Attachments 11- Ausgrid’s pass through application

Ernst & Young review of Ausgrid’s costs

August 2015

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Building a better working world

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21 August 2015

Cost pass through application– April 2015 storm

Dear Aaron

In accordance with our engagement letter with Ausgrid ("you" or "your") of 07 August 2015, Ernst & Young ("we" or "EY") have performed procedures for Ausgrid regarding the review of costs and assumptions included in the 'Cost pass through application – April 2015 storm'.

We have performed the following procedures as determined by you:

- Verify the accounting processes (including cost allocation) used to capture and report the storm costs are consistent with the Ausgrid Cost Allocation Methodology (CAM) as approved by the Australian Energy Regulator (AER);
- Verify that the data had been extracted from the Ausgrid financial system and does not contain estimates from sources which cannot be verified;
- Review a sample of costs to ensure that there is a causal link between the April 2015 storm event and the cost captured;
- Review the way Ausgrid captures these costs to ensure the system has properly captured costs attributed to the storm; and
- Confirm that the costs are attributable to the April 2015 storm event.

Please find attached our report containing our observations and findings arising from the procedures performed.

Please feel free to contact Peter Graham on 8295 6260 or Matt Short on 9248 5540 if you have any further questions.

Kind Regards

PGraham

Peter Graham
Partner

1. Executive Summary

Our observations and findings arising from the procedures requested by Ausgrid are summarised as follows:

- EY obtained a copy of the 'Cost pass through application – April 2015 storm'. The application was prepared by Ausgrid, pursuant to clause 6.6.1(a) of the National Electricity Rules (NER), to seek approval from the AER to pass through the additional costs incurred in the 2014-2015 regulatory year (also known as the transitional regulatory control period) from providing distribution services to remedy the damage done to Ausgrid's distribution network from the severe weather conditions caused by the East Coast Low in April 2015 (April storms). Ausgrid incurred $39.8 million in additional costs as a result of the April storms. Ausgrid considers the cost incurred a positive pass through amount based on the following, as outlined in the 'Cost pass through application – April 2015 storm':

    - the storm meets the relevant requirements to qualify as a 'general nominated pass through event' outlined in clause 6.6.1.(a1) of the NER;
    - the costs incurred as a result of the storm satisfy the materiality requirement in the NER, defined in chapter 10, for the pass through event to be a positive change event; and
    - the application addresses the requirements outlined in clause 6.6.1(c) of the NER and has been submitted within the requisite 90 business days timeframe for making a pass through application.

    We have included in *Appendix A* the referenced chapters of the National Electricity Rules.

- Specifically relating to the procedures performed on the 'Cost pass through application – April 2015 storm':

    - We obtained a copy of Ausgrid's approved CAM, dated November 2013,, and the 'Cost pass through application – April 2015 storm'. Based upon discussion with you and review of the 'Cost pass through application – April 2015 storm' and supporting calculations, we verified the accounting processes used to capture and report the storm costs are consistent with Ausgrid's CAM;
    - We verified that the costs included in the 'Cost pass through application – April 2015 storm' were extracted from the Ausgrid financial system (SAP) and did not contain estimates from sources which could not be verified;
    - We reviewed a representative sample of costs, noting there was a causal link between the April 2015 storm event and the cost being captured in the Ausgrid's financial system;
    - We reviewed the way Ausgrid captures costs included in the 'Cost pass through application – April 2015 storm' to ensure the system has properly captured costs attributed to the storm; and
    - Lastly, based upon the procedures performed, agreement to Ausgrid's financial system and sample testing, the costs reviewed were found to be directly attributable or attributable via the direct allocation of labour and non-labour costs to the April 2015 storm.

2. Background

Ausgrid is a New South Wales (NSW) State Owned Corporation (SOC) established under the Energy Services Corporations Act 1995 and the State Owned Corporations Act 1989. Ausgrid's main activities are the safe ownership and management of its electricity network.

Ausgrid's electricity network covers 22,275 square kilometers from Waterfall in Sydney's south, to Auburn in western Sydney and the upper Hunter Valley in the north. Ausgrid supplies electricity to more than 1.6 million customers in Sydney, the Central Coast and the Hunter Region in NSW.

April East Coast Low

Over a period of several days, Ausgrid's network area was hit with intense storms characterised by heavy rainfall and gale force winds, with gusts reaching the equivalent of category 2 cyclone strength at their peak. These conditions resulted in flooding, fallen trees and poles, and significant damage to overhead power lines causing widespread power outages throughout Ausgrid's network.

The restoration effort undertaken by Ausgrid in response to the storms had a material impact on its costs of providing direct control services, sub-classification standard control services. Ausgrid incurred $39.8 million in additional costs as a result of the April storms. Of the $39.8 million in expenditure that was incurred, $5.3 million related to capital expenditure and $34.4 million in operating expenditure.

- The $5.3 million in capital expenditure incurred related to replacing network assets damaged by the storm, including poles replaced on Ausgrid's sub-transmission, high voltage and low voltage networks; the replacement of pole top transformers and kiosks; conductors; and hundreds of spans of ABC service wires.
- The $34.4 million in operating expenditure related to the following:
    - Cost of responding to calls to emergency numbers, customers enquiries on facebook and twitter as well as communication to various stakeholders (e.g. Government);
    - Costs of repairing the distribution network to ensure supply is restored as safe and as quick as possible. This includes internal labour costs, associated plant and equipment expenses, materials and travel and accommodation;
    - Costs payable to other DNSPs (Endeavour Energy, Essential Energy and Energex) and some contracted services providers (UGL and Zinfra) who assisted Ausgrid in the storm recovery effort;
    - Cost incurred in clearing trees and branches fallen due to the storms and impacting on the operation of the network; and
    - Other costs incurred in directly supporting the storm recovery effort such as System Control operation and support costs from Network Services, Safety and Environment divisions.

Given the nature of the event and magnitude of the cost impacts, Ausgrid considers it appropriate for these additional costs to be recovered via the cost pass through provisions set out in chapter 6.6.1 of the NER, included in *Appendix A*.

3. Costing Methodology

See 'Section 6. Cost Allocation Policies and Procedures' of Ausgrid's approved CAM, dated November 2013, for a detailed overview of the cost hierarchy and cost disaggregation process for Ausgrid.

We have included in *Appendix B* a copy of Ausgrid's approved CAM, dated November 2013.

4. Claim Preparation

Ausgrid utilised a comprehensive costing hierarchy in determining the costs to include in the 'Cost pass through application – April 2015 storm', consistent with 'Section 6. Cost Allocation Policies and Procedures' of Ausgrid's CAM.

A. Costs relating to the April 2015 storm were captured in Ausgrid's financial management reporting system, SAP. Ausgrid used cost elements and cost objects in SAP to segregate costs relating to the April 2015 storm.

- Cost elements were used to track the nature of the specific costs incurred. Cost elements capture cost categories, such as labour, materials, contracted services and other. These cost categories are common to both operating and capital expenditure.

  - Labour – Labour and labour related costs include costs associated with Ausgrid's internal resources. Total labour costs for employees include normal and overtime salaries and wages, associated payroll on-costs and employee / industry allowances. Labour costs were attributed to cost objects by way of labour rates calculated for each employee based on individual salary and are inclusive of labour on-costs.

  - Materials – Material costs included stock items distributed through Ausgrid's centralised warehouse and specific purchases of irregular or low turnover items such as specialised transformers and minor plant and equipment/tools. The associated expenditure was attributed to the relevant cost object based on the invoiced amount.

  - Contracted Services – Include costs relating to the external provision of consultancy services, contracted labour, capital construction, maintenance services, legal services and other professional services. Costs relating to services provided by external parties were treated similarly to materials in that they are attributed to the relevant cost object as incurred.

  - Other non-labour related costs – Generally, other non-labour related costs include items such as vehicle costs, plant and equipment hire and travel and accommodation expenditure. Costs were allocated to project specific cost objects via the use of non-labour costing rates. Each operational cost centre has a labour and non-labour costing rate. When an employee from an operational cost centre charges time to a project specific cost object, such as one relating to the April 2015 storm, the cost object incurs labour and non-labour costs based on the application of the costing rates associated with the employee's cost centre. The driver for the application of the costing rates is direct labour dollars.

- Costs objects were used to aggregate transactions in SAP, thus allowing Ausgrid to capture costs by the nature and source of the expenditure incurred. Attributes assigned to project specific cost objects when set up in SAP defined the following important characteristics of the costs incurred:
  - Whether the costs are related to operating expenditure or capital expenditure;
  - If related to operating expenditure, whether the costs relate to external, recoverable, contestable or operations works;
  - If related to capital expenditure, whether the costs relate to system assets or non-system assets; and
  - The nature of the expenditure incurred and the source of the expenditure.

In quantifying the impact of the April 2015 storm event, costs were captured utilising cost object types Plant Maintenance 04 (PM04) and Internal Orders. Within cost object types PM04 and the specific Internal Orders, Ausgrid utilised approximately 150 cost objects to record costs specific to the April 2015 storm. When these costs objects were created, various attributes were assigned. These attributes were used by Ausgrid to identify the nature of the expenditure incurred, the type of service provided, and the type of asset created (for capital expenditure).

B. Using costs elements and cost objects, costs were then bifurcated between operating expenditure or capital expenditure based on the type of work undertaken. The distinction between operating expenditure and capital expenditure was based on the requirements outlined in Ausgrid's Statement of Accounting Treatment.

"the cost of repairing a damaged asset to the same standard as was the case prior to the damage occurred is treated as an operating expenditure. Where an asset is rebuilt to a significantly higher standard than was the case prior to the damage occurring, i.e. where the service potential or useful life of the asset is increased, the cost of the repair work was treated as capital expenditure or where destroyed assets are replaced by new assets, the cost of the new assets is treated as capital expenditure and the destroyed assets written off and retired from the fixed assets system.

Note that it is <u>not</u> the severity of the natural disaster/storm, nor the fact that the work done to restore supply during such times is temporary (to be made permanent at a later date) or permanent, that determines whether the costs are capitalised. It is the nature of the work done and whether the service potential or useful life of the asset has changed."

C. Costs included in the 'Cost pass through application – April 2015 storm':

- Operating expenditure – Once identified as operating expenditures, items were further identified as either external, recoverable, contestable or operations works. Costs incurred for external, recoverable and contestable works are directly attributed to unregulated services and excluded from the claim. Costs incurred for operations work were directly attributed to, or allocated between, standard control services, alternative control services and/or unregulated services respectively. Only costs incurred for operations work, standard control services have been included in the claim. Costs relating to Alternative control Services and Unregulated services have been excluded from the claim.

- Capital expenditure – Once identified as capital expenditure, items were identified as either relating to system assets or non-system assets. Costs incurred for system assets are directly attributed to either standard control services or alternative control services. Costs incurred for non-system assets are either directly attributed to, or allocated between, standard control services, alternative control services and/or unregulated services respectively. Only costs relating to standard control services system assets have been included in the claim.

5. Procedures Performed

Procedures Performed	Factual Findings	Errors or Exceptions Identified
1. Verify the accounting processes (including cost allocation) used to capture and report the storm costs are consistent with the Ausgrid Cost Allocation Methodology as approved by the AER	We obtained from management the approved Cost Allocation Methodology (CAM), dated November 2013. We noted that 'Section 6. Cost Allocation Policies and Procedures' of the CAM provides a detailed outline of the cost hierarchy and cost disaggregation process for Ausgrid. Additionally, we obtained the 'Cost pass through application – April 2015 storm' and supporting costs calculations from management. Based upon discussion with management and review of the costs build up included in the claim, the processes used to capture and report costs appears to be consistent with the CAM. For additional discussion relating to the preparation of claim amounts, see *section 4 – Claim Preparation*.	None.
2. Verify that the data has been extracted from the Ausgrid's financial system and does not contain estimates from sources which cannot be verified	We obtained from management the 'Cost pass through application – April 2015 storm' and supporting costs calculations. The underlying support for amounts included in the claim included a detailed report with a list of all cost objects related to the April 2015 Storm. We performed a walkthrough in SAP (Ausgrid's financial system) with Senior Commercial Analysts and confirmed that the data was extracted from the financial system and not from sources that could not be verified. The extracted report from SAP agreed to the total claim amount of $39.8 million. NOTE: See procedure 3 below, which outlines detailed sample testing of items included in the claim. The detail testing included agreement to Ausgrid's financial system and underlying invoice support.	None.
3. Review a sample of costs to ensure that there is a causal link between the April 2015 storm event and the cost being captured	We obtained from management the 'Cost pass through application – April 2015 storm' and supporting costs calculations. As part of the supporting calculation, we obtained a report containing a list of all cost objects related to the April 2015 storm, agreeing the claim amount to sum of April 2015 storm cost objects. We noted there were a total of 150 cost objects used to track the April 2015 storm related costs, of which, we selected a sample of 12 objects, comprising $26.5 million of the total claim.	None

Procedures Performed	Factual Findings	Errors or Exceptions Identified
	For each object selected, we obtained a detailed listing of transactions comprising the object, agreeing the sum of transaction detail to the object total. We then sub-selected 29 individual transactions for detailed review of amounts, nature, and source of the expenditure. For items selected for detailed review, we obtained supporting documents from the Senior Commercial Analyst, verifying the amount, nature and source of expenditure. For each item selected we were satisfied that a causal link existed between the April 2015 storm event and the cost being captured.	
4. Review the way Ausgrid captures these costs to ensure the system has properly captured costs attributed to the storm.	We obtained from management the 'Cost pass through application – April 2015 storm' and supporting costs calculations. As part of the supporting calculations, we obtained a report from Ausgrid with a list of all cost objects related to the April 2015 storm. We observed that the total amount of all cost objects agreed to the 'Cost Pass through application – April 2015' of $39.8 million. We noted $38.2m of the cost objects were categorised under PM04 (category of cost object related to plant maintenance work orders for nature induced activities). Plant maintenance work orders collect costs related to system maintenance and service processing. We noted $1.6m of the cost objects were categorised under Internal Order (category of cost cbject related to operating expenditure). In our sampling we noted that these costs were attributed to standard control services and were attributed to the April 2015 storm.	None
5. Confirm that the costs are attributable to the April 2015 storm event	Based upon the procedures performed above, agreement to Ausgrid's financial system and sample testing, the costs reviewed were found to be directly attributable or attributable via the direct allocation of labour and non-labour costs to the April 2015 storm.	None

6. Caveats and limitations

Management is responsible for the adequacy or otherwise of the procedures agreed to be performed by us. You are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the subject matter. Our responsibility is to report factual findings obtained from conducting the procedures agreed. Because the procedures do not constitute either a reasonable or limited assurance engagement in accordance with Standards issued by the Auditing and Assurance Standards Board, we do not express any conclusion and provide no assurance with respect to Ausgrid's financial claim.

The factual findings made in this letter are based solely on the information presented to us as summarised in this letter. We have not performed audit or review procedures on the transactions or balances underlying the issues described in this letter. Our engagement was not intended to be an assurance engagement, and we are unable to and do not express an opinion or make a statement about the underlying transactions or balances. Had we performed additional procedures or had we performed an audit or review in accordance with Australian Auditing Standards, other matters might have come to our attention that would have been reported to you.

This letter has been prepared for the information and sole internal use of Ausgrid. We consent to Ausgrid providing this report to the AER. This letter should not be provided to any other party without our prior knowledge and consent, unless required by court order or regulatory authority. This letter may not be used for any purposes other than those specified herein, nor may extracts or quotations be made without our expressed prior approval. We disclaim any assumption of responsibility for any reliance on this letter to any party other than Ausgrid or for any purpose other than that for which it was prepared.

This letter has been provided in accordance with our letter of engagement and all of the terms set out in that letter of engagement also apply to this letter.

Appendix A

National Electricity Rules

6.6.1 Cost pass through

(a1) Any of the following is a *pass through event* for a distribution determination:
(1) a *regulatory change event*;
(2) a *service standard event*;
(3) a *tax change event*;
(4) a *retailer insolvency event*; and
(5) any other event specified in a distribution determination as a *pass through event* for the determination.

(a) If a *positive change event* occurs, a *Distribution Network Service Provider* may seek the approval of the *AER* to pass through to *Distribution Network Users* a *positive pass through amount*.

(b) If a *negative change event* occurs, the *AER* may require the *Distribution Network Service Provider* to pass through to *Distribution Network Users* a *negative pass through amount* as determined by the *AER* under paragraph (g).

Positive pass through

To be able to access the pass through approval process, a DNSP must submit a written statement to the AER within 90 business days of the relevant positive change event occurring. This statement must address the matters outlined in clause 6.6.1(c), namely:

1) The details of the positive change event.
2) The date on which the positive change event occurred.
3) The eligible pass through amount in respect of the positive change event.
4) The positive pass through amount Ausgrid is proposing in relation to the positive change event.
5) The amount of the positive pass through amount that Ausgrid proposes should be passed through to Distribution Network Users in the regulatory year in which, and each regulatory year after that in which, the positive change event occurred.
6) Evidence: [1]
   i. of the actual and likely increase in costs referred to in clause 6.6.1(c)(3) of the Rules;
   ii. that such costs occur solely as a consequence of the positive change event.
7) Such other information as may be required under any relevant regulatory information instrument.

Positive change event

A positive change event is defined by Chapter 10 of the NER as:

> *... a pass through event which entails the Distribution Network Service Provider incurring materially higher costs in providing direct control services than it would have incurred but for the event, but does not include a contingent project or an associated trigger event.*

[1] We have not recited clause 6.6.1(c)(6)(iii) as it relates to a retailer insolvency event and hence is not applicable. Also note that we have used version 72 of the NER (as relevantly amended).

Materiality

Materiality is defined under Chapter 10 of the NER as:

> *For the purposes of the application of clause 6.6.1, an event resulting in a Distribution Network Service Provider incurring materially higher or materially lower costs if the change in costs (as opposed to the revenue impact) that the Distribution Network Service Provider has incurred and is likely to incur as any regulatory year of a regulatory control period, as a result of that event, exceeds 1 % of the annual revenue requirement for the Distribution Network Service Provider for that regulatory year.*

National Electricity Rules- Chapter 6

PDF

National-Electricity-Rules-Version-72.pdf

Appendix B

Cost Allocation Methodology – Approved November 2013

Ausgrids Cost
Allocation MethodNov

CHAPTER 6

6 Economic Regulation of Distribution Services

Part A Introduction

6.1 Introduction to Chapter 6

6.1.1 AER's regulatory responsibility

The *AER* is responsible, in accordance with this Chapter, for the economic regulation of *distribution services* provided by means of, or in connection with, *distribution systems* that form part of the *national grid*.

6.1.1A [Deleted]

6.1.2 Structure of this Chapter

(a) This Chapter deals with the classification and economic regulation of *distribution services*.

(b) It is divided into parts as follows:

(1) this Part is introductory;

(2) Part B confers power on the *AER* to classify *distribution services*, to determine the forms of control for *distribution services*, and to make distribution determinations;

(3) Part C sets out the building block approach to the regulation of services classified as *standard control services*;

(4) Part D regulates the prices that may be charged by *Distribution Network Service Providers* for the provision of services classified as *negotiated distribution services*;

(4A) Part DA deals with the preparation of, requirements for and approval of, *connection policies*;

(5) Part E sets out the procedure and approach for the making of a distribution determination;

(6) Part F regulates cost allocation;

(7) Part G contains the distribution consultation procedures;

(8) Part H deals with ring-fencing;

(9) Part I deals with *tariff classes* and tariffs;

(10) Part J deals with billing and settlements;

(11) Part K deals with prudential requirements, prepayments and capital contributions;

(12) Part L deals with dispute resolution;

(13) Part M deals with the disclosure of transmission and distribution charges;

(14) Part N provides for services provided by, or in connection with, *dual function assets* to be the subject of distribution determinations; and

(15) Part O sets out the requirements to prepare *annual benchmarking reports*.

6.1.3 Access to direct control services and negotiated distribution services

(a) Subject to and in accordance with the *Rules*:

(1) a person (a ***Service Applicant***) may apply to a *Distribution Network Service Provider* for provision of *direct control services* or *negotiated distribution services*;

(2) a *Distribution Network Service Provider* must provide *direct control services* or *negotiated distribution services* (as the case may be) on *terms and conditions of access* as determined under Chapters 4, 5, this Chapter 6 and Chapter 7 of the Rules.

(b) The *terms and conditions of access* are:

(1) in relation to *negotiated distribution services*:

(i) the price of those services (including, if relevant, *access charges*); and

(ii) other terms and conditions for the provision of those services;

(2) in relation to *direct control services*:

(i) the price of those services under the *approved pricing proposal*; and

(ii) other terms and conditions for the provision of those services.

6.1.4 Prohibition of DUOS charges for the export of energy

(a) A *Distribution Network Service Provider* must not charge a *Distribution Network User distribution use of system* charges for the export of electricity generated by the user into the *distribution network*.

(b) This does not, however, preclude charges for the provision of *connection services*.

Part B Classification of Distribution Services and Distribution Determinations

6.2 Classification

6.2.1 Classification of distribution services

(a) The *AER* may classify a *distribution service* to be provided by a *Distribution Network Service Provider* as:

(1) a *direct control service*; or

(2) a *negotiated distribution service*.

Note

If the *AER* decides against classifying a *distribution service*, the service is, subject to Chapter 5A, not regulated under the *Rules*.

(b) The *AER* may group *distribution services* together for the purpose of classification and, if it does so, a single classification made for the group applies to each service comprised in the group as if it had been separately classified.

(c) The *AER* must, in classifying a *distribution service* or *distribution services*, have regard to:

(1) the form of regulation factors; and

(2) the form of regulation (if any) previously applicable to the relevant service or services and, in particular, any previous classification under the present system of classification or under the previous regulatory system (as the case requires); and

(3) the desirability of consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction); and

(4) any other relevant factor.

(d) In classifying *distribution services* that have previously been subject to regulation under the present or earlier legislation, the *AER* must act on the basis that, unless a different classification is clearly more appropriate:

(1) there should be no departure from a previous classification (if the services have been previously classified); and

(2) if there has been no previous classification – the classification should be consistent with the previously applicable regulatory approach.

(e) If the *Rules*, however, require that a particular classification be assigned to a *distribution service* of a specified kind, a *distribution service* of the relevant kind is to be classified in accordance with that requirement.

6.2.2 Classification of direct control services as standard control services or alternative control services

(a) *Direct control services* are to be further divided into 2 subclasses:

(1) *standard control services*; and

(2) *alternative control services*.

(b) The *AER* may group *direct control services* together for the purpose of classification and, if it does so, a single classification made for the group applies to each service comprised in the group as if it had been separately classified.

(c) The *AER* must, in classifying a *direct control service* as a *standard control service* or an *alternative control service*, have regard to:

(1) the potential for development of competition in the relevant market and how the classification might influence that potential; and

(2) the possible effects of the classification on administrative costs of the *AER*, the *Distribution Network Service Provider* and users or potential users; and

(3) the regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made; and

(4) the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction); and

(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided; and

Example:

In circumstances where a service is provided to a small number of identifiable customers on a discretionary or infrequent basis, and costs can be directly attributed to those customers, it may be more appropriate to classify the service as an alternative control service than as a standard control service.

(6) any other relevant factor.

(d) In classifying *direct control services* that have previously been subject to regulation under the present or earlier legislation, the *AER* must act on the basis that, unless a different classification is clearly more appropriate:

(1) there should be no departure from a previous classification (if the services have been previously classified); and

(2) if there has been no previous classification – the classification should be consistent with the previously applicable regulatory approach.

(e) If the *Rules*, however, require that a *direct control service* of a specified kind be classified either as a *standard control service* or as an *alternative control service*, a *direct control service* of the relevant kind is to be classified in accordance with that requirement.

6.2.3 Term for which classification operates

A classification forms part of a distribution determination and operates for the *regulatory control period* for which the distribution determination is made.

Note:

The classification is to be reviewed in the course of the making of the next distribution determination, and (subject to these Rules) a reclassification may be made for the purposes of that determination.

6.2.4 Duty of AER to make distribution determinations

(a) The *AER* must make a distribution determination for each *Distribution Network Service Provider*.

(b) When the *AER* makes a distribution determination it must follow the process set out in Part E.

(c) If more than one *distribution system* is owned, controlled or operated by a *Distribution Network Service Provider*, then, unless the *AER* otherwise determines, a separate distribution determination is to be made for each *distribution system*.

(d) If 2 or more parts of the same *distribution system* were separately regulated at the commencement of this Chapter, then, unless the *AER* otherwise determines, a separate distribution determination is to be made for each of those parts of the *distribution system*.

6.2.5 Control mechanisms for direct control services

(a) A distribution determination is to impose controls over the prices of *direct control services*, the revenue to be derived from *direct control services* or both.

(b) The control mechanism may consist of:

(1) a schedule of fixed prices;

(2) caps on the prices of individual services;

(3) caps on the revenue to be derived from a particular combination of services;

(4) tariff basket price control;

(5) revenue yield control; or

(6) a combination of any of the above.

(c) In deciding on a control mechanism for *standard control services*, the *AER* must have regard to:

(1) the need for efficient tariff structures; and

(2) the possible effects of the control mechanism on administrative costs of the *AER*, the *Distribution Network Service Provider* and users or potential users; and

(3) the regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the distribution determination; and

(4) the desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and

(5) any other relevant factor.

(d) In deciding on a control mechanism for *alternative control services*, the *AER* must have regard to:

(1) the potential for development of competition in the relevant market and how the control mechanism might influence that potential; and

(2) the possible effects of the control mechanism on administrative costs of the *AER*, the *Distribution Network Service Provider* and users or potential users; and

(3) the regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the distribution determination; and

(4) the desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and

(5) any other relevant factor.

6.2.6 Basis of control mechanisms for direct control services

(a) For *standard control services*, the control mechanism must be of the prospective CPI minus X form, or some incentive-based variant of the prospective CPI minus X form, in accordance with Part C.

(b) For *alternative control services*, the control mechanism must have a basis stated in the distribution determination.

(c) The control mechanism for *alternative control services* may (but need not) utilise elements of Part C (with or without modification).

Examples:

The control mechanism might be based on the building block approach.

The distribution determination might provide for the application of clause 6.6.1 to pass through events with necessary adaptations and specified modifications.

6.2.7 Negotiated distribution services

Negotiated distribution services are regulated in accordance with Part D.

6.2.8 Guidelines

(a) The *AER*:

(1) must make and *publish* the *Shared Asset Guidelines*, the *Capital Expenditure Incentive Guidelines*, the *Rate of Return Guidelines*, the *Expenditure Forecast Assessment Guidelines*, the *Distribution Confidentiality Guidelines* and the *Cost Allocation Guidelines* in accordance with these *Rules*; and

(2) may, in accordance with the *distribution consultation procedures*, make and *publish* guidelines as to any other matters relevant to this Chapter.

(b) A guideline may relate to a specified *Distribution Network Service Provider* or *Distribution Network Service Providers* of a specified class.

(c) Except as otherwise provided in this Chapter, a guideline is not mandatory (and so does not bind the *AER* or anyone else) but, if the *AER* makes a distribution determination that is not in accordance with the guideline, the *AER* must state, in its reasons for the distribution determination, the reasons for departing from the guideline.

(d) If a guideline indicates that there may be a change of regulatory approach in future distribution determinations, the guideline should also (if practicable) indicate how transitional issues are to be dealt with.

(e) Subject to paragraph (f), the *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace a guideline.

(f) The *AER* may make administrative or minor amendments to any guideline without complying with the *distribution consultation procedures*.

(g) This clause 6.2.8 does not apply to the *Distribution Ring-Fencing Guidelines*.

Part C Building Block Determinations for standard control services

6.3 Building block determinations

6.3.1 Introduction

(a) A *building block determination* is a component of a distribution determination.

(b) The procedure and approach for the making of a *building block determination* is contained in Part E of this Chapter and involves the submission of a *building block proposal* to the *AER* by the *Distribution Network Service Provider*.

(c) The *building block proposal*:

(1) must be prepared in accordance with the *post-tax revenue model* and other relevant requirements of this Part;

(2) must comply with the requirements of, and must contain or be accompanied by the information required by, any relevant *regulatory information instrument*; and

(3) must be prepared in accordance with Schedule 6.1.

6.3.2 Contents of building block determination

(a) A *building block determination* for a *Distribution Network Service Provider* is to specify, for a *regulatory control period*, the following matters:

(1) the *Distribution Network Service Provider's annual revenue requirement* for each *regulatory year* of the *regulatory control period*;

(2) appropriate methods for the indexation of the regulatory asset base;

(3) how any applicable *efficiency benefit sharing scheme*, *capital expenditure sharing scheme*, *service target performance incentive scheme*, *demand management and embedded generation connection incentive scheme* or *small-scale incentive scheme* is to apply to the *Distribution Network Service Provider*;

(4) the commencement and length of the *regulatory control period*; and

(5) any other amounts, values or inputs on which the *building block determination* is based (differentiating between those contained in, or inferred from, the *Distribution Network Service Provider's building block proposal* and those based on the *AER's* own estimates or assumptions).

(b) A *regulatory control period* must be not less than 5 *regulatory years*.

6.4 Post-tax revenue model

6.4.1 Preparation, publication and amendment of post-tax revenue model

(a) The *AER* must, in accordance with the *distribution consultation procedures*, prepare and *publish* a *post-tax revenue model*.

(b) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace the *post-tax revenue model*.

(c) The *AER* must develop and *publish* the first *post-tax revenue model* within 6 months after the commencement of this clause and there must be such a model in force at all times after that date.

6.4.2 Contents of post-tax revenue model

(a) The *post-tax revenue model* must set out the manner in which the *Distribution Network Service Provider's annual revenue requirement* for each *regulatory year* of a *regulatory control period* is to be calculated.

(b) The contents of the *post-tax revenue model* must include (but are not limited to):

(1) a method that the *AER* determines is likely to result in the best estimates of expected inflation; and

(2) the timing assumptions and associated discount rates that are to apply in relation to the calculation of the building blocks referred to in clause 6.4.3; and

(3) the manner in which working capital is to be treated; and

(4) the manner in which the estimated cost of corporate income tax is to be calculated.

6.4.3 Building block approach

(a) **Building blocks generally**

The *annual revenue requirement* for a *Distribution Network Service Provider* for each *regulatory year* of a *regulatory control period* must be determined using a building block approach, under which the building blocks are:

(1) indexation of the regulatory asset base – see paragraph (b)(1);

(2) a return on capital for that year – see paragraph (b)(2);

(3) the depreciation for that year – see paragraph (b)(3);

(4) the estimated cost of corporate income tax of the *Distribution Network Service Provider* for that year – see paragraph (b)(4);

(5) the revenue increments or decrements (if any) for that year arising from the application of any *efficiency benefit sharing scheme*, *capital expenditure sharing scheme*, *service target performance incentive scheme*, *demand management and embedded generation connection incentive scheme* or *small-scale incentive scheme* – see subparagraph (b)(5);

(6) the other revenue increments or decrements (if any) for that year arising from the application of a control mechanism in the previous *regulatory control period* – see paragraph (b)(6);

(6A) the revenue decrements (if any) for that year arising from the use of assets that provide *standard control services* to provide certain other services – see subparagraph (b)(6A); and

(7) the forecast operating expenditure for that year – see paragraph (b)(7).

(b) **Details of the building blocks**

For the purposes of paragraph (a):

(1) for indexation of the regulatory asset base:

(i) the regulatory asset base is calculated in accordance with clause 6.5.1 and schedule 6.2; and

(ii) the building block comprises a negative adjustment equal to the amount referred to in clause S6.2.3(c)(4) for that year; and

(2) the return on capital is calculated in accordance with clause 6.5.2;

(3) the depreciation is calculated in accordance with clause 6.5.5;

(4) the estimated cost of corporate income tax is determined in accordance with clause 6.5.3;

(5) the revenue increments or decrements referred to in subparagraph (a)(5) are those that arise as a result of the operation of an applicable *efficiency benefit sharing scheme*, *capital expenditure sharing scheme*, *service target performance incentive scheme*, *demand management and embedded generation connection incentive scheme* or *small-scale incentive scheme* as referred to in clauses 6.5.8, 6.5.8A, 6.6.2, 6.6.3 and 6.6.4;

(6) the other revenue increments or decrements referred to in paragraph (a)(6) are those that are to be carried forward to the current *regulatory control period* as a result of the application of a control mechanism in the previous *regulatory control period* and are apportioned to the relevant year under the distribution determination for the current *regulatory control period*;

(6A) the revenue decrements (if any) referred to in paragraph (a)(6A) are those that are determined by the *AER* under clause 6.4.4 as a result of assets that provide *standard control services* being used to provide:

(i) *distribution services* that are not classified under clause 6.2.1; or

(ii) services that are neither *distribution services* nor services that are provided by means of, or in connection with, *dual function assets*; and

(7) the forecast operating expenditure for the year is the forecast operating expenditure as accepted or substituted by the *AER* in accordance with clause 6.5.6.

