)	**40 077**	**32 967**
(B) Less DPPC related payments for regulatory year =	**34 846**	**32 967**
+ DPPC charges to be paid to TNSP	33 793	38 000
+ Avoided TUoS payments	560	700
+ Inter–distributor payments	12	34
+ DPPC revenue under/over recovery approved	481[a]	–5767[b]
(A minus B) Under/over recovery of revenue for regulatory year	**5231**	**0**
DPPC unders and overs account		
Nominal WACC t–2 (per cent)	5.00%	
Nominal WACC t–1 (per cent)	5.00%	
Opening balance	n/a	5767
Under/over recovery of revenue for regulatory year	5231	–5767[b]
Interest on under/over recovery for 2 regulatory years	536	n/a
Closing balance	**5767**	**0**[c]

Notes: (a) Approved DPPC revenue under/over recovery for regulatory year t–2.
(b) Amount should offset the closing balance for DPPC unders and overs account for year t–2.
(c) CitiPower is expected 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 2016–20 regulatory control period.

C Jurisdictional scheme amounts unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2016–20 regulatory control period, CitiPower must maintain a jurisdictional scheme amounts unders and overs account in its annual pricing proposal.[42]

CitiPower 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) and the next regulatory year (t):

1. The amount of revenue recovered/to be recovered from jurisdictional schemes, less the amount of jurisdictional scheme related payments for the regulatory years t–2 and t.
2. The calculated under/over recovery of revenue for regulatory years t–2 and t.
3. An interest charge for two years on the under/over recovery of revenue for regulatory year t–2. This adjustment is to be calculated using the respective approved nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.[43] The WACC applied for each year will be that approved by the AER for the relevant year.
4. Sum of items 2–3 to derive a closing balance for regulatory year t–2.
5. Opening balance in regulatory year t which is the closing balance in item 4.
6. Offsetting over/under recovery of revenue amount in item 5 to derive a closing balance as close to zero as practicalbe for regulatory year t. This amount will become the approved jurisdictional scheme amounts revenue under/over recovery for regulatory year t.

CitiPower must provide details of calculations in the format set out in Table 14.3. Amounts provided for the most recently completed regulatory year (t–2) must be audited. Amounts for the next regulatory year (t) will be regarded as a forecast.

In proposing variations to the amount and structure of jurisdictional scheme charges, CitiPower is expected to achieve a closing balance as close to zero as practicable in its jurisdictional scheme amounts unders and overs accounts in each forecast year in its annual pricing proposals during the 2016–20 regulatory control period.

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[42] NER, cll. 6.12.1(20), 6.18.2(b)(6A).

[43] For clarity, two WACC adjustments are applied: one for a year of interest between year t–2 and year t–1; and a second for a year of interest between year t–1 and year t. The WACC for each year will be that approved by the AER for the respective year, such that rolling WACC's are applied.

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

	Year t–2 (actual)	Year t (forecast)
(A) Revenue from jurisdictional schemes	**19 777**	**22 050**
(B) Less jurisdictional scheme payments for regulatory year =	**20 767**	**22 050**
+ Jurisdictional scheme 1 payments	14 159	13 954
+ Jurisdictional scheme 2 payments	6113	7005
+ Jurisdictional scheme amounts revenue under/over recovery approved	495[a]	1091[b]
(A minus B) Under/over recovery of revenue for regulatory year	**–990**	**0**
Jurisdictional scheme amount unders and overs account		
Nominal WACC t–2 (per cent)	5.00%	
Nominal WACC t–1 (per cent)	5.00%	
Opening balance	n/a	–1091
Under/over recovery of revenue for regulatory year	–990	1091[b]
Interest on under/over recovery for 2 regulatory years	–101	n/a
Closing balance	**–1091**	**0**[c]

Notes: (a) Approved jurisdictional scheme amount revenue under/over recovery for regulatory year t–2.
(b) Amount should offset the closing balance for jurisdictional amount unders and overs account for year t–2.
(c) CitiPower is expected to achieve a closing balance as close to zero as practicable in its jurisdictional scheme amount unders and overs account in each forecast year in its annual pricing proposals in the 2016–20 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.[44] Our decision on the principles that CitiPower 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 CitiPower must apply with assignment or reassignment of customers to tariff classes.[45] 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 preliminary decision

CitiPower did not propose an approach to assigning and reassigning retail customers to tariff classes. However, we consider that an effective review system should clearly set out the process of escalation and the review system should be visible and transparent. We consider the following principles for assigning or reassigning customers to tariff classes provides for this visibility and transparency and will apply to CitiPower for the 2016–20 regulatory control period. It includes a specific process for assigning or reassigning customers to alternative control services.

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

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

Assignment of existing retail customers to tariff classes at the commencement of the 2016–20 regulatory control period

1. CitiPower's customers will be taken to be "assigned" to the tariff class which CitiPower was charging that customer immediately prior to 1 January 2016 if:
   (a) they were an CitiPower customer prior to 1 January 2016, and
   (b) they continue to be a customer of CitiPower as at 1 January 2016.

[44] NER, cl. 6.12.1(17).
[45] NER, cl. 6.18.4.

Assignment of new retail customers to a tariff class during the 2016–20 regulatory control period

2. If, after 1 January 2016, CitiPower becomes aware that a person will become a customer of CitiPower, then CitiPower will 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, CitiPower will 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
   (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 under paragraph 3, CitiPower, when assigning or reassigning a customer to a tariff class, will ensure the following:
   (a) that customers with similar connection and usage profiles are treated on an equal basis
   (b) those customers who have micro–generation facilities are treated no 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 2016–20 regulatory control period

5. CitiPower may reassign an existing customer to another tariff class in the following situations:
   (a) CitiPower receives a request from the customer or customer's retailer to review the tariff to which the existing customer is assigned; or
   (b) CitiPower believes that:
      i. an retail 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 CitiPower may reassign that customer to another tariff class.

Notification of proposed assignments and reassignments

6. CitiPower 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 or customer's retailer that they may request further information from CitiPower and that the customer or customer's retailer may object to the proposed reassignment. This notice must specifically include:

   (a) a written document describing CitiPower's internal procedures for reviewing objections, if the 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 CitiPower's internal review system within a reasonable timeframe, then, to the extent resolution of such disputes are with the jurisdiction of the Energy and Water Ombudsman Victoria 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 CitiPower's internal review system and the body noted in paragraph 7(b) above, 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 section 6 above, CitiPower receives a request for further information from a customer or customer's retailer, then it must provide such information within a reasonable timeframe. If CitiPower reasonably claims confidentiality over any of the information requested by the customer or customer's retailer, then it is not required to provide that information to the customer or customer's retailer. If the customer or customer's retailer disagrees with such confidentiality claims, he or she may have resort to the complaints and dispute resolution procedure, 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 to CitiPower about the proposed assignment or reassignment, CitiPower must reconsider the proposed assignment or reassignment. In doing so CitiPower 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 CitiPower as part of the next network bill.

11. If a customer or customer's retailer objects to CitiPower's tariff class assignment CitiPower 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. CitiPower must make available information on tariff classes and dispute resolution procedures referred to in paragraph 7 above to retailers operating in CitiPower's distribution area.
13. If CitiPower 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 CitiPower 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 CitiPower about the proposed assignment or reassignment, CitiPower must reconsider the proposed assignment or reassignment. In doing so CitiPower 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 CitiPower 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 retail customer's usage or load profile, CitiPower will set out in its pricing proposal a method of how it will review and assess the basis on which a customer is charged.