Annual Pricing Process Review

Final position paper – Side constraint mechanism

November 2022

AUSTRALIAN ENERGY REGULATOR

© Commonwealth of Australia 2022

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 3.0 AU licence.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

AER reference: AER213041

Amendment record

Version	Date	Pages
1	18 November 2022	

Contents

About us

We, the Australian Energy Regulator (AER), work to make all Australian energy consumers better off, now and in the future. We are the independent regulator of energy network service providers (NSPs) in all jurisdictions in Australia except for Western Australia. We set the revenue requirements these NSPs can recover from customers using their networks.

The National Electricity Law and Rules (NEL and NER) and the National Gas Law and Rules (NGL and NGR) provide the regulatory framework which govern the NSPs. Our role is guided by the National Electricity and Gas Objectives (NEO and NGO).

NEO:[1]

> …to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to:
>
> (a) price, quality, safety, reliability, and security of supply of electricity; and
>
> (b) the reliability, safety, and security of the national electricity system.

NGO:[2]

> …to promote efficient investment in, and efficient operation and use of, natural gas services for the long-term interests of consumers of natural gas with respect to price, quality, safety, reliability, and security of supply of natural gas.

The decisions we make and the actions we take affect a wide range of individuals, businesses, and organisations. Effective and meaningful engagement with stakeholders across all our functions is essential to fulfilling our role, and it provides stakeholders with an opportunity to inform and influence what we do. Engaging with those affected by our work helps us make better decisions, provides greater transparency and predictability, and builds trust and confidence in the regulatory regime. This is reflected in our *Stakeholder engagement framework* and in the consultation process we are following.[3]

---

1 NEL, s. 7.

2 NGL, s. 23.

3 AER, *Revised stakeholder engagement framework*, September 2017.

1 Overview

This paper sets out our final position on the application of the side constraint mechanism. It forms part of the second stage of our review into improving our annual pricing process for electricity distribution network service providers (distributors).

The side constraints are a technical aspect of the distributors' annual pricing proposals. Each year, the distributors submit pricing proposals to us for approval which contain the electricity network prices they will charge consumers to recover their allowed annual revenues. The pricing proposal must also demonstrate compliance with the side constraints.

The side constraints limit how much revenue can be recovered from a tariff class (a class of customers) relative to the revenue recovered from the same tariff class in the preceding year. In practice, it prevents any large rebalancing of revenue recovery between tariff classes, and large price shocks for individual customer classes, during the regulatory period. Large price shocks can have a significant impact on customers by undermining their confidence and impacting their ability to make efficient long term investment and consumption decisions.

In general, the side constraint limits the rebalancing of revenue recovery between tariff classes to 2% above the allowed annual revenue path. For example, if the annual revenue path change is a 5% increase then the side constraint limits the change in revenue recovery from any tariff class at 7% (5% + 2%), without breaching the total allowed annual revenues.

Our distribution determinations set out the mechanism (mathematical formula) for the distributors to demonstrate compliance with the side constraints (side constraint mechanism). This mechanism aligns with the requirements of the NER.[4]

Recently we became aware of some issues with the side constraint mechanism and its application. As a result, we have undertaken a review for the following reasons.

- Distributors were applying different interpretations of the side constraint mechanism leading to different outcomes for customers on different networks. Regulatory consistency leads to better outcomes for all customers by improving predictability, transparency and reliability of the regulatory regime.
- Current applications of the mechanism were not fit for purpose in an environment of declining energy quantities. On one occasion, a distributor could not increase its tariff class revenues enough to recover its total allowed annual revenues.
- We identified other improvements to the mechanism to make it more accurate.

Final position

Our final position has resulted in several amendments to the side constraint mechanism.

- Development of a standardised side constraint mechanism that is fit for purpose and will be applied universally by distributors in their upcoming regulatory determinations.
- Introduction of a Q factor in the mechanism to appropriately account for the impact of changing energy quantities, particularly in relation to declining quantities.
- Introduction of a D factor to make the mechanism more accurate by better aligning the change in tariff class revenue amounts to the change in total allowed annual revenue. As

[4] NER, cl. 6.18.6.

it stands, there is a disconnect as the two amounts are determined on a different basis. Tariff class revenues are a function of current prices multiplied by forecast quantities whereas annual total revenue amounts are determined using the CPI–X revenue path.

