FINAL DECISION
TasNetworks distribution determination
2017−18 to 2018−19

Attachment 14 – Control mechanisms

April 2017

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165

Email: AERInquiry@aer.gov.au

Note

This attachment forms part of the AER's final decision on TasNetworks' distribution determination for 2017–19. It should be read with all other parts of the final decision.

This final decision consists of an Overview and 8 attachments. As many issues were settled at the draft decision stage or required only minor updates we have not prepared final decision attachments for:

- Regulatory asset base
- Regulatory depreciation
- Capital expenditure
- Operating expenditure
- Corporate income tax
- Capital expenditure sharing scheme
- Service target performance incentive scheme
- Demand management incentive scheme
- Classification of services
- Pass through events
- Connection policy.

The AER's final decision on these matters is set out in the Overview. For ease of reference the remaining attachments have been numbered consistently with the attachment numbering in our draft decision.

The final decision therefore includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 9 – Efficiency benefit sharing scheme

Attachment 14 – Control mechanisms

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 19 – Tariff structure statement

Contents

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
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 mechanisms

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 as the control mechanism for TasNetworks' standard control services for the 2017–19 regulatory control period. It discusses:

- the application of the revenue cap
- compliance with the price controls[2]
- the mechanism through which TasNetworks will recover distribution use of system (DUoS) charges including adjustments for revenue under or over recovery[3]
- reporting of recovery of designated pricing proposal charges and jurisdictional scheme amounts[4]
- the procedures for assigning or reassigning retail customers to tariff classes.[5]

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

14.1 Final decision

Our final decision for TasNetworks is as follows:

- The control mechanism for standard control services is a revenue cap.[6]
- Section 14.4.4 contains the revenue cap formulas.
    - The revenue cap for any given regulatory year is the total annual revenue, or TAR, calculated using the formula in figure 14.1.
    - The side constraints applying to price movements for each of TasNetworks' tariff classes must be consistent with the formula in figure 14.2.
- TasNetworks must demonstrate compliance with the revenue cap—in accordance with figure 14.1—by including adjustments for DUoS revenue under or over recovery in accordance with appendix A of this attachment.

---

[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) and 6.12.1(20).

[5] NER, cl. 6.12.1(17).

[6] AER, *Framework and approach for TasNetworks Distribution for the Regulatory control period commencing 1 July 2017*, July 2015, p. 14; TasNetworks, *AER information request: TasNetworks response to questions raised by the AER*, 7 March 2016, p. 4 (TasNetworks, *Response to questions raised by the AER*, 7 March 2016).

- TasNetworks 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.
- TasNetworks must submit as part of its annual pricing proposal, a record of any jurisdictional scheme amounts it recovers and associated payments in accordance with appendix C of this attachment.
- Appendix D of this attachment specifies the procedures TasNetworks must apply in assigning retail customers to tariff classes or reassigning retail customers from one tariff class to another.

14.2 TasNetworks' revised proposal

TasNetworks proposed one change in response to our draft decision. It proposed the X factor definition be amended so that the pending Full Federal Court decision on gamma could be applied to the revenue cap once that decision is made.[7]

14.3 Assessment approach

Our assessment approach is set out in section 14.3 in attachment 14 of our draft decision.

14.4 Reasons for final decision

We do not accept TasNetworks' proposed change to the X factor definition. Our reasons are set out in our final decision attachment 4—value of imputation credits.

As TasNetworks accepted all other aspects of our draft decision we have not revisited those aspects in our final decision. Our discussion on each parameter of the revenue cap control mechanism is set out in section 14.4 in attachment 14 of our draft decision.

However, we note our draft decision contained a presentational error in the example calculation of the DUoS unders and overs account. The table incorrectly included adjustments that do not relate to TasNetworks. Our final decision has corrected for this presentational error which is set out in appendix A of this attachment.

14.4.1 Application of the revenue cap

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.

---

7 TasNetworks, *Tasmanian distribution revised regulatory proposal–Regulatory control period 1 July 2017 to 30 June 2019*, December 2016, pp. 16–17.