6.4.4 Shared assets

(a) Where an asset is used to provide both *standard control services* and either:

(1) *distribution services* that are not classified under clause 6.2.1; or

(2) services that are neither:

(i) *distribution services*; nor

(ii) services that are provided by means of, or in connection with, *dual function assets* that are owned, operated or controlled by the *Distribution Network Service Provider*,

the *AER* may, in a distribution determination for a *regulatory control period*, reduce the *annual revenue requirement* for that *Distribution Network Service Provider* for a *regulatory year* in that *regulatory control period* by such amount as it considers reasonable to reflect such part of the costs of that asset as the *Distribution Network Service Provider* is recovering through charging for the provision of a service referred to in subparagraph (1) or (2).

(b) In making a decision under paragraph (a), the *AER* must have regard to the *shared asset principles* and the *Shared Asset Guidelines*.

(c) The *shared asset principles* are as follows:

(1) the *Distribution Network Service Provider* should be encouraged to use assets that provide *standard control services* for the provision of other kinds of services where that use is efficient and does not materially prejudice the provision of those services;

(2) a shared asset cost reduction should not be dependent on the *Distribution Network Service Provider* deriving a positive commercial outcome from the use of the asset other than for *standard control services*;

(3) a shared asset cost reduction should be applied where the use of the asset other than for *standard control services* is material;

(4) regard should be had to the manner in which costs have been recovered or revenues reduced in respect of the relevant asset in the past and the reasons for adopting that manner of recovery or reduction;

(5) a shared asset cost reduction should be compatible with the *Cost Allocation Principles* and *Cost Allocation Method*; and

(6) any reduction effected under paragraph (a) should be compatible with other incentives provided under the *Rules*.

(d) The *AER* must, in accordance with the *distribution consultation procedures*, make and *publish* guidelines (the *Shared Asset Guidelines*) that set out the approach the *AER* proposes to take in applying the *shared asset principles* (which may include a methodology that the *AER* proposes to use to determine reductions for the purposes of paragraph (a)).

(e) There must be *Shared Asset Guidelines* in force at all times after the date on which the *AER* first *publishes* the *Shared Asset Guidelines* under these *Rules*.

6.4.5 Expenditure Forecast Assessment Guidelines

(a) The *AER* must, in accordance with the *distribution consultation procedures*, develop and *publish* guidelines (the *Expenditure Forecast Assessment Guidelines*) that specify the approach the *AER* proposes to use to assess the forecasts of operating expenditure and capital expenditure that form part of *Distribution Network Service Providers' regulatory proposals* and the information the *AER* requires for the purposes of that assessment.

(b) There must be *Expenditure Forecast Assessment Guidelines* in force at all times after the date on which the *AER* first *publishes* the *Expenditure Forecast Assessment Guidelines* under these *Rules*.

6.4A Capital expenditure incentive mechanisms

(a) The *capital expenditure incentive objective* is to ensure that, where the value of a regulatory asset base is subject to adjustment in accordance with the *Rules*, then the only capital expenditure that is included in an adjustment that increases the value of that regulatory asset base is capital expenditure that reasonably reflects the *capital expenditure criteria*.

(b) The *AER* must, in accordance with the *distribution consultation procedures*, make and *publish* guidelines (the *Capital Expenditure Incentive Guidelines*) that set out:

(1) any *capital expenditure sharing schemes* developed by the *AER* in accordance with clause 6.5.8A, and how the *AER* has taken into

account the *capital expenditure sharing scheme principles* in developing those schemes;

(2) the manner in which it proposes to make determinations under clause S6.2.2A(a) if the *overspending requirement* is satisfied;

(3) the manner in which it proposes to determine whether depreciation for establishing a regulatory asset base as at the commencement of a *regulatory control period* is to be based on actual or forecast capital expenditure;

(4) the manner in which it proposes to make determinations under clause S6.2.2A(i) if the *margin requirement* is satisfied; and

(5) the manner in which it proposes to make determinations under clause S6.2.2A(j) if the *capitalisation requirement* is satisfied; and

(6) how each scheme and proposal referred to in subparagraphs (1) to (5), and all of them taken together, are consistent with the *capital expenditure incentive objective*.

(c) There must be *Capital Expenditure Incentive Guidelines* in force at all times after the date on which the *AER* first *publishes* the *Capital Expenditure Incentive Guidelines* under these *Rules*.

6.5 Matters relevant to the making of building block determinations

6.5.1 Regulatory asset base

Nature of regulatory asset base

(a) The regulatory asset base for a *distribution system* owned, controlled or operated by a *Distribution Network Service Provider* is the value of those assets that are used by the *Distribution Network Service Provider* to provide *standard control services*, but only to the extent that they are used to provide such services.

Preparation, publication and amendment of model for rolling forward regulatory asset base

(b) The *AER* must, in accordance with the *distribution consultation procedures*, develop and *publish* a model for the roll forward of the regulatory asset base for *distribution systems*, referred to as the *roll forward model*.

(c) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace the *roll forward model*.

(d) The *AER* must develop and *publish* the first *roll forward model* within 6 months after the commencement of this clause, and there must be such a model available at all times after that date.

Contents of roll forward model

(e) The *roll forward model* must set out the method for determining the roll forward of the regulatory asset base for *distribution systems*:

(1) from the immediately preceding *regulatory control period* to the beginning of the first year of the subsequent *regulatory control period*, so as to establish the value of the regulatory asset base as at the beginning of the first *regulatory year* of that subsequent *regulatory control period*; and

(2) from one *regulatory year* in a *regulatory control period* to a subsequent *regulatory year* in that same *regulatory control period*, so as to establish the value of the regulatory asset base as at the beginning of that subsequent *regulatory year*;

under which:

(3) the roll forward of the regulatory asset base from the immediately preceding *regulatory control period* to the beginning of the first *regulatory year* of a subsequent *regulatory control period* entails the value of the first mentioned regulatory asset base being adjusted for actual inflation, consistently with the method used for the indexation of the control mechanism (or control mechanisms) for *standard control services* during the preceding *regulatory control period*.

Other provisions relating to regulatory asset base

(f) Other provisions relating to regulatory asset bases are set out in schedule 6.2.

6.5.2 Return on capital

Calculation of return on capital

(a) The return on capital for each *regulatory year* must be calculated by applying a rate of return for the relevant *Distribution Network Service Provider* for that *regulatory year* that is determined in accordance with this clause 6.5.2 (the *allowed rate of return*) to the value of the regulatory asset base for the relevant *distribution system* as at the beginning of that *regulatory year* (as established in accordance with clause 6.5.1 and schedule 6.2).

Allowed rate of return

(b) The *allowed rate of return* is to be determined such that it achieves the *allowed rate of return objective*.

(c) The *allowed rate of return objective* is that the rate of return for a *Distribution Network Service Provider* is to be commensurate with the efficient financing costs of a benchmark efficient entity with a similar degree of risk as that which applies to the *Distribution Network Service*

Provider in respect of the provision of *standard control services* (the *allowed rate of return objective*).

(d) Subject to paragraph (b), the *allowed rate of return* for a *regulatory year* must be:

(1) a weighted average of the return on equity for the *regulatory control period* in which that *regulatory year* occurs (as estimated under paragraph (f)) and the return on debt for that *regulatory year* (as estimated under paragraph (h)); and

(2) determined on a nominal vanilla basis that is consistent with the estimate of the value of imputation credits referred to in clause 6.5.3.

(e) In determining the *allowed rate of return*, regard must be had to:

(1) relevant estimation methods, financial models, market data and other evidence;

(2) the desirability of using an approach that leads to the consistent application of any estimates of financial parameters that are relevant to the estimates of, and that are common to, the return on equity and the return on debt; and

(3) any interrelationships between estimates of financial parameters that are relevant to the estimates of the return on equity and the return on debt.

Return on equity

(f) The return on equity for a *regulatory control period* must be estimated such that it contributes to the achievement of the *allowed rate of return objective*.

(g) In estimating the return on equity under paragraph (f), regard must be had to the prevailing conditions in the market for equity funds.

Return on debt

(h) The return on debt for a *regulatory year* must be estimated such that it contributes to the achievement of the *allowed rate of return objective*.

(i) The return on debt may be estimated using a methodology which results in either:

(1) the return on debt for each *regulatory year* in the *regulatory control period* being the same; or

(2) the return on debt (and consequently the *allowed rate of return*) being, or potentially being, different for different *regulatory years* in the *regulatory control period*.

(j) Subject to paragraph (h), the methodology adopted to estimate the return on debt may, without limitation, be designed to result in the return on debt reflecting:

(1) the return that would be required by debt investors in a benchmark efficient entity if it raised debt at the time or shortly before the making of the distribution determination for the *regulatory control period*;

(2) the average return that would have been required by debt investors in a benchmark efficient entity if it raised debt over an historical period prior to the commencement of a *regulatory year* in the *regulatory control period*; or

(3) some combination of the returns referred to in subparagraphs (1) and (2).

(k) In estimating the return on debt under paragraph (h), regard must be had to the following factors:

(1) the desirability of minimising any difference between the return on debt and the return on debt of a benchmark efficient entity referred to in the *allowed rate of return objective*;

(2) the interrelationship between the return on equity and the return on debt;

(3) the incentives that the return on debt may provide in relation to capital expenditure over the *regulatory control period*, including as to the timing of any capital expenditure; and

(4) any impacts (including in relation to the costs of servicing debt across *regulatory control periods*) on a benchmark efficient entity referred to in the *allowed rate of return objective* that could arise as a result of changing the methodology that is used to estimate the return on debt from one *regulatory control period* to the next.

(l) If the return on debt is to be estimated using a methodology of the type referred to in paragraph (i)(2) then a resulting change to the *Distribution Network Service Provider's annual revenue requirement* must be effected through the automatic application of a formula that is specified in the distribution determination.

Rate of Return Guidelines

(m) The *AER* must, in accordance with the *distribution consultation procedures*, make and *publish* guidelines (the *Rate of Return Guidelines*).

(n) The *Rate of Return Guidelines* must set out:

(1) the methodologies that the *AER* proposes to use in estimating the *allowed rate of return*, including how those methodologies are proposed to result in the determination of a return on equity and a

return on debt in a way that is consistent the *allowed rate of return objective*; and

(2) the estimation methods, financial models, market data and other evidence the *AER* proposes to take into account in estimating the return on equity, the return on debt and the value of imputation credits referred to in clause 6.5.3.

(o) There must be *Rate of Return Guidelines* in force at all times after the date on which the *AER* first publishes the *Rate of Return Guidelines* under these *Rules*.

(p) The *AER* must, in accordance with the *distribution consultation procedures*, review the *Rate of Return Guidelines*:

(1) at intervals not exceeding three years, with the first interval starting from the date that the first *Rate of Return Guidelines* are *published* under these *Rules*; and

(2) at the same time as it reviews the *Rate of Return Guidelines* made under clause 6A.6.2.

(q) For the avoidance of doubt, nothing prevents the *AER* from *publishing* the *Rate of Return Guidelines* made under this clause 6.5.2 in the same document as the *Rate of Return Guidelines* made under clause 6A.6.2.

6.5.3 Estimated cost of corporate income tax

The estimated cost of corporate income tax of a *Distribution Network Service Provider* for each *regulatory year* (**ETC_t**) must be estimated in accordance with the following formula:

$$ETC_t = (ETI_t \times r_t)(1 - \gamma)$$

where:

ETI_t is an estimate of the taxable income for that *regulatory year* that would be earned by a benchmark efficient entity as a result of the provision of *standard control services* if such an entity, rather than the *Distribution Network Service Provider*, operated the business of the *Distribution Network Service Provider*, such estimate being determined in accordance with the *post-tax revenue model*;

r_t is the expected statutory income tax rate for that *regulatory year* as determined by the *AER*; and

γ is the value of imputation credits.

6.5.4 [Deleted]

6.5.5 Depreciation

(a) The depreciation for each *regulatory year*:

(1) must be calculated on the value of the assets as included in the regulatory asset base, as at the beginning of that *regulatory year*, for the relevant *distribution system*; and

(2) must be calculated:

(i) providing such depreciation schedules conform with the requirements set out in paragraph (b), using the depreciation schedules for each asset or category of assets that are nominated in the relevant *Distribution Network Service Provider's building block proposal*; or

(ii) to the extent the depreciation schedules nominated in the *Distribution Network Service Provider's building block proposal* do not so conform, using the depreciation schedules determined for that purpose by the *AER*.

(b) The depreciation schedules referred to in paragraph (a) must conform to the following requirements:

(1) the schedules must depreciate using a profile that reflects the nature of the assets or category of assets over the economic life of that asset or category of assets;

(2) the sum of the real value of the depreciation that is attributable to any asset or category of assets over the economic life of that asset or category of assets (such real value being calculated as at the time the value of that asset or category of assets was first included in the regulatory asset base for the relevant *distribution system*) must be equivalent to the value at which that asset or category of assets was first included in the regulatory asset base for the relevant *distribution system*;

(3) the economic life of the relevant assets and the depreciation methods and rates underpinning the calculation of depreciation for a given *regulatory control period* must be consistent with those determined for the same assets on a prospective basis in the distribution determination for that period.

6.5.6 Forecast operating expenditure

(a) A *building block proposal* must include the total forecast operating expenditure for the relevant *regulatory control period* which the *Distribution Network Service Provider* considers is required in order to achieve each of the following (the *operating expenditure objectives*):

(1) meet or manage the expected demand for *standard control services* over that period;

(2) comply with all applicable *regulatory obligations or requirements* associated with the provision of *standard control services*;

(3) to the extent that there is no applicable *regulatory obligation or requirement* in relation to:

(i) the quality, reliability or security of supply of *standard control services*; or

(ii) the reliability or security of the *distribution system* through the supply of *standard control services*,

to the relevant extent:

(iii) maintain the quality, reliability and security of supply of *standard control services*; and

(iv) maintain the reliability and security of the *distribution system* through the supply of *standard control services*; and

(4) maintain the safety of the *distribution system* through the supply of *standard control services*.

(b) The forecast of required operating expenditure of a *Distribution Network Service Provider* that is included in a *building block proposal* must:

(1) comply with the requirements of any relevant *regulatory information instrument*;

(2) be for expenditure that is properly allocated to *standard control services* in accordance with the principles and policies set out in the *Cost Allocation Method* for the *Distribution Network Service Provider*; and

(3) include both:

(i) the total of the forecast operating expenditure for the relevant *regulatory control period*; and

(ii) the forecast operating expenditure for each *regulatory year* of the relevant *regulatory control period*.

(c) The *AER* must accept the forecast of required operating expenditure of a *Distribution Network Service Provider* that is included in a *building block proposal* if the *AER* is satisfied that the total of the forecast operating expenditure for the *regulatory control period* reasonably reflects each of the following (the *operating expenditure criteria*):

(1) the efficient costs of achieving the *operating expenditure objectives*; and

(2) the costs that a prudent operator would require to achieve the *operating expenditure objectives*; and

(3) a realistic expectation of the demand forecast and cost inputs required to achieve the *operating expenditure objectives*.

(d) If the *AER* is not satisfied as referred to in paragraph (c), it must not accept the forecast of required operating expenditure of a *Distribution Network Service Provider* that is included in a *building block proposal*.

(e) In deciding whether or not the *AER* is satisfied as referred to in paragraph (c), the *AER* must have regard to the following (the *operating expenditure factors*):

(1) [**Deleted**]

(2) [**Deleted**]

(3) [**Deleted**]

(4) the most recent *annual benchmarking report* that has been *published* under rule 6.27 and the benchmark operating expenditure that would be incurred by an efficient *Distribution Network Service Provider* over the relevant *regulatory control period*;

(5) the actual and expected operating expenditure of the *Distribution Network Service Provider* during any preceding *regulatory control periods*;

(5A) the extent to which the operating expenditure forecast includes expenditure to address the concerns of electricity consumers as identified by the *Distribution Network Service Provider* in the course of its engagement with electricity consumers;

(6) the relative prices of operating and capital inputs;

(7) the substitution possibilities between operating and capital expenditure;

(8) whether the operating expenditure forecast is consistent with any incentive scheme or schemes that apply to the *Distribution Network Service Provider* under clauses 6.5.8 or 6.6.2 to 6.6.4;

(9) the extent the operating expenditure forecast is referable to arrangements with a person other than the *Distribution Network Service Provider* that, in the opinion of the *AER*, do not reflect arm's length terms;

(9A) whether the operating expenditure forecast includes an amount relating to a project that should more appropriately be included as a *contingent project* under clause 6.6A.1(b);

(10) the extent the *Distribution Network Service Provider* has considered, and made provision for, efficient and prudent non-*network* alternatives; and

(11) any relevant final project assessment report (as defined in clause 5.10.2) *published* under clause 5.17.4(o), (p) or (s);

(12) any other factor the *AER* considers relevant and which the *AER* has notified the *Distribution Network Service Provider* in writing, prior to the submission of its revised *regulatory proposal* under clause 6.10.3,

is an *operating expenditure factor*.

6.5.7 Forecast capital expenditure

(a) A *building block proposal* must include the total forecast capital expenditure for the relevant *regulatory control period* which the *Distribution Network Service Provider* considers is required in order to achieve each of the following (the *capital expenditure objectives*):

(1) meet or manage the expected demand for *standard control services* over that period;

(2) comply with all applicable *regulatory obligations or requirements* associated with the provision of *standard control services*;

(3) to the extent that there is no applicable *regulatory obligation or requirement* in relation to:

(i) the quality, reliability or security of supply of *standard control services*; or

(ii) the reliability or security of the *distribution system* through the supply of *standard control services*,

to the relevant extent:

(iii) maintain the quality, reliability and security of supply of *standard control services*; and

(iv) maintain the reliability and security of the *distribution system* through the supply of *standard control services*; and

(4) maintain the safety of the *distribution system* through the supply of *standard control services*.

(b) The forecast of required capital expenditure of a *Distribution Network Service Provider* that is included in a *building block proposal* must:

(1) comply with the requirements of any relevant *regulatory information instrument*;

(2) be for expenditure that is properly allocated to *standard control services* in accordance with the principles and policies set out in the *Cost Allocation Method* for the *Distribution Network Service Provider*;

(3) include both:

(i) the total of the forecast capital expenditure for the relevant *regulatory control period*; and

(ii) the forecast capital expenditure for each *regulatory year* of the relevant *regulatory control period*; and

(4) identify any forecast capital expenditure for the relevant *regulatory control period* that is for an option that has satisfied the *regulatory investment test for transmission* or the *regulatory investment test for distribution* (as the case may be).

(c) The *AER* must accept the forecast of required capital expenditure of a *Distribution Network Service Provider* that is included in a *building block proposal* if the *AER* is satisfied that the total of the forecast capital expenditure for the *regulatory control period* reasonably reflects each of the following (the *capital expenditure criteria*):

(1) the efficient costs of achieving the *capital expenditure objectives*;

(2) the costs that a prudent operator would require to achieve the *capital expenditure objectives*; and

(3) a realistic expectation of the demand forecast and cost inputs required to achieve the *capital expenditure objectives*.

(d) If the *AER* is not satisfied as referred to in paragraph (c), it must not accept the forecast of required capital expenditure of a *Distribution Network Service Provider*.

(e) In deciding whether or not the *AER* is satisfied as referred to in paragraph (c), the *AER* must have regard to the following (the *capital expenditure factors*):

(1) [**Deleted**]

(2) [**Deleted**]

(3) [**Deleted**]

(4) the most recent *annual benchmarking report* that has been *published* under rule 6.27 and the benchmark capital expenditure that would be incurred by an efficient *Distribution Network Service Provider* over the relevant *regulatory control period*;

(5) the actual and expected capital expenditure of the *Distribution Network Service Provider* during any preceding *regulatory control periods*;

(5A) the extent to which the capital expenditure forecast includes expenditure to address the concerns of electricity consumers as identified by the *Distribution Network Service Provider* in the course of its engagement with electricity consumers;

(6) the relative prices of operating and capital inputs;

(7) the substitution possibilities between operating and capital expenditure;

(8) whether the capital expenditure forecast is consistent with any incentive scheme or schemes that apply to the *Distribution Network Service Provider* under clauses 6.5.8A or 6.6.2 to 6.6.4;

(9) the extent the capital expenditure forecast is referable to arrangements with a person other than the *Distribution Network Service Provider* that, in the opinion of the *AER*, do not reflect arm’s length terms;

(9A) whether the capital expenditure forecast includes an amount relating to a project that should more appropriately be included as a *contingent project* under clause 6.6A.1(b);

(10) the extent the *Distribution Network Service Provider* has considered, and made provision for, efficient and prudent non-*network* alternatives; and

(11) any relevant final project assessment report (as defined in clause 5.10.2) *published* under clause 5.17.4(o), (p) or (s):

(12) any other factor the *AER* considers relevant and which the *AER* has notified the *Distribution Network Service Provider* in writing, prior to the submission of its revised *regulatory proposal* under clause 6.10.3, is a *capital expenditure factor*.

Forecast capital expenditure and contingent projects

(f) Paragraphs (g) - (j) apply where:

(1) in a *regulatory control period* (the **first *regulatory control period***), the *AER* determines under clause 6.6A.2(e)(1)(iii) that the likely completion date for a *contingent project* is a date which occurs in the immediately following *regulatory control period* (the **second *regulatory control period***); and

(2) there is an unspent amount of capital expenditure for that *contingent project* under paragraph (g).

(g) A *Distribution Network Service Provider's regulatory proposal* for the second *regulatory control period* must include in the forecast of required capital expenditure referred to in paragraph (a) an amount of any unspent capital expenditure for each *contingent project* as described in subparagraph (f)(2), that equals the difference (if any) between:

(1) the total capital expenditure for that *contingent project*, as determined by the *AER* in the first *regulatory control period* under clause 6.6A.2(e)(1)(ii); and

(2) the total of the capital expenditure actually incurred (or estimated capital expenditure for any part of the first *regulatory control period* for which actual capital expenditure is not available) in the first *regulatory control period* for that *contingent project*.

(h) The *AER* must include in any forecast capital expenditure for the second *regulatory control period* which is accepted in accordance with paragraph (c) or substituted in accordance with clause 6.12.1(3)(ii) (as the case may be) the amount of any unspent capital expenditure calculated in accordance with paragraph (g).

(i) Without limiting the requirement in paragraph (h), in deciding whether or not to accept the forecast of required capital expenditure of a *Distribution Network Service Provider* for the second *regulatory control period* in accordance with this clause 6.5.7, the *AER* must not:

(1) assess the reasonableness of the amount of unspent capital expenditure for a *contingent project* referred to in paragraph (g) or the remaining period to which the *contingent project* applies;

(2) assess the reasonableness of the timing of the unspent capital expenditure within the remaining period for a *contingent project* referred to in paragraph (g) except as part of the assessment of the total forecast capital expenditure under paragraph (c); or

(3) take into account any amount which represents for a *contingent project* referred to in paragraph (g) the difference between:

(i) the amount representing the sum of the forecast capital expenditure for that *contingent project* for each year of the immediately preceding *regulatory control period* referred to in clause 6.6A.2(e)(1)(i); and

(ii) the total capital expenditure actually incurred (or estimated capital expenditure for any part of the preceding *regulatory control period* for which actual capital expenditure is not available) in the immediately preceding *regulatory control period* for that *contingent project*.

(j) A *regulatory proposal* in respect of the second *regulatory control period* must not include in the forecast of required capital expenditure referred to in paragraph (a) any capital expenditure for a *contingent project* for the first *regulatory control period*:

(1) to the extent that the capital expenditure was included in the amount of capital expenditure for that *contingent project* as determined in the first *regulatory control period* under clause 6.6A.2(e)(1)(i); and

(2) the capital expenditure actually incurred (or estimated capital expenditure for any part of the first *regulatory control period* for which actual capital expenditure is not available) in the first *regulatory control period* for that *contingent project* exceeded the capital expenditure referred to in subparagraph (1).

6.5.8 Efficiency benefit sharing scheme

(a) The *AER* must, in accordance with the *distribution consultation procedures*, develop and *publish* an incentive scheme or schemes (*efficiency benefit sharing scheme*) that provide for a fair sharing between *Distribution Network Service Providers* and *Distribution Network Users* of:

(1) the efficiency gains derived from the operating expenditure of *Distribution Network Service Providers* for a *regulatory control period* being less than; and

(2) the efficiency losses derived from the operating expenditure of *Distribution Network Service Providers* for a *regulatory control period* being more than,

the forecast operating expenditure accepted or substituted by the *AER* for that *regulatory control period*.

(b) An *efficiency benefit sharing scheme* may (but is not required to) be developed to cover efficiency gains and losses related to *distribution losses*.

(c) In developing and implementing an *efficiency benefit sharing scheme*, the *AER* must have regard to:

(1) the need to ensure that benefits to electricity consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for *Distribution Network Service Providers*;

(2) the need to provide *Distribution Network Service Providers* with a continuous incentive, so far as is consistent with economic efficiency, to reduce operating expenditure ;

(3) the desirability of both rewarding *Distribution Network Service Providers* for efficiency gains and penalising *Distribution Network Service Providers* for efficiency losses;

(4) any incentives that *Distribution Network Service Providers* may have to capitalise expenditure; and

(5) the possible effects of the scheme on incentives for the implementation of non-network alternatives.

(d) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace an *efficiency benefit sharing scheme*.

6.5.8A Capital expenditure sharing scheme

(a) A *capital expenditure sharing scheme* is a scheme that provides *Distribution Network Service Providers* with an incentive to undertake efficient capital expenditure during a *regulatory control period*.

(b) If the *AER* develops a *capital expenditure sharing scheme* in accordance with this clause, the *capital expenditure sharing scheme* must be consistent with the *capital expenditure incentive objective*.

(c) In developing a *capital expenditure sharing scheme*, the *AER* must take into account the following principles (the *capital expenditure sharing scheme principles*):

(1) *Distribution Network Service Providers* should be rewarded or penalised for improvements or declines in efficiency of capital expenditure; and

(2) the rewards and penalties should be commensurate with the efficiencies or inefficiencies in capital expenditure, but a reward for efficient capital expenditure need not correspond in amount to a penalty for the same amount of inefficient capital expenditure.

(d) In developing a *capital expenditure sharing scheme*, the *AER* must also take into account:

(1) the interaction of the scheme with other incentives that *Distribution Network Service Providers* may have in relation to undertaking efficient operating or capital expenditure; and

(2) the *capital expenditure objectives* and, if relevant, the *operating expenditure objectives*.

(e) In deciding:

(1) whether to apply a *capital expenditure sharing scheme* to a *Distribution Network Service Provider* for a *regulatory control period*; and

(2) the nature and details of any *capital expenditure sharing scheme* that is to apply to a *Distribution Network Service Provider* for a *regulatory control period,*

the *AER* must:

(3) make that decision in a manner that contributes to the achievement of the *capital expenditure incentive objective*; and

(4) take into account:

(i) both the *capital expenditure sharing scheme principles*, and the matters referred to in paragraph (d), as they apply to the *Distribution Network Service Provider*; and

(ii) the circumstances of the *Distribution Network Service Provider*.

6.5.9 The X factor

(a) A *building block determination* is to include the X factor for each control mechanism for each *regulatory year* of the *regulatory control period*.

(b) The X factor:

(1) must be set by the *AER* with regard to the *Distribution Network Service Provider's total revenue requirement* for the *regulatory control period*; and

(2) must be such as to minimise, as far as reasonably possible, variance between expected revenue for the last *regulatory year* of the *regulatory control period* and the *annual revenue requirement* for that last *regulatory year*; and

(3) must conform with whichever of the following requirements is applicable:

(i) if the control mechanism relates generally to *standard control services* – the X factor must be designed to equalise (in terms of net present value) the revenue to be earned by the *Distribution Network Service Provider* from the provision of *standard control services* over the *regulatory control period* with the provider's *total revenue requirement* for the *regulatory control period*;

(ii) if there are separate control mechanisms for different *standard control services* – the X factor for each control mechanism must be designed to equalise (in terms of net present value) the revenue to be earned by the *Distribution Network Service Provider* from the provision of *standard control services* to which the control mechanism relates over the *regulatory control period* with the portion of the provider's *total revenue requirement* for the *regulatory control period* attributable to those services.

(c) There may be different X factors:

(1) for different *regulatory years* of the *regulatory control period*; and

(2) if there are 2 or more control mechanisms – for each control mechanism.

6.5.10 Pass through events

(a) A *building block proposal* may include a proposal as to the events that should be defined as *pass through events* under clause 6.6.1(a1)(5) having regard to the *nominated pass through event considerations*.

(b) In determining whether to accept the pass through events nominated by a *Distribution Network Service Provider* in its *building block proposal* under paragraph (a), the *AER* must take into account the *nominated pass through event considerations*.

6.6 Adjustments after making of building block determination.

6.6.1 Cost pass through

(a1) Any of the following is a *pass through event* for a distribution determination:

(1) a *regulatory change event*;

(2) a *service standard event*;

(3) a *tax change event*;

(4) a *retailer insolvency event*; and

(5) any other event specified in a distribution determination as a *pass through event* for the determination.

(a) If a *positive change event* occurs, a *Distribution Network Service Provider* may seek the approval of the *AER* to pass through to *Distribution Network Users* a *positive pass through amount*.

(b) If a *negative change event* occurs, the *AER* may require the *Distribution Network Service Provider* to pass through to *Distribution Network Users* a *negative pass through amount* as determined by the *AER* under paragraph (g).

Positive pass through

(c) To seek the approval of the *AER* to pass through a *positive pass through amount*, a *Distribution Network Service Provider* must submit to the *AER*, within 90 *business days* of the relevant *positive change event* occurring, a written statement which specifies:

(1) the details of the *positive change event*;

(2) the date on which the *positive change event* occurred;

(3) the *eligible pass through amount* in respect of that *positive change event*;

(4) the *positive pass through amount* the *Distribution Network Service Provider* proposes in relation to the *positive change event*;

(5) the amount of the *positive pass through amount* that the *Distribution Network Service Provider* proposes should be passed through to *Distribution Network Users* in the *regulatory year* in which, and each *regulatory year* after that in which, the *positive change event* occurred;

(6) evidence:

(i) of the actual and likely increase in costs referred to in subparagraph (3);

(ii) that such costs occur solely as a consequence of the *positive change event*; and

(iii) in relation to a *retailer insolvency event*, of :

(A) the amount to which the *Distribution Network Service Provider* is entitled under any relevant *credit support*;

(B) the maximum amount of *credit support* (if any) that the *Distribution Network Service* Provider was entitled to request the *retailer* to provide under the *credit support rules*; and

(C) any amount that the *Distribution Network Service* Provider is likely to receive on a winding-up of the *retailer*; and

(7) such other information as may be required under any relevant *regulatory information instrument*.

(d) If the *AER* determines that a *positive change event* has occurred in respect of a statement under paragraph (c), the *AER* must determine:

(1) the *approved pass through amount*; and

(2) the amount of that *approved pass through amount* that should be passed through to *Distribution Network Users* in the *regulatory year* in which, and each *regulatory year* after that in which, the *positive change event* occurred,

taking into account the matters referred to in paragraph (j).

(e) Subject to paragraph (k1), if the *AER* does not make the determinations referred to in paragraph (d) within 40 *business days* from the later of the date it receives the *Distribution Network Service Provider's* statement and accompanying evidence under paragraph (c), and the date it receives any additional information required under paragraph (e1), then, on the expiry of that period, the *AER* is taken to have determined that:

(1) the *positive pass through amount* as proposed in the *Distribution Network Service Provider's* statement under paragraph (c) is the *approved pass through amount* in respect of that *positive change event*; and

(2) the amount of that *positive pass through amount* that the *Distribution Network Service Provider* proposes in its statement under paragraph(c) should be passed through to *Distribution Network Users* in the *regulatory year* in which, and each *regulatory year* after that in which, the *positive change event* occurred, is the amount that should be so passed through in each such *regulatory year*.

(e1) A *Distribution Network Service Provider* must provide the *AER* with such additional information as the *AER* requires for the purpose of making a determination under paragraph (d) within the time specified by the *AER* in a notice provided to the *Distribution Network Service Provider* by the *AER* for that purpose.