These amendments improve the accuracy of the side constraint mechanism. This contributes to the long-term interest of consumers by providing greater certainty in tariff class revenue changes and confidence to make efficient long-term investment and consumption decisions.

This final position is unchanged from our preliminary position.

Stakeholder engagement

Through the review, we sought stakeholder feedback on our preliminary side constraint mechanism to ensure it would be fit for purpose. Stakeholders raised 3 key areas of concern.

1. The relevance of accounting for changing energy quantities.
2. The impact of our preliminary position mechanism on prices.
3. Request we undertake further scenario testing to ensure our approach is fit for purpose.

In response, we undertook further analysis of these issues which further affirmed that our final position is fit for purpose. Our response to stakeholder feedback is set out in section 4.1.

2 Background

In August 2021, we initiated a review into improving our annual pricing process for electricity distribution network service providers (distributors). The aim of the review is to develop a process to facilitate more timely and accurate annual pricing approvals as well as improve the presentation of pricing outcomes for stakeholders.

In the first stage, we engaged with distributors to develop a better process for our assessment of annual pricing proposals for years 2 to 5 of the regulatory control period (second half of 2021). The key outcomes were the development of a formal pre-lodgement engagement process and standardised pricing models.

The second stage (second half of 2022) built on the first stage outcomes. In this stage, we engaged with stakeholders more broadly to improve the presentation and transparency of annual pricing outcomes to assist stakeholders for their own processes.

For the upcoming round of regulatory determinations,[5] the second stage also included:

- consideration of improvements to the initial pricing process for the first year of a regulatory period, and
- a standardised approach to the application of the side constraint mechanism in regulatory determinations.

The development of these aspects for the annual pricing process follows our commitment in the AER Strategic Plan 2020–2025 to design our systems to work in ways that deliver efficient regulation of monopoly infrastructure.[6]

This paper sets out our final position on the application of the side constraint mechanism only. We will publish a further paper in December 2022 on our final positions for the other components of stage two.

Further details of the review are available on our website.

2.1 About the side constraint mechanism

Each year, the electricity distributors submit to us for approval the electricity network prices they propose to charge consumers for the upcoming year. We approve a pricing proposal if:

- it is compliant with the requirements of the NER, the applicable distribution determination and tariff structure statement, and
- all forecasts associated with the proposal are reasonable.

One NER requirement is that pricing proposals must demonstrate compliance with the side constraints on the distributors' revenue recovery for provision of standard control services.[7]

---

5 Ausgrid – Determination 2024–29; Endeavour Energy – Determination 2024–29; Essential Energy – Determination 2024–29; Evoenergy – Determination 2024–29; Power and Water Corporation – Determination 2024–29; TasNetworks – Determination 2024–29.

6 AER, *AER strategic plan 2020–2025*, December 2020, p.9

7 NER, cl. 6.18.6.

The side constraint limits how much revenue can be recovered from a tariff class (a class of customers) relative to the revenue recovered from the same tariff class in the preceding year. Its intent is to limit large variability in revenue recovery between tariff classes during a regulatory period. However, it is not intended to restrict recovery of the distributors total annual allowed revenue or price movements for individual tariffs.

The side constraint mechanism is intrinsically linked to the form of control that regulates the distributors recovery of annual allowed revenues for standard control services (which must be in the form (1+CPI)(1–X)).[8] Currently, all distributors are regulated by a revenue cap control.[9] As such, the side constraint mechanism reflects the revenue cap mechanism.

The NER sets the side constraint limit to the greater of:[10]

- the CPI–X limitation on any increase in the electricity distributor's expected weighted average revenue between two regulatory years plus 2% (calculation is of the form (1+CPI)(1–X)(1+2%)), or
- CPI plus 2%.

In general terms, the side constraint limits changes in revenue recovery from any one tariff class to no more than the revenue path plus 2%.

While the NER sets out the limitation to be imposed by the side constraint, the specific application of the side constraint mechanism is set out in our distribution determinations.

Further detail of the NER requirements for the side constraint are set out in section 6.