14.4.2 Reporting on designated pricing proposal charges

TasNetworks will report on recovery of designated pricing proposal charges for each year of the 2017–19 regulatory control period and how to account for any under or over recovery of revenue associated with those charges as per the method in appendix B.[8]

14.4.3 Reporting on jurisdictional scheme amounts

TasNetworks is not subject to a jurisdictional scheme.[9] However, we include an under and over recovery mechanism to facilitate any reporting of a jurisdictional scheme should one be imposed upon TasNetworks.[10] This inclusion will negate a requirement to remake the distribution determination in the event a jurisdictional scheme applies. The method is detailed in appendix C.

14.4.4 Control mechanism formulas

TasNetworks' revenues must be consistent with the total annual revenue and side constraint formula set out in figure 14.1 and figure 14.2.

Figure 14.1 Revenue cap formula[11]

(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 2

(2) $TAR_t = AAR_t + I_t + B_t + C_t$ t = 1, 2

(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

where:

TAR_t is the total allowable 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.

8 NER, cl. 6.12.1 (19).

9 TasNetworks, *AER information request: TasNetworks response to questions raised by the AER—IR007 Revenue control mechanism*, 4 May 2016, p. 8.

10 NER, cl. 6.18.7A.

11 All parameters are in nominal terms unless otherwise specified.

AR_t is the annual smoothed revenue requirement in the Post Tax Revenue Model (PTRM) for year t.[12]

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

I_t is the final carryover amount from the application of the DMIS from the 2012–17 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 2018–19 pricing proposal.

B_t is the sum of the following annual adjustment factors for year t:

- any under or over recovery of actual revenue collected through DUoS charges calculated using the method in appendix A
- any under or over recovery of the Electrical Safety Inspection Service charge, calculated using the following method:

$$ESISC_t = (ESISCa_{t-1} - ESISCe_{t-1}) \times WACC_t$$

where:

$ESISCa_{t-1}$ is the actual Electrical Safety Inspection Service charge for year t–1

$ESISCe_{t-1}$ is the estimated Electrical Safety Inspection Service charge for year t–1 as set out in table 14.1

$WACC_t$ is the approved nominal weighted average cost of capital (WACC) for the relevant regulatory year using the following method:

$$Nominal\ vanilla\ WACC_t = ((1 + real\ vanilla\ WACC_t) \times (1 + \Delta CPI_t)) - 1$$

where the $real\ vanilla\ WACC_t$ is as set out in our final decision PTRM and updated annually.

12 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.

Table 14.1 AER final decision on estimated Electrical Safety Inspection Service charge ($million, 2016–17)

	2016–17	2017–18	2018–19
ESISCe	3.704[a]	2.034	2.034

Source: AER analysis.

(a.) Is the amount of the estimated Electrical Safety Inspection Service charge for 2016–17 provided for in the AER's final decision on TasNetworks' operating expenditure for the 2012–17 regulatory control period adjusted to real 2016–17 terms.

- any under or over recovery of the National Energy Market charge, calculated used the following method:

$$NEMC_t = \left(NEMCa_{t-1} - NEMCe_{t-1}\right) \times WACC_t$$

where:

$NEMCa_{t-1}$ is the actual National Energy Market charge for year t–1

$NEMCe_{t-1}$ is the estimated National Energy Market charge for year t–1 as set out in table 14.2

$WACC_t$ is the approved nominal weighted average cost of capital (WACC) for the relevant regulatory year as calculated above.

Table 14.2 AER final decision on estimated National Energy Market charge ($million, 2016–17)

	2016–17	2017–18	2018–19
NEMc	0.428a	0.415	0.415

Source: AER analysis.

(a.) Is the amount of the estimated National Energy Market charge for 2016–17 provided for in the AER's final decision on TasNetworks' operating expenditure for the 2012–17 regulatory control period adjusted to real 2016–17 terms.

C_t is the sum of approved cost pass through amounts (positive or negative) with respect to regulatory year t, as determined by the AER.

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[13] 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 2018–19 regulatory year, t–2 is December quarter 2016 and t–1 is December quarter 2017.