Negative pass through

(f) A *Distribution Network Service Provider* must submit to the *AER*, within 90 *business days* of becoming aware of the occurrence of a *negative change event* for the *Distribution Network Service Provider*, a written statement which specifies:

(1) the details of the *negative change event* concerned;

(2) the date the *negative change event* occurred;

(3) the costs in the provision of *direct control services* that the *Distribution Network Service Provider* has saved and is likely to save as a result of the *negative change event* until:

(i) unless subparagraph (ii) applies – the end of the *regulatory control period* in which the *negative change event* occurred; or

(ii) if the distribution determination for the *regulatory control period* following that in which the *negative change event* occurred does not make any allowance for the pass through of those cost savings - the end of the *regulatory control period* following that in which the *negative change event* occurred;

(4) the aggregate amount of those saved costs that the *Distribution Network Service Provider* proposes should be passed through to *Distribution Network Users*;

(5) the amount of the costs referred to in subparagraph (4) the *Distribution Network Service Provider* proposes should be passed through to *Distribution Network Users* in the *regulatory year* in which, and each *regulatory year* after that in which, the *negative change event* occurred; and

(6) such other information as may be required under any relevant *regulatory information instrument*.

(f1) If the occurrence of the *negative change event* is not notified by the *Distribution Network Service Provider* to the *AER* under paragraph (f) then, as soon as is reasonably practicable and before making a determination referred to in paragraph (g), the *AER* must notify the *Distribution Network Service Provider* of the occurrence of that *negative change event*.

(g) If a *negative change event* occurs (whether or not the occurrence of that *negative change event* is notified by the *Distribution Network Service Provider* to the *AER* under paragraph (f)) and the *AER* determines to impose a requirement on the provider in relation to that *negative change event* as described in paragraph (b), the *AER* must determine:

(1) the *required pass through amount*; and

(2) taking into account the matters referred to in paragraph (j):

(i) how much of that *required pass through amount* should be passed through to *Distribution Network Users* (the "*negative pass through amount*"); and

(ii) the amount of that *negative pass through amount* that should be passed through to *Distribution Network Users* in the *regulatory year* in which, and each *regulatory year* after that in which, the *negative change event* occurred.

(g1) Subject to paragraph (k1), if the *AER* does not make the determinations referred to in paragraph (g) within 40 *business days* from:

(1) where the *Distribution Network Service Provider* notifies the *AER* of the occurrence of the *negative change event* under paragraph (f) - the later of the date the *AER* receives the *Distribution Network Service Provider's* statement under paragraph (f) and the date the *AER* receives any information required by the *AER* under paragraph (h); or

(2) where the *Distribution Network Service Provider* does not notify the *AER* of the occurrence of the *negative change event* under paragraph (f) – the later of the date the *AER* notifies the *Distribution Network Service Provider* under paragraph (g1) and the date the *AER* receives any information required by the *AER* under paragraph (h),

then the *AER* is taken to have determined that the *required pass through amount* is zero.

(h) A *Distribution Network Service Provider* must provide the *AER* with such information as the *AER* requires for the purpose of making a determination under paragraph (g) within the time specified by the *AER* in a notice provided to the *Distribution Network Service Provider* by the *AER* for that purpose.

Consultation

(i) Before making a determination under paragraph (d) or (g), the *AER* may consult with the relevant *Distribution Network Service Provider* and such other persons as the *AER* considers appropriate, on any matters arising out of the relevant *pass through event* the *AER* considers appropriate.

Relevant factors

(j) In making a determination under paragraph (d) or (g) in respect of a *Distribution Network Service Provider*, the *AER* must take into account:

(1) the matters and proposals set out in any statement given to the *AER* by the *Distribution Network Service Provider* under paragraph (c) or (f); and

(2) in the case of a *positive change event*, the increase in costs in the provision of *direct control services* that, as a result of the *positive change event*, the *Distribution Network Service Provider* has incurred and is likely to incur until:

(i) unless subparagraph(ii) applies – the end of the *regulatory control period* in which the *positive change event* occurred; or

(ii) if the distribution determination for the *regulatory control period* following that in which the *positive change event* occurred does not make any allowance for the recovery of that increase in costs – the end of the *regulatory control period* following that in which the *positive change event* occurred;

(2A) in the case of a *negative change event*, the costs in the provision of *direct control services* that, as a result of the *negative change event*, the *Distribution Network Service Provider* has saved and is likely to save until:

(i) unless subparagraph(ii) applies – the end of the *regulatory control period* in which the *negative change event* occurred; or

(ii) if the distribution determination for the *regulatory control period* following that in which the *negative change event* occurred does not make any allowance for the pass through of those cost savings to *Distribution Network Users* – the end of the *regulatory control period* following that in which the *negative change event* occurred;

(3) in the case of a *positive change event*, the efficiency of the *Distribution Network Service Provider's* decisions and actions in relation to the risk of the *positive change event*, including whether the *Distribution Network Service Provider* has failed to take any action that could reasonably be taken to reduce the magnitude of the *eligible pass through amount* in respect of that *positive change event* and whether the *Distribution Network Service Provider* has taken or

omitted to take any action where such action or omission has increased the magnitude of the amount in respect of that *positive change event*;

(4) the time cost of money based on the *allowed rate of return* for the *Distribution Network Service Provider* for the *regulatory control period* in which the *pass through event* occurred;

(5) the need to ensure that the *Distribution Network Service Provider* only recovers any actual or likely increment in costs under this paragraph (j) to the extent that such increment is solely as a consequence of a *pass through event*;

(6) in the case of a *tax change event*, any change in the way another *tax* is calculated, or the removal or imposition of another *tax*, which, in the *AER's* opinion, is complementary to the *tax change event* concerned;

(7) whether the costs of the *pass through event* have already been factored into the calculation of the *Distribution Network Service Provider's annual revenue requirement* for the *regulatory control period* in which the *pass through event* occurred or will be factored into the calculation of the *Distribution Network Service Provider's annual revenue requirement* for a subsequent *regulatory control period*;

(7A) the extent to which the costs that the *Distribution Network Service Provider* has incurred and is likely to incur are the subject of a previous determination made by the *AER* under this clause 6.6.1; and

(8) any other factors that the *AER* considers relevant.

Extension of time limits

(k) The *AER* must, by written notice to a *Distribution Network Service Provider*, extend a time limit fixed in paragraph (c) or (f) if the *AER* is satisfied that the difficulty of assessing or quantifying the effect of the relevant *pass through event* justifies the extension.

(k1) If the *AER* is satisfied that the making of a determination under paragraph (d) or (g) involves issues of such complexity or difficulty that the time limit fixed in paragraph (e) or (g1) should be extended, the *AER* may extend that time limit by a further period of up to 60 *business days*, provided that it gives written notice to the *Distribution Network Service Provider* of that extension not later than 10 *business days* before the expiry of that time limit.

(k2) If the *AER* extends a time limit under paragraph (k1), it must make available on its website a notice of that extension as soon as is reasonably practicable.

(k3) Subject to paragraph (k6), if the *AER* gives a written notice to the *Distribution Network Service Provider* stating that it requires information from an *Authority* in order to make a determination under paragraph (d) or (g) then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the *Distribution Network Service*

Provider and when the *AER* receives that information from that *Authority* is to be disregarded.

(k4) Subject to paragraph (k6), if the *AER* gives a written notice to the *Distribution Network Service Provider* stating that, in order to make a determination under paragraph (d) or (g), it requires information that it anticipates will be made publicly available by a judicial body or royal commission then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the *Distribution Network Service Provider* and when that information is made publicly available is to be disregarded.

(k5) Where the *AER* gives a notice to the *Distribution Network Service Provider* under paragraph (k3) or (k4), it must:

(1) as soon as is reasonably practicable make available on its website a notice stating when the period referred to in paragraph (k3) or (k4), as the case may be, has commenced;

(2) as soon as is reasonably practicable make available on its website a notice stating when the period referred to in paragraph (k3) or (k4), as the case may be, has ended; and

(3) if the information specified in that notice is required from an *Authority*, promptly request that information from the relevant *Authority*.

(k6) Paragraphs (k3) and (k4) do not apply if the *AER* gives the notice specified in those paragraphs to the *Distribution Network Service Provider* later than 10 *business days* before the expiry of the time limit fixed in paragraphs (e) or (g1).

retailer insolvency event

(l) For the purposes of calculating the *eligible pass through amount* in relation to a *positive change event* which is a *retailer insolvency event*, the increase in costs is the *retailer* insolvency costs excluding:

(i) any amount recovered or recoverable from a *retailer* or a guarantor of a *retailer* under any relevant *credit support*; and

(ii) amounts that the *Distribution Network Service* Provider is likely to receive on a winding-up of the *retailer*; and

(iii) any costs that are recoverable under a *RoLR cost recovery scheme distributor payment determination* .

(m) The amount the *AER* determines should be passed through to *Distribution Network Users* in respect of a *retailer insolvency event* must be taken to be a cost that can be passed through and not a revenue impact of the event.

6.6.1A Reporting on jurisdictional schemes

(a) If during a *regulatory control period*:

(1) a scheme becomes a *jurisdictional scheme*; or

(2) a *Distribution Network Service Provider* first becomes subject to *jurisdictional scheme obligations* under a *jurisdictional scheme*; and

(3) the relevant *jurisdictional scheme* is not an *approved jurisdictional scheme*,

then a *Distribution Network Service Provider* may request the *AER* to determine how the *Distribution Network Service Provider* is to report to the *AER* on its recovery of *jurisdictional scheme* amounts in respect of that scheme for each *regulatory year* of the *regulatory control period* and on the adjustments to be made to subsequent *pricing proposals* to account for over or under recovery of those amounts.

(b) To make a request under paragraph (a), a *Distribution Network Service Provider* must submit to the *AER*, as soon as practicable after the event referred to in subparagraph (a)(1) or (2), a written statement which specifies:

(1) the name of the relevant *jurisdictional scheme*;

(2) the date of the event referred to in subparagraph (a)(1) or (2);

(3) details of how the *Distribution Network Service Provider* proposes to:

(i) estimate the *jurisdictional scheme amounts* for the relevant *jurisdictional scheme* for the purposes of clause 6.18.7A(b);

(ii) carry out any adjustments to *jurisdictional scheme amounts* for the relevant *jurisdictional scheme* for the purposes of clause 6.18.7A(b); and

(iii) report to the *AER* on the recovery process under clause 6.18.7A (a) to (c).

(c) The *AER* must as soon as practicable after receiving a statement under paragraph (b), *publish* the statement.

(d) Before making a determination under paragraph (e), the *AER* may consult with the relevant *Distribution Network Service Provider* and such other persons as the *AER* considers appropriate, on any matters arising out of the statement the *AER* considers appropriate.

(e) Within 60 *business days* of receiving the statement under paragraph (b), the *AER* must make a determination on how the *Distribution Network Service Provider* is to report to the *AER* on its recovery of *jurisdictional scheme amounts* for the relevant *jurisdictional scheme* for each *regulatory year* of the *regulatory control period* and on the adjustments to be made to subsequent *pricing proposals* to account for over or under recovery of those amounts.

(f) If the *AER* does not make the determination referred to in paragraph (e) within 60 *business days* of receiving the statement under paragraph (b) then, on expiry of that period, the *AER* is taken to have approved the process proposed in the *Distribution Network Service Provider's* statement.

6.6.2 Service target performance incentive scheme

(a) The *AER* must, in accordance with the *distribution consultation procedures*, develop and *publish* an incentive scheme or schemes (*service target performance incentive scheme*) to provide incentives (which may include targets) for *Distribution Network Service Providers* to maintain and improve performance.

(b) In developing and implementing a *service target performance incentive scheme*, the *AER*:

(1) must consult with the authorities responsible for the administration of relevant *jurisdictional electricity legislation*; and

(2) must ensure that service standards and service targets (including guaranteed service levels) set by the scheme do not put at risk the *Distribution Network Service Provider's* ability to comply with relevant service standards and service targets (including guaranteed service levels) as specified in *jurisdictional electricity legislation*; and

Note:

A *service target performance incentive scheme* operates concurrently with any average or minimum service standards and guaranteed service level schemes that apply to the *Distribution Network Service Provider* under *jurisdictional electricity legislation*.

(3) must take into account:

(i) the need to ensure that benefits to electricity consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for *Distribution Network Service Providers*; and

(ii) any *regulatory obligation or requirement* to which the *Distribution Network Service Provider* is subject; and

(iii) the past performance of the *distribution network*; and

(iv) any other incentives available to the *Distribution Network Service Provider* under the *Rules* or a relevant distribution determination; and

(v) the need to ensure that the incentives are sufficient to offset any financial incentives the *Distribution Network Service Provider* may have to reduce costs at the expense of service levels; and

(vi) the willingness of the customer or end user to pay for improved performance in the delivery of services; and

(vii) the possible effects of the scheme on incentives for the implementation of non-network alternatives.

(c) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace any scheme that is developed and *published* under this clause.

Note:

A *Distribution Network Service Provider* is not precluded from entering into a contract with a third party (such as a network support service provider) under which the benefits of a *service target performance incentive scheme* are passed on to the third party, or the third party is required to indemnify the provider for penalties to which the provider becomes liable under the scheme.

6.6.3 Demand management and embedded generation connection incentive scheme

(a) The *AER*, may in accordance with the *distribution consultation procedures*, develop and *publish* an incentive scheme or schemes (*demand management and embedded generation connection incentive scheme*) to provide incentives for *Distribution Network Services Providers* to implement efficient non-*network* alternatives, or to manage the expected demand for *standard control services* in some other way, or to efficiently connect *Embedded Generators*.

(b) In developing and implementing a demand management and embedded generation connection incentive scheme, the *AER* must have regard to:

(1) the need to ensure that benefits to electricity consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for *Distribution Network Service Providers*;

(2) the effect of a particular control mechanism (i.e. price – as distinct from revenue – regulation) on a *Distribution Network Service Provider's* incentives to adopt or implement efficient non-network alternatives;

(3) the extent the *Distribution Network Service Provider* is able to offer efficient pricing structures;

(4) the possible interaction between a *demand management and embedded generation connection incentive scheme* and other incentive schemes under clauses 6.5.8, 6.5.8A, 6.6.2 and 6.6.4;

(5) the willingness of the customer or end user to pay for increases in costs resulting from implementation of the scheme; and

(6) the effect of classification of *distribution services*, as determined in accordance with clause 6.2.1, on a *Distribution Network Service Provider's* incentive to adopt or implement efficient *Embedded Generator connections*.

(c) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace any scheme that is developed and *published* under this clause.

(d) **[Deleted]**

6.6.4 Small-scale incentive scheme

(a) The *AER* may, in accordance with the *distribution consultation procedures*, develop and *publish* an incentive scheme or schemes (*small-scale incentive scheme*) that provides *Distribution Network Service Providers* with incentives to provide *standard control services* in a manner that contributes to the achievement of the *national electricity objective*.

(b) In developing and applying a *small-scale incentive scheme*, the *AER* must have regard to the following matters:

(1) *Distribution Network Service Providers* should be rewarded or penalised for efficiency gains or losses in respect of their *distribution systems*;

(2) the rewards and penalties should be commensurate with the efficiency gains or efficiency losses in respect of a *distribution system*, but a reward for efficiency gains need not correspond in amount to a penalty for efficiency losses;

(3) the benefits to electricity consumers that are likely to result from efficiency gains in respect of a *distribution system* should warrant the rewards provided under the scheme, and the detriments to electricity consumers that are likely to result from efficiency losses in respect of a *distribution system* should warrant the penalties provided under the scheme;

(4) the interaction of the scheme with other incentives that *Distribution Network Service Providers* may have under the *Rules*; and

(5) the *capital expenditure objectives* and the *operating expenditure objectives*.

(c) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace any *small-scale incentive scheme*.

(d) Where the *AER* applies a *small-scale incentive scheme* to a *Distribution Network Service Provider* for a *regulatory control period*:

(1) the aggregate rewards or penalties for a *regulatory year* in that *regulatory period* that are provided or imposed under that scheme and any other *small-scale incentive schemes* that apply to that *Distribution Network Service Provider* must not exceed 0.5% of the *annual revenue requirement* for the *Distribution Network Service Provider* for that *regulatory year* unless the *Distribution Network Service Provider* consents to the contrary, in which case that aggregate must not exceed 1% of the *annual revenue requirement* for the *Distribution Network Service Provider* for that *regulatory year*; and

(2) the *small-scale incentive scheme* must cease to provide rewards or impose penalties in respect of a *regulatory year* after the expiry of such a period as is determined by the *AER*, being a period that is not more than two *regulatory control periods* after the commencement of that scheme.

(e) Notwithstanding anything else contained in this clause, the *AER* may require a *Distribution Network Service Provider* to participate in a trial of a *small-scale incentive scheme* under which, for the duration of that trial, the *Distribution Network Service Provider* is not required to bear any penalty and is not entitled to earn any reward.

6.6.5 Reopening of distribution determination for capital expenditure

(a) Subject to paragraph (b), a *Distribution Network Service Provider* may, during a *regulatory control period*, apply to the *AER* to revoke and substitute a distribution determination that applies to it where:

(1) an event that is beyond the reasonable control of the *Distribution Network Service Provider* has occurred during that *regulatory control period* and the occurrence of that event during that period (or of an event of a similar kind) could not reasonably have been foreseen by the *Distribution Network Service Provider* at the time of the making of the distribution determination ('**the event**');

(2) no forecast capital expenditure was accepted or substituted by the *AER* for that period under clauses 6.5.7(c) or 6.12.1(3)(ii) (as the case may be) in relation to the event that has occurred;

(3) the *Distribution Network Service Provider* proposes to undertake capital expenditure to rectify the adverse consequences of the event;

(4) the total of the capital expenditure required during the *regulatory control period* to rectify the adverse consequences of the event:

(i) exceeds 5% of the value of the regulatory asset base for the relevant *Distribution Network Service Provider* for the first year of the relevant *regulatory control period*;

(ii) is such that, if undertaken, it is reasonably likely (in the absence of any other reduction in capital expenditure) to result in the total actual capital expenditure for that *regulatory control period* exceeding the total of the forecast capital expenditure for that *regulatory control period* as accepted or substituted by the *AER* in accordance with clauses 6.5.7(c) or 6.12.1(3)(ii) (as the case may be);

(5) the *Distribution Network Service Provider* can demonstrate that it is not able to reduce capital expenditure in other areas to avoid the consequence referred to in subparagraph (a)(4)(ii) without materially adversely affecting the *reliability* and security of the relevant *distribution system*;

(6) a failure to rectify the adverse consequences of the event would be likely to materially adversely affect the *reliability* and security of the relevant *distribution system*; and

(7) the event is not a *pass through event* or a *contingent project*.

In this paragraph (a), a reference to an event includes a series of events or a state of affairs, which may include a greater than anticipated increase in demand.

(b) An application referred to in paragraph (a) must not be made within 90 *business days* prior to the end of a *regulatory year*.

(c) Following its receipt of an application made in accordance with paragraphs (a) and (b), the *AER* must:

(1) consult with the *Distribution Network Service Provider* and such other persons as it considers appropriate in relation to the application; and

(2) make its decision on the application within 40 *business days* from the later of the date the *AER* receives the application and the date the *AER* receives any information required by the *AER* under paragraph (g).

(d) The *AER* must, and must only, revoke a distribution determination following an application made in accordance with paragraphs (a) and (b) if the *AER* is satisfied of each of the matters referred to in paragraph (a).

(e) If the *AER* revokes a distribution determination under paragraph (d), the *AER* must make a new distribution determination in substitution for the revoked determination to apply for the remainder of the *regulatory control period* for which the revoked determination was to apply.

(f) The substituted distribution determination must only vary from the revoked distribution determination to the extent necessary:

(1) to adjust the forecast capital expenditure for that *regulatory control period* to accommodate the amount of such additional capital expenditure as the *AER* determines is appropriate (in which case the

amount of that adjustment will be taken to be accepted by the *AER* under clause 6.5.7(c)); and

(2) to reflect the effect of any resultant increase in forecast capital expenditure on:

(i) the forecast operating expenditure for the remainder of the *regulatory control period*;

(ii) the *annual revenue requirement* for each *regulatory year* in the remainder of the *regulatory control period*; and

(iii) the X factor for each of the remaining *regulatory years* of the *regulatory control period*.

(g) A *Distribution Network Service Provider* must provide the *AER* with such additional information as the *AER* requires for the purpose of making a decision on an application made by that *Distribution Network Service Provider* under paragraph (a) within the time specified by the *AER* in a notice provided to the *Distribution Network Service Provider* by the *AER* for that purpose.

Extension of time limit

(h) If the *AER* is satisfied that the revocation and substitution of a distribution determination under paragraphs (d) and (e) involves issues of such complexity or difficulty that the time limit fixed in subparagraph (c)(2) should be extended, the *AER* may extend that time limit by a further period of up to 60 *business days*, provided that it gives written notice to the *Distribution Network Service Provider* of that extension not later than 10 *business days* before the expiry of that time limit.

(i) If the *AER* extends the time limit under paragraph (h), it must make available on its website a notice of that extension as soon as is reasonably practicable.

(j) Subject to paragraph (l1), if the *AER* gives a written notice to the *Distribution Network Service Provider* stating that it requires information from an *Authority* in order to make a decision on an application made by the *Distribution Network Service Provider* under paragraph (a) then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the *Distribution Network Service Provider* and when the *AER* receives that information from that *Authority* is to be disregarded.

(k) Subject to paragraph (l1), if the *AER* gives a written notice to the *Distribution Network Service Provider* stating that, in order to make a decision on an application made by the *Distribution Network Service Provider* under paragraph (a), it requires information that it anticipates will be made publicly available by a judicial body or royal commission then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the *Distribution Network Service Provider* and when that information is made publicly available is to be disregarded.

(l) Where the *AER* gives a notice to the *Distribution Network Service Provider* under paragraph (j) or (k), it must:

(1) as soon as is reasonably practicable make available on its website a notice stating when the period referred to in paragraph (j) or (k), as the case may be, has commenced;

(2) as soon as is reasonably practicable make available on its website a notice stating when the period referred to in paragraph (j) or (k), as the case may be, has ended; and

(3) if the information specified in that notice is required from an *Authority*, promptly request that information from the relevant *Authority*.

(l1) Paragraphs (j) and (k) do not apply if the *AER* gives the notice specified in those paragraphs to the *Distribution Network Service Provider* later than 10 *business days* before the expiry of the time limit fixed in subparagraph (c)(2).

Revocation and substitution of distribution determination

(m) If the *AER* revokes and substitutes a distribution determination under paragraph (e), that revocation and substitution must take effect from the commencement of the next *regulatory year*.

6.6A Contingent Projects

6.6A.1 Acceptance of a contingent project in a distribution determination

(a) A *regulatory proposal* may include *proposed contingent capital expenditure*, which the *Distribution Network Service Provider* considers is reasonably required for the purpose of undertaking a *proposed contingent project*.

(b) The *AER* must determine that a *proposed contingent project* is a *contingent project* if the *AER* is satisfied that:

(1) the *proposed contingent project* is reasonably required to be undertaken in order to achieve any of the *capital expenditure objectives*;

(2) the *proposed contingent capital expenditure*:

(i) is not otherwise provided for (either in part or in whole) in the total of the forecast capital expenditure for the relevant *regulatory control period* which is accepted in accordance with clause 6.5.7(c) or substituted in accordance with clause 6.12.1(3)(ii) (as the case may be);

(ii) reasonably reflects the *capital expenditure criteria*, taking into account the *capital expenditure factors*, in the context of the *proposed contingent project* as described in the *regulatory proposal*; and

(iii) exceeds either $30 million or 5% of the value of the *annual revenue requirement* for the relevant *Distribution Network Service Provider* for the first year of the relevant *regulatory control period*, whichever is the larger amount;

(3) the *proposed contingent project* and the *proposed contingent capital expenditure*, as described or set out in the *regulatory proposal*, and the information provided in relation to these matters, complies with the relevant requirements of any relevant *regulatory information instrument*; and

(4) the *trigger events* in relation to the *proposed contingent project* which are proposed by the *Distribution Network Service Provider* in its *regulatory proposal* are appropriate.

(c) In determining whether a *trigger event* in relation to a *proposed contingent project* is appropriate for the purposes of subparagraph (b)(4), the *AER* must have regard to the need for a *trigger event*:

(1) to be reasonably specific and capable of objective verification;

(2) to be a condition or event, which, if it occurs, makes the undertaking of the *proposed contingent project* reasonably necessary in order to achieve any of the *capital expenditure objectives*;

(3) to be a condition or event that generates increased costs or categories of costs that relate to a specific location rather than a condition or event that affects the *distribution network* as a whole;

(4) to be described in such terms that the occurrence of that event or condition is all that is required for the distribution determination to be amended under clause 6.6A.2; and

(5) to be an event or condition, the occurrence of which is probable during the *regulatory control period*, but the inclusion of capital expenditure in relation to it under clause 6.5.7 is not appropriate because:

(i) it is not sufficiently certain that the event or condition will occur during the *regulatory control period* or if it may occur after that *regulatory control period* or not at all; or

(ii) subject to the requirement to satisfy subparagraph (b)(2)(iii), the costs associated with the event or condition are not sufficiently certain.

6.6A.2 Amendment of distribution determination for contingent project

(a) Subject to paragraph (b), a *Distribution Network Service Provider* may, during a *regulatory control period*, apply to the *AER* to amend a distribution determination that applies to that *Distribution Network Service Provider* where a *trigger event* for a *contingent project* in relation to that distribution determination has occurred.

(b) An application referred to in paragraph (a):

(1) must not be made within 90 *business days* prior to the end of a *regulatory year*;

(2) subject to subparagraph (1), must be made as soon as practicable after the occurrence of the *trigger event*;

(3) must contain the following information:

(i) an explanation that substantiates the occurrence of the *trigger event*;

(ii) a forecast of the total capital expenditure for the *contingent project*;

(iii) a forecast of the capital and incremental operating expenditure, for each remaining *regulatory year* which the *Distribution Network Service Provider* considers is reasonably required for the purpose of undertaking the *contingent project*;

(iv) how the forecast of the total capital expenditure for the *contingent project* meets the threshold as referred to in clause 6.6A.1(b)(2)(iii);

(v) the intended date for commencing the *contingent project* (which must be during the *regulatory control period*);

(vi) the anticipated date for completing the *contingent project* (which may be after the end of the *regulatory control period*);

(vii) an estimate of the incremental revenue which the *Distribution Network Service Provider* considers is likely to be required to be earned in each remaining *regulatory year* of the *regulatory control period* as a result of the *contingent project* being undertaken as described in subparagraph (iii); and

(4) the estimate referred to in subparagraph (3)(vii) must be calculated:

(i) in accordance with the requirements of the *post-tax revenue model* referred to in clause 6.4.1;

(ii) in accordance with the requirements of the *roll forward model* referred to in clause 6.5.1(b);

(iii) using the *allowed rate of return* for that *Distribution Network Service Provider* for the *regulatory control period* as determined in accordance with clause 6.5.2;

(iv) in accordance with the requirements for depreciation referred to in clause 6.5.5; and

(v) on the basis of the capital expenditure and incremental operating expenditure referred to in subparagraph (3)(iii).

(c) As soon as practicable after its receipt of an application made in accordance with paragraphs (a) and (b), the *AER* must *publish* the application, together with an invitation for written submissions on the application.

(d) The *AER* must consider any written submissions made under paragraph (c) and must make its decision on the application within 40 *business days* from the later of the date the *AER* receives the application and the date the *AER* receives any information required by the *AER* under paragraph (i). In doing so the *AER* may also take into account such other information as it considers appropriate, including any analysis (such as benchmarking) that is undertaken by it for that purpose.

(e) If the *AER* is satisfied that the *trigger event* has occurred, and that the forecast of the total capital expenditure for the *contingent project* meets the threshold as referred to in clause 6.6A.1(b)(2)(iii), it must:

(1) determine:

(i) the amount of capital and incremental operating expenditure, for each remaining *regulatory year*, which the *AER* considers is reasonably required for the purpose of undertaking the *contingent project*;

(ii) the total capital expenditure which the *AER* considers is reasonably required for the purpose of undertaking the *contingent project*;

(iii) the likely commencement and completion dates for the *contingent project*; and

(iv) the incremental revenue which is likely to be required by the *Distribution Network Service Provider* in each remaining *regulatory year* as a result of the *contingent project* being undertaken as described in subparagraphs (i) and (ii), such estimate being calculated in accordance with subparagraph (2);

(2) calculate the estimate referred to in subparagraph (1)(iv):

(i) on the basis of the capital expenditure and incremental operating expenditure referred to in subparagraph (1)(i); and

(ii) otherwise in accordance with subparagraph (b)(4); and

(3) amend the distribution determination in accordance with paragraph (h).

(f) In making the determinations referred to in subparagraph (e)(1), the *AER* must accept the relevant amounts and dates, contained in the *Distribution Network Service Provider's* application, as referred to in subparagraph (b)(3)(ii) to (vii), if the *AER* is satisfied that:

(1) the forecast of the total capital expenditure for the *contingent project* meets the threshold as referred to in clause 6.6A.1(b)(2)(iii);

(2) the amounts of forecast capital expenditure and incremental operating expenditure reasonably reflect the *capital expenditure criteria* and the *operating expenditure criteria*, taking into account the *capital expenditure factors* and the *operating expenditure factors* respectively, in the context of the *contingent project*;

(3) the estimates of incremental revenue are reasonable; and

(4) the dates are reasonable.

(g) In making the determinations referred to in subparagraph (e)(1) and paragraph (f), the *AER* must have regard to:

(1) the information included in or accompanying the application;

(2) submissions received in the course of consulting on the application;

(3) such analysis as is undertaken by or for the *AER*;

(4) the expenditure that would be incurred in respect of a *contingent project* by an efficient and prudent *Distribution Network Service Provider* in the circumstances of the *Distribution Network Service Provider*;

(5) the actual and expected capital expenditure of the *Distribution Network Service Provider* for *contingent projects* during any preceding *regulatory control periods*;

(6) the extent to which the forecast capital expenditure for the *contingent project* is referable to arrangements with a person other than the *Distribution Network Service Provider* that, in the opinion of the *AER*, do not reflect arm's length terms;

(7) the relative prices of operating and capital inputs in relation to the *contingent project*;

(8) the substitution possibilities between operating and capital expenditure in relation to the *contingent project*; and

(9) whether the capital and operating expenditure forecasts for the *contingent project* are consistent with any incentive scheme or

schemes that apply to the *Distribution Network Service Provider* under clauses 6.5.8, 6.5.8A or 6.6.2 to 6.6.4.

(h) Amendments to a distribution determination referred to in subparagraph (e)(3) must only vary the determination to the extent necessary:

(1) to adjust the forecast capital expenditure for that *regulatory control period* to accommodate the amount of capital expenditure determined under subparagraph (e)(1)(i) (in which case the amount of that adjustment will be taken to be accepted by the *AER* under clause 6.5.7(c));

(2) to adjust the forecast operating expenditure for that *regulatory control period* to accommodate the amount of incremental operating expenditure determined under subparagraph (e)(1)(i) (in which case the amount of that adjustment will be taken to be accepted by the *AER* under clause 6.5.6(c));

(3) to reflect the effect of any resultant increase in forecast capital and operating expenditure on:

(i) the *annual revenue requirement* for each *regulatory year* in the remainder of the *regulatory control period*; and

(ii) the X factor for each *regulatory year* in the remainder of the *regulatory control period*.

(i) A *Distribution Network Service Provider* must provide the *AER* with such additional information as the *AER* requires for the purpose of making a decision on an application made by that *Distribution Network Service Provider* under paragraph (a) within the time specified by the *AER* in a notice provided to the *Distribution Network Service Provider* by the *AER* for that purpose.

Extension of time limit

(j) If the *AER* is satisfied that amending a distribution determination under subparagraphs (e)(3) and (h) involves issues of such complexity or difficulty that the time limit fixed in paragraph (d) should be extended, the *AER* may extend that time limit by a further period of up to 60 *business days*, provided that it gives written notice to the *Distribution Network Service Provider* of that extension no later than 10 *business days* before the expiry of that time limit.

(k) If the *AER* extends the time limit under paragraph (j), it must make available on its website a notice of that extension as soon as is reasonably practicable.

(l) Subject to paragraph (n1), if the *AER* gives a written notice to the *Distribution Network Service Provider* stating that it requires information from an *Authority* in order to make a decision on an application made by the *Distribution Network Service Provider* under paragraph (a) then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the *Distribution Network Service Provider* and when the *AER* receives that information from that *Authority* is to be disregarded.