8 NER, cl. 6.2.6(a).

9 The revenue cap mechanism sets a revenue path from the preceding year based on (1+CPI)(1–X).

10 NER, cl. 6.18.6(c).

3 Review of the side constraint mechanism

We have undertaken a review of the side constraint mechanism for two main reasons.

First, while our intention was to establish a consistent application of the side constraint mechanism, the distributors have interpreted the mechanism set out in our distribution determinations differently and as a result apply the side constraint mechanism differently. This has resulted in side constraint limits that do not accurately follow the revenue cap path plus 2% as well as imposing different outcomes for customers on different networks.

Through our review, we endeavoured to develop a mechanism that would be applied consistently by all the distributors. Regulatory consistency leads to better outcomes for all customers by improving predictability, transparency and reliability of the regulatory regime.

Second, we recently encountered issues where the side constraint mechanism conflicted with other elements of the regulatory framework. In one instance, strict compliance with our intended application of the side constraint mechanism impeded a distributor from recovering its allowed revenues under the revenue cap mechanism. In another instance, compliance with the side constraint mechanism impacted the distributor's ability to comply with its approved tariff structure statements.

The side constraint mechanism should not produce these unintended outcomes and as a result the mechanism, as we intended it to be applied, needed amending.

Also, during our initial investigations into addressing these issues we identified other improvements to make the mechanism more accurate.

4 Final position

Our final position side constraint mechanism is the same as that published within our position paper on 2 August 2022 and subsequently consulted on with stakeholders.

The position is as follows:

- Maintain the current format of the side constraint mechanism for presentation purposes
- Include a Q factor in the mechanism for changes in price attributable to movements in quantities from the preceding year
- Not introduce an explicit treatment of new/trial tariffs as these are accommodated through the Q factor
- Include a D factor in the mechanism to ensure the tariff class revenues are comparable to the (1+CPI)(1–X)(1+2%) threshold.[11]

The formulae and definitions of the side constraint mechanism is set out in section 5. We have sought to present the formulae and definitions in a more accessible way, consistent with our position paper of 2 August 2022.

Distributors will include this application of the side constraint mechanism in their regulatory proposals for their respective 2024–29, 2025–30, and 2026–31 regulatory control periods.

4.1 Stakeholder feedback

We sought stakeholder feedback on our preliminary position of the standardised side constraint mechanism to ensure our final position would be fit for purpose.

Stakeholders provided feedback through written submissions, during online stakeholder workshops and directly with us (such as email or phone calls). We received feedback from a range of stakeholders, including distributors, retailers, and consumer representatives.

Overall, there was general support for implementing a standardised approach of the side constraint mechanism. Although stakeholders raised a variety of queries, there were 3 key areas of concern: accounting for changing energy quantities, the impact of our preliminary position mechanism on prices, and the need to undertake further scenario analysis.

In determining our final position we have taken into consideration the feedback provided from stakeholders. Our response to the 3 areas of concern are set out below.

A summary of stakeholder feedback and our responses are set out in Table 1. Stakeholder written submissions are available on our website.

[11] The revenue cap formula sets a revenue path from the preceding year based on (1+CPI)(1–X). The revenue path is calculated at a total level and not at the tariff class level. For the side constraint compliance, tariff class revenues are determined using fixed forecast quantities, creating a base revenue amount for the preceding year which is based on current year prices and forecast year quantities. The D factor adjust the (1+CPI)(1–X)(1+2%) threshold for tariff class revenues to make them comparable with movements in total revenues.

Accounting for changing energy quantities

Stakeholders queried the relevance of accounting for changing energy quantities. We note that if quantities are not accounted for there is a disconnect between the movements in allowed annual revenue and the allowed tariff class revenues by the side constraint.

For example, assume a distributor has one tariff, one tariff class and its annual allowed revenues is fixed at $100 between 2 years. The quantities are 10 units in year 1 and 5 units in year 2. The price outcomes to recover the allowed revenues would need to be $10 in year 1 ($10 x 10 units = $100) and $20 in year 2 ($20 x 5 units = $100).

Without adjusting for quantities the side constraint would limit the price increase in year 2 to 2% (revenue path which is zero + 2%) above the price set for year 1. As such, the year 2 price would be limited to $10.20 ($10 x (1+2%)) and as a result the distributor would be constrained from recovering its allowed annual revenues ($10.20 x 5 units = $51).