X_t is the X factor for each year of the 2017–19 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 for regulatory year t.[14] It will also incorporate any adjustments required due to the application of the STPIS in the 2012–17 regulatory control period consistent with the AER's STPIS.[15]

Side constraints

Figure 14.2 sets out the side constraints formula. For each regulatory year after the first year of a regulatory control period, side constraints apply to the weighted average revenue 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.[16] Recovery of certain revenues, such as those to accommodate pass throughs, is disregarded in deciding whether the permissible percentage has been exceeded.[17]

---

13 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.

14 The meaning for year “t” under the price control formula is different to that in Appendix C of STPIS. Year “t+1” in Appendix C of STPIS is equivalent to year “t” in the price control formula of this decision.

15 AER, *Electricity distribution network service providers - service target performance incentive scheme*, 1 November 2009.

16 NER, cl. 6.18.6(c).

17 NER, cl. 6.18.6(d).

Figure 14.2 Side constraints formula[18]

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

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.

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[19] 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 2018–19 regulatory year, t–2 is December quarter 2016 and t–1 is December quarter 2017.

X_t is the X factor for each year of the 2017–19 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 for regulatory year t.[20] It will also incorporate any adjustments required due to the application of the STPIS in the 2012–17 regulatory control period consistent with the AER's STPIS.[21]

---

[18] All parameters are in nominal terms unless otherwise specified.

[19] 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.

[20] The meaning for year "t" under the price control formula is different to that in Appendix C of STPIS. Year "t+1" in Appendix C of STPIS is equivalent to year "t" in the price control formula of this decision.

$I_t^{'}$ is the percentage change from the final carryover amount from the application of the DMIS from the 2012–17 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 2018–19 pricing proposal.

$B_t^{'}$ is the percentage change from the sum of the following annual adjustment factors for year t:

- any under or over recovery of actual revenue collected through DUoS charges calculated using the method in appendix A
- any under or over recovery of the Electrical Safety Inspection Service charge, calculated using the method in figure 14.1
- any under or over recovery of the National Energy Market charge, calculated used the method in figure 14.1.

$C_t^{'}$ is the annual percentage change from the sum of approved cost pass through amounts (positive or negative) with respect to regulatory year t, as determined by the AER.

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).

---

[21] AER, *Electricity distribution network service providers - service target performance incentive scheme*, 1 November 2009.

A DUoS unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2017–19 regulatory control period, TasNetworks must maintain a DUoS unders and overs account in its annual pricing proposal.[22]

TasNetworks must provide the amounts for the following entries in its 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):[23]

1. An 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 respective nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.[24] The WACC applied for each year will be that approved by the AER for the relevant year;
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 sum of items 1–4 to derive the closing balance for each year.

TasNetworks 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 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 DUoS charges, TasNetworks 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 2017–19 regulatory control period.

22 NER, cl. 6.18.2(b)(7).

23 In exceptional circumstances, the DUoS unders and overs account can accommodate additional years—such as year t–3. If available, amounts provided for additional years must be audited.

24 The WACC for each year will be that approved by the AER for the respective year and as calculated as set out in Figure 14.1.

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

	Year t–2 (actual)	Year t–1 (estimate)	Year t (forecast)
(A) Revenue from DUoS charges	**46 779**	**40 269**	**39 510**
(B) Less TAR for regulatory year =	**43 039**	**41 427**	**44 429**
+ Adjusted annual smoothed revenues (AAR_t)	40 189	41 393	44 393
+ DMIS carryover amount (I_t)	1013	0	0
+ Annual adjustments (B_t)[a] =	13	34	36
+ Electrical Safety Inspection Service charge	*25*	*24*	*22*
+ National Energy Market charge	*–12*	*10*	*14*
+ Cost pass through amount (C_t)	1824	0	0
(A minus B) Under/over recovery of revenue for regulatory year	**3740**	**–1158**	**–4919**[b]
DUoS unders and overs account			
Nominal WACC (per cent)	5.00%	5.50%	6.00%
Opening balance	1737	5656[c]	4778
Interest on opening balance	87	311	287
Under/over recovery of revenue for regulatory year	3740	–1158	–4919[b]
Interest on under/over recovery for regulatory year	92	–31	–145
Closing balance	**5656**	**4778**	**0**[d]

Notes: (a) Bt parameter calculations in the DUoS unders and overs account exclude approved DUoS revenue under/over recovery for regulatory year.