(m) Subject to paragraph (n1), if the *AER* gives a written notice to the *Distribution Network Service Provider* stating that, in order to make a decision on an application made by the *Distribution Network Service Provider* under paragraph (a), it requires information from a judicial body or royal commission then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the *Distribution Network Service Provider* and when that information is made publicly available is to be disregarded.

(n) Where the *AER* gives a notice to the *Distribution Network Service Provider* under paragraph (l) or (m), it must:

(1) as soon as is reasonably practicable make available on its website a notice stating when the period referred to in paragraph (l) or (m), as the case may be, has commenced;

(2) as soon as is reasonably practicable make available on its website a notice stating when the period referred to in paragraph (l) or (m), as the case may be, has ended; and

(3) if the information specified in that notice is required from an *Authority*, promptly request that information from the relevant *Authority*.

(n1) Paragraphs (l) and (m) do not apply if the *AER* gives the notice specified in those paragraphs to the *Distribution Network Service Provider* later than 10 *business days* before the expiry of the time limit fixed in paragraph (d).

Amendment of distribution determination

(o) If the *AER* amends a distribution determination under paragraph (h), that amendment must take effect from the commencement of the next *regulatory year*.

Part D Negotiated distribution services

6.7 Negotiated distribution services

6.7.1 Principles relating to access to negotiated distribution services

The following principles constitute the *Negotiated Distribution Service Principles*:

(1) the price for a *negotiated distribution service* should be based on the costs incurred in providing that service, determined in accordance with the principles and policies set out in the *Cost Allocation Method* for the relevant *Distribution Network Service Provider*;

(2) subject to subparagraphs (3) and (4), the price for a *negotiated distribution service* should be at least equal to the cost that would be avoided by not providing the service but no more than the cost of providing it on a stand alone basis;

(3) if the *negotiated distribution service* is the provision of a *shared distribution service* that:

(i) exceeds the *network* performance requirements (if any) which that *shared distribution service* is required to meet under any *jurisdictional electricity legislation*; or

(ii) exceeds the *network* performance requirements set out in schedules 5.1a and 5.1,

then the differential between the price for that service and the price for the *shared distribution service* which meets (but does not exceed) the *network* performance requirements under any *jurisdictional electricity legislation* or as set out in schedules 5.1a and 5.1 (as the case may be) should reflect the increase in the *Distribution Network Service Provider's* incremental cost of providing that service;

(4) if the *negotiated distribution service* is the provision of a *shared distribution service* that does not meet (and does not exceed) the *network* performance requirements set out in schedules 5.1a and 5.1, the differential between the price for that service and the price for the *shared distribution service* which meets (but does not exceed) the *network* performance requirements set out in schedules 5.1a and 5.1 should reflect the cost the *Distribution Network Service Provider* would avoid by not providing that service;

(5) the price for a *negotiated distribution service* must be the same for all *Distribution Network Users* unless there is a material difference in the costs of providing the *negotiated distribution service* to different *Distribution Network Users* or classes of *Distribution Network Users*;

(6) the price for a *negotiated distribution service* should be subject to adjustment over time to the extent that the assets used to provide that service are subsequently used to provide services to another person, in which case the adjustment should reflect the extent to which the costs of that asset are being recovered through charges to that other person;

(7) the price for a *negotiated distribution service* should be such as to enable the *Distribution Network Service Provider* to recover the efficient costs of complying with all *regulatory obligations or requirements* associated with the provision of the *negotiated distribution service*;

(8) any access charges:

(A) in respect of providing *distribution network user access* to *negotiated distribution services* which would have been *negotiated distribution services* regardless of the operation of clause 6.24.2(c) should be based on the costs reasonably incurred by the *Distribution Network*

Service Provider in providing that access and, in the case of compensation referred to in clauses 5.5(f)(4)(ii) and (iii), on the revenue that is likely to be foregone and the costs that are likely to be incurred by a person referred to in those provisions where an event referred to in those provisions occurs; and

(B) in respect of providing *transmission network user access* to *negotiated distribution services* which would have been treated as *negotiated transmission services* were it not for the operation of clause 6.24.2(c) should be based on the costs reasonably incurred by the *Distribution Network Service Provider* in providing that access and, in the case of compensation referred to in clauses 5.4A(h) - (j), on the revenue that is likely to be foregone and the costs that are likely to be incurred by a person referred to in those provisions where an event referred to in those provisions occurs;

(9) the *terms and conditions of access* for a *negotiated distribution service* should be fair and reasonable and consistent with the safe and reliable operation of the *power system* in accordance with the *Rules* (for these purposes, the price for a *negotiated distribution service* is to be treated as being fair and reasonable if it complies with principles (1) to (7) of this clause);

(10) the *terms and conditions of access* for a *negotiated distribution service* (including, in particular, any exclusions and limitations of liability and indemnities) must not be unreasonably onerous taking into account the allocation of risk between the *Distribution Network Service Provider* and the other party, the price for the *negotiated distribution service* and the costs to the *Distribution Network Service Provider* of providing the *negotiated distribution service*;

(11) the *terms and conditions of access* for a *negotiated distribution service* should take into account the need for the service to be provided in a manner that does not adversely affect the safe and reliable operation of the *power system* in accordance with the *Rules*.

6.7.2 Determination of terms and conditions of access for negotiated distribution services

(a) A *Distribution Network Service Provider* must comply with:

(1) the provider's *negotiating framework*; and

(2) the provider's *Negotiated Distribution Service Criteria*,

when the provider is negotiating the *terms and conditions of access* to *negotiated distribution services*.

(b) The *Distribution Network Service Provider* must also comply with any other applicable requirements of the *Rules*, including the requirements of:

(1) rules 5.3, 5.3A and 5.5, when negotiating for the provision of *connection services* and the associated *connection service* charges in respect of the provision of *negotiated distribution services* which would have been *negotiated distribution services* regardless of the operation of clause 6.24.2(c);

(2) rules 5.3, 5.3A, when negotiating for the provision of *connection* services and the associated *connection service* charges in respect of the provision of *negotiated distribution services* which would have been treated as *negotiated transmission services* were it not for the operation of clause 6.24.2(c);

(3) rule 5.5, when negotiating the *use of system services charges* and *access charges* to be paid to or by a *Distribution Network User* in respect of the provision of *negotiated distribution services* which would have been *negotiated distribution services* regardless of the operation of clause 6.24.2(c); and

(4) rule 5.4A, when negotiating the *use of system services charges* and *access charges* to be paid to or by a *Distribution Network User* in respect of the provision of *negotiated distribution services* which would have been treated as *negotiated transmission services* were it not for the operation of clause 6.24.2(c).

6.7.3 Negotiating framework determination

The determination specifying requirements relating to the *negotiating framework* forming part of a distribution determination for a *Distribution Network Service Provider* is to set out requirements that are to be complied with in respect of the preparation, replacement, application or operation of its *negotiating framework*.

6.7.4 Negotiated Distribution Service Criteria determination

(a) The determination by the *AER* specifying the *Negotiated Distribution Service Criteria* forming part of a distribution determination for a *Distribution Network Service Provider* is to set out the criteria that are to be applied:

(1) by the provider in negotiating *terms and conditions of access* including:

(i) the prices that are to be charged for the provision of *negotiated distribution services* by the provider for the relevant *regulatory control period*; or

(ii) any *access charges* which are negotiated by the provider during that *regulatory control period*; and

(2) by the *AER* in resolving an access dispute about *terms and conditions of access* including:

(i) the price that is to be charged for the provision of a *negotiated distribution service* by the provider; or

(ii) any *access charges* that are to be paid to or by the provider.

(b) The *Negotiated Distribution Service Criteria* must give effect to and be consistent with the *Negotiated Distribution Service Principles* set out in clause 6.7.1.

6.7.5 Preparation of and requirements for negotiating framework for negotiated distribution services

(a) A *Distribution Network Service Provider* must prepare a document (the *negotiating framework*) setting out the procedure to be followed during negotiations between that provider and any person (the *Service Applicant* or applicant) who wishes to receive a *negotiated distribution service* from the provider, as to the *terms and conditions of access* for the provision of the service.

(b) The *negotiating framework* for a *Distribution Network Service Provider* must comply with and be consistent with:

(1) the applicable requirements of the relevant distribution determination; and

Note:

See clause 6.7.3.

(2) paragraph (c), which sets out the minimum requirements for a *negotiating framework*.

(c) The *negotiating framework* for a *Distribution Network Service Provider* must specify:

(1) a requirement for the provider and a *Service Applicant* to negotiate in good faith the *terms and conditions of access* to a *negotiated distribution service*; and

(2) a requirement for the provider to provide all such commercial information a *Service Applicant* may reasonably require to enable that applicant to engage in effective negotiation with the provider for the provision of the *negotiated distribution service*, including the cost information described in subparagraph (3); and

(3) a requirement for the provider:

(i) to identify and inform a *Service Applicant* of the reasonable costs and/or the increase or decrease in costs (as appropriate) of providing the *negotiated distribution service*; and

(ii) to demonstrate to a *Service Applicant* that the charges for providing the *negotiated distribution service* reflect those costs and/or the cost increment or decrement (as appropriate); and

(iii) to have appropriate arrangements for assessment and review of the charges and the basis on which they are made; and

Note:

If (for example) a charge, or an element of a charge, is based on a customer's actual or assumed *maximum demand*, the assessment and review arrangements should allow for a change to the basis of the charge so that it more closely reflects the customer's *load* profile where a reduction or increase in *maximum demand* has been demonstrated.

(4) a requirement for a *Service Applicant* to provide all commercial information the provider may reasonably require to enable the provider to engage in effective negotiation with that applicant for the provision of the *negotiated distribution service*; and

(5) a requirement that negotiations with a *Service Applicant* for the provision of the *negotiated distribution service* be commenced and finalised within specified periods and a requirement that each party to the negotiations must make reasonable endeavours to adhere to the specified time limits; and

(6) a process for dispute resolution which provides that all disputes as to the *terms and conditions of access* for the provision of *negotiated distribution services* are to be dealt with in accordance with the relevant provisions of the Law and the *Rules* for dispute resolution; and

(7) the arrangements for payment by a *Service Applicant* of the provider's reasonable direct expenses incurred in processing the application to provide the *negotiated distribution service*; and

(8) a requirement that the *Distribution Network Service Provider* determine the potential impact on other *Distribution Network Users* of the provision of the *negotiated distribution service*; and

(9) a requirement that the *Distribution Network Service Provider* must notify and consult with any affected *Distribution Network Users* and ensure that the provision of *negotiated distribution services* does not result in non-compliance with obligations in relation to other *Distribution Network Users* under the *Rules*; and

(10) a requirement that the *Distribution Network Service Provider publish* the results of negotiations on its website.

(d) Notwithstanding the foregoing, the negotiating framework must not be inconsistent with any of the requirements of:

(1) rules 5.3, 5.3A and 5.5 insofar as the *negotiating framework* applies to *negotiated distribution services* which would have been *negotiated*

distribution services regardless of the operation of clause 6.24.2(c); and

(2) rules 5.3, 5.3A and 5.4A insofar as the *negotiating framework* applies to *negotiated distribution services* which would have been treated as *negotiated transmission services* were it not for the operation of clause 6.24.2(c),

and any other relevant provisions of this Chapter 6 and, in the event of any inconsistency, those requirements prevail.

(e) Each *Distribution Network Service Provider* and *Service Applicant* who is negotiating for the provision of a *negotiated distribution service* by the provider must comply with the requirements of the *negotiating framework* in accordance with its terms.

6.7.6 Confidential information

(a) Commercial information to be provided to a *Service Applicant* in accordance with clause 6.7.5(c)(2):

(1) does not include *confidential information* provided to the *Distribution Network Service Provider* by another person; and

(2) may be provided subject to a condition that the *Service Applicant* must not provide any part of that commercial information to any other person without the consent of the *Distribution Network Service Provider*.

(b) Commercial information to be provided to a *Distribution Network Service Provider* in accordance with clause 6.7.5(c)(4):

(1) does not include *confidential information* provided to a *Service Applicant* by another person; and

(2) may be provided subject to a condition that the provider must not provide any part of that commercial information to any other person without the consent of the *Service Applicant*.

Part DA Connection policies

6.7A Connection policy requirements

This *Rule* deals with the preparation of, requirements for and approval of *connection policies*.

6.7A.1 Preparation of, and requirements for, connection policy

(a) A *Distribution Network Service Provider* must prepare a document (its proposed *connection policy*) setting out the circumstances in which it may require a *retail customer* or *real estate developer* to pay a *connection charge*, for the provision of a *connection service* under Chapter 5A.

(b) The proposed *connection policy*:

(1) must be consistent with:

(i) the *connection charge principles*; and

(ii) the *connection charge guidelines*; and

(2) must specify:

(i) the categories of persons that may be required to pay a *connection charge* and the circumstances in which such a requirement may be imposed; and

(ii) the aspects of a *connection service* for which a *connection charge* may be made; and

Example

The *Distribution Network Service Provider* might (for example) make separate *connection charges* for the provision of a *connection asset* and for making a necessary *extension* to, or other *augmentation* of, the *distribution network*.

(iii) the basis on which *connection charges* are determined; and

(iv) the manner in which *connection charges* are to be paid (or equivalent consideration is to be given); and

Examples

The payment (or equivalent consideration) might take the form of a capital contribution, prepayment or financial guarantee.

(v) a threshold (based on capacity or any other measure identified in the *connection charge guidelines*) below which a *retail customer* (not being a non-registered *embedded generator* or a *real estate developer*) will not be liable for a *connection charge* for an *augmentation* other than an *extension*.

Part E Regulatory proposal and proposed tariff structure statement

6.8 Regulatory proposal and proposed tariff structure statement

6.8.1 AER's framework and approach paper

(a) The *AER* must make and *publish* a document (a *framework and approach paper*) that applies in respect of a distribution determination for a matter listed in paragraph (b) in accordance with this clause if:

(1) there is no *framework and approach paper* that applies in respect of that distribution determination for that matter; or

(2) there is a *framework and approach paper* that would apply in respect of that distribution determination for that matter, but the *AER* has *published* a notice under paragraph (c)(3) stating that it will make an amended or replacement *framework and approach paper* with respect to that matter.

(b) A *framework and approach paper* that applies in respect of a distribution determination must set out:

(1) the *AER's* decision (together with its reasons for the decision), for the purposes of the forthcoming distribution determination, on the following matters:

(i) the form (or forms) of the control mechanisms; and

(ii) as to whether or not Part J of Chapter 6A is to be applied to determine the pricing of *transmission standard control services* provided by any *dual function assets* owned, controlled or operated by the *Distribution Network Service Provider*; and

Note:

See clause 6.25(b).

(2) the *AER's* proposed approach (together with its reasons for the proposed approach), in the forthcoming distribution determination, to the following matters:

(i) the classification of *distribution services* under this Chapter;

(ii) the formulae that give effect to the control mechanisms referred to in subparagraph (1)(i);

(iii) the application to the *Distribution Network Service Provider* of any *service target performance incentive scheme*;

(iv) the application to the *Distribution Network Service Provider* of any *efficiency benefit sharing scheme*;

(v) the application to the *Distribution Network Service Provider* of any *capital expenditure sharing scheme*;

(vi) the application to the *Distribution Network Service Provider* of any *demand management and embedded generation connection incentive scheme*;

(vii) the application to the *Distribution Network Service Provider* of any *small-scale incentive scheme*; and

(viii) the application to the *Distribution Network Service Provider* of the *Expenditure Forecast Assessment Guidelines*; and

(ix) whether depreciation for establishing the regulatory asset base for the relevant *distribution system* as at the commencement of the following *regulatory control period* is to be based on actual or forecast capital expenditure in accordance with clause S6.2.2B.

(c) If there is a *framework and approach paper* that would apply in respect of the distribution determination for a matter listed in paragraph (b) then:

(1) no later than 32 months before the end of the *regulatory control period* that precedes that for which the distribution determination is to be made, the *Distribution Network Service Provider* may request the *AER* in writing to make an amended or replacement *framework and approach paper* in respect of a matter. The request must specify the *Distribution Network Service Provider's* reasons for making that request;

(2) no later than 31 months before the end of the *regulatory control period* that precedes that for which the distribution determination is to be made, the *AER* must *publish* a notice inviting submissions on whether it is necessary or desirable to amend or replace that *framework and approach paper* in so far as it relates to a matter (other than any matter specified in a request from the *Distribution Network Service Provider* under subparagraph (1)); and

(3) no later than 30 months before the end of the *regulatory control period* that precedes that for which the distribution determination is to be made, the *AER* must make and *publish* a notice that:

(i) states that it will make an amended or replacement *framework and approach paper* in respect of the matters specified in a request from the *Distribution Network Service Provider* under subparagraph (1) (if any);

(ii) if subparagraph (i) applies, is accompanied by a copy of the request from the *Distribution Network Service Provider* under subparagraph (1); and

(iii) states whether it will make an amended or replacement *framework and approach paper* in respect of any matter other than any matters referred to in subparagraph (i) above and, if so, the reasons why it considers that it is necessary or desirable to make an amended or replacement *framework and approach paper* in respect of that matter.

(d) In making the decision referred to in paragraph (c)(3)(iii), the *AER* must have regard to any submissions made in response to the invitation under paragraph (c)(2).

(e) Where paragraph (a) applies then, at least 23 months before the end of the current *regulatory control period*, the *AER* must, after consulting with the relevant *Distribution Network Service Provider* and other persons as the *AER* considers appropriate, make, amend or replace the *framework and approach paper*, as the case may be, and:

(1) give a copy of it to the relevant *Distribution Network Service Provider*; and

(2) *publish* it,

as soon as is reasonably practicable.

(f) Subject to clauses 6.12.3 and 6.25(d), a *framework and approach paper* is not binding on the *AER* or a *Distribution Network Service Provider*.

(g) The *AER* may make and *publish* a *framework and approach paper* that applies in respect of a distribution determination for a matter that is not listed in paragraph (b) and, if it does so, this clause 6.8.1 applies as if that matter were listed in paragraph (b).

6.8.1A Notification of approach to forecasting expenditure

(a) A *Distribution Network Service Provider* must inform the *AER* of the methodology it proposes to use to prepare the forecasts of operating expenditure and capital expenditure that form part of its *regulatory proposal*.

(b) A *Distribution Network Service Provider* must submit the information referred to in paragraph (a):

(1) at least 24 months before the expiry of a distribution determination that applies to the *Distribution Network Service Provider*; or

(2) if no distribution determination applies to the *Distribution Network Service Provider*, within 3 months after being required to do so by the *AER*.

6.8.2 Submission of regulatory proposal and tariff structure statement

(a) A *Distribution Network Service Provider* must, whenever required to do so under paragraph (b), submit to the *AER* a *regulatory proposal* and a proposed *tariff structure statement* related to the *distribution services* provided by means of, or in connection with, the *Distribution Network Service Provider's distribution system*.

(b) A *regulatory proposal* and a proposed *tariff structure statement* must be submitted:

(1) at least 17 months before the expiry of a distribution determination that applies to the *Distribution Network Service Provider*; or

(2) if no distribution determination applies to the *Distribution Network Service Provider*, within 3 months after being required to do so by the *AER*.

(c) A *regulatory proposal* must include (but need not be limited to) the following elements:

(1) a classification proposal:

(i) showing how the *distribution services* to be provided by the *Distribution Network Service Provider* should, in the *Distribution Network Service Provider's* opinion, be classified under this Chapter; and

(ii) if the proposed classification differs from the classification suggested in the relevant *framework and approach paper* – including the reasons for the difference;

(2) for *direct control services* classified under the proposal as *standard control services* – a *building block proposal*;

(3) for *direct control services* classified under the proposal as *alternative control services* – a demonstration of the application of the control mechanism, as set out in the *framework and approach paper*, and the necessary supporting information;

(4) **[Deleted]**.

(5) for services classified under the proposal as *negotiated distribution services* – the proposed *negotiating framework*;

(5A) the proposed *connection policy*;

(6) an identification of any parts of the *regulatory proposal* the *Distribution Network Service Provider* claims to be confidential and wants suppressed from publication on that ground in accordance with the *Distribution Confidentiality Guidelines*; and

Note:

Additional information that must be included in a *regulatory proposal* is referred to in clause 6.3.1(c) and Schedule 6.1.

(7) a description (with supporting materials) of how the proposed *tariff structure statement* complies with the *pricing principles for direct control services* including:

(i) a description of where there has been any departure from the pricing principles set out in paragraphs 6.18.5(e) to (g); and

(ii) an explanation of how that departure complies with clause 6.18.5(c).

(c1) The *regulatory proposal* must be accompanied by an overview paper which includes each of the following matters:

(1) a summary of the *regulatory proposal* the purpose of which is to explain the *regulatory proposal* in reasonably plain language to electricity consumers;

(2) a description of how the *Distribution Network Service Provider* has engaged with electricity consumers in developing the *regulatory proposal* and has sought to address any relevant concerns identified as a result of that engagement;

(3) a description of the key risks and benefits of the *regulatory proposal* for electricity consumers; and

(4) a comparison of the *Distribution Network Service Provider's* proposed *total revenue requirement* with its *total revenue requirement* for the current *regulatory control period* and an explanation for any material differences between the two amounts;

(c1a) The overview paper must also include a description of how the *Distribution Network Service Provider* has engaged with *retail customers* and *retailers* in developing the proposed *tariff structure statement* and has sought to address any relevant concerns identified as a result of that engagement.

(c2) The *regulatory proposal* must be accompanied by information required by the *Expenditure Forecast Assessment Guidelines* as set out in the *framework and approach paper*.

(d) The *regulatory proposal* must comply with the requirements of, and must contain or be accompanied by the information required by any relevant *regulatory information instrument*.

(d1) The proposed *tariff structure statement* must be accompanied by an *indicative pricing schedule*.

(d2) The proposed *tariff structure statement* must comply with the *pricing principles for direct control services*.

(e) If more than one *distribution system* is owned, controlled or operated by a *Distribution Network Service Provider*, then, unless the *AER* otherwise determines, a separate *regulatory proposal*and a separate *tariff structure statement* are to be submitted for each *distribution system*.

(f) If, at the commencement of this Chapter, different parts of the same *distribution system* were separately regulated, then, unless the *AER* otherwise determines, a separate *regulatory proposal* and a separate *tariff structure statement* are to be submitted for each part as if it were a separate *distribution system*.

6.9 Preliminary examination and consultation

6.9.1 Preliminary examination

(a) If the *AER* considers that:

(1) a *regulatory proposal* submitted by a *Distribution Network Service Provider*;

(2) a proposed *tariff structure statement* submitted by a *Distribution Network Service Provider*; or

(3) any information accompanying such a *regulatory proposal* or proposed *tariff structure statement*,

does not comply, in any respect, with a requirement of the Law or the *Rules*, the *AER* may notify the *Distribution Network Service Provider* that it requires resubmission of the relevant *regulatory proposal*, proposed *tariff structure statement* or accompanying information.

(b) The notice must be given as soon as practicable and must state why, and in what respects, the *AER* considers the *regulatory proposal*, proposed *tariff structure statement* or the accompanying information (as the case may be) to be non-compliant.

6.9.2 Resubmission of proposal

(a) A *Distribution Network Service Provider* must, within 20 *business days* after receiving a notice under clause 6.9.1, resubmit its *regulatory proposal*, proposed *tariff structure statement* or the accompanying information (as the case may be) in an amended form that complies with the relevant requirements set out in the notice.

(b) A *Distribution Network Service Provider* may only make changes to its *regulatory proposal*, proposed *tariff structure statement* or the accompanying information (as the case may be) to address the deficiencies identified in the notice.

6.9.2A Confidential information

If the *Distribution Network Service Provider* has identified any part of the *regulatory proposal* as submitted or resubmitted to the *AER* (as the case may be) under this Part to be confidential, the *AER* must, as soon as is reasonably practicable, include on its website a notice that sets out:

(a) the fact that the *regulatory proposal* contains information over which a claim of confidentiality has been made;

(b) the proportion of material in the *regulatory proposal* that is subject to any claim of confidentiality compared to that which is not subject to any such claim; and

(c) the comparative proportion of material in the *regulatory proposal* that is subject to any claim of confidentiality compared to that which is subject to claims of confidentiality in the *regulatory proposals* of other *Distribution Network Service Providers*.

6.9.3 Consultation

(a) Subject to the provisions of the Law and the *Rules* about the disclosure of *confidential information*, the *AER* must *publish*:

(1) a *regulatory proposal*;

(2) a proposed *tariff structure statement*; and

(3) any information accompanying such a *regulatory proposal* or proposed *tariff structure statement*,

submitted or resubmitted to it (as the case may be) by the *Distribution Network Service Provider* under clause 6.8.2 or 6.9.2, together with:

(4) the *AER's* proposed *Negotiated Distribution Service Criteria* for the *Distribution Network Service Provider*; and

(5) an invitation for written submissions on the documents and information referred to in sub-paragraphs (1) to (4),

after the *AER* decides that the *regulatory proposal*, proposed *tariff structure statement* and accompanying information comply (or that there is sufficient compliance) with the requirements of the Law and the *Rules*.

(b) The *AER* must *publish*:

(1) an issues paper not more than 40 *business days* after the submission, under clause 6.8.2, of the documents and information, but not any resubmitted documents or information, referred to in sub-paragraphs (a)(1) to (a)(3);

(2) an invitation for written submissions on the issues paper; and

(3) an invitation to attend a public forum on the issues paper.

(b1) The issues paper referred to in paragraph (b) must identify preliminary issues, whether or not arising out of the documents and information referred to in sub-paragraphs (a)(1) to (a)(3), that the *AER* considers are likely to be relevant to its assessment of those documents or that information (however, nothing in this clause is to be taken as precluding the *AER* from considering other issues in making a distribution determination for the *Distribution Network Service Provider*).

(b2) The *AER* must hold a public forum on the issues paper not more than 10 *business days* after the *publication* of the issues paper.

(c) Any person may make a written submission to the *AER* on the documents and information referred to in sub-paragraphs (a)(1) to (a)(4) or the issues paper within the time specified in the invitations referred to in paragraphs (a)(5) and (b), which in each case must be not earlier than 30 *business days* after the *publication* of the issues paper.

6.10 Draft distribution determination and further consultation

6.10.1 Making of draft distribution determination

(a) The *AER* must make a draft distribution determination in relation to the *Distribution Network Service Provider*.

(b) In making a draft distribution determination in relation to the *Distribution Network Service Provider*, and subject to clause 6.14, the *AER* must have regard to each of the following:

(1) the information included in or accompanying the *regulatory proposal* and the proposed *tariff structure statement*;

(2) written submissions on the issues paper received under clause 6.9.3 and on the documents and information referred to in sub-paragraphs 6.9.3(a)(1) to 6.9.3(a)(4); and

(3) any analysis undertaken by or for the *AER* that is *published* prior to the making of the draft distribution determination or as part of the draft distribution determination.

6.10.2 Publication of draft determination and consultation

(a) The *AER* must, as soon as practicable after the relevant date referred to in clause 6.8.2(b), *publish*:

(1) the draft distribution determination;

(2) notice of the making of the draft distribution determination;

(3) the *AER's* reasons for suggesting that the distribution determination should be made as proposed including the draft constituent decisions i.e. the decisions made in accordance with rule 6.12 on which the draft distribution determination is predicated;

(4) notice of a predetermination conference; and

(5) an invitation for written submissions on its draft distribution determination.

(b) The *AER* must hold the predetermination conference at the time, date and place specified in the notice under subparagraph (a)(4) for the purpose of explaining the draft distribution determination.

(c) Any person may make a written submission to the *AER* on the draft distribution determination within the time specified in the invitation referred to in paragraph (a)(5), which must be not earlier than 45 *business days* after the making of the draft determination.

6.10.3 Submission of revised proposal

(a) In addition to making written submissions, the *Distribution Network Service Provider* may, not more than 45*business days* after the publication of the draft distribution determination, submit a revised *regulatory proposal* or a revised proposed *tariff structure statement* to the *AER*.

(b) A *Distribution Network Service Provider* may only make the revisions referred to in paragraph (a) so as to incorporate the substance of any changes required to address matters raised by the draft distribution determination or the *AER's* reasons for it.

(b1) A revised proposed *tariff structure statement* must comply with the *pricing principles for direct control services* and must be accompanied by a revised *indicative pricing schedule*.

(c) A revised *regulatory proposal* must comply with the requirements of, and must contain or be accompanied by the information required by, any relevant *regulatory information instrument* or the *Rules*.

(c1) If the *Distribution Network Service Provider* has identified any part of the revised *regulatory proposal* to the *AER* under this Part to be confidential, the *AER* must, as soon as is reasonably practicable, make available on its website a notice that sets out:

(1) the fact that the revised *regulatory proposal* contains information over which a claim of confidentiality has been made;

(2) the proportion of material in the revised *regulatory proposal* that is subject to any claim of confidentiality compared to that which is not subject to any such claim; and

(3) the comparative proportion of material in the revised *regulatory proposal* that is subject to any claim of confidentiality compared to that which is subject to claims of confidentiality in the revised *regulatory proposals* of other *Distribution Network Service Providers*.

(d) Subject to the provisions of the Law and the *Rules* about the disclosure of *confidential information*, the *AER* must *publish* a revised *regulatory proposal* or a revised proposed *tariff structure statement* submitted by the *Distribution Network Service Provider* under paragraph (a), together with the accompanying information, as soon as practicable after receipt by the *AER*.

(e) The *AER* may invite written submissions on the revised *regulatory proposal* or the revised proposed *tariff structure statement*.

6.10.4 Submissions on specified matters

If the *AER* invites submissions on a revised *regulatory proposal* or a revised proposed *tariff structure statement* under clause 6.10.3(e), the *AER* may invite further written submissions on the submissions received under clause 6.10.2(c) or 6.10.3(e) by *publishing* an invitation which specifies:

(a) the matters in respect of which submissions are invited; and

(b) the time for making submissions, which must not be earlier than 15 *business days* after the date on which the invitation was *published*.

6.11 Distribution determination

6.11.1 Making of distribution determination

(a) The *AER* must make a distribution determination in relation to the *Distribution Network Service Provider*.

(b) In making a distribution determination in relation to the *Distribution Network Service Provider*, and subject to rule 6.14, the *AER* must have regard to each of the following:

(1) the information included in or accompanying the *regulatory proposal* and the proposed *tariff structure statement*;

(2) written submissions received under this Part E; and

(3) any analysis undertaken by or for the *AER* that is *published* prior to the making of the distribution determination or as part of the distribution determination.

(c) The *AER* must use its best endeavours to *publish*, a reasonable time prior to the making of the distribution determination, any analysis undertaken by or for it on which it proposes to rely, or to which it proposes to refer, for the purposes of the distribution determination.

6.11.1A Out of scope revised regulatory proposal or late submissions

On or before making a distribution determination, the *AER* must make available on its website:

(a) a summary of any revisions to the relevant *regulatory proposal* or proposed *tariff structure statement* that have been made in a revised *regulatory proposal* or revised proposed *tariff structure statement* that do not comply with clause 6.10.3(b), together with an indication of the amount of that information;

(b) a summary of any submissions on the draft distribution determination, revised *regulatory proposal* or revised proposed *tariff structure statement* that were made by the *Distribution Network Service Provider* and that contain information that the *Distribution Network Service Provider* was entitled to incorporate in the revised *regulatory proposal* or the revised proposed *tariff structure statement* under clause 6.10.3(b), together with an indication of the amount of that information;

(c) a summary of any submissions that purport to be made by the *Distribution Network Service Provider* under clause 6.10.4 but are in respect of matters other than those specified by the *AER* under that clause, together with an indication of the length of those submissions; and

(d) a summary of any submissions on the draft determination, revised *regulatory proposal* or revised proposed *tariff structure statement* that were made by the *Distribution Network Service Provider* after the time for making the submissions has expired, together with an indication of the length of those submissions.

For the purpose of this clause 6.11.1A, revisions or submissions may be summarised by cross-referencing to the relevant *regulatory proposal*, proposed *tariff structure statement* or submissions.

6.11.2 Notice of distribution determination

The *AER* must as soon as practicable, but not later than 2 months before the commencement of the relevant *regulatory control period*, *publish*:

(1) notice of the making of the distribution determination;

(2) the distribution determination itself; and

(3) the *AER's* reasons for making the distribution determination in its final form including the constituent decisions i.e. the decisions made in accordance with rule 6.12 on which the distribution determination is predicated.

6.11.3 Commencement of distribution determination

(a) A distribution determination takes effect at the commencement of the *regulatory control period* to which it relates.