The introduction of the Q factor in the mechanism will appropriately account for changes in price attributable to movements in quantities from the preceding year

Impact of change in prices

Stakeholders queried the impact of our preliminary position mechanism on prices. We note that because the distributors have been applying their own interpretations of the mechanism some have historically benefited from more generous constraint thresholds than they otherwise should have. Our final position addresses this issue by improving the accuracy of the side constraint mechanism and applying it consistently to all distributors.

While the side constraints do not directly limit individual tariff movements, the limitation at the tariff class level reduces the incidence of large price movements.

Scenario Analysis

Stakeholders requested further scenarios be tested. These included scenarios where forecast quantities may move in different directions for different tariff classes or move in the same direction at different magnitudes. Testing of these scenarios further supported our preliminary position. We have provided an updated version of the scenario examples with these tested scenarios, which are available in Excel workbooks on our website.

In scenario 4a, we tested a 10% increase in residential consumption quantities alongside a 10% decrease in small business consumption quantities. In this scenario, the consumption movements mostly offset each other overall, and produce an insignificant Q factor and D factor. Without these factors the side constraint threshold would be slightly lower, offering a 1.52% threshold instead of 2%.

In scenario 4b, we tested a 5% decrease in residential consumption quantities alongside a 20% decrease in small business consumption quantities. In this scenario, the Q factor and D factor are significant due to the large decline in forecast quantities. Without these factors the side constraint threshold would be 7% lower and restrict revenue recovery by 5%.

In scenario 4c, we tested a 13.7% increase in residential consumption quantities alongside a 5% decrease in small business consumption quantities. In this scenario, the preceding year side constraint revenue (using fixed quantities) is equal to the preceding year allowed

revenue, producing a zero-value Q factor. The D factor is insignificant, so without these factors the side constraint threshold would be roughly the same, offering a 2.05% threshold instead of 2%.

Some stakeholders were also of the view that the preliminary position produced issues when testing against historical data. We have since tested the preliminary position against all 2022–23 pricing proposals with no concern. We note that if applying the preliminary position, some distributors historical tariff class revenue movements would have breached the side constraint mechanism but would not have been restricted from recovering allowed revenues.

Table 1 Stakeholder feedback – AER responses

Feedback	AER response
Preliminary position approach	
The preliminary position approach is complex	We acknowledge the side constraint mechanism and its application is complex. This is primarily due to the number of adjustments required to appropriately mirror the annual adjustments made to determine allowed revenues each year. This mirroring is because the NER requires tariff class revenue movements to be within 2% of the total (1+CPI)(1–X) revenue path. All electricity distributors are currently regulated under a revenue cap. Our distribution determinations set out the control mechanism that determines this annual revenue cap which follows the (1+CPI)(1–X) revenue path. It is a mathematical formula which includes a number of annual adjustments. The side constraint mechanism follows the same path as the revenue cap path but allows an additional 2% increase to allow some rebalancing between tariff classes as per the intent of the NER. As discussed below, we consulted on an alternative presentation of the side constraint mechanism that better reflected the NER, while being mathematically the same as the preliminary position approach. However, stakeholder feedback was to retain the existing presentation. We have, however, sought to reduce complexity of the presentation by breaking down each factor into a subset formula. We will apply these subset formulae through the standardised pricing model for consistency.
The preliminary position approach may provide more/less flexibility for tariff movements	We note that because distributors have historically applied differing interpretations of the mechanism it has resulted in thresholds that would have been more or less than the standardised approach. Through this review, we have developed an approach to ensure the side constraint mechanism is applied consistently by all distributors and better reflects the intent of the NER. One of the key changes to the historical approach is the inclusion of the Q factor to address issues related to the impact of changing quantities on revenue recovery. With the addition of the Q factor, when quantities are decreasing, the side constraint revenue for the preceding year is less than the total allowable revenue, the Q factor will be positive and will increase the permissible percentage. All else equal, this will reflect that prices should increase under a revenue cap where quantities are decreasing. Previously there has been no consideration for the impact quantities have on prices under a revenue cap, so when quantities have been decreasing, the permissible percentage has been unnecessarily restrictive, and where quantities have been increasing, the permissible percentage has been excessive.
Further scenario testing should be completed	We have undertaken further scenario testing to ensure our final position is fit for purpose. This testing has included scenarios suggested in stakeholder feedback, as well as testing of the 2022–23 approved pricing proposals. For transparency, we have published an updated version of our scenarios workbook alongside our stakeholder workshop slides that provide for two scenarios with varying consumption movements across tariff classes.

