

27 February 2012

Mr Warwick Anderson
General Manager
Network Regulation Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Anderson

Correction of superannuation errors in the 2009-14 ACT distribution determination

I am writing to notify the AER that ActewAGL Distribution has identified two errors in the forecast superannuation costs in the 2009-14 ACT electricity distribution determination. ActewAGL Distribution requests that the AER use its discretion under rule 6.13 of the transitional National Electricity Rules to correct the errors¹. The errors and the proposed amendments are described below.

Incorrect superannuation amounts included in the 2009-14 determination

The first error involves a miscalculation by ActewAGL Distribution of the payments required under the CSS and PSS defined benefit superannuation schemes. The rates for defined benefits superannuation payments applied by ActewAGL Distribution in 2006/07, the base year used for setting the 2009-14 opex forecasts, were incorrect. Under the forecasting methodology adopted by ActewAGL Distribution, the error in the 2006/07 base year affected the forecasts for each year of the 2009-14 regulatory period.²

In November 2011 a review of actual opex against forecast opex identified a substantial overspend on superannuation. On investigation by Regulatory Affairs it was found that incorrect contribution rates had been used in the 2009-14 regulatory proposal – the rates used were 29.0% for the CSS and 9.8% for the PSS, whereas the correct rates for 2006/07 (the forecast base year) were 23.9% for the CSS and 20.1% for the PSS. This has the effect that the calculations for CSS were overstated and for PSS were understated.

The rates for 2004/05 and 2005/06 were applied in 2006/07 and used in the initial regulatory proposal. In September 2008, after submission of the initial proposal, ACT Treasury notified Group Accounting in ActewAGL of the applicable contribution rates for 2006/07 (the forecast base year). That information was inadvertently not passed on to Regulatory Affairs so these correct rates were not incorporated into the revised

¹ By revoking the determination and making a new one in substitution correcting the errors as required by rule 6.13.

² The methodology, which was accepted by the AER, and the reasons for the choice of 2006/07 as the base year are described in section 8.3.3 of ActewAGL Distribution's June 2008 Regulatory Proposal.

regulatory proposal submitted on 16 January 2009. As a result the overall forecast contributions, as submitted to the AER in June 2008 and adopted by the AER in the Final Decision, were significantly understated.

The differences between the submitted forecasts, based on the incorrect percentages, and the correct forecasts are shown in table 1 below. The total difference over the regulatory period is \$5.7 million (in \$2008/09). The calculations are shown in the attached Excel spreadsheet.

Table 1: Forecast defined benefit scheme payments – incorrect and correct

Year ending 30 June (\$2008/09)	2009/10 \$'m	2010/11 \$'m	2011/12 \$'m	2012/13 \$'m	2013/14 \$'m	Total \$'m
Forecast defined benefits scheme payments submitted 2008 (incorrect rates)	2.2	2.3	2.4	2.5	2.6	12.0
Forecast defined benefits scheme payments Amended (correct rates)	3.3	3.4	3.6	3.7	3.8	17.8
Difference	+1.1	+1.1	+1.2	+1.2	+1.2	+5.7

ActewAGL Distribution considers that the application of the incorrect contribution rates involves an error or deficiency, which the AER has the power to correct under clause 6.13 of the transitional National Electricity Rules. ActewAGL Distribution considers that the error is material. It results in a \$5.7 million understatement of the revenue requirement, and lower X factors, as shown in table 3 below. We note that in 2010 the AER considered an error in the Wagga Wagga natural gas distribution Access Arrangement to be material, when it involved an understatement of the revenue requirement by only \$0.3 million.³

The second error involves the superannuation exclusions from the efficiency benefit sharing scheme (EBSS) in the 2009-14 determination. The reported exclusions from the EBSS are *total* forecast superannuation payments.⁴ However, only payments associated with defined benefit schemes are to be excluded. While the error does not affect the 2009-14 revenue allowance, nor the X factors, it is material and would affect EBSS adjustments in the next regulatory period. ActewAGL Distribution therefore requests that the AER use its discretion to correct the error.

Table 2 below shows the difference between the forecast total superannuation EBSS exclusions reported in the Final Decision (in table 14.2) and the forecast payments related to the defined benefits scheme only (using the corrected rates in the base year).

³ AER 2010, *Access arrangement variation, Wagga Wagga gas distribution network, Decision*, p. 5

⁴ Total superannuation payments are also reported for "Superannuation" on the EBSS sheet for the 2009/10 annual reporting RIN templates.

Table 2: EBSS superannuation exclusions – incorrect and correct

Year ending 30 June (\$2008/09)	2009/10 \$'m	2010/11 \$'m	2011/12 \$'m	2012/13 \$'m	2013/14 \$'m	Total \$'m
Total superannuation exclusion reported in the final decision	3.2	3.3	3.4	3.5	3.6	16.9
Defined benefits scheme only exclusion (correct rates)	3.3	3.4	3.6	3.7	3.8	17.8
Difference	0.1	0.1	0.2	0.2	0.2	0.9

Proposed rectification of the 2009-14 April 2009 Final Decision

ActewAGL Distribution proposes that the determination be revoked and a new determination made to include the correct forecast amount for defined benefits superannuation payments over the 2009-14 regulatory period. This results in a \$5.7 million (\$2008/09) increase in the revenue allowance (see table 1 above) , and changes in the X factors for the remaining 2 years of the regulatory period from – 4.00% to – 5.41%, as shown in table 3 below. A copy of the amended PTRM is provided with this letter.

Table 3: X factors – Final Decision and after correction of errors

	2009/10	2010/11	2011/12	2012/13	2013/14
X-factors according to the final decision, %	13.82	- 4.00	- 4.00	- 4.00	- 4.00
X-factors after correcting error, %	13.82	- 4.00	- 4.00	- 5.41	- 5.41

In addition, ActewAGL Distribution proposes that the EBSS “Adjustment for superannuation” line in table 14.2 of the April 2009 Final Decision be replaced with the following line:

<i>Adjustment for superannuation</i>	3.3	3.4	3.6	3.7	3.8	17.8
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Please contact Leanne Holmes, Manager Economic Regulation, on 0412 850715 if you require any further information or to discuss this matter.

Yours sincerely



Stephen Devlin

General Manager Asset Management