(b) If a period intervenes between the end of one *regulatory control period* and the commencement of a new distribution determination providing for the next *regulatory control period*:

    (1) the previous distribution determination continues in force during the intervening period;

    (2) the previous *approved pricing proposal* continues in force (despite any contrary provision of these *Rules*) during the intervening period and the first *regulatory year* of the later *regulatory control period*; and

    (3) the later distribution determination is to make provision for appropriate adjustments to the *approved pricing proposals* for subsequent *regulatory years* of the *regulatory control period*.

6.12 Requirements relating to draft and final distribution determinations

6.12.1 Constituent decisions

A distribution determination is predicated on the following decisions by the *AER* (**constituent decisions**):

(1) a decision on the classification of the services to be provided by the *Distribution Network Service Provider* during the course of the *regulatory control period*;

(2) a decision on the *Distribution Network Service Provider's* current *building block proposal* in which the *AER* either approves or refuses to approve:

(i) the *annual revenue requirement* for the *Distribution Network Service Provider*, as set out in the *building block proposal*, for each *regulatory year* of the *regulatory control period*; and

(ii) the commencement and length of the *regulatory control period* as proposed in the *building block proposal*;

(3) a decision in which the *AER* either:

(i) acting in accordance with clause 6.5.7(c), accepts the total of the forecast capital expenditure for the *regulatory control period* that is included in the current *building block proposal*; or

(ii) acting in accordance with clause 6.5.7(d), does not accept the total of the forecast capital expenditure for the *regulatory control period* that is included in the current *building block proposal*, in which case the *AER* must set out its reasons for that decision and an estimate of the total of the *Distribution Network Service Provider's* required capital expenditure for the *regulatory control period* that the *AER* is satisfied reasonably reflects the *capital expenditure criteria*, taking into account the *capital expenditure factors*;

(4) a decision in which the *AER* either:

(i) acting in accordance with clause 6.5.6(c), accepts the total of the forecast operating expenditure for the *regulatory control period* that is included in the current *building block proposal*; or

(ii) acting in accordance with clause 6.5.6(d), does not accept the total of the forecast operating expenditure for the *regulatory control period* that is included in the current *building block proposal*, in which case the *AER* must set out its reasons for that decision and an estimate of the total of the *Distribution Network Service Provider's* required operating expenditure for the *regulatory control period* that the *AER* is satisfied reasonably reflects the *operating expenditure criteria*, taking into account the *operating expenditure factors*;

(4A) a decision in which the *AER* determines:

(i) whether each of the *proposed contingent projects* (if any) described in the current *regulatory proposal* are *contingent projects* for the purposes of the distribution determination in which case the decision must clearly identify each of those *contingent projects*;

(ii) the capital expenditure that it is satisfied reasonably reflects the *capital expenditure criteria*, taking into account the *capital expenditure factors*, in the context of each *contingent project* as described in the current *regulatory proposal*;

(iii) the *trigger events* in relation to each *contingent project* (in which case the decision must clearly specify those *trigger events*); and

(iv) if the *AER* determines that such a *proposed contingent project* is not a *contingent project* for the purposes of the distribution determination, its reasons for that conclusion, having regard to the requirements of clause 6.6A.1(b);

(5) a decision on the *allowed rate of return* for each *regulatory year* of the *regulatory control period* in accordance with clause 6.5.2;

(5A) a decision on whether the return on debt is to be estimated using a methodology referred to in clause 6.5.2(i)(2) and, if that is the case, the formula that is to be applied in accordance with clause 6.5.2(l);

(5B) a decision on the value of imputation credits as referred to in clause 6.5.3;

(6) a decision on the regulatory asset base as at the commencement of the *regulatory control period* in accordance with clause 6.5.1 and schedule 6.2;

(7) a decision on the estimated cost of corporate income tax to the *Distribution Network Service Provider* for each *regulatory year* of the *regulatory control period* in accordance with clause 6.5.3;

(8) a decision on whether or not to approve the depreciation schedules submitted by the *Distribution Network Service Provider* and, if the *AER* decides against approving them, a decision determining depreciation schedules in accordance with clause 6.5.5(b);

(9) a decision on how any applicable *efficiency benefit sharing scheme*, *capital expenditure sharing scheme*, *service target performance incentive scheme*, *demand management and embedded generation connection incentive scheme* or *small-scale incentive scheme* is to apply to the *Distribution Network Service Provider*;

(10) a decision in which the *AER* decides other appropriate amounts, values or inputs;

(11) a decision on the form of the control mechanisms (including the X factor) for *standard control services* (to be in accordance with the relevant

framework and approach paper) and on the formulae that give effect to those control mechanisms;

(12) a decision on the form of the control mechanisms for *alternative control services* (to be in accordance with the relevant *framework and approach paper*) and on the formulae that give effect to those control mechanisms;

(13) a decision on how compliance with a relevant control mechanism is to be demonstrated;

(14) a decision on the additional *pass through events* that are to apply for the *regulatory control period* in accordance with clause 6.5.10;

(14A) a decision on the *Distribution Network Service Provider's* proposed *tariff structure statement*, in which the *AER* either approves or refuses to approve that statement;

(15) a decision on the *negotiating framework* that is to apply to the *Distribution Network Service Provider* for the *regulatory control period* (which may be the *negotiating framework* as proposed by the *Distribution Network Service Provider*, some variant of it, or a framework substituted by the *AER*);

(16) a decision in which the *AER* decides the *Negotiated Distribution Service Criteria* for the *Distribution Network Service Provider*;

(17) a decision on the policies and procedures for assigning *retail customers* to *tariff classes*, or reassigning *retail customers* from one *tariff class* to another (including any applicable restrictions);

(17A) a decision on the approval of the proposed *pricing methodology* for *transmission standard control services* (if rule 6.26 applies);

(18) a decision on whether depreciation for establishing the regulatory asset base as at the commencement of the following *regulatory control period* is to be based on actual or forecast capital expenditure;

Note:

See clause S6.2.2B.

(19) a decision on how the *Distribution Network Service Provider* is to report to the *AER* on its recovery of *designated pricing proposal charges* for each *regulatory year* of the *regulatory control period* and on the adjustments to be made to subsequent *pricing proposals* to account for over or under recovery of those charges;

(20) a decision on how the *Distribution Network Service Provider* is to report to the *AER* on its recovery of *jurisdictional scheme amounts* for each *regulatory year* of the *regulatory control period* and on the adjustments to be made to subsequent *pricing proposals* to account for over or under recovery of those amounts. A decision under this subparagraph (20) must be made in relation to each *jurisdictional scheme* under which the *Distribution*

Network Service Provider has *jurisdictional scheme* obligations at the time the decision is made; and

(21) a decision on the *connection policy* that is to apply to the *Distribution Network Service Provider* for the *regulatory control period* (which may be the *connection policy* as proposed by the *Distribution Network Service Provider*, some variant of it, or a policy substituted by the *AER*).

6.12.2 Reasons for decisions

(a) The reasons given by the *AER* for a draft distribution determination under rule 6.10 or a final distribution determination under rule 6.11 must set out the basis and rationale of the determination, including:

(1) details of the qualitative and quantitative methods applied in any calculations and formulae made or used by the *AER*;

(2) the values adopted by the *AER* for each of the input variables in any calculations and formulae, including:

(i) whether those values have been taken or derived from the *Distribution Network Service Provider's* current building block proposal; and

(ii) if not, the rationale for the adoption of those values;

(3) details of any assumptions made by the *AER* in undertaking any material qualitative and quantitative analyses; and

(4) reasons for the making of any decisions, the giving or withholding of any approvals, and the exercise of any discretions as referred to in this Chapter 6, for the purposes of the determination, such reasons being expressed by reference to the requirements relating to such decisions, approvals or discretions as are contained in this Chapter.

(b) The *AER* must include in its reasons for a draft distribution determination under rule 6.10 or a final distribution determination under rule 6.11 a statement, with supporting reasons, as to the extent to which the roll forward of the regulatory asset base as determined under clause 6.12.1(6) contributes to the achievement of the *capital expenditure incentive objective*.

6.12.3 Extent of AER's discretion in making distribution determinations

(a) Subject to this clause and other provisions of this Chapter 6 explicitly negating or limiting the *AER's* discretion, the *AER* has a discretion to accept or approve, or to refuse to accept or approve, any element of a *regulatory proposal* or proposed *tariff structure statement*.

(b) The classification of *distribution services* must be as set out in the relevant *framework and approach paper* unless the *AER* considers that unforeseen circumstances justify departing from the classification as set out in that paper.

(c) The form of the control mechanisms must be as set out in the relevant *framework and approach paper*.

(c1) The formulae that give effect to the control mechanisms referred to in paragraph (c) must be as set out in the relevant *framework and approach paper* unless the *AER* considers that unforeseen circumstances justify departing from the formulae as set out in that paper.

(d) The *AER* must approve the *total revenue requirement* for a *Distribution Network Service Provider* for a *regulatory control period*, and the *annual revenue requirement* for each *regulatory year* of the *regulatory control period*, as set out in the *Distribution Network Service Provider's* current *building block proposal*, if the *AER* is satisfied that those amounts have been properly calculated using the *post-tax revenue model* on the basis of amounts calculated, determined or forecast in accordance with the requirements of Part C of this Chapter 6.

(e) The *AER* must approve a proposed *regulatory control period* if the proposed period consists of 5 *regulatory years*.

(f) **[Deleted]**

(g) The *AER* must approve a proposed *negotiating framework* if the *AER* is satisfied that it adequately complies with the requirements of Part D.

(h) If the *AER* refuses to approve the proposed *negotiating framework*, the approved amended *negotiating framework* must be:

(1) determined on the basis of the current proposed *negotiating framework*; and

(2) amended from that basis only to the extent necessary to enable it to be approved in accordance with the *Rules*.

(i) The *AER* must approve the proposed *connection policy* if the *AER* is satisfied that it adequately complies with the requirements of Part DA.

(j) If the *AER* refuses to approve the proposed *connection policy*, the approved amended *connection policy* must be:

(1) determined on the basis of the current proposed *connection policy*; and

(2) amended from that basis only to the extent necessary to *enable* it to be approved in accordance with the *Rules*.

(k) The *AER* must approve a *Distribution Network Service Provider's* proposed *tariff structure statement* unless the *AER* is reasonably satisfied that the proposed *tariff structure statement* does not comply with the *pricing principles for direct control services* or other applicable requirements of the *Rules*.

(l) If, in making a distribution determination in relation to a *Distribution Network Service Provider*, the *AER* refuses to approve the *Distribution Network Service Provider's* proposed *tariff structure statement*, the *AER* must include in that distribution determination an amended *tariff structure statement* which is:

(1) determined on the basis of the *Distribution Network Service Provider's* proposed *tariff structure statement*; and

(2) amended from that basis only to the extent necessary to enable it to be approved in accordance with the *Rules*.

6.13 Revocation and substitution of distribution determination for wrong information or error

(a) The *AER* may (but is not required to) revoke a distribution determination during a *regulatory control period* if it appears to the *AER* that the distribution determination is affected by a material error or deficiency of one or more of the following kinds:

(1) a clerical mistake or an accidental slip or omission;

(2) a miscalculation or misdescription;

(3) a defect in form; or

(4) a deficiency resulting from the provision of false or materially misleading information to the *AER*.

(b) If the *AER* revokes a distribution determination under paragraph (a), the *AER* must make a new distribution determination in substitution for the revoked distribution determination to apply for the remainder of the *regulatory control period* for which the revoked distribution determination was to apply.

(c) If the *AER* revokes and substitutes a distribution determination under paragraphs (a) and (b), the substituted distribution determination must only vary from the revoked distribution determination to the extent necessary to correct the relevant error or deficiency.

(d) The *AER* may only revoke and substitute a distribution determination under this rule 6.13, if it has first consulted with the relevant *Distribution Network Service Provider* and such other persons as it considers appropriate.

6.14 Miscellaneous

(a) The *AER* may, but is not required to, consider any submission made pursuant to an invitation for submissions after the time for making the submission has expired.

(b) Nothing in this Part E is to be construed as precluding the *AER* from *publishing* any issues, consultation and discussion papers, or holding any conferences and information sessions, that the *AER* considers appropriate.

(c) Subject to paragraph (d), as soon as practicable after the *AER* receives a submission in response to an invitation for submissions that is made under this Chapter (whether or not the submission was made before the time for making it has expired), the *AER* must *publish* that submission.

(d) The *AER* must not *publish* a submission referred to in paragraph (c) to the extent it contains information which has been clearly identified as confidential by the person making the submission.

(e) The *AER* may give such weight to *confidential information* identified in accordance with paragraph (d) in a submission as it considers appropriate, having regard to the fact that such information has not been made publicly available.

(f) Paragraph (d) does not apply to the extent that any other provision of the Law or the *Rules* permits or requires such information to be publicly released by the *AER*.

6.14A Distribution Confidentiality Guidelines

(a) The *AER* must, in accordance with the *distribution consultation procedures*, make and *publish* guidelines (*Distribution Confidentiality Guidelines*).

(b) The *Distribution Confidentiality Guidelines* must specify the manner in which the *Distribution Network Service Provider* may make confidentiality claims in its *regulatory proposal*, which may include categories of confidential information by reference to which *Distribution Network Service Providers* must classify any claims of confidentiality in their *regulatory proposals*.

(c) There must be *Distribution Confidentiality Guidelines* in force at all times after the date on which the *AER* first *publishes* the *Distribution Confidentiality Guidelines* under these *Rules*.

(d) The *Distribution Confidentiality Guidelines* are binding on the *AER* and each *Distribution Network Service Provider* to which they apply.

Part F Cost Allocation

6.15 Cost allocation

6.15.1 Duty to comply with Cost Allocation Method

A *Distribution Network Service Provider* must comply with the *Cost Allocation Method* that has been approved in respect of that provider from time to time by the *AER* under this rule 6.15.

6.15.2 Cost Allocation Principles

The following principles constitute the *Cost Allocation Principles*:

(1) the detailed principles and policies used by a *Distribution Network Service Provider* to allocate costs between different categories of *distribution services* must be described in sufficient detail to enable the *AER* to replicate reported outcomes through the application of those principles and policies;

(2) the allocation of costs must be determined according to the substance of a transaction or event rather than its legal form;

(3) only the following costs may be allocated to a particular category of *distribution services*:

(i) costs which are directly attributable to the provision of those services;

(ii) costs which are not directly attributable to the provision of those services but which are incurred in providing those services, in which case such costs must be allocated to the provision of those services using an appropriate allocator which should:

(A) except to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be causation based; and

(B) to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be an allocator that accords with a well accepted cost allocation method;

(4) any cost allocation method which is used, the reasons for using that method and the numeric quantity (if any) of the chosen allocator must be clearly described;

(5) the same cost must not be allocated more than once;

(6) the principles, policies and approach used to allocate costs must be consistent with the *Distribution Ring-Fencing Guidelines*;

(7) costs which have been allocated to a particular service cannot be reallocated to another service during the course of a *regulatory control period*.

Note:

The *Cost Allocation Guidelines* are required by clause 6.15.3 to give effect to and be consistent with, the *Cost Allocation Principles*.

6.15.3 Cost Allocation Guidelines

(a) The *AER* must, in accordance with the *distribution consultation procedures*, make and *publish* guidelines (the *Cost Allocation Guidelines*) relating to the preparation by a *Distribution Network Service Provider* of its *Cost Allocation Method*.

(b) The *Cost Allocation Guidelines* must give effect to and be consistent with the *Cost Allocation Principles*.

(c) Without limiting the generality of paragraph (b), the *Cost Allocation Guidelines* may specify:

(1) the format of a *Cost Allocation Method*;

(2) the detailed information that is to be included in a *Cost Allocation Method*;

(3) the categories of *distribution services* which are to be separately addressed in a *Cost Allocation Method*, such categories being determined by reference to the nature of those services, the persons to whom those services are provided or such other factors as the *AER* considers appropriate; and

(4) the allocation methods which are acceptable and the supporting information that is to be included in relation to such methodologies in a *Cost Allocation Method*.

(d) The *Cost Allocation Guidelines* are binding on the *AER* and each *Distribution Network Service Provider* to which they apply.

(e) The *AER* must *publish* the first *Cost Allocation Guidelines* within 6 months after the commencement of these *Rules* and there must be *Cost Allocation Guidelines* in force at all times after that date.

6.15.4 Cost Allocation Method

(a) Each *Distribution Network Service Provider* must submit to the *AER* for its approval a document setting out its proposed *Cost Allocation Method*:

(1) within 12 months after the commencement of these *Rules*; or

(2) in the case of an entity that becomes a *Distribution Network Service Provider* more than 6 months after the commencement of these *Rules*, within 6 months of being required to do so by the *AER*.

(b) The *Cost Allocation Method* proposed by a *Distribution Network Service Provider* must give effect to and be consistent with the *Cost Allocation Guidelines*.

(c) The *AER* may approve or refuse to approve a *Cost Allocation Method* submitted under paragraph (a).

(d) The *AER* must notify the relevant *Distribution Network Service Provider* of its decision to approve or refuse to approve the *Cost Allocation Method* submitted to it under paragraph (a) within 6 months of its submission, failing which the *AER* will be taken to have approved it.

(e) As part of giving any approval referred to in paragraph (c), the *AER* may, after consulting with the relevant *Distribution Network Service Provider*, amend the *Cost Allocation Method* submitted to it, in which case the *Cost Allocation Method* as so amended will be taken to be approved by the *AER*.

(f) A *Distribution Network Service Provider* may, with the *AER's* approval, amend its *Cost Allocation Method* from time to time but:

(1) the amendment:

(i) may be approved on condition that the *Distribution Network Service Provider* agree to incorporate into the amendment specified additional changes to the *Cost Allocation Method* the *AER* reasonably considers necessary or desirable as a result of the amendment as submitted; and

(ii) if approved on such a condition, does not take effect unless and until the *Distribution Network Service Provider* notifies the *AER* of its agreement; and

(2) if 6 months elapse from the date of the submission of the amendment and the *AER* has not notified the *Distribution Network Service Provider* within that period of its approval or refusal to approve the amendment, the amendment is, at the end of that period, conclusively presumed to have been unconditionally approved.

(g) A *Distribution Network Service Provider* must amend its *Cost Allocation Method* where the amendment is required by the *AER* to take into account any change to the *Cost Allocation Guidelines*, but the amendment only comes into effect:

(1) on the date that the *AER* approves that amendment, or 3 months after the submission of the amendment, whichever is the earlier; and

(2) subject to additional changes to the *Cost Allocation Method* (if any) the *AER* reasonably considers necessary or desirable as a result of the amendment and notifies to the *Distribution Network Service Provider* before the amendment takes effect.

(h) A *Distribution Network Service Provider* must maintain a current copy of its *Cost Allocation Method* on its website.

Part G Distribution consultation procedures

6.16 Distribution consultation procedures

(a) This rule 6.16 applies wherever the *AER* is required to comply with the *distribution consultation procedures*. For the avoidance of doubt, the *distribution consultation procedures* are separate from, and (where they are required to be complied with) apply to the exclusion of, the *Rules consultation procedures* under rule 8.9.

(b) If the *AER* is required to comply with the *distribution consultation procedures* in preparing, making, developing, reviewing, amending or replacing any guidelines, methodologies, models, schemes, or tests, it must *publish*:

(1) the proposed guideline, methodology, model, scheme, test or amendment;

(2) an explanatory statement that sets out the provision of the *Rules* under or for the purposes of which the guideline, methodology, model, scheme, test or amendment is proposed to be prepared, made or developed or is required to be reviewed, and the reasons for the proposed guideline, methodology, model, scheme, test or amendment; and

(3) an invitation for written submissions on the proposed guideline, methodology, model, scheme, test or amendment, or the review, (as the case may be).

(c) The invitation must allow no less than 30 *business days* for the making of submissions, and the *AER* is not required to consider any submission made pursuant to that invitation after this time period has expired.

(d) The *AER* may *publish* such issues, consultation and discussion papers, and hold such conferences and information sessions, in relation to the proposed guideline, methodology, model, scheme, test or amendment, or the review, as it considers appropriate.

(e) Within 80 *business days* of *publishing* the documents referred to in paragraph (b), the *AER* must *publish*:

(1) its final decision on the guideline, methodology, model, scheme, test, amendment or review that sets out:

(i) the guideline, methodology, model, scheme, test or amendment (if any);

(ii) the provision of the *Rules* under which or for the purposes of which the guideline, methodology, model, scheme, test or amendment is being prepared, made or developed or is being reviewed;

(iii) the reasons for the guideline, methodology, model, scheme, test or amendment; and

(iv) the reasons for the outcome of any review; and

(2) notice of the making of the final decision on the guideline, methodology, model, scheme, test, amendment or review.

(f) Subject to paragraph (c), the *AER* must, in making its final decision referred to in paragraph (e)(1), consider any submissions made pursuant to the invitation for submissions referred to in paragraph (b)(3), and the reasons referred to in paragraph (e)(1)(iii) or (iv) must include:

(1) a summary of each issue raised in those submissions that the *AER* reasonably considers to be material; and

(2) the *AER's* response to each such issue.

(g) The *AER* may extend the time within which it is required to publish its final decision if:

(1) the consultation involves issues of unusual complexity or difficulty; and

(2) the extension of time has become necessary because of circumstances beyond the *AER's* control.

Part H Ring-Fencing Arrangements for Distribution Network Service Providers

6.17 Distribution Ring-Fencing Guidelines

6.17.1 Compliance with Distribution Ring-Fencing Guidelines

All *Distribution Network Service Providers* must comply with the *Distribution Ring-Fencing Guidelines* prepared in accordance with clause 6.17.2.

6.17.2 Development of Distribution Ring-Fencing Guidelines

(a) Guidelines may be developed by the *AER* for the accounting and functional separation of the provision of *direct control services* by *Distribution Network Service Providers* from the provision of other services by *Distribution Network Service Providers* (the *Distribution Ring-Fencing Guidelines*). The guidelines may vary in application as between different *participating jurisdictions*.

Note:

Clause 11.14.5 will have a bearing on the application of these guidelines in certain cases.

(b) The *Distribution Ring-Fencing Guidelines* may include, but are not limited to:

(1) provisions defining the need for and extent of:

(i) legal separation of the entity through which a *Distribution Network Service Provider* provides *network services* from any other entity through which it conducts business; and

(ii) the establishment and maintenance of consolidated and separate accounts for *standard control services*, *alternative control services* and other services provided by the *Distribution Network Service Provider*; and

(iii) allocation of costs between *standard control services*, *alternative control services* and other services provided by the *Distribution Network Service Provider*; and

(iv) limitations on the flow of information between the *Distribution Network Service Provider* and any other person; and

(v) limitations on the flow of information where there is the potential for a competitive disadvantage between those parts of the *Distribution Network Service Provider's* business which provide *direct control services* and parts of the provider's business which provide any other services; and

(2) provisions allowing the AER to add to or to waive a Distribution Network Service Provider's obligations under the Distribution Ring-Fencing Guidelines.

(c) In developing or amending the *Distribution Ring-Fencing Guidelines* the *AER* must consider, without limitation, the need, so far as practicable, for consistency between the *Distribution Ring-Fencing Guidelines* and the *Transmission Ring-Fencing Guidelines*.

(d) In developing or amending the *Distribution Ring-Fencing Guidelines*, the *AER* must consult with *participating jurisdictions*, *Registered Participants*, *AEMO* and other *interested parties*, and such consultation must be otherwise in accordance with the *distribution consultation procedures*.

Part I Distribution Pricing Rules

6.18 Distribution Pricing Rules

6.18.1 Application of this Part

This Part applies to tariffs and *tariff classes* related to *direct control services*.

6.18.1A Tariff structure statement

(a) A *tariff structure statement* of a *Distribution Network Service Provider* must include the following elements:

(1) the *tariff classes* into which *retail customers* for *direct control services* will be divided during the relevant *regulatory control period*;

(2) the policies and procedures the *Distribution Network Service Provider* will apply for assigning *retail customers* to tariffs or reassigning *retail customers* from one tariff to another (including any applicable restrictions);

(3) the structures for each proposed tariff;

(4) the *charging parameters* for each proposed tariff; and

(5) a description of the approach that the *Distribution Network Service Provider* will take in setting each tariff in each *pricing proposal* of the *Distribution Network Service Provider* during the relevant *regulatory control period* in accordance with clause 6.18.5.

(b) A *tariff structure statement* must comply with the *pricing principles for direct control services*.

(c) A *Distribution Network Service Provider* must comply with the *tariff structure statement* approved by the *AER* and any other applicable requirements in the *Rules*, when the provider is setting the prices that may be charged for *direct control services*.

(d) Subject to clause 6.18.1B, a *tariff structure statement* may not be amended during a *regulatory control period*.

Note

Rule 6.13 still applies in relation to a *tariff structure statement* because that rule deals with the revocation and substitution of a distribution determination (which includes a *tariff structure statement*) as opposed to its amendment.

(e) A *tariff structure statement* must be accompanied by an *indicative pricing schedule* which sets out, for each tariff for each *regulatory year* of the *regulatory control period*, the indicative price levels determined in accordance with the *tariff structure statement*.

6.18.1B Amending a tariff structure statement with the AER's approval

(a) No later than nine months before the start of a *regulatory year* (other than the first *regulatory year* of a *regulatory control period*) (**relevant regulatory year**), a *Distribution Network Service Provider* may request the *AER* to approve an amendment to its current *tariff structure statement*.

(b) A request for an amendment to a *tariff structure statement* under paragraph (a) must include:

(1) the proposed amended *tariff structure statement*;

(2) a description of the event that has occurred to cause the *Distribution Network Service Provider* to seek an amendment to its current *tariff structure statement* and why the event:

(i) was beyond the reasonable control of the *Distribution Network Service Provider*; and

(ii) could not reasonably have been foreseen by the *Distribution Network Service Provider* at the time its current *tariff structure statement* was approved by the *AER*.

(3) a description and justification of the differences between the proposed amended *tariff structure statement* and the *Distribution Network Service Provider's* current *tariff structure statement*;

(4) a description of how the differences referred to in sub-paragraph (3) would impact the other elements of the *tariff structure statement*;

(5) a description of how the proposed amended *tariff structure statement* would better comply with the *pricing principles for direct control services* than the current *tariff structure statement*; and

(6) a description of how the *Distribution Network Service Provider* has engaged with *retail customers* and *retailers* in developing the proposed amended *tariff structure statement* and has sought to address any relevant concerns identified as a result of that engagement.

(c) The *AER* must, on receipt of a *Distribution Network Service Provider's* request for an amendment to its *tariff structure statement*, *publish* the request.

(d) The *AER* must approve the request for an amendment to a *tariff structure statement* under paragraph (a) if the *Distribution Network Service Provider* demonstrates to the reasonable satisfaction of the *AER* that:

(1) an event has occurred that:

(i) was beyond the reasonable control of the *Distribution Network Service Provider*; and

(ii) could not reasonably have been foreseen by the *Distribution Network Service Provider* at the time its current *tariff structure statement* was approved by the *AER*; and

(2) as a result of the event referred to in sub-paragraph (1), the proposed amended *tariff structure statement* would, or would be likely to, materially better comply with the *pricing principles for direct control services* than the *Distribution Network Service Provider's* current *tariff structure statement*.

(e) No later than four months before the start of the relevant *regulatory year*, the *AER* must either approve or refuse to approve the request for an amendment to a *tariff structure statement* under paragraph (a) and set out reasons for its decision.

(f) If the *AER* refuses to approve the request for an amendment to a *tariff structure statement* under paragraph (a), the current *tariff structure statement* will apply for the relevant *regulatory year* and, subject to any subsequent amendment approved under this clause 6.18.1B, the remainder of the *regulatory control period*.

Note

Rule 6.13 still applies in relation to a *tariff structure statement* because that rule deals with the revocation and substitution of a distribution determination (which includes a *tariff structure statement*) as opposed to its amendment.

6.18.1C Sub-threshold tariffs

(a) No later than four months before the start of a *regulatory year* (other than the first *regulatory year* of a *regulatory control period*), a *Distribution Network Service Provider* may notify the *AER*, affected *retailers* and affected *retail customers* of a new proposed tariff (a **relevant tariff**) that is determined otherwise than in accordance with the *Distribution Network Service Provider's* current *tariff structure statement*, if both of the following are satisfied:

(1) the *Distribution Network Service Provider's* forecast revenue from the relevant tariff during each *regulatory year* in which the tariff is to apply is no greater than 0.5 per cent of the *Distribution Network Service Provider's annual revenue requirement* for that *regulatory year* (the **individual threshold**); and

(2) the *Distribution Network Service Provider's* forecast revenue from the relevant tariff, as well as from all other relevant tariffs, during each *regulatory year* in which those tariffs are to apply is no greater than one per cent of the *Distribution Network Service Provider's annual revenue requirement* for that *regulatory year* (the **cumulative threshold**).

(b) Notwithstanding any other provision in the *Rules* to the contrary, a relevant tariff notified by the *Distribution Network Service Provider* in accordance with paragraph (a) is, for the remainder of the *regulatory control period* in which the notification is given:

(1) not required to comply with the *pricing principles for direct control services*; and

(2) for the purposes of the submission and approval of a *pricing proposal*, deemed to comply with the *Distribution Network Service Provider's* current *tariff structure statement*,

unless, at any point in time after the notification of the relevant tariff is given under paragraph (a) (the **post-notification point**), either the individual threshold or the cumulative threshold (in each case calculated using actual rather than forecast revenue) are exceeded by virtue of the amount of revenue that is attributable to the relevant tariff, in which case sub-paragraphs (1) and (2) cease to apply to the relevant tariff in relation to the *regulatory years* that commence after the post-notification point.

(c) Where sub-paragraphs (b)(1) and (2) cease to apply to a relevant tariff in accordance with paragraph (b), then sub-paragraphs (b)(1) and (2) will be taken to continue to apply to other relevant tariffs that were notified before the post-notification point, but only to the extent that those sub-paragraphs would apply if the first-mentioned relevant tariff were not a relevant tariff.

6.18.2 Pricing proposals

(a) A *Distribution Network Service Provider* must:

(1) submit to the *AER*, as soon as practicable, and in any case within 15 *business days*, after *publication* of the distribution determination, a *pricing proposal* (the **initial *pricing proposal***) for the first *regulatory year* of the *regulatory control period*; and

(2) submit to the *AER*, at least 3 months before the commencement of the second and each subsequent *regulatory year* of the *regulatory control period*, a further *pricing proposal* (an **annual *pricing proposal***) for the relevant *regulatory year*.

(b) A *pricing proposal* must:

(1) **[Deleted]**;

(2) set out the proposed tariffs for each *tariff class* that is specified in the *Distribution Network Service Provider's tariff structure statement* for the relevant *regulatory control period*;

(3) set out, for each proposed tariff, the *charging parameters* and the elements of service to which each *charging parameter* relates;

(4) set out, for each *tariff class* related to *standard control services*, the expected weighted average revenue for the relevant *regulatory year* and also for the current *regulatory year*;

(5) set out the nature of any variation or adjustment to the tariff that could occur during the course of the *regulatory year* and the basis on which it could occur;

(6) set out how *designated pricing proposal charges* are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those charges in the previous *regulatory year*;

(6A) set out how *jurisdictional scheme amounts* for each *approved jurisdictional scheme* are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those amounts;

(6B) describe how each *approved jurisdictional scheme* that has been amended since the *last jurisdictional scheme approval date* meets the *jurisdictional scheme eligibility criteria*;

(7) demonstrate compliance with the *Rules* and any applicable distribution determination, including the *Distribution Network Service Provider's tariff structure statement* for the relevant *regulatory control period*;

(7A) demonstrate how each proposed tariff is consistent with the corresponding indicative pricing levels for the relevant *regulatory year* as set out in the relevant *indicative pricing schedule*, or explain any material differences between them; and

(8) describe the nature and extent of change from the previous *regulatory year* and demonstrate that the changes comply with the *Rules* and any applicable distribution determination.

(c) The *AER* must on receipt of a *pricing proposal* from a *Distribution Network Service Provider publish* the proposal.

(d) At the same time as a *Distribution Network Service Provider* submits a *pricing proposal* under paragraph (a), the *Distribution Network Service Provider* must submit to the *AER* a revised *indicative pricing schedule* which sets out, for each tariff and for each of the remaining *regulatory years* of the *regulatory control period*, the indicative price levels determined in accordance with the *Distribution Network Service Provider's tariff structure statement* for that *regulatory control period* and updated so as to take into account that *pricing proposal*.