(b) Approved DUoS revenue under/over recovery for regulatory year t.

(c) Opening balance is the previous year's closing balance.

(d) TasNetworks 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 2017–19 regulatory control period.

B Designated pricing proposal charges[25] unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2017–19 regulatory control period, TasNetworks must maintain a designated pricing proposal charges unders and overs account in its annual pricing proposal.[26]

TasNetworks must provide the amounts for the following entries in its designated pricing proposal charges 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):[27]

1. An 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 respective nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.[28] The WACC applied for each year will be that approved by the AER for the relevant year;
3. The amount of revenue recovered from designated pricing proposal 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 sum of items 1–4 to derive the closing balance for each year.

TasNetworks must provide details of calculations in the format set out in table 14.4. 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, TasNetworks 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 2017–19 regulatory control period.

---

25 Designated pricing proposal charges are charges related to: designated pricing proposal services (prescribed exit fees, prescribed common transmission services and prescribed transmission use of system services); avoided customer transmission use of system charges; charges provided by another distributor (but only to the extent they comprise of designated pricing proposal services or standard control services); and charges or payments related specified in NER clause 11.39.

26 NER, cll. 6.18.2(b)(6), 6.12.1(19), 6.18.7.

27 In exceptional circumstances, the designated pricing proposal charges unders and overs account can accommodate additional years—such as year t–3. If available, amounts provided for additional years must be audited.

28 The WACC for each year will be that approved by the AER for the respective year and as calculated as set out in Figure 14.1.

Table 14.4 Example calculation of designated pricing proposal changes unders and overs account ($'000, nominal)

	Year t–2 (actual)	Year t–1 (estimate)	Year t (forecast)
(A) Revenue from designated pricing proposal charges (DPPC)	**40 077**	**34 944**	**36 609**
(B) Less DPPC related payments for regulatory year =	**34 365**	**38 734**	**39 200**
+ DPPC charges to be paid to TNSP	33 672	37 933	38 000
+ Avoided TUoS/DPPC payments	693	801	1200
(A minus B) Under/over recovery of revenue for regulatory year	**5712**	**–3790**	**–2540**[a]
DPPC unders and overs account			
Nominal WACC (per cent)	5.00%	5.50%	6.00%
Opening balance	167	6028[b]	2467
Interest on opening balance	8	332	148
Under/over recovery of revenue for regulatory year	5712	–3790	–2540[a]
Interest on under/over recovery for regulatory year	141	–103	–75
Closing balance	**6028**	**2467**	**0**[c]

Notes: (a) Approved DPPC revenue under/over recovery for regulatory year t.

(b) Opening balance is the previous year's closing balance.

(c) TasNetworks 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 2017–19 regulatory control period.

C Jurisdictional scheme amounts[29] unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2017–19 regulatory control period, TasNetworks must maintain a jurisdictional scheme amounts unders and overs account in its annual pricing proposal.[30]

TasNetworks 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):[31]

1. An 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 respective nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.[32] The WACC applied for each year will be that approved by the AER for the relevant year;
3. The amount of revenue recovered from jurisdictional scheme amounts 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 sum of items 1–4 to derive the closing balance for each year.

TasNetworks must provide details of calculations in the format set out in table 14.5. 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 charges, TasNetworks is expected to achieve a closing balance as close to zero as practicable in its jurisdictional scheme amounts unders and overs account in each forecast year in its annual pricing proposal during the 2017–19 regulatory control period.

---

29 Jurisdictional scheme amounts, are amounts a distributor is required under a jurisdictional scheme obligation as defined by the NER to: pay a person; pay into a fund established under an Act of a participating jurisdiction; credit against charges payable by a person; or reimburse a person, less any amounts recovered by the distributor from any person in respect of those amounts other than under the NER.

30 NER, cll. 6.12.1(20), 6.18.2(b)(6A), 6.18.7(A)(b) and (c).

31 In exceptional circumstances, the jurisdictional scheme amounts unders and overs account can accommodate additional years—such as year t–3. If available, amounts provided for additional years must be audited.