Alternate approach	
The alternate approach is mathematically the same as the preliminary position approach	This is correct – the alternate approach was offered as an alternate in presentation only.
Maintaining the current structure of formulae is most pragmatic	The alternative approach was put forward as an option as it more appropriately reflects the (1+CPI)(1–X)(1+2%) threshold, and amounts disregarded from revenue, as presented in the NER. It was also envisaged that it would be more easily accessible for stakeholders. However, the consensus from stakeholders is the existing structure of formulae be retained to reduce complexity. One stakeholder noted the benefits of the alternate approach but was indifferent between the two approaches.
Q factor	
Accounting for quantities is not appropriate	We have noted the impact quantities have on prices, and the resulting operation of the Q factor, above. We have also provided additional explanation through our stakeholder workshop. The slides from our stakeholder workshop are available on our website (which provides some simple mathematical explanations also).
General	
Higher side constraint thresholds will allow higher price increases and/or volatility	The primary intent of the side constraint, as per the NER, is to limit the movement in revenue recovery between tariff classes within a regulatory period. It's ability to impact individual price increases is somewhat limited, although it has some impact as a by-product. We observe that other elements of the regulatory framework, such as tariff structure statements and revenue path smoothing, are better mechanisms to limit year-on-year price volatility. We acknowledge that in some instances our final position side constraint mechanism will allow a higher permissible percentage relative to the approaches applied by distributors in previous periods. However, our final position approach is more aligned to the intent of the NER and better follows the distributors allowed revenues plus 2%. By way of example, a distributor's allowed revenue increases by 5% compared to the preceding year. All else being equal, prices would increase by 5%. The side constraint mechanism ensures that the weighted average revenue to be recovered from a tariff class will, all else equal, increase by no more than 7%, to reflect the 2% allowed in the NER for rebalancing between tariff classes. If the distributor did increase a tariff class by 7%, it would have to increase other tariff classes by less than 7% to ensure it did not exceed its total allowable revenue.

5 Side constraint mechanism formulae

Figure 1 Side constraint mechanism price control formulae

	Equation
1.	$$PP_t \geq \frac{SCR_t}{SCR_{t-1}}$$
2.	$$PP_t = \left((1 + \Delta CPI_t) \times (1 - X_t) \times (1 + 2\%) - 1\right) \times D_t + AA_t + Q_t + 1$$
3.	$$SCR_t = \sum_{i=1}^{m} \sum_{j=1}^{n} p_t^{ij} q_t^{ij}$$
4.	$$SCR_{t-1} = \sum_{i=1}^{m} \sum_{j=1}^{n} p_{t-1}^{ij} q_t^{ij}$$
5.	$$D_t = \frac{AAR_{t-1}}{SCR_{t-1}}$$
6.	$$AA_t = \frac{(I_t + C_t + B_t) - (I_{t-1} + C_{t-1} + B_{t-1})}{SCR_{t-1}}$$
7.	$$Q_t = \left(\frac{TAR_{t-1}}{SCR_{t-1}} - 1\right)$$

where each tariff class has “n” tariffs, with each up to “m” components, and where:

Variable	Definition
PP_t	Is the permissible percentage for year t, calculated as per formula 2 above.
SCR_t	Is the side constraint revenue for year t, calculated as the sum of the products of proposed prices and forecast quantities for year t, calculated as per formula 3 above.
SCR_{t-1}	Is the side constraint revenue for year t-1, calculated as the sum of the products of prices charged for year t-1 and forecast quantities for year t, calculated as per formula 4 above.
ΔCPI_t	Is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from the December quarter in year t-2 to the December quarter in year t-1, calculated using the following method: $$\frac{CPI_{t-1}}{CPI_{t-2}} - 1$$
X_t	Is the X factor for each year of the regulatory control period as determined in the post-tax revenue model, and annually revised for the return of debt update. If X>0, then X will be set equal to zero for the purposes of the side constraint formula.
2%	Is the additional threshold defined in the NER.
D_t	Is the adjustment made to the base threshold to create a common base, calculated as per formula 5 above.