(e) Where the *Distribution Network Service Provide*r submits an annual *pricing proposal*, the revised *indicative pricing schedule* referred to in paragraph (d) must also set out, for each relevant tariff under clause 6.18.1C, the indicative price levels for that relevant tariff for each of the remaining *regulatory years* of the *regulatory control period*, updated so as to take into account that *pricing proposal*.

6.18.3 Tariff classes

(a) **[Deleted]**.

(b) Each customer for *direct control services* must be a member of 1 or more *tariff classes*.

(c) Separate *tariff classes* must be constituted for *retail customers* to whom *standard control services* are supplied and *retail customers* to whom *alternative control services* are supplied (but a customer for both *standard control services* and *alternative control services* may be a member of 2 or more *tariff classes*).

(d) A *tariff class* must be constituted with regard to:

(1) the need to group *retail customers* together on an economically efficient basis; and

(2) the need to avoid unnecessary transaction costs.

6.18.4 Principles governing assignment or re-assignment of retail customers to tariff classes and assessment and review of basis of charging

(a) In formulating provisions of a distribution determination governing the assignment of *retail customers* to *tariff classes* or the re-assignment of *retail customers* from one *tariff class* to another, the *AER* must have regard to the following principles:

(1) *retail customers* should be assigned to *tariff classes* on the basis of one or more of the following factors:

(i) the nature and extent of their usage;

(ii) the nature of their *connection* to the *network*;

(iii) whether remotely-read interval metering or other similar metering technology has been installed at the *retail customer's* premises as a result of a *regulatory obligation or requirement*;

(2) *retail customers* with a similar *connection* and usage profile should be treated on an equal basis;

(3) however, *retail customers* with micro-generation facilities should be treated no less favourably than *retail customers* without such facilities but with a similar load profile;

(4) a *Distribution Network Service Provider's* decision to assign a customer to a particular *tariff class*, or to re-assign a customer from one *tariff class* to another should be subject to an effective system of assessment and review.

Note:

If (for example) a customer is assigned (or reassigned) to a *tariff class* on the basis of the customer's actual or assumed *maximum demand*, the system of assessment and review should allow for the reassignment of a customer who demonstrates a reduction or increase in *maximum demand* to a *tariff class* that is more appropriate to the customer's *load* profile.

(b) If the *charging parameters* for a particular tariff result in a basis of charge that varies according to the usage or load profile of the customer, a distribution determination must contain provisions for an effective system of assessment and review of the basis on which a customer is charged.

6.18.5 Pricing principles

Network pricing objective

(a) The *network pricing objective* is that the tariffs that a *Distribution Network Service Provider* charges in respect of its provision of *direct control services* to a *retail customer* should reflect the *Distribution Network Service Provider's* efficient costs of providing those services to the *retail customer*.

Application of the pricing principles

(b) Subject to paragraph (c), a *Distribution Network Service Provider's* tariffs must comply with the pricing principles set out in paragraphs (e) to (j).

(c) A *Distribution Network Service Provider's* tariffs may vary from tariffs which would result from complying with the pricing principles set out in paragraphs (e) to (g) only:

(1) to the extent permitted under paragraph (h); and

(2) to the extent necessary to give effect to the pricing principles set out in paragraphs (i) to (j).

(d) A *Distribution Network Service Provider* must comply with paragraph (b) in a manner that will contribute to the achievement of the *network pricing objective*.

Pricing principles

(e) For each *tariff class*, the revenue expected to be recovered must lie on or between:

(1) an upper bound representing the stand alone cost of serving the *retail customers* who belong to that class; and

(2) a lower bound representing the avoidable cost of not serving those *retail customers*.

(f) Each tariff must be based on the *long run marginal cost* of providing the service to which it relates to the *retail customers* assigned to that tariff with the method of calculating such cost and the manner in which that method is applied to be determined having regard to:

(1) the costs and benefits associated with calculating, implementing and applying that method as proposed;

(2) the additional costs likely to be associated with meeting demand from *retail customers* that are assigned to that tariff at times of greatest utilisation of the relevant part of the *distribution network*; and

(3) the location of *retail customers* that are assigned to that tariff and the extent to which costs vary between different locations in the *distribution network*.

(g) The revenue expected to be recovered from each tariff must:

(1) reflect the *Distribution Network Service Provider's* total efficient costs of serving the *retail customers* that are assigned to that tariff;

(2) when summed with the revenue expected to be received from all other tariffs, permit the *Distribution Network Service Provider* to recover the expected revenue for the relevant services in accordance with the applicable distribution determination for the *Distribution Network Service Provider*; and

(3) comply with sub-paragraphs (1) and (2) in a way that minimises distortions to the price signals for efficient usage that would result from tariffs that comply with the pricing principle set out in paragraph (f).

(h) A *Distribution Network Service Provider* must consider the impact on *retail customers* of changes in tariffs from the previous *regulatory year* and may vary tariffs from those that comply with paragraphs (e) to (g) to the extent the *Distribution Network Service Provider* considers reasonably necessary having regard to:

(1) the desirability for tariffs to comply with the pricing principles referred to in paragraphs (f) and (g), albeit after a reasonable period of transition (which may extend over more than one *regulatory control period*);

(2) the extent to which *retail customers* can choose the tariff to which they are assigned; and

(3) the extent to which *retail customers* are able to mitigate the impact of changes in tariffs through their usage decisions.

(i) The structure of each tariff must be reasonably capable of being understood by *retail customers* that are assigned to that tariff, having regard to:

(1) the type and nature of those *retail customers*; and

(2) the information provided to, and the consultation undertaken with, those *retail customers*.

(j) A tariff must comply with the *Rules* and all *applicable regulatory instruments*.

6.18.6 Side constraints on tariffs for standard control services

(a) This clause applies only to *tariff classes* related to the provision of *standard control services*.

(b) The expected weighted average revenue 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.

(c) The permissible percentage is the greater of the following:

(1) 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%;

Note:

The calculation is of the form (1 + CPI)(1 – X)(1 + 2%)

(2) CPI plus 2%.

Note:

The calculation is of the form (1 + CPI)(1 + 2%)

(d) In deciding whether the permissible percentage has been exceeded in a particular *regulatory year*, the following are to be disregarded:

(1) the recovery of revenue to accommodate a variation to the distribution determination under rule 6.6 or 6.13;

(2) the recovery of revenue to accommodate pass through of *designated pricing proposal charges* to *retail customers*;

(3) the recovery of revenue to accommodate pass through of *jurisdictional scheme amounts* for *approved jurisdictional schemes*; and

(4) the recovery of revenue to accommodate any increase in the *Distribution Network Service Provider's annual revenue requirement* by virtue of an application of a formula referred to in clause 6.5.2(l).

(e) **[Deleted]**.

6.18.7 Recovery of designated pricing proposal charges

(a) A *pricing proposal* must provide for tariffs designed to pass on to *retail customers* the *designated pricing proposal charges* to be incurred by the *Distribution Network Service Provider*.

(b) The amount to be passed on to *retail customers* for a particular *regulatory year* must not exceed the estimated amount of the *designated pricing proposal charges* adjusted for over or under recovery in accordance with paragraph (c).

(c) The over and under recovery amount must be calculated in a way that:

(1) subject to subparagraphs (2) and (3) below, is consistent with the method determined by the *AER* in the relevant distribution determination for the *Distribution Network Service Provider*;

(2) ensures a *Distribution Network Service Provider* is able to recover from *retail customers* no more and no less than the *designated pricing proposal charges* it incurs; and

(3) adjusts for an appropriate cost of capital that is consistent with the *allowed rate of return* used in the relevant distribution determination for the relevant *regulatory year*.

(d) Notwithstanding anything else in this clause 6.18.7, a *Distribution Network Service Provider* may not recover charges under this clause to the extent these are:

(1) recovered through the *Distribution Network Service Provider's annual revenue requirement*;

(2) recovered under clause 6.18.7A; or

(3) recovered from another *Distribution Network Service Provider*.

6.18.7A Recovery of jurisdictional scheme amounts

Pricing Proposal

(a) A *pricing proposal* must provide for tariffs designed to pass on to customers a *Distribution Network Service Provider's jurisdictional scheme amounts* for *approved jurisdictional schemes*.

(b) The amount to be passed on to customers for a particular *regulatory year* must not exceed the estimated amount of *jurisdictional scheme amounts* for a *Distribution Network Service Provider's approved jurisdictional schemes* adjusted for over or under recovery in accordance with paragraph (c).

(c) The over and under recovery amount must be calculated in a way that:

(1) subject to subparagraphs (2) and (3) below, is consistent with the method determined by the *AER* for *jurisdictional scheme amounts* in the relevant distribution determination for the *Distribution Network Service Provider*, or where no such method has been determined, with the method determined by the *AER* in the relevant distribution determination in respect of *designated pricing proposal charges*;

(2) ensures a *Distribution Network Service Provider* is able to recover from customers no more and no less than the *jurisdictional scheme amounts* it incurs; and

(3) adjusts for an appropriate cost of capital that is consistent with the *allowed rate of return* used in the relevant distribution determination for the relevant *regulatory year*.

Jurisdictional schemes

(d) A scheme is a *jurisdictional scheme* if:

(1) the scheme is specified in paragraph (e); or

(2) the *AER* has determined under clause paragraph (l) that the scheme is a *jurisdictional scheme*,

and the *AER* has not determined under paragraph (u) that the scheme has ceased to be a *jurisdictional scheme*.

(e) For the purposes of paragraph (d)(1), the following schemes are *jurisdictional schemes*:

(1) schemes established under the following laws of participating jurisdictions:

(i) Electricity Feed-in (Renewable Energy Premium) Act 2008 (ACT);

(ii) Division 3AB of the Electricity Act 1996 (SA);

(iii) Section 44A of the Electricity Act 1994 (Qld);

(iv) Electricity Industry Amendment (Premium Solar Feed-in Tariff) Act 2009 (Vic);

(2) the Solar Bonus Scheme established under the Electricity Supply Act 1995 (NSW); and

(3) the Climate Change Fund established under the Energy and Utilities Administration Act 1987 (NSW).

AER Requested to determine that scheme is a jurisdictional scheme

(f) Any person may request the *AER* to determine whether a scheme is a *jurisdictional scheme*.

(g) A request made under paragraph (f) must contain the following information:

(1) the name and address of the person making the request;

(2) details of the law of a *participating jurisdiction* under which the relevant scheme is established;

(3) the commencement date of the relevant scheme; and

(4) an explanation of how the relevant scheme meets the *jurisdictional scheme eligibility criteria*.

(h) The *AER* must as soon as practicable after receiving the request under paragraph (f) *publish* the request.

AER may assess whether a scheme is a jurisdictional scheme

(i) The *AER* may at any time initiate an assessment of whether a scheme is a *jurisdictional scheme*.

(j) If the *AER* decides to initiate an assessment under paragraph (i) it must *publish* details of the scheme it is considering and the reasons for initiating the assessment.

AER to determine whether a scheme is a jurisdictional scheme

(k) Before making a determination under paragraph (l), the *AER* may consult with the relevant *Distribution Network Service Provider* and such other persons as the *AER* considers appropriate, on any matters arising out of the request or the assessment the *AER* considers appropriate.

(l) The *AER* must within 20 *business days* of:

(1) receiving a request under paragraph (f); and

(2) *publishing* details of an assessment under paragraph (j),

determine in accordance with paragraph (n) if the relevant scheme is a *jurisdictional scheme* and *publish* its decision (including the reasons).

(m) The *AER* may extend the time limit fixed in paragraph (l) if it considers that the difficulty of assessing whether a scheme is a *jurisdictional scheme*, or the complexity of the issues raised during any consultation under paragraph (k), justifies the extension.

(n) The *AER* must only determine that a scheme is a *jurisdictional scheme* under paragraph (l) if it considers that the scheme meets the *jurisdictional scheme eligibility criteria*.

AER requested to determine that scheme should cease to be a jurisdictional scheme

(o) Any person may request the *AER* to determine that a scheme is no longer a *jurisdictional scheme*.

(p) A request made under paragraph (o) must contain the following information:

(1) the name and address of the person making the request;

(2) the law of a *participating jurisdiction* under which the relevant scheme is established;

(3) the commencement date of the relevant scheme; and

(4) an explanation of why the scheme no longer meets the *jurisdictional scheme eligibility criteria*.

(q) The *AER* must as soon as practicable after receiving the request under paragraph (o) *publish* the request.

AER may assess whether a scheme should cease to a jurisdictional scheme

(r) The *AER* may at any time consider whether a scheme should cease to be a *jurisdictional scheme*.

(s) If the *AER* decides to initiate an assessment of whether a scheme should cease to be *jurisdictional scheme* under paragraph (r) it must *publish* details of the scheme it is considering and the reasons for initiating the assessment.

AER to determine whether a scheme should cease to be a jurisdictional scheme

(t) Before making a determination under paragraph (u), the *AER* may consult with the relevant *Distribution Network Service Provider* and such other persons as the *AER* considers appropriate, on any matters arising out of the request or the assessment the *AER* considers appropriate.

(u) The *AER* must within 20 *business days* of:

(i) receiving a request under paragraph (o); or

(ii) *publishing* details of an assessment under paragraph (s),

determine in accordance with paragraph (w) if the relevant scheme should cease to be a *jurisdictional scheme* and *publish* its decision (including the reasons).

(v) The *AER* may extend the time limit fixed in paragraph (u) if it considers that the difficulty of assessing whether a scheme should cease to be a *jurisdictional scheme*, or the complexity of the issues raised during any consultation under paragraph (t), justifies the extension.

(w) The *AER* must only determine that a scheme has ceased to be a *jurisdictional scheme* under paragraph (u) if it considers that the scheme no longer meets the *jurisdictional scheme eligibility criteria*.

Jurisdictional scheme eligibility criteria

(x) The following are the *jurisdictional scheme eligibility criteria*:

(1) the *jurisdictional scheme obligations* require a *Distribution Network Service Provider* to:

(i) pay a person;

(ii) pay into a fund established under an Act of a *participating jurisdiction*;

(iii) credit against charges payable by a person; or

(iv) reimburse a person,

an amount specified in, or determined in accordance with, the *jurisdictional scheme obligations*;

(2) the *jurisdictional scheme obligations* are imposed on a *Distribution Network Service Provider* in its capacity as a *Distribution Network Service Provider*;

(3) the amount referred to in subparagraph (1) is not in the nature of a fine, penalty or incentive payment for the *Distribution Network Service Provider*; and

(4) except as provided in these Rules, the *Distribution Network Service Provider* has no right to recover the amount referred to in subparagraph (1) from any person.

6.18.8 Approval of pricing proposal

(a) The *AER* must approve a *pricing proposal* if the *AER* is satisfied that:

(1) the proposal complies with this Part, any relevant clauses in Chapter 11 and any applicable distribution determination including any applicable *tariff structure statement*;

(2) each proposed tariff set out in the proposal is broadly consistent with the corresponding indicative pricing levels for that tariff for the relevant *regulatory year* as set out in any previously applicable *indicative pricing schedule*, or else any material differences between them have been explained by the *Distribution Network Service Provider*; and

(3) all forecasts associated with the proposal are reasonable.

(b) If the *AER* determines that a *pricing proposal* is deficient:

(1) the *AER* may require the *Distribution Network Service Provider,* within 10 *business days* after receiving notice of the determination, to re-submit the proposal with the amendments necessary to correct the deficiencies identified in the determination and (unless the *AER* permits further amendment) no further amendment; or

(2) the *AER* may itself make the amendments necessary to correct the deficiencies.

(c) If the *Distribution Network Service Provider* fails to comply with a requirement under paragraph (b), or the resubmitted proposal fails to correct the deficiencies in the former proposal, the *AER* may itself amend the proposal to bring it into conformity with the requirements of this Part, any applicable distribution determination and the *Distribution Network Service Provider's tariff structure statement* for the relevant *regulatory control period*.

(c1) For the purposes of amending a *pricing proposal* under sub-paragraph (b)(2) or paragraph (c), the *AER* may have regard to the corresponding indicative pricing levels for the relevant *regulatory year* as set out in any previously applicable *indicative pricing schedule*.

(c2) The *AER* must, as soon as practicable after a *Distribution Network Service Provider* has submitted an initial *pricing proposal* under sub-paragraph 6.18.2(a)(1), *publish* an *approved pricing proposal* (including any amendments made by the *AER* under this clause 6.18.8) with respect to that initial *pricing proposal*.

(c3) The *AER* must, within 30 *business days* from the date of submission of an annual *pricing proposal* by a *Distribution Network Service Provider* under sub-paragraph 6.18.2(a)(2), *publish* an *approved pricing proposal* (including any amendments made by the *AER* under this clause 6.18.8) with respect to that annual *pricing proposal*.

(d) An *approved pricing proposal* takes effect:

(1) in the case of an initial *pricing proposal* – at the commencement of the first *regulatory year* of the *regulatory control period* for which the distribution determination is made; and

(2) in the case of an annual *pricing proposal* – at the commencement of the *regulatory year* to which the proposal relates.

Note:

The operation of this paragraph may, in some instances, be displaced or modified by clause 6.11.3(b).

6.18.9 Publication of information about tariffs and tariff classes

(a) A *Distribution Network Service Provider* must maintain on its website:

(1) its current *tariff structure statement*;

(2) its current *indicative pricing schedule*; and

(3) a statement of the provider's *tariff classes* and the tariffs applicable to each class.

(a1) A *Distribution Network Service Provider* must, within 5 *business days* from the date the *AER publishes* a distribution determination under paragraph 6.11.2(2) for that *Distribution Network Service Provider*, publish on its website the *tariff structure statement* approved or contained in that distribution determination and the accompanying *indicative pricing schedule*.

(b) A *Distribution Network Service Provider* must publish on its website the information referred to in paragraph (a) within 5 *business days* from the date the *AER publishes* an *approved pricing proposal* under paragraphs

6.18.8(c2) or 6.18.8(c3) (as applicable) for that *Distribution Network Service Provider*.

6.19. Data Required for Distribution Service Pricing

6.19.1 Forecast use of networks by Distribution Customers and Embedded Generators

Any information required by *Distribution Network Service Providers* must be provided by *Service Applicants* as part of the *connection* and access requirements set out in Chapter 5.

6.19.2 Confidentiality of distribution network pricing information

(a) Subject to the Law and the *Rules*, all information about a *Service Applicant* or *Distribution Network User* used by *Distribution Network Service Providers* for the purposes of *distribution service* pricing is confidential information.

(b) No requirement in this Chapter 6 to publish information about a *tariff class* is to be construed as requiring publication of information about an individual *retail customer*.

Part J Billing and Settlements

6.20 Billing and Settlements Process

This clause describes the manner in which *Distribution Customers* and *Embedded Generators* are billed by *Distribution Network Service Providers* for *distribution services* and how payments for *distribution services* are settled.

6.20.1 Billing for distribution services

(a) A *Distribution Network Service Provider* must bill *Distribution Network Users* for *distribution services* as follows:

(1) *Embedded Generators*:

(i) by applying the *entry charge* as a fixed annual charge to each *Embedded Generator*; and

(ii) by applying any other charge the *Distribution Network Service Provider* makes consistently with these *Rules* and the applicable distribution determination.

(2) *Distribution Customers*:

The charges to *Distribution Customers* must be determined according to use of the *distribution network* as determined in accordance with a *metrology procedure* or, in the absence of a *metrology procedure* allowing such a determination to be made, by *meter* or by agreement between the *Distribution Customer* and the *Distribution Network Service Provider* by applying one or more of the following measures:

(i) demand-based prices to the *Distribution Customer's* metered or agreed half-hourly demand;

(ii) energy-based prices to the *Distribution Customer's* metered or agreed energy;

(iii) the *Distribution Customer* charge determined under this clause as a fixed periodic charge to each *Distribution Customer*;

(iv) a fixed periodic charge, a prepayment or other charge determined by agreement with the *Distribution Customer*;

(v) any other measure the *Distribution Network Service Provider* is authorised to apply by the applicable distribution determination.

(b) Subject to paragraph (c), where a *Distribution Customer* (other than a *Market Customer*) incurs *distribution service* charges, the *Distribution Network Service Provider* must bill the *Market Customer* from whom the *Distribution Customer* purchases electricity directly or indirectly for such *distribution services* in accordance with paragraph (a)(2).

(c) If a *Distribution Customer* and the *Market Customer* from whom it purchases electricity agree, the *Distribution Network Service Provider* may bill the *Distribution Customer* directly for *distribution services* used by that *Distribution Customer* in accordance with paragraph (a)(2).

(d) *Distribution Network Service Providers* must:

(1) calculate *transmission service* charges and *distribution service* charges for all *connection points* in their *distribution network*; and

(2) pay to *Transmission Network Service Providers* the *transmission service* charges incurred in respect of use of a *transmission network* at each *connection point* on the relevant *transmission network*.

(e) Charges for *distribution services* based on metered kW, kWh, kVA, or kVAh for:

(1) *Embedded Generators* that are *Market Generators*; and

(2) *Market Customer*; and

(3) *Second-Tier Customers*;

must be calculated by the *Distribution Network Service Provider* from:

(1) *settlements ready data* obtained from *AEMO's metering database*, for those *Embedded Generators*, *Market Customers* and *Second-Tier*

Customers with *connection points* that have a type 1, 2, 3 or 4 *metering installation*; and

(2) *metering data*, in accordance with a *metrology procedure* that allows the *Distribution Network Service Provider* to use *energy data* for this purpose, or otherwise *settlements ready data* obtained from *AEMO's metering database*, for those *Embedded Generators*, *Market Customers* and *Second-Tier Customers* with *connection points* that have a type 5, 6 or 7 *metering installation*.

(f) Charges for *distribution services* based on metered kW, kWh, kVA or kVAh for:

(1) *Embedded Generators* that are not *Market Generators*; and

(2) *Non-Registered Customers*; and

(3) *franchise customers*,

must be calculated by the *Distribution Network Service Provider* using data that is consistent with the *metering data* used by the relevant *Local Retailer* in determining *energy settlements*.

(g) The *Distribution Network Service Provider* may bill the relevant *Local Retailer* for *distribution services* used by *Non-Registered Customers* and *franchise customers*.

(h) Where the billing for a *Distribution Customer* for a particular *financial year* is based on quantities which are undefined until after the commencement of the *financial year*, charges must be estimated from the previous year's billing quantities with a reconciliation to be made when the actual billing quantities are known.

(i) Where the previous year's billing quantities are unavailable or no longer suitable, nominated quantities may be used as agreed between the parties.

6.20.2 Minimum information to be provided in distribution network service bills

(a) The following is the minimum information that must be provided with a bill for a *network coupling point* issued by a *Distribution Network Service Provider* directly to a *Registered Participant*:

(1) the *network coupling point* identifier; and

(2) the dates on which the billing period starts and ends; and

(3) the identifier of the *distribution service* price from which the *network coupling point* charges are calculated; and

(4) measured quantities, billed quantities, prices and amounts charged for each component of the total *distribution service* account.

(b) In addition to the minimum information requirements in paragraph (a), a bill for a *network coupling point* issued by a *Distribution Network Service Provider* directly to another *Distribution Network Service Provider* must separately identify the component of *designated pricing proposal services*, if any, to which each amount charged in the bill relates.

6.20.3 Settlement between Distribution Network Service Providers

The billing and settlement process specified in this clause must be applied to all *Distribution Customers* including other *Distribution Network Service Providers*.

6.20.4 Obligation to pay

A *Distribution Network User* must pay *distribution service* charges properly charged to it and billed in accordance with this clause by the due date specified in the bill.

Part K Prudential requirements, capital contributions and prepayments

6.21 Distribution Network Service Provider Prudential Requirements

This clause sets out the arrangements by which *Distribution Network Service Providers* may minimise financial risks associated with investment in *network assets* and provides for adoption of cost-reflective payment options in conjunction with the use of average distribution prices. The clause also prevents *Distribution Network Service Providers* from receiving income twice for the same assets through prudential requirements and *distribution service* prices.

6.21.1 Prudential requirements for distribution network service

(a) A *Distribution Network Service Provider* may require an *Embedded Generator* or *Distribution Customer* that requires a new *connection* or a modification in service for an existing *connection* to establish prudential requirements for *connection service* and/or *distribution use of system service*.

(b) Prudential requirements for *connection service* and/or *distribution use of system service* are a matter for negotiation between the *Distribution Network Service Provider* and the *Embedded Generator* or *Distribution Customer* and the terms agreed must be set out in the *connection agreement* between the *Distribution Network Service Provider* and the *Embedded Generator* or *Distribution Customer*.

(c) The *connection agreement* may include one or more of the following provisions:

(1) the conditions under which and the time frame within which other *Distribution Network Users* who use that part of the *distribution network* contribute to refunding all or part of the payments;

(2) the conditions under which financial arrangements may be terminated; and

(3) the conditions applying in the event of default by the *Distribution Customer* or *Embedded Generator*.

(d) The prudential requirements may incorporate, but are not limited to, one or more of the following arrangements:

(1) financial capital contributions;

(2) non-cash contributions;

(3) *distribution service* charge prepayments;

(4) guaranteed minimum *distribution service* charges for an agreed period;

(5) guaranteed minimum *distribution service* quantities for an agreed period;

(6) provision for financial guarantees for *distribution service* charges.

6.21.2 Capital contributions, prepayments and financial guarantees

Despite any other provision in this Chapter, in relation to capital contributions, prepayments and financial guarantees:

(1) the *Distribution Network Service Provider* is not entitled to recover, under a mechanism for the economic regulation of *direct control services*, any component representing asset related costs for assets provided by *Distribution Network Users*; and

(2) the *Distribution Network Service Provider* may receive a capital contribution, prepayment and/or financial guarantee up to the provider's future revenue related to the provision of *direct control services* for any new assets installed as part of a new *connection* or modification to an existing *connection*, including any *augmentation* to the *distribution network*; and

(3) where assets have been the subject of a contribution or prepayment, the *Distribution Network Service Provider* must amend the provider's revenue related to the provision of *direct control services*.

6.21.3 Treatment of past prepayments and capital contributions

(a) Payments made by *Distribution Customers* and *Embedded Generators* for *distribution service* prior to 13 December 1998 must be made in accordance with any contractual arrangements with the relevant *Distribution Network Service Providers* applicable at that time.

(b) Where contractual arrangements referred to in clause paragraph (a) are not in place, past *distribution service* prepayments or capital contributions may be incorporated in the capital structure of the *Distribution Network Service Provider's* business.

(c) The *AER* may intervene in and resolve any dispute under this clause which cannot be resolved between the relevant *Distribution Network Service Provider* and *Distribution Customer* or *Embedded Generator*.

Part L Dispute resolution

6.22 Dispute Resolution

6.22.1 Dispute Resolution by the AER

(a) A dispute between a *Distribution Network Service Provider* and a *Service Applicant* as to the *terms and conditions of access* to a *direct control service* or to a *negotiated distribution service* is an access dispute for the purposes of Part 10 of the Law.

(b) A dispute between a *Distribution Network Service Provider* and a *Service Applicant* about *access charges* is an access dispute for the purposes of Part 10 of the Law.

(c) A dispute between a *Distribution Network Service Provider* and a *Connection Applicant* about matters referred to in clause 5.5(f) or clause 5.5(h) is an access dispute for the purposes of Part 10 of the Law.

6.22.2 Determination of dispute

(a) In determining an access dispute about *terms and conditions of access* to a *direct control service*, the *AER* must apply:

(1) in relation to price, the *Distribution Network Service Provider's approved pricing proposal* and the *Distribution Network Service Provider's tariff structure statement* or, in respect of the *Distribution Network Service Provider's transmission standard control services* in respect of which the AER has made a determination under clause 6.25(b) that pricing in respect of those services should be regulated under Part J of Chapter 6A through the application of rule 6.26, the *Distribution Network Service Provider's* approved *pricing methodology*;

(2) in relation to other terms and conditions, Chapters 4, 5, this Chapter 6 and Chapter 7 and any other *applicable regulatory instrument*; and

(3) in relation to all *terms and conditions of access* (including price) the decisions of *AEMO* or the *AER* where those decisions relate to those terms and conditions and are made under Chapters 4, 5, this Chapter 6 and Chapter 7.

(b) In determining an access dispute about the *terms and conditions of access* to a *direct control service*, the *AER* may:

(1) have regard to other matters the *AER* considers relevant; and

(2) hear evidence or receive submissions from *AEMO* about *power system security* and from *Distribution Network Users* who may be adversely affected.

Note:

Section 130 of the Law requires the *AER*, in making an access determination, to give effect to a network revenue or pricing determination applicable to the services that are the subject of the dispute even though the determination may not have been in force when the dispute arose.

(c) In determining an access dispute about *terms and conditions of access* to a *negotiated distribution service*, the *AER* must apply:

(1) in relation to price (including *access charges*), the *Negotiated Distribution Service Criteria* that are applicable to the dispute in accordance with the relevant distribution determination; and

(2) in relation to other terms and conditions, the *Negotiated Distribution Service Criteria* that are applicable to the dispute and Chapters 4, 5, this Chapter 6 and Chapter 7 of the *Rules*; and

(3) in relation to all *terms and conditions of access* (including price) the decisions of *AEMO* or the *AER* where those decisions relate to those terms and conditions and are made under Chapters 4, 5, this Chapter 6 and Chapter 7 of the *Rules*;

and must have regard:

(4) to the relevant *negotiating framework* prepared by the *Distribution Network Service Provider* and approved by the *AER*.

(d) In determining an access dispute about the *terms and conditions of access* to a *negotiated distribution service*, the *AER* may:

(1) have regard to other matters the *AER* considers relevant; and

(2) hear evidence or receive submissions from *AEMO* and *Distribution Network Users* notified and consulted under the *Distribution Network Service Provider's negotiating framework*.

(e) In determining an access dispute about *access charges*, or involving *access charges*, the *AER* must give effect to the following principle:

Access charges should be based on the costs reasonably incurred by the *Distribution Network Service Provider* in providing *distribution network user access* and, where they consist of compensation referred to in clause 5.5(f)(4)(ii) and (iii), on the revenue that is likely to be foregone and the costs that are likely to be incurred by a person referred to in those provisions where an event referred to in those provisions occurs.

6.22.3 Termination of access dispute without access determination

(a) If the *AER* considers that an access dispute could be effectively resolved by some means other than an access determination, the *AER* may give the parties to the dispute notice of the alternative means of resolving the dispute.

(b) The giving of such a notice is a specified dispute termination circumstance for the purposes of section 131(3) of the Law.

Note:

It follows that the *AER* may exercise its power to terminate the dispute without making an access determination (See section 131(1)(d) of the Law).

Part M Separate disclosure of transmission and distribution charges

6.23 Separate disclosure of transmission and distribution charges

(a) A *Distribution Customer*:

(1) with a *load* greater than 10MW or 40GWh per annum; or

(2) with *metering* equipment capable of capturing relevant *transmission* and *distribution system* usage data,

may make a request (a **TUOS/DUOS disclosure request**) to a *Distribution Network Service Provider* to provide the *Distribution Customer* with a statement (a **TUOS/DUOS disclosure statement**) identifying the separate components of the *designated pricing proposal charges* and *distribution use of system* charges comprised in the charges for electricity supplied to the *Distribution Customer's connection points*.

(b) Within 10 *business days* of receipt of a *TUOS/DUOS disclosure request*, a *Distribution Network Service Provider* must notify the *Distribution Customer* of the estimated charge (including details of how the charge is calculated) for providing the *TUOS/DUOS disclosure statement*. The charge must be no greater than the reasonable costs directly incurred by the *Distribution Network Service Provider* in preparing the statement for the *Distribution Customer*.

(c) If the *Distribution Customer* advises the *Distribution Network Service Provider* within 20 *business days* of receipt of the notice referred to in paragraph (b) that it still requires the requested *TUOS/DUOS disclosure statement*, the *Distribution Network Service Provider* must prepare the statement and provide it to the *Distribution Customer* within 20 *business days* of being so advised. The *TUOS/DUOS disclosure statement* must include detailed information on the method used to determine the *distribution use of system* charges and the allocation of the *designated pricing proposal charges* to the *Distribution Customer* for electricity supplied to its *connection points*. The information must be sufficient to allow the *Distribution Customer* to assess the impact on its *network* charges of a change in its *network* use.

(d) The *TUOS/DUOS disclosure statement* must also separately identify the amounts that have been allocated to the *Distribution Customer's connection points* under Part J of Chapter 6A in respect of each of the *categories of prescribed transmission services*, where the *Distribution Customer* requests this information.