32 The WACC for each year will be that approved by the AER for the respective year and as calculated as set out in Figure 14.1.

Table 14.5 Example calculation of jurisdictional scheme amounts unders and overs account ($'000, nominal)

	Year t–2 (actual)	Year t–1 (estimate)	Year t (forecast)
(A) Revenue from jurisdictional schemes	**19 777**	**23 121**	**26 965**
(B) Less jurisdictional scheme payments for regulatory year =	**20 272**	**20 959**	**28 641**
+ Jurisdictional scheme 1 payments	14 159	13 954	13 961
+ Jurisdictional scheme 2 payments	6113	7005	14 680
(A minus B) Under/over recovery of revenue for regulatory year	**–495**	**2162**	**–1676**[a]
Jurisdictional scheme amount unders and overs account			
Nominal WACC (per cent)	5.00%	5.50%	6.00%
Opening balance	–52	–562[b]	1628
Interest on opening balance	–3	–31	98
Under/over recovery of revenue for regulatory year	–495	2162	–1676[a]
Interest on under/over recovery for regulatory year	–12	59	–50
Closing balance	**–562**	**1628**	**0**[c]

Notes: (a) Approved jurisdictional scheme amounts revenue under/over recovery for regulatory year t.

(b) Opening balance is the previous year's closing balance.

(c) TasNetworks 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 2017–19 regulatory control period.

D Assigning retail customers to tariff classes

The following sets out our final decision on the principles governing assignment or reassignment of TasNetworks' retail customers (customers) to or between tariffs.[33]

Our decision on TasNetworks' tariff assignment policy is set out in attachment 19 — tariff structure statement.

D.1 Procedures for assigning and reassigning retail customers to tariff classes

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

Assignment of existing retail customer to tariff classes at the commencement of the 2017–19 regulatory control period

1. TasNetworks' customers will be taken to be "assigned" to the tariff class which TasNetworks was charging that customer immediately prior to 1 July 2017 if:

   (a) they were a TasNetworks customer prior to 1 July 2017, and

   (b) they continue to be a customer of TasNetworks as at 1 July 2017.

Assignment of new retail customers to a tariff class during the 2017–19 regulatory control period

2. If, from 1 July 2017, TasNetworks becomes aware that a person will become a customer of TasNetworks, then TasNetworks 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, TasNetworks 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, TasNetworks, 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

[33] NER, cl. 6.12.1(17).

(b) those customers who have micro–generation facilities are treated no less favourably than customers with similar load profiles but without such facilities.

Reassignment of existing retail customers to another existing or a new tariff class during the 2017–19 regulatory control period

5. TasNetworks may reassign an existing customer to another tariff class in the following situations:

   (a) TasNetworks receives a request from the customer or customer's retailer to review the tariff to which the existing retail customer is assigned; or

   (b) TasNetworks 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 TasNetworks may reassign that customer to another tariff class.

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

6. TasNetworks 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 TasNetworks and that the customer or customer's retailer may object to the proposed reassignment. This notice must specifically include:

   (a) a written document describing TasNetworks' 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) hat if the objection is not resolved to the satisfaction of the customer or customer's retailer under TasNetworks 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 TasNetworks 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 paragraph 6 above, TasNetworks receives a request for further information from a customer or customer's retailer, then it must provide such information within a reasonable timeframe. If TasNetworks 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 TasNetworks about the proposed assignment or reassignment, TasNetworks must reconsider the proposed assignment or reassignment. In doing so TasNetworks 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 TasNetworks as part of the next network bill.

11. If a customer or customer's retailer objects to TasNetworks' tariff class assignment TasNetworks 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. TasNetworks must make available information on tariff classes and dispute resolution procedures referred to in paragraph 7 above to retailers operating in TasNetworks' distribution area.

13. If TasNetworks 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 TasNetworks 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 TasNetworks about the proposed assignment or reassignment, TasNetworks must reconsider the proposed assignment or reassignment. In doing so TasNetworks 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 TasNetworks 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, TasNetworks will set out in its pricing proposal a method of how it will review and assess the basis on which a customer is charged.