AA_t	Is the annual percentage change in the sum of all annual adjustment factors (I, C, and B factors). This is calculated by dividing the total incremental revenues (the difference between the factors used in the total annual revenue formula for regulatory year t and t-1) by the expected revenues for year t-1 (SCR_{t-1}). This calculation is provided at formula 6 above.
Q_t	Is the adjustment made each year to account for changes in quantities from the preceding year. The Q factor calculation is provided at formula 7 above.
p_t^{ij}	Is the proposed price for component 'j' of tariff 'i' for year t.
q_t^{ij}	Is the forecast quantity for component 'j' of tariff 'i' for year t.
p_{t-1}^{ij}	Is the price charged for component 'j' of tariff 'i' for year t-1.
AAR_{t-1}	Is the adjusted annual revenue requirement for year t-1, as used in the revenue cap price control formulae in the preceding and current years.
I_t	Is the sum of incentive scheme adjustments in year t.
C_t	Is the sum of approved cost pass through amounts (positive or negative) in year t, as determined by the AER. It will also include any end-of-period adjustments to be made in year t.
B_t	Is the sum of annual adjustment factors for year t. It includes adjustments to balance the unders/overs account, relating to previous under/over-recoveries of revenue.
I_{t-1}	Is the sum of incentive scheme adjustments in year t-1. This is as per the approved t-1 pricing proposal.
C_{t-1}	Is the sum of approved cost pass through amounts (positive or negative) in year t-1, as determined by the AER. This is as per the approved t-1 pricing proposal.
B_{t-1}	Is the sum of annual adjustment factors for year t. It includes adjustments to balance the unders/overs account, relating to previous under/over-recoveries of revenue. This is as per the approved t-1 pricing proposal. For the avoidance of doubt, the B factor for t-1 should be equal to that used to calculate t-1 revenue in the previous pricing proposal and should not be updated for movements in the unders/overs accounts in the year t pricing proposal.
TAR_{t-1}	Is the total allowable revenue for year t-1, calculated using the revenue cap control formula in the preceding year.
t	Is the forecast regulatory year.

6 NER requirements

The NER states that side constraints only apply to tariff classes related to the electricity distributors provision of standard control services.[12] The side constraints are defined as:[13]

> *The expected weighted average to be raised from a tariff class for a particular regulatory year of a regulatory control period must not exceed the corresponding expected weighted average revenue for the preceding regulatory year in that regulatory control period by more than the permissible percentage.*

The NER defines the permissible percentage as the greater of:[14]

- *The CPI-X limitation on any increase in the Distribution Network Service Provider's expected weighted average revenue between the two regulatory years plus 2% (calculated in the form of (1+CPI)(1-X)(1+2%));*
- *CPI plus 2% (calculated in the form of (1+CPI)(1+2%)).*

The NER also states that:[15]

> *In deciding whether the permissible percentage has been exceeded in a particular regulatory year; the following are to be disregarded:*
>
> - *The recovery of revenue to accommodate a variation to the distribution determination under rule 6.6 or 6.13;*
> - *The recovery of revenue to accommodate pass through of designated pricing proposal charges to retail customers;*
> - *The recovery of revenue to accommodate pass through of jurisdictional scheme amounts for approved jurisdictional schemes.*

Variations to the distribution determination (NER clauses 6.6 and 6.13) relate to "adjustments after making of building block determination"[16] and "revocation and substitution of distribution determination for wrong information or error".[17] Adjustments made after the building block determination include cost pass throughs, service target performance incentive scheme, demand management incentive schemes and innovation allowance mechanisms, small-scale incentive schemes, and reopening of distribution determinations for capital expenditure.

For practical reasons, the side constraint mechanism in our distribution determinations adjust the permissible percentage by the annual movement in such adjustments to remove (disregard) their impact for determining compliance with the side constraints.

---

12 NER, cl. 6.18.6(a).

13 NER, cl. 6.18.6(b).

14 NER, cl. 6.18.6(c).

15 NER, cl. 6.18.6(d).

16 NER, cl. 6.6.

17 NER, cl. 6.13.