(e) Where the *Distribution Customer* requests the information referred to in paragraph (d), the *Distribution Network Service Provider* must separately identify the component of the charge notified under paragraph (b) that relates to the provision of the additional information.

(f) Each *Distribution Network Service Provider* must publish information annually disclosing the *designated pricing proposal charges* and *distribution use of system* charges for each of the classes of *Distribution Customers* identified for this purpose by the *Distribution Network Service Provider*, or as required by the *AER*.

Part N Dual Function Assets

6.24 Dual Function Assets

6.24.1 Application of this Part

This Part applies to *Distribution Network Service Providers* which own, control or operate both a *distribution system* and a *dual function asset*.

6.24.2 Dual Function Assets

Subject to rule 6.26, for the purposes of Chapters 6 and 6A:

(a) any part of a *network* owned, operated or controlled by a *Distribution Network Service Provider* which operates between 66 kV and 220 kV and which operates in parallel, and provides support, to the higher voltage *transmission network* is deemed to be a *dual function asset*;

(b) any service that is provided by a *Distribution Network Service Provider* by means of, or in connection with, the *Distribution Network Service Provider's dual function assets* that, but for this Part, would be a *prescribed transmission service* for the purposes of Chapter 6A is deemed to be a *standard control service*;

(c) any service that is provided by a *Distribution Network Service Provider* by means of, or in connection with, the *Distribution Network Service Provider's dual function assets* that, but for this Part, would be a *negotiated transmission service* under Chapter 6A is deemed to be a *negotiated distribution service*; and

(d) references to *prescribed transmission services* do not include a service provided by means of, or in connection with, a *dual function asset*.

6.25 AER determination of applicable pricing regime for Dual Function Assets

(a) A *Distribution Network Service Provider* which owns, controls or operates *dual function assets* must advise the *AER* at least 32 months prior to the end of the current *regulatory control period* of the value of that *Distribution Network Service Provider's dual function assets* which provide *standard control services* that would be *prescribed transmission services* were it not for the operation of clause 6.24.2 (referred to as *transmission standard control services*). The value to be advised is the value ascribed to the relevant *dual function assets* in the relevant *Distribution Network Service Provider's* regulatory asset base as at the start of the *regulatory year* which commences 36 months prior to the end of the current *regulatory control period*.

(b) The *AER* must review the information provided under paragraph (a) and determine, in accordance with clause 6.8.1, whether the value of that *Distribution Network Service Provider's dual function assets* which provide *transmission standard control services* comprise such a material proportion of that *Distribution Network Service Provider's* regulatory asset base that pricing in respect of those services should be regulated under Part J of Chapter 6A through the application of rule 6.26.

(c) In making its determination under paragraph (b) the *AER* must consider:

(1) whether regulating the pricing of the *transmission standard control services* provided by a *Distribution Network Service Provider's dual function assets*:

(i) under Part I of Chapter 6 as though they were *prescribed distribution services*; rather than

(ii) under Part J of Chapter 6A as though they were *prescribed transmission services,*

will result in materially different prices for *Distribution Customers* (including those connected directly to the relevant *dual function assets* and those connected to other *distribution networks*);

(2) whether the materiality of the different prices is likely to impact on future consumption, production and investment decisions by actual or potential *Network Users*; and

(3) any other matter that the *AER* considers relevant.

(d) The *AER's* determination under paragraph (b), which is binding, must be included in a *framework and approach paper* that applies in respect of the distribution determination for the next *regulatory control period*.

6.26 Division of Distribution Network Service Provider's revenue

(a) This rule 6.26 applies if the *AER* has determined under rule 6.25(b) that pricing in respect of *transmission standard control services* provided by a *Distribution Network Service Provider's dual function assets* should be regulated under Part J of Chapter 6A.

(b) The *AER* must, for the purposes of the distribution determination for the relevant *Distribution Network Service Provider*, divide the revenue calculated under Part C of Chapter 6 into the following two portions:

(1) a portion relevant to the *Distribution Network Service Provider's transmission standard control services* provided by its *dual function assets*. This portion is defined as its *transmission standard control service revenue*; and

(2) a portion relevant to the other *standard control services* provided by the *Distribution Network Service Provider*. This portion is defined as its *distribution standard control service revenue*,

based on the *Distribution Network Service Provider's* approved *Cost Allocation Method*.

(c) The relevant *Distribution Network Service Provider* must submit a proposed *pricing methodology* to the *AER* in respect of its *transmission standard control service revenue* as if it were a *Transmission Network Service Provider* as part of its regulatory proposal under Chapter 6, and Part E of Chapter 6A applies in respect of that *pricing methodology* (with the necessary changes).

(d) The *AER* and the relevant *Distribution Network Service Provider* must apply and comply with all aspects of Part J of Chapter 6A instead of, and to the exclusion of, Parts I, J and K of Chapter 6 in respect of the *dual function assets* which provide *transmission standard control services*, subject to the following:

(1) for the purposes of Part J of Chapter 6A:

(i) the *dual function assets* are relevantly deemed to be *transmission network* assets which provide *prescribed transmission services*;

(ii) the *Distribution Network Service Provider* which owns, controls or operates the relevant *dual function assets* is relevantly deemed to be a *Transmission Network Service Provider*;

(2) the *maximum allowed revenue* referred to in clause 6A.22.1 is taken to be the *transmission standard control service revenue*;

(3) the reference in clause 6A.22.1(1) to clause 6A.3.2 is taken to be a reference to rules 6.6 and 6.13;

(4) references to "*transmission determination*" are to be read as references to the relevant "distribution determination", with the *AER* being required to include in the distribution determination a decision to approve a proposed *pricing methodology* in relation to the *transmission standard control services* provided by the relevant *dual function assets*; and

(5) if there is no previous method to establish prices under clause 6A.24.3(b)(3), the relevant *Distribution Network Service Provider* must apply the *pricing methodology* of the largest *Transmission Network Service Provider* operating in the *participating jurisdiction* in which that *Distribution Network Service Provider* operates the relevant *dual function assets*.

(e) The pricing rules in Part I of Chapter 6 are to be applied to the *Distribution Network Service Provider's distribution standard control service revenue*.

Part O Annual Benchmarking Report

6.27 Annual Benchmarking Report

(a) The *AER* must prepare and *publish* a *network service provider performance report* (an *annual benchmarking report*) the purpose of which is to describe, in reasonably plain language, the relative efficiency of each *Distribution Network Service Provider* in providing *direct control services* over a 12 month period.

(b) Clause 8.7.4 (excluding clause 8.7.4(a)) applies in respect of the preparation of an *annual benchmarking report*.

(c) Subject to paragraphs (d) and (e), the *AER* must *publish* an *annual benchmarking report* at least every 12 months.

(d) The first *annual benchmarking report* must be *published* by 30 September 2014.

(e) The second *annual benchmarking report* must be *published* by 30 November 2015.

Schedule 6.1 Contents of building block proposals

S6.1.1 Information and matters relating to capital expenditure

A *building block proposal* must contain at least the following information and matters relating to capital expenditure:

(1) a forecast of the required capital expenditure that complies with the requirements of clause 6.5.7 and identifies the forecast capital expenditure by reference to well accepted categories such as:

(i) asset class (eg. *distribution lines*, *substations* etc); or

(ii) category driver (eg. *regulatory obligation or requirement*, replacement, *reliability*, net market benefit, business support etc),

and identifies, in respect of proposed material assets:

(iii) the location of the proposed asset;

(iv) the anticipated or known cost of the proposed asset; and

(v) the categories of *distribution services* which are to be provided by the proposed asset;

(2) the method used for developing the capital expenditure forecast;

(3) the forecasts of load growth relied upon to derive the capital expenditure forecasts and the method used for developing those forecasts of load growth;

(4) the key assumptions that underlie the capital expenditure forecast;

(5) a certification of the reasonableness of the key assumptions by the directors of the *Distribution Network Service Provider*;

(6) capital expenditure for each of the past *regulatory years* of the previous and current *regulatory control period*, and the expected capital expenditure for each of the last two *regulatory years* of the current *regulatory control period*, categorised in the same way as for the capital expenditure forecast and separately identifying for each such *regulatory year*:

(i) margins paid or expected to be paid by the *Distribution Network Service Provider* in circumstances where those margins are referable to arrangements that do not reflect arm's length terms; and

(ii) expenditure that should have been treated as operating expenditure in accordance with the policy submitted under paragraph (8) for that *regulatory year*;

(7) an explanation of any significant variations in the forecast capital expenditure from historical capital expenditure; and

(8) the policy that the *Distribution Network Service Provider* applies in capitalising operating expenditure.

S6.1.2 Information and matters relating to operating expenditure

A *building block proposal* must contain at least the following information and matters relating to operating expenditure:

(1) a forecast of the required operating expenditure that complies with the requirements of clause 6.5.6 and identifies the forecast operating expenditure by reference to well accepted categories such as:

(i) particular programs; or

(ii) types of operating expenditure (eg. maintenance, payroll, materials etc),

and identifies in respect of each such category:

(iii) to what extent that forecast expenditure is on costs that are fixed and to what extent it is on costs that are variable; and

(iv) the categories of *distribution services* to which that forecast expenditure relates;

(2) the method used for developing the operating expenditure forecast;

(3) the forecasts of key variables relied upon to derive the operating expenditure forecast and the method used for developing those forecasts of key variables;

(4) the method used for determining the cost associated with planned maintenance programs designed to improve the performance of the relevant *distribution system* for the purposes of any *service target performance incentive scheme* that is to apply to the *Distribution Network Service Provider* in respect of the relevant *regulatory control period*;

(5) the key assumptions that underlie the operating expenditure forecast;

(6) a certification of the reasonableness of the key assumptions by the directors of the *Distribution Network Service Provider*;

(7) operating expenditure for each of the past *regulatory years* of the previous and current *regulatory control period*, and the expected operating expenditure for each of the last two *regulatory years* of the current *regulatory control period*, categorised in the same way as for the operating expenditure forecast;

(8) an explanation of any significant variations in the forecast operating expenditure from historical operating expenditure.

S6.1.3 Additional information and matters

A *building block proposal* must contain at least the following additional information and matters:

(1) an identification and explanation of any significant interactions between the forecast capital expenditure and forecast operating expenditure programs;

(2) **[Deleted]**

(3) a description, including relevant explanatory material, of how the *Distribution Network Service Provider* proposes any *efficiency benefit sharing scheme* that has been specified in a *framework and approach paper*

that applies in respect of the forthcoming distribution determination should apply to it;

(3A) a description, including relevant explanatory material, of how the *Distribution Network Service Provider* proposes any *capital expenditure sharing scheme* that has been specified in a *framework and approach paper* that applies in respect of the forthcoming distribution determination should apply to it;

(4) a description, including relevant explanatory material, of how the *Distribution Network Service Provider* proposes any *service target performance incentive scheme* that has been specified in a *framework and approach paper* that applies in respect of the forthcoming distribution determination should apply to it;

(5) a description, including relevant explanatory material, of how the *Distribution Network Service Provider* proposes any *demand management and embedded generation connection incentive scheme* that has been specified in a *framework and approach paper* that applies in respect of the forthcoming distribution determination should apply to it;

(5A) a description, including relevant explanatory material, of how the *Distribution Network Service Provider* proposes any *small-scale incentive scheme* that has been specified in a *framework and approach paper* that applies in respect of the forthcoming distribution determination should apply to it;

(6) the *Distribution Network Service Provider's* calculation of revenues or prices for the purposes of the control mechanism proposed by the *Distribution Network Service Provider* together with:

(i) details of all amounts, values and inputs (including X factors) relevant to the calculation;

(ii) an explanation of the calculation and the amounts, values and inputs involved in the calculation; and

(iii) a demonstration that the calculation and the amounts, values and inputs on which it is based comply with relevant requirements of the Law and the *Rules*;

(7) the *Distribution Network Service Provider's* calculation of the regulatory asset base for the relevant *distribution system* for each *regulatory year* of the relevant *regulatory control period* using the *roll forward model* referred to in clause 6.5.1 , together with:

(i) details of all amounts, values and other inputs used by the *Distribution Network Service Provider* for that purpose;

(ii) a demonstration that any such amounts, values and other inputs comply with the relevant requirements of Part C of Chapter 6 ; and

(iii) an explanation of the calculation of the regulatory asset base for each *regulatory year* of the relevant *regulatory control period* and of the amounts, values and inputs referred to in subparagraph (i);

(8) **[Deleted]**.

(9) the *Distribution Network Service Provider's* calculation of the proposed return on equity, return on debt and *allowed rate of return*, for each *regulatory year* of the *regulatory control period*, in accordance with clause 6.5.2, including any departure from the methodologies set out in the *Rate of Return Guidelines* and the reasons for that departure;

(9A) if the *Distribution Network Service Provider* proposes that the return on debt for a *regulatory year* of the *regulatory control period* is to be determined using the methodology referred to in clause 6.5.2(i)(2), the formula it proposes should be applied in accordance with clause 6.5.2(l);

(9B) the *Distribution Network Service Provider's* proposed value of imputation credits as referred to in clause 6.5.3;

(10) the *post-tax revenue model* completed to show its application to the *Distribution Network Service Provider* and the completed *roll-forward model*;

(11) the *Distribution Network Service Provider's* estimate of the cost of corporate income tax for each *regulatory year* of the *regulatory control period*;

(12) the depreciation schedules nominated by the *Distribution Network Service Provider* for the purposes of clause 6.5.5 , which categorise the relevant assets for these purposes by reference to well accepted categories such as:

(i) asset class (eg *distribution lines* and *substations*); or

(ii) category driver (eg *regulatory obligation or requirement*, replacement, *reliability*, net market benefit, and business support),

together with:

(iii) details of all amounts, values and other inputs used by the *Distribution Network Service Provider* to compile those depreciation schedules;

(iv) a demonstration that those depreciation schedules conform with the requirements set out in clause 6.5.5(b) ; and

(v) an explanation of the calculation of the amounts, values and inputs referred to in subparagraph (iii);

(13) the commencement and length of the *regulatory control period* proposed by the *Distribution Network Service Provider*; and

(14) if the *Distribution Network Service Provider* is seeking a determination by the *AER* that a *proposed contingent project* is a *contingent project* for the purposes of the relevant distribution determination:

(i) a description of the *proposed contingent project*, including reasons why the *Distribution Network Service Provider* considers the project should be accepted as a *contingent project* for the *regulatory control period*;

(ii) a forecast of the capital expenditure which the *Distribution Network Service Provider* considers is reasonably required for the purpose of undertaking the *proposed contingent project*;

(iii) the methodology used for developing that forecast and the key assumptions that underlie it;

(iv) information that demonstrates that the undertaking of the *proposed contingent project* is reasonably required in order to achieve one or more of the *capital expenditure objectives*;

(v) information that demonstrates that the *proposed contingent capital expenditure* for the *proposed contingent project* complies with the requirements set out in clause 6.6A.1(b)(2); and

(vi) the *trigger events* which are proposed in relation to the *proposed contingent project* and an explanation of how each of those conditions or events addresses the matters referred to in clause 6.6A.1(c).

Schedule 6.2 Regulatory Asset Base

S6.2.1 Establishment of opening regulatory asset base for a regulatory control period

(a) **Application of this clause**

This clause S6.2.1

(1) applies to the establishment of the value of the regulatory asset base for a *distribution system* as at the beginning of a *regulatory control period* on the roll forward of the regulatory asset base to that *regulatory control period* from the previous *regulatory control period*; and

(2) also applies to the establishment of the value of the regulatory asset base for a *distribution system* as at the beginning of a *regulatory control period* where the *distribution system* was not immediately before that time the subject of a *building block determination*.

(b) **Roll forward model to comply with this clause**

The values to be used for completing the *roll forward model* must be established in accordance with this clause and clauses S6.2.2 and S6.2.3.

(c) **Distribution systems of specific providers**

(1) In the case of a *distribution system* owned, controlled or operated by one of the following *Distribution Network Service Providers* as at the commencement of this schedule, the value of the regulatory asset base for that *distribution system* as at the beginning of that first *regulatory year* must be determined by rolling forward the regulatory asset base for that *distribution system*, as set out in the table below, in accordance with this schedule:

Jurisdiction	***Distribution Network Service Provider***	**Regulatory Asset Base ($m)**
Australian Capital Territory	ActewAGL	510.54 (as at 1 July 2004 in July 2004 dollars)
New South Wales	Country Energy	2,440 (as at 1 July 2004 in July 2004 dollars)
	EnergyAustralia	4,116 (as at 1 July 2004 in July 2004 dollars)
	Integral Energy	2,283 (as at 1 July 2004 in July 2004 dollars)
Queensland	ENERGEX	4,308.1 (as at 1 July 2005 in July 2005 dollars)
	Ergon Energy	4,198.2 (as at 1 July 2005 in July 2005 dollars) but, if the Queensland Competition Authority nominates a different amount in writing to the *AER*, the regulatory asset base is the amount so nominated.
South Australia	ETSA Utilities	2,466 (as at 1 July 2005 in December 2004 dollars)
Tasmania	Aurora Energy	981.108 (as at 1 January 2008 in July 2006 dollars)
Victoria	AGL Electricity	578.4 (as at 1 January 2006 in July 2004 dollars)
	Citipower	990.9 (as at 1 January 2006 in July 2004 dollars)
	Powercor	1,626.5 (as at 1 January 2006 in July 2004 dollars)

Jurisdiction	***Distribution Network Service Provider***	**Regulatory Asset Base ($m)**
	SP AusNet	1,307.2 (as at 1 January 2006 in July 2004 dollars)
	United Energy	1,220.3 (as at 1 January 2006 in July 2004 dollars)

(2) The values in the table above are to be adjusted for the difference between:

(i) any estimated capital expenditure that is included in those values for any part of a previous *regulatory control period*; and

(ii) the actual capital expenditure for that part of the previous *regulatory control period*.

This adjustment must also remove any benefit or penalty associated with any difference between the estimated and actual capital expenditure.

(3) When rolling forward a regulatory asset base under subparagraph (1), the *AER* must take into account the derivation of the values in the above table from past regulatory decisions and the consequent fact that they relate only to the regulatory asset base identified in those decisions.

(d) **Other distribution systems**

(1) This paragraph (d) applies to a *distribution system* not referred to in paragraphs (c) when *standard control services* that are provided by means of, or in connection with, that system are to be regulated under a *building block determination*.

(2) The value of the regulatory asset base for that *distribution system* as at the beginning of the first *regulatory year* of the first *regulatory control period* for the relevant *Distribution Network Service Provider* is the prudent and efficient value of the assets that are used by the provider to provide those *standard control services* (but only to the extent that they are used to provide such services), as determined by the *AER*. In determining this value, the *AER* must have regard to the matters referred to in clause S6.2.2.

(3) The value of the regulatory asset base for that *distribution system* as at the beginning of the first *regulatory year* of any subsequent *regulatory control period* must be determined by rolling forward the value of the regulatory asset base for that *distribution system* as at the beginning of the first *regulatory year* of the first *regulatory control period* in accordance with this schedule.

(e) **Method of adjustment of value of regulatory asset base**

Except as otherwise provided in paragraph (c) or (d) and subject to paragraph (g), the value of the regulatory asset base for a *distribution system* as at the beginning of the first *regulatory year* of a *regulatory control period* must be calculated by adjusting the value (the **previous value**) of the regulatory asset base for that *distribution system* as at the beginning of the first *regulatory year* of the immediately preceding *regulatory control period* (the **previous control period**) as follows:

(1) The previous value of the regulatory asset base must be:

(i) increased by the amount of all capital expenditure incurred during the previous control period, including any capital expenditure determined for that period under clause 6.6A.2(e)(1)(i) in relation to *contingent projects* where the distribution determination has been amended by the *AER* in accordance with clause 6.6A.2(h) (regardless of whether such capital expenditure is above or below the forecast capital expenditure for the period that is adopted for the purposes of the distribution determination (if any) for that period); and

(ii) reduced by the amount of any capital expenditure that has been recovered by way of a pass through under clause 6.6.1 where the amount of that capital expenditure would otherwise have been included in the value of the regulatory asset base.

(2) The previous value of the regulatory asset base must be increased by the amount of the estimated capital expenditure approved by the *AER* for any part of the previous control period for which actual capital expenditure is not available, including any capital expenditure in relation to *contingent projects* where the *total revenue requirement* has been amended by the *AER* in accordance with clause 6.6A.2(h).

(3) The previous value of the regulatory asset base must be adjusted for the difference between:

(i) the estimated capital expenditure for any part of a previous *regulatory control period* where that estimated capital expenditure has been included in that value; and

(ii) the actual capital expenditure for that part of the previous *regulatory control period*.

This adjustment must also remove any benefit or penalty associated with any difference between the estimated and actual capital expenditure.

(4) The previous value of the regulatory asset base must only be increased by actual or estimated capital expenditure to the extent that all such capital expenditure is properly allocated to the provision of *standard*

control services in accordance with the *Cost Allocation Method* for the relevant *Distribution Network Service Provider*.

(5) The previous value of the regulatory asset base must be reduced by the amount of depreciation of the regulatory asset base during the previous *regulatory control period*, calculated in accordance with the distribution determination for that period.

(6) The previous value of the regulatory asset base must be reduced by the disposal value of any asset where that asset has been disposed of during the previous *regulatory control period*.

(7) The previous value of the regulatory asset base must be reduced by the value of an asset where the asset was previously used to provide *standard control services* (or their equivalent under the previous regulatory system) but, as a result of a change to the classification of a particular service under Part B, is not to be used for that purpose for the relevant *regulatory control period*.

(8) The previous value of the regulatory asset base may be increased by the value of an asset to which this subparagraph applies to the extent that:

(i) the *AER* considers the asset to be reasonably required to achieve one or more of the *capital expenditure objectives*; and

(ii) the value of the asset has not been otherwise recovered.

This subparagraph applies to an asset that:

(i) was not used to provide *standard control services* (or their equivalent under the previous regulatory system) in the previous *regulatory control period* but, as a result of a change to the classification of a particular service under Part B, is to be used for that purpose for the relevant *regulatory control period*; or

(ii) was never previously used to provide *standard control services* (or their equivalent under the previous regulatory system) but is to be used for that purpose for the relevant *regulatory control period*.

(f) An increase or reduction in the value of the regulatory asset base under subparagraph (7) or (8) of paragraph (e) is to be based on the portion of the value of the asset properly allocated, or formerly properly allocated, to *standard control services* in accordance with the principles and policies set out in the *Cost Allocation Method* for the relevant *Distribution Network Service Provider*. The value of the relevant asset is taken to be its value as shown in independently audited and published accounts.

(g) The previous value of the regulatory asset base must be reduced by any amount determined by the *AER* in accordance with clause S6.2.2A(f), (i) or (j).

S6.2.2 Prudency and efficiency of capital expenditure

In determining the prudency or efficiency of capital expenditure under clause S6.2.1(d)(2), the *AER* must have regard to the following:

(1) the need to provide a reasonable opportunity for the relevant *Distribution Network Service Provider* to recover the efficient costs of complying with all applicable *regulatory obligations or requirements* associated with the provision of *standard control services*;

(2) the need to provide effective incentives to the *Distribution Network Service Provider* to promote economic efficiency in the provision of *standard control services*;

(3) whether the relevant project in respect of which capital expenditure was made was evaluated against, and satisfied, the *regulatory investment test for transmission* or the *regulatory investment test for distribution* (as the case may be);

(4) whether the *Distribution Network Service Provider* undertook the capital expenditure in a manner consistent with good business practice and so as to practicably achieve the lowest sustainable cost of delivering the *standard control services* to be provided as a consequence of that capital expenditure;

(5) the desirability of minimising investment uncertainty for the *Distribution Network Service Provider*;

(6) the need to provide incentives to the *Distribution Network Service Provider* to avoid undertaking inefficient capital expenditure;

(7) the value of the relevant asset as shown in independently audited and published accounts.

In determining the prudency or efficiency of capital expenditure the *AER* must only take into account information and analysis that the *Distribution Network Service Provider* could reasonably be expected to have considered or undertaken at the time that it undertook the relevant capital expenditure.

S6.2.2A Reduction for inefficient past capital expenditure

(a) Prior to making a decision on the regulatory asset base for a *distribution system* as required by clause 6.12.1(6), the *AER* may determine under this clause S6.2.2A that the amount of capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6.2.1(e) should be reduced.

(a1) for the purposes of this clause S6.2.2A, "**review period**" means:

  (1) the previous control period (excluding the last two *regulatory years* of that previous control period); and

(2) the last two *regulatory years* of the *regulatory control period* preceding the previous control period.

(b) The *AER* may only make a determination under paragraph (a) if any of the following requirements is satisfied:

(1) the requirement set out in paragraph (c) (the *overspending requirement*);

(2) the requirement set out in paragraph (d) (the *margin requirement*); or

(3) the requirement set out in paragraph (e) (the *capitalisation requirement*).

(c) The *overspending requirement* is satisfied where the sum of all capital expenditure incurred during the review period exceeds the sum of:

(1) the forecast capital expenditure accepted or substituted by the *AER* for the review period as such forecast capital expenditure has been adjusted in accordance with clauses 6.6.5(f) and 6.6A.2(h); and

(2) any capital expenditure that is recovered by way of such part of an *approved pass through amount* as is permitted to be passed through to *Distribution Network Users* during the review period less any capital expenditure that is included in a *negative pass through amount* that is required to be passed through to *Distribution Network Users* during the review period.

(d) The *margin requirement* is satisfied where the amount of the capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6.2.1(e) includes capital expenditure that represents a margin paid by the *Distribution Network Service Provider* in circumstances where the margin is referable to arrangements that, in the opinion of the *AER*, do not reflect arm's length terms.

(e) The *capitalisation requirement* is satisfied where the amount of the capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6.2.1(e) includes expenditure that, under the *Distribution Network Service Provider's* applicable capitalisation policy submitted to the *AER* as part of a *regulatory proposal*, should have been treated as operating expenditure.

(f) Where the *overspending requirement* is satisfied, and subject to paragraphs (g) and (h), the *AER* may determine that the amount of the capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6.2.1(e) should be reduced by such amount as the *AER* is satisfied corresponds to capital expenditure incurred during the review period that does not reasonably reflect the *capital expenditure criteria*.

(g) The amount determined by the *AER* under paragraph (f):

(1) must not be greater than the amount calculated in accordance with paragraph (c);

(2) must be determined in a manner that is consistent with the *capital expenditure incentive objective*; and

(3) must be determined taking into account the *Capital Expenditure Incentive Guidelines*.

(h) In making a determination under paragraph (f), the *AER* must:

(1) have regard to the *capital expenditure factors*; and

(2) only take into account information and analysis that the *Distribution Network Service Provider* could reasonably be expected to have considered or undertaken at the time that it undertook the relevant capital expenditure.

(i) Where the *margin requirement* is satisfied, and subject to paragraph (k), the *AER* may determine that the amount of the capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6.2.1(e) should be reduced by such of the margin referred to in paragraph (d) as the *AER* is reasonably satisfied would not have been paid if the arrangements to which the margin is referable had been on arm's length terms.

(j) Where the *capitalisation requirement* is satisfied, and subject to paragraph (k), the *AER* may determine that the amount of the capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6.2.1(e) should be reduced by any or all of the amount of expenditure referred to in paragraph (e) which should have been treated as operating expenditure .

(k) A determination made under paragraph (i) or (j) must be consistent with the *capital expenditure incentive objective* and, in making such a determination, the *AER* must take into account the *Capital Expenditure Incentive Guidelines*.

(l) Nothing in this clause S6.2.2A is to be taken to preclude the *AER* from:

(1) requiring a *Distribution Network Service Provider* to provide such information; or

(2) undertaking such analysis,

as the *AER* considers appropriate to enable it to make a statement, with supporting reasons, as referred to in clause 6.12.2(b).

S6.2.2B Depreciation

(a) Pursuant to clause 6.12.1(18), the *AER* must decide, for a distribution determination, whether depreciation for establishing the regulatory asset base for a *distribution system* as at the commencement of the following *regulatory control period* is to be based on actual or forecast capital expenditure.

(b) The decision referred to in paragraph (a) must be consistent with the *capital expenditure incentive objective*.

(c) In making the decision referred to in paragraph (a), the *AER* must have regard to:

(1) the incentives that the *Distribution Network Service Provider* has in relation to undertaking efficient capital expenditure, including as a result of the application of any incentive scheme or any other incentives under the *Rules*;

(2) the substitution possibilities between assets with relatively short economic lives and assets with relatively long economic lives and the relative benefits of such asset types;

(3) the extent to which any capital expenditure incurred by the *Distribution Network Service Provider* has exceeded the corresponding amount of forecast capital expenditure accepted or substituted by the *AER* and the amount of that excess expenditure which is not efficient;

(4) the *Capital Expenditure Incentive Guidelines*; and

(5) the *capital expenditure factors*.

S6.2.3 Roll forward of regulatory asset base within the same regulatory control period

(a) **Application of this clause**

This clause applies to the establishment of the value of the regulatory asset base for a *distribution system* as at the beginning of one *regulatory year* in a *regulatory control period* on the roll forward of the regulatory asset base to that *regulatory year* from the immediately preceding *regulatory year* (if any) in that *regulatory control period*.

(b) **Roll forward model to comply with this clause**

The *roll forward model* referred to in clause 6.5.1 must provide for that value to be established in accordance with the requirements of this clause.

(c) **Method of adjustment of value of regulatory asset base**

The value of the regulatory asset base for a *distribution system* as at the beginning of the second or a subsequent year (**the later year**) in a *regulatory control period* must be calculated by adjusting the value (**the previous value**) of the regulatory asset base for that *distribution system* as at the beginning of the immediately preceding *regulatory year* (**the previous year**) in that *regulatory control period* as follows:

(1) The previous value of the regulatory asset base must be increased by the amount of forecast capital expenditure accepted or substituted by the *AER* for the previous year in accordance with clause 6.5.7(c) or clause 6.12.1(3) (as the case may be).

(2) The previous value of the regulatory asset base must be reduced by the amount of depreciation included in the *Distribution Network Service Provider's annual revenue requirement* for the previous year.

(3) The previous value of the regulatory asset base must be reduced by the disposal value of any asset included in that value where the asset is forecast to be disposed of during the previous year.

(4) The previous value of the regulatory asset base must be increased by an amount necessary to maintain the real value of the regulatory asset base as at the beginning of the later year by adjusting that value for inflation.

(d) **Allowance for working capital**

If the *AER* determines that it is appropriate to do so, it may include an allowance for working capital in the regulatory asset base for a *distribution system* which is rolled forward in accordance with this clause.

Cost Allocation Method

November 2013

Ausgrid

Contents

Enquiries concerning Ausgrid's Cost Allocation Method should be addressed to:
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This CAM is version 1.3.
The date of issue is the date of approval. The date of commencement is 1 July 2014.
On approval, Ausgrid will post a copy of this Cost Allocation Method on Ausgrid's website (www.ausgrid.com.au) as required by clause 6.15.4(h) of the National Electricity Rules.

Version History

Version No.	Date of Revision	Details of Amendments
1.0	June 2012	Initial Draft
1.1	July 2012	Submitted CAM withdrawn at AER's request
1.2	June 2013	Draft revised CAM for submission to AER
1.3	November 2013	CAM amended to provide further details requested by the AER

1. Background

1.1 Company profile

Ausgrid[1] is a New South Wales ('NSW') State Owned Corporation ('SOC') established under the Energy Services Corporations Act 1995 and the State Owned Corporations Act 1989. Ausgrid's main activities are the safe ownership and management of its electricity network. Ausgrid's shareholding Ministers are the NSW Treasurer and the Minister for Finance.

Ausgrid's electricity network covers 22,275 square kilometres from Waterfall in Sydney's south, to Auburn in western Sydney and the upper Hunter Valley in the north. Ausgrid supplies electricity to more than 1.6 million customers in Sydney, the Central Coast and the Hunter Region in NSW.

Ausgrid is an integrated business providing both regulated services and unregulated services. Whilst Ausgrid's electricity network comprises mainly distribution assets, a small portion of this network comprises high voltage transmission assets that operate in parallel and provide support to the higher voltage transmission network. Ausgrid's electricity network includes:

- A sub-transmission system of 33kV, 66kV and 132kV assets.
- A high-voltage distribution system of 5kV, 11kV and 22kV assets.
- A low-voltage distribution system of 240V and 415V assets.

The assets specified above are referred to throughout this document as the 'network'. Ausgrid's network customers are therefore customers who are connected to this network of assets. Ausgrid's customers include large and small businesses, as well as major industry including mining, shipping, tourism, manufacturing and agriculture. The network is made up of more than 200 large electricity substations, 500,000 power poles, 30,000 small distribution substations and almost 50,000km of below and above ground electricity cables.

In relation to the network, Ausgrid's key regulated services include:

- Construction of distribution and sub-transmission system assets to extend and upgrade Ausgrid's network.
- Ensuring the safety and reliability of the network through regular maintenance and vegetation management activities.
- Constructing and maintaining the public lighting system in Ausgrid's jurisdiction.
- Connecting new customers to Ausgrid's network.
- Controlling the operation of the network to ensure the network capacity needs of all customers are met.
- Collecting and providing meter data to retailers.

Ausgrid is also involved in the provision of unregulated services, including:

- Constructing, maintaining and managing assets on behalf of third parties.
- The provision of other energy services in the hot water, lighting and solar industries.
- The provision of retail business services to EnergyAustralia (formerly TRUenergy) under the Transition Services Agreement ('TSA').

1.2 Amendments to Ausgrid's Cost Allocation Method

This Cost Allocation Method ('CAM') may only be amended in accordance with clause 4.2 of the Electricity Distribution Network Service Providers Cost Allocation Guidelines, April 2008 ('CAG') and clause 6.15.4(f) of the National Electricity Rules ('NER'). This CAM supersedes the CAM approved by the Australian Energy Regulator ('AER') in April 2009[2] ('Previous CAM'), which has been amended for the following reasons:

- Ausgrid's previous CAM was prepared in accordance with clause 11.15 of the NER (the 'Transitional Rules') to apply to the regulatory control period 2009-2014. Specifically, Ausgrid's previous CAM:
  - Gave effect to, and was consistent with, the Accounting Separation Code for Electricity Distributors in NSW prepared by the Independent Pricing and Regulatory Tribunal ('IPART'). This Accounting Separation Code was deemed by the Transitional Rules to be the

The CAM outlines the basis we use to allocate costs between the different services we provide.

[1] Prior to the sale of Ausgrid's retail business to TRUenergy (now EnergyAustralia) on 1 March 2011, Ausgrid was known as EnergyAustralia.

[2] EnergyAustralia's proposed cost allocation method (22 January 2009).

Cost Allocation Guidelines made by the AER for the 2009-2014 regulatory control period.
  - Was prepared using the same cost allocation method last used in preparing Ausgrid's Regulatory Accounts for submission to IPART, being the 2006-2007 Regulatory Accounts.
- For regulatory control periods following the 2009-2014 period, Ausgrid is required to apply the AER's CAG in accordance with chapter 6 of the NER.
- On 1 March 2011 Ausgrid's retail business was sold to TRUenergy (now EnergyAustralia) as part of the NSW Government's re-structuring of the industry. This transaction constituted a material change in Ausgrid's circumstances and resulted in significant changes to Ausgrid's organisational structure, with Ausgrid to provide retail business services to EnergyAustralia for up to three years under a TSA.
- On 18 March 2012 the NSW government announced a major restructure of the NSW electricity distribution businesses to merge key elements of the three NSW Distribution Network Service Providers[3] ('DNSPs') under a common operating model. Accordingly, from 1 July 2012 the 3 NSW electricity distribution businesses began to progressively implement the arrangements as announced by the Government to include a common Chairman, Board and CEO for all three companies and subsequent common senior management team also appointed to all three companies, and commonly referred to as Networks NSW.

As a result, amendments to Ausgrid's previous CAM are required for the business to effectively promote the AER's CAG, to account for material changes in Ausgrid's circumstances and to reflect the nature of costs incurred by the business and the way in which Ausgrid manages its expenditure.

Ausgrid has undertaken a detailed analysis and assessment of its shared cost allocators to identify the most appropriate cost drivers for each shared cost category. This includes the application of appropriate non-causal allocators for shared costs which are not material or where a causal based method of allocation cannot be established without undue cost and effort. Furthermore, due to the material changes in Ausgrid's circumstances (as outlined above), Ausgrid believes the review of shared cost allocators is required and appropriate for regulatory control periods following the 2009-2014 period.

Ausgrid also undertakes to approach and inform the AER in the event of any material changes that occur during the period in which the approved CAM applies. A change in circumstances will be considered material if its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the financial position of Ausgrid, as gained by an assessment of the financial information relating to Ausgrid.

2. Nature, Scope and Purpose

The purpose of this document is to set out the CAM adopted by Ausgrid for the purposes of complying with its regulatory obligations. This is pursuant to clause 6.15.4 of the NER, which requires that:

a) Each DNSP must submit to the AER for its approval, a document setting out its proposed CAM (clause 6.15.4(a) of the NER).

b) The CAM proposed by a DNSP must give effect to, and be consistent with, the CAG (clause 6.15.4(b) of the NER).

As required by clause 2.1 of the CAG, each DNSP is responsible for developing the detailed principles and policies for attributing costs to, or allocating costs between, the categories of distribution services that it provides. These detailed principles and policies must be included in the proposed CAM that Ausgrid submits to the AER for approval. This document contains detailed principles and policies for attributing costs to, or allocating costs between, the categories of distribution services Ausgrid provides.

Ausgrid's CAM has been prepared in accordance with the Cost Allocation Principles contained in section 6.15.2 of the NER. Specifically:

- The principles and policies used by Ausgrid to allocate costs between the different categories of distribution services are contained in this document, and are described in sufficient detail to enable the AER to replicate the reported outcomes through the application of the principles and policies (clause 6.15.2(1) of the NER).
- The allocation of costs has been determined according to the substance of a transaction or event rather than its legal form (clause 6.15.2(2) of the NER).
- Costs allocated to a particular category of distribution services are either:
  - Costs which are directly attributable to the provision of those services (clause 6.15.2(3)(i) of the NER).
  - Costs which are not directly attributable to the provision of those services but which are incurred in providing those services and which are allocated using an appropriate allocator (clause 6.15.2(3)(ii) of the NER).
- The reasons for using the method of the chosen allocator, and the numeric quantity (if any) of the chosen allocator, is clearly described in this document (clause 6.15.2(4) of the NER).
- The same costs are not allocated more than once (clause 6.15.2(5) of the NER).
- The principles, policies and approach used to allocate costs are consistent with the Distribution Ring-Fencing Guidelines (clause 6.15.2(6) of the NER).

[3] The three NSW DNSPs include Ausgrid, Endeavour Energy and Essential Energy.

- Costs which have been allocated to a particular service will not be reallocated to another service during the course of a regulatory control period (clause 6.15.2(7) of the NER).

In accordance with clause 6.15.1 of the NER, Ausgrid has a duty to comply with the CAM that has been approved by the AER.

Pursuant to clause 5.1(b) of the CAG, Ausgrid will apply its CAM in preparing:

- Forecast operating expenditure to be submitted to the AER in accordance with clause 6.5.6 of the NER.
- Forecast capital expenditure to be submitted to the AER in accordance with clause 6.5.7 of the NER.
- Prices for a negotiated distribution services determined in accordance with clause 6.7.1 of the NER.
- Annual statements in accordance with a future regulatory information instrument.
- Actual or estimated capital expenditure for the purposes of increasing the value of its regulatory asset base under NER schedule 6.2.1(f).

The records associated with Ausgrid's attribution or allocation of costs can be audited or verified by a third party as required by clause 3.2(a)(7) of the CAG.

3. Responsibility for the Cost Allocation Method

Ausgrid considers that the CAM complies with the requirements of the NER and the CAG and all regulatory financial information and reporting is prepared in a manner that is consistent with it. Ausgrid is committed to implementing this CAM in full following approval from the AER.

Within Ausgrid, overall responsibility for the governance and sign-off of the CAM is with the General Manager Finance & Compliance. The General Manager Finance & Compliance is a senior member of Ausgrid's executive leadership team and Chief Financial Officer ('CFO') of Ausgrid.

The Financial Controller is responsible for ensuring the CAM is updated, maintained and applied, including the internal monitoring and reporting of its application. The Financial Controller is responsible for the preparation of the annual Regulatory Accounts together with periodic internal regulatory reporting. The Financial Controller works in close collaboration with other groups within Ausgrid to communicate the requirements of the CAM and monitor Ausgrid's compliance with the CAM.

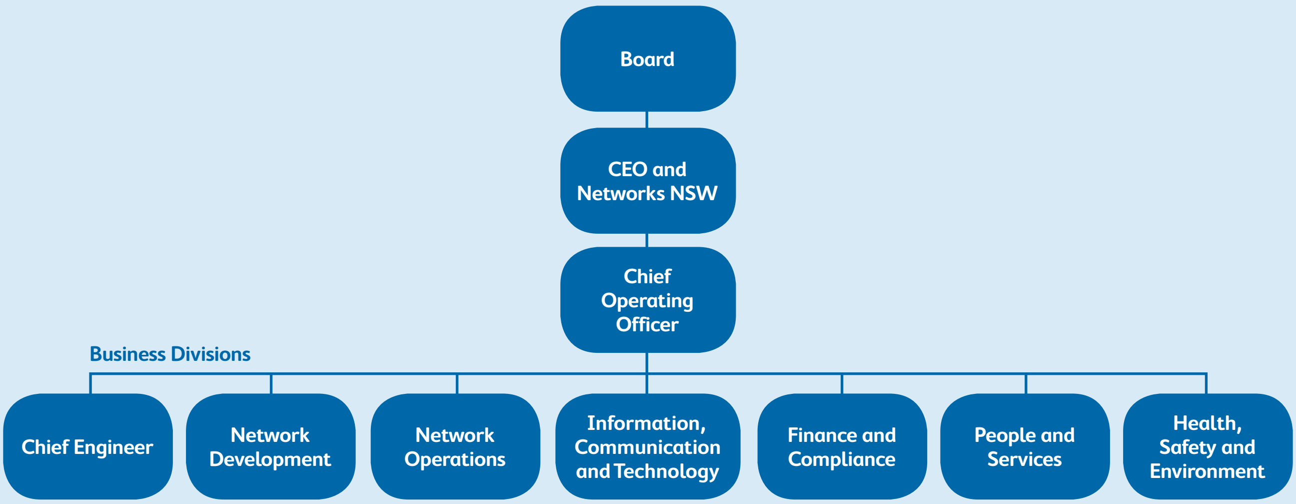
4. Corporate and Organisational Structure

Ausgrid's corporate and organisational structure has been developed to align with key business strategies. These strategies aim to meet the requirements of Ausgrid's customers and reflect the commitment to engaging with stakeholders on key issues to help achieve best outcomes.

Ausgrid delivers its business activities through seven business divisions, the Office of the Chief Operating Officer and Networks NSW which includes the Chief Executive Officer, Corporate Secretary and a common Group Executive Leadership team. Business divisions are split along the lines of those providing network services and those providing services to support the operational divisions. The corporate and organisational structure is illustrated in Figure 1 below.

Ausgrid has undertaken a detailed analysis of its shared cost allocators to identify the most appropriate cost drivers for each shared cost category.

Figure 1: Ausgrid's organisational structure as at 1 July 2013



The key responsibilities of each area of the business are as follows:

- ***Chief Engineer*** – responsible for overseeing the strategic management of the network within the regulatory framework. The division plans and develops the network, sets engineering policies and standards and monitors compliance.

- ***Network Development*** – responsible for the program management, development and delivery Ausgrid's system capital and system maintenance programs including life cycle program management and delivery of efficient and effective network asset management services.

- ***Network Operations*** – responsible for the delivery of the network capital and maintenance programs and has day-to-day responsibility for managing the network. Network Operations also has responsibility for managing customer connections and the interface with Accredited Service Providers (ASPs).

- ***Information, Communication & Technology*** – responsible for the ongoing management of Ausgrid's information technology and telecommunication systems and provision of this support to the wider organisation.

- ***Finance and Compliance*** – responsible for Ausgrid's financial operations, network regulation, compliance management and corporate governance functions, in addition to the delivery of TSA services to EnergyAustralia.

- ***People & Services*** – responsible for delivering performance through people, with a focus on supporting Ausgrid in delivering safe and reliable services to our customers, in addition to managing the organisations property, fleet, procurement & logistics functions.

- ***Health, Safety & Environment*** – responsible for supporting safe people, safe places and safe processes with the ultimate aim of achieving a workplace with zero harm, in addition to overseeing Ausgrid's environmental obligations.

- ***Office of the Chief Operating Officer*** – is responsible for leading Ausgrid's operations.

- ***CEO / Networks NSW*** – responsible for assisting the Board and CEO in undertaking reform of the industry consistent with the objectives of the NSW Government policy and in line with the Umbrella Cooperation Agreement (UCA).

Ausgrid is an integrated business providing both regulated services and unregulated services. These services are provided by each area of the business and are detailed in the remainder of this document.

On 1 July 2012, the Networks NSW (NNSW) operating model commenced with Endeavour Energy, Ausgrid and Essential Energy (DNSPs) having separate Boards with common Directors, a common Chairman and common Chief Executive Officer (CEO). A Group Management structure is being implemented to assist the Board and the CEO in undertaking reform of the industry consistent with the objectives of NSW Government policy and in line with the Umbrella Cooperation Agreement (UCA).

NNSW is not a legal entity and the personnel and associated costs of the NNSW group management have been captured by the individual DNSPs and equitably shared between the three DNSPs. The Umbrella Cooperation Agreement facilitates the management and cooperation of NNSW and each of the DNSPs. It enables the DNSPs to identify and implement reform measures and realise and share the initiatives through acting collectively and co-operatively.

Subsequent to 30 June 2013 the Energy Services Corporations Amendment (Distributor Efficiency) Legislation was passed. The amendment legislation provides for the appointment of a single board of directors that is to be the board of each of the energy distributors (Ausgrid, Endeavour Energy and Essential Energy) to act in the best interests of energy distributors as if they formed part of a combined operation. The legislation was proclaimed on 27 August 2013.

Although Ausgrid's organisational structure has changed as a result of this reform, Ausgrid will continue to apply the principles and policies as outlined in this document for attributing costs directly to, or allocating costs between, the relevant categories of services provided.

5. Distribution Services

Under clause 6.2.1(a) of the NER, the AER may classify distribution services provided by DNSPs as either:

- A direct control service.
- A negotiated distribution service.

Broadly, distribution services are the core services provided in ultimately delivering energy to a customer's premises. They include planning, constructing, maintaining and operating the electricity distribution network. Ausgrid also provides some non-distribution services, including retail business services to EnergyAustralia (previously TRUenergy) under the TSA and various other external business services. These services are not subject to regulation under the National Electricity Law or the NER.

The AER may choose to classify some services as negotiated distribution services having regard to the form of regulation factors and the classification of services applied in previous determinations or in other jurisdictions.

There are also a number of distribution services that the AER may not classify as direct control services or negotiated distribution services. These services are characterised by a high level of market contestability. For the purpose of the CAM, these unclassified distribution services are grouped with non-distribution services in the general category of 'Unregulated Services'.

Direct control services are further divided into two subclasses for classification purposes:

- Standard control services.
- Alternative control services.

Standard control services comprises of distribution services that are integral to electricity supply and are relied upon by the majority of our customers. Alternative control services are customer specific or customer requested services. These services are provided to a specific group of customers (e.g. local councils) or to customers who request the service[4].

Standard control services are further disaggregated into distribution standard control services and transmission standard control services. This is because Ausgrid's network includes high voltage transmission assets that operate in parallel and provide support to the higher voltage transmission network, and these assets are deemed to be Dual Function Assets for the purpose of economic regulation under the NER. The pricing for the services provided by Dual Function Assets may be decided by the AER to be subject to Part J of chapter 6A[5] of the NER. Such pricing arrangements necessitate the allocation of costs of providing standard control services between distribution standard control services and transmission standard control services. This allocation is discussed in section 6.7 below.

6. Cost Allocation Policies and Procedures

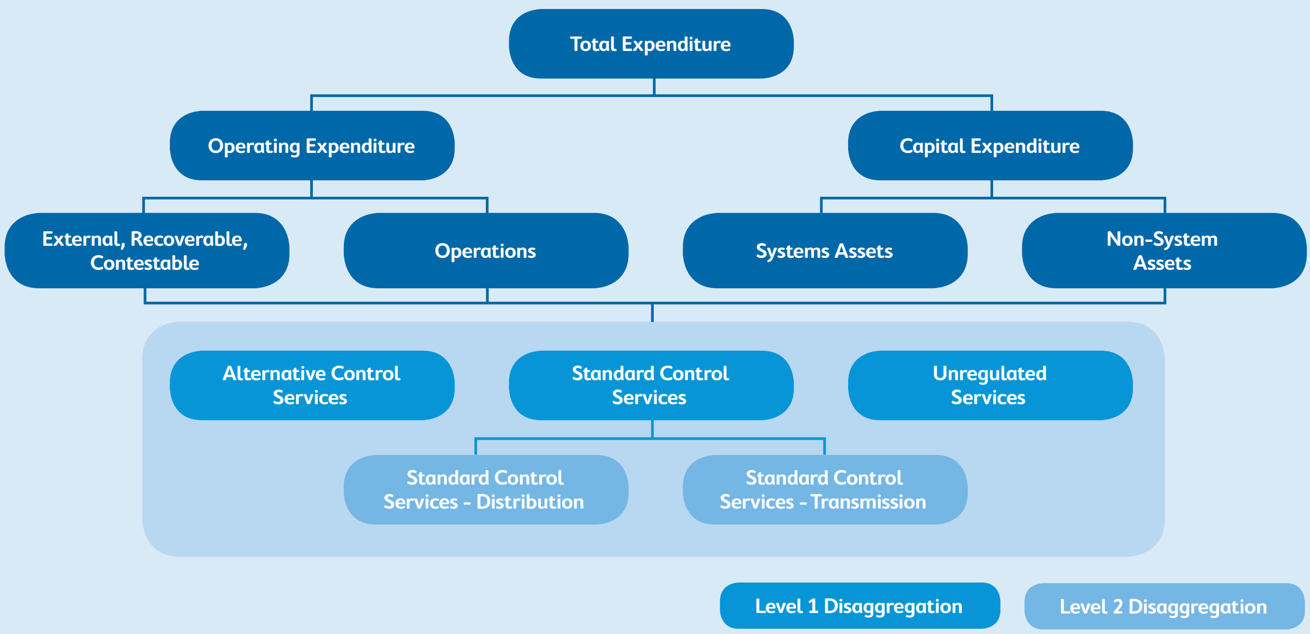
6.1 Ausgrid's costing overview

Figure 2 below summarises the cost hierarchy and cost disaggregation process for Ausgrid, which is reflected in Ausgrid's financial accounting and reporting systems.

[4] AER, Stage 1 Framework and approach paper, Ausgrid, Endeavour Energy and Essential Energy, Transitional regulatory control period 1 July 2014 to 30 June 2015; Subsequent regulatory control period 1 July 2015 to 30 June 2019, March 2013, p 8.

[5] Clauses 6.25(b) and 6.8.1(b)(1)(ii).

Figure 2: Summary of Ausgrid's cost hierarchy and cost disaggregation



Ausgrid's costing hierarchy and cost disaggregation process is summarised as follows:

1. Costs are captured in Ausgrid's financial management reporting system, SAP. Cost objects and cost elements (defined in section 6.2 below) are used within SAP to identify the nature and source of the expenditure incurred and identify the costs as either operating expenditure or capital expenditure. The distinction between operating expenditure and capital expenditure is based on the requirements of Australian Accounting Standards, NSW Treasury policies and generally accepted industry practice, all of which Ausgrid adheres to.

2a. Operating expenditure is identified as either external, recoverable, contestable or operations works. Costs incurred for external, recoverable and contestable works are directly attributed to unregulated services, as these services are provided in an effective competitive environment and are therefore not subject to regulation.

    Costs incurred for operations work are directly attributed to, or allocated between, standard control services, alternative control services and/or unregulated services respectively. This is based on the nature of the expenditure and in accordance with the CAM. This is referred to as Level 1 disaggregation.

2b. Capital expenditure is identified as either relating to system assets or non-system assets. Costs incurred for system assets are directly attributed to either standard control services or alternative control services. Costs incurred for non-system assets are either directly attributed to, or allocated between, standard control services, alternative control services and/or unregulated services respectively. The attribution or allocation of capital expenditure to the relevant service category is based on the nature of the expenditure and in accordance with the CAM. This is referred to as Level 1 disaggregation.

3. Operating and capital expenditure attributed and/or allocated to standard control services are further disaggregated between distribution standard control services and transmission standard control services. This is based on the nature of the expenditure and in accordance with the CAM. This is referred to as Level 2 disaggregation and is discussed in section 6.7 below.

Costs that have been attributed or allocated to a category of distribution service are not reattributed or reallocated to another distribution service within a regulatory control period.

The remainder of section 6 outlines the detailed principles and policies applied in performing the above cost attributions and allocations with respect to operating and capital expenditure.

6.2 Overview of systems and costing principles

Ausgrid utilises SAP and TM1 as its main financial management reporting systems for both statutory and regulatory reporting purposes. SAP is used for cost collection, asset management and maintenance and transactional reporting purposes. TM1 receives extract data from SAP for analytical and summary reporting purposes. Together these systems are used to give effect to Ausgrid's CAM. Further, capital expenditure cost allocations and the calculation of allocation percentages are performed and maintained predominantly in Excel files.

6.2.1 SAP

SAP is Ausgrid's primary financial management reporting system. It is an Enterprise Resource Planning ('ERP') application designed to collect and organise data from each area of Ausgrid's business. SAP provides the functionality to record and report costs based on their attribution to, or allocation between, the categories of services which Ausgrid provides. This is done from a number of perspectives including by cost object and by cost element.

Cost objects are the lowest level at which transactions are aggregated in SAP and therefore the categorisation of costs by cost objects provides a means of capturing costs by the nature and source of the expenditure incurred. Cost objects also provide the ability to disaggregate costs between operating and capital expenditure based on the type of work undertaken. Table 1 below outlines the cost objects utilised by Ausgrid.

Table 1: Cost objects utilised by Ausgrid

Cost Object	Description
Project specific cost objects	
Network activities and Work Breakdown Structure ('WBS') elements	Network activities and WBS elements are used to collect costs related to operational and capital projects. Costs recorded and posted to these cost objects combine to provide the total cost for a specific project.
Plant maintenance work orders	Plant maintenance work orders are used to collect costs related to system maintenance and service processing. These cost objects are predominantly operational in nature with the exception of one particular plant maintenance order type that captures minor capital expenditure.
Service orders	Service orders are used to collect costs related to customer service work (external or third party activities). These cost objects are part of total business operating expenditure.
Other cost objects	
Internal orders	Internal orders are used to collect, monitor and settle direct and indirect costs at a lower level for relatively uncomplicated activities. These cost objects are part of operating expenditure. Each internal order is linked to a cost centre upon creation.
Cost centre	Cost centres are business units that perform or engage in specific types of work. Cost centres enable Ausgrid to capture costs according to their source within the organisation. Any expenditure that cannot be directly costed to another cost object remains on the cost centre as operating expenditure and is then recovered via an overhead cost centre.

Each network activity, WBS element, plant maintenance work order and service order will have various attributes assigned when the cost object is created. These attributes are used by Ausgrid to identify the nature of the expenditure incurred, the type of service provided and the type of asset created (for capital expenditure). Expenditure captured in cost centres and internal orders (which are linked to specific cost centres), relate to business units that engage in specific types of work.

Using the attributes assigned to cost objects and identifying the type of work performed by specific cost centres, Ausgrid can identify the nature and source of the expenditure incurred and perform the cost disaggregation process outlined in Figure 2 (on page 8).

While cost objects are used to capture and report expenditure according to the type of project, business activity or service provided, the nature of the specific costs incurred by Ausgrid are categorised according to "cost elements". Cost elements capture cost categories such as:

- Labour (normal pay, overtime and labour on-cost such as superannuation, workers compensation, sick leave and annual leave).
- Materials.
- Contracted services and consultancy.
- Other (this includes items such as vehicle expenditure, IT expenditure, rent, insurance and taxes).

These cost categories are common to both operating and capital expenditure. A cost object can incur different types of costs relating to multiple cost elements that make up the total expenditure for the particular cost object.

6.2.2 TM1

TM1 is a Microsoft Excel based application which summarises data extracted from SAP for analytical and reporting purposes. TM1 enables Ausgrid to apply calculations in accordance with the CAM to attribute costs to, and allocate costs between, the relevant service categories for operating expenditure. TM1 is the application that gives practical effect to the CAM.

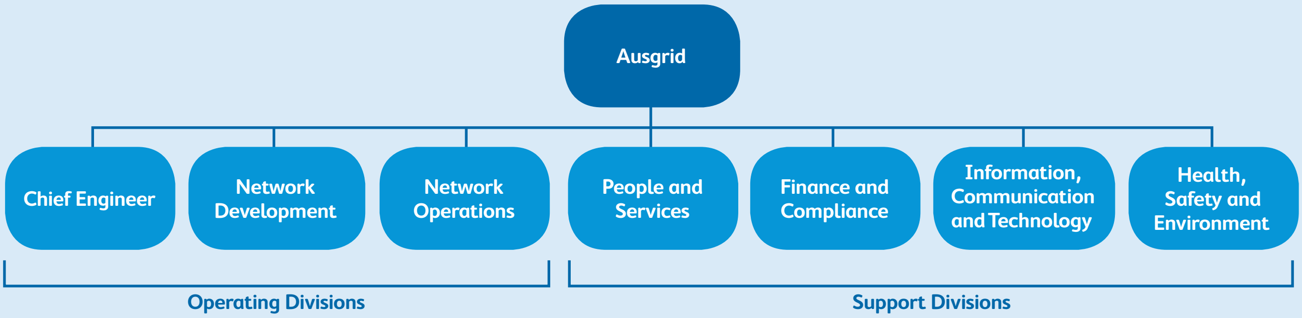
6.2.3 Microsoft Excel

To perform cost allocations for capital expenditure, Ausgrid obtains relevant data from SAP and uses Microsoft Excel to perform cost attribution and allocation calculations. Further, the calculation of allocation percentages is performed and maintained predominantly in Excel files, which are stored in Ausgrid's IT network directories.

6.3 Divisional costing procedures

As outlined in section 6.2 above, Ausgrid's financial system utilises multiple cost collection objects to capture expenditure. Cost objects aggregate to form a profit centre which identifies the division in Ausgrid for the operating and capital expenditure incurred. Profit centres are grouped into different divisions that reflect Ausgrid's organisational structure and are used for reporting purposes only. Figure 3 below illustrates Ausgrid's divisional structure for cost collection and reporting purposes.

Figure 3: Ausgrid's divisional structure for cost collection and reporting purposes



The support Divisions are responsible for corporate wide functions and include several business functions such as Information & Communications Technology, Finance (including TSA delivery), People & Services (included Human Resources, Internal Audit, Property, Fleet and Procurement), and Health, Safety & Environment.

Given the distinct differences in services provided between the operational divisions of Ausgrid and the support divisions, the costing procedures differ between these two groups.

6.3.1 Operational divisions

The operational divisions employ an absorption costing methodology for the allocation of costs incurred to project specific cost objects and operational cost centres[6]. The absorption costing methodology is used to identify the total cost to the organisation of undertaking specific services and includes a cascade of both specific corporate support functions and divisional management and business support costs. This results in costs incurred by specific corporate support functions, divisional management and business support cost centres being allocated to project specific cost objects or to operational cost centres engaged in a particular service activity.

Project specific cost objects and operational cost centres in turn define the nature of the work undertaken, or the type of asset constructed (for capital expenditure), and can therefore be identified as relating to a specific service category. As a result, the majority of costs incurred in each of the operational divisions are directly attributed to standard control services (distribution or transmission), alternative control services or unregulated services.

6.3.2 Support divisions

Costs incurred by the Corporate Support divisions are allocated to project specific cost objects by either:

- Direct allocation to project specific cost objects.
- Indirect allocation to project specific cost objects via an overhead allocation process.

It should be noted only a number of specific corporate support functions allocate their costs either directly or via an overhead allocation process to project specific cost objects. These groups and their costing procedures are set out below:

- ***Information & Communication Technology ('ICT')*** – the Information & Communication Technology division captures the costs associated with the delivery and support of ICT activities within the organisation. The ICT division allocates costs to project specific cost objects (operating and capital) when work is performed.

- ***TSA Services to Energy Australia*** – the Finance & Compliance division captures costs associated with TSA delivery. Costs relating to the delivery of the retail business activities on behalf of EnergyAustralia are allocated to TSA specific cost objects and treated as unregulated services.

- ***Property Management*** – the People & Services division captures the costs associated with property management. Costs incurred on property development and construction are allocated to project specific cost objects.

- ***Energy Services*** – costs incurred by the Energy Services branch within People & Services are captured on project specific cost objects which are directly attributed to, or allocated between, the relevant service categories.

- ***Commercial & Decision Support*** – the Finance & Compliance division captures costs associated with providing both financial and business support activities to the operational divisions. Costs incurred in the provision of these support activities are allocated to the operational divisions and subsequently allocated to project specific cost objects (operating and capital) when work is performed.

- ***Finance & Transaction Services*** – the Finance & Compliance division captures costs associated with providing both payroll and accounts payable functions to the overall business. Costs incurred in the provision of these activities are allocated to the operational divisions and subsequently allocated to project specific cost objects (operating and capital) when work is performed.

[6] Operational cost centres are those cost centres which perform specific operational tasks and exclude divisional management and business support cost centres.

- ***Human Resources*** – the People & Services division capture costs associated with providing employee relations and recruitment services to the operational divisions. Costs incurred in the provision of these support activities are allocated to the operational divisions and subsequently allocated to project specific cost objects (operating and capital) when work is performed.

- ***Procurement Services*** – the People & Services division captures the costs associated with providing procurement services to the operational divisions. Costs incurred in the provision of these support activities are allocated to project specific cost objects (operating and capital) in the form of a percentage applied to the direct cost of materials expenditure.

- ***Safety Operations*** – the Health, Safety & Environment division captures the costs associated with providing safety support services to the operational divisions. Costs incurred in the provision of these support activities are allocated to the operational divisions and subsequently allocated to project specific cost objects (operating and capital) when work is performed.

The expenditure captured in cost centres and internal orders (which are linked to specific cost centres), relate to business units that engage in specific types of work. Based on the nature of the work performed by the relevant cost centre, expenditure is directly attributed to, or allocated between, standard control services, alternative control services and/or unregulated services.

6.4 Expenditure attributed to cost objects

Cost objects can incur expenditure directly or via overhead allocations. Expenditure incurred by a cost object can be broadly categorised into labour and related expenditure, materials, contracted services and overhead. These are discussed in more detail below.

6.4.1 Labour and related expenditure

Labour and related costs include costs associated with Ausgrid's internal resources. Costs are attributed to cost objects by way of labour rates calculated for each employee based on individual salary and are inclusive of labour on-costs. Total labour costs for employees are calculated to include normal and overtime salaries and wages, associated payroll on-costs and employee / industry allowances. Payroll on-costs include public holidays, leave and superannuation.

Labour and related costs are charged at the applicable labour rates directly to cost objects by way of employee timesheets.

6.4.2 Materials

Material costs are attributed to cost objects. They include stock items distributed through Ausgrid's centralised warehouse and specific purchases of irregular or low turnover items such as specialised transformers, plant and equipment and computer hardware. For materials purchased and handled by Ausgrid's central warehouse, an on-cost is added to stock materials to cover the cost of warehousing and delivery of materials held in the central store. This is in the form of a percentage applied to the direct cost of the material.

Material costs also include items purchased from third parties for specific projects or services. The associated expenditure is attributed to the relevant cost object based on the invoiced amount.

6.4.3 Contracted services

Costs relating to services provided by external parties are treated similarly to materials in that they are attributed to the relevant cost object as incurred. They include costs relating to the external provision of consultancy services, contracted labour, capital construction, maintenance services, legal services and other professional services.

6.4.4 Overheads

Cost centres

Overheads are allocated to cost centres as incurred. Generally, overhead costs such as vehicle costs, course fees, travel expenditure, subscriptions, IT hardware leasing and desktop support expenditure are allocated to cost centres based on the individual utilising the service or incurring the expenditure.

Project specific cost objects

Overheads are allocated to project specific cost objects via the use of labour and non-labour overhead costing rates. Each operational cost centre will have a labour and non-labour overhead costing rate. When an employee from an operational cost centre charges time to a project specific cost object, the cost object will incur labour and non-labour overhead based on the application of the costing rates associated with the employee's cost centre. The driver for the application of the costing rates is direct labour dollars.

Costing rates allocate a portion of distributed corporate support and divisional overheads to project specific cost objects in order to identify the total cost to the organisation of undertaking specific activities or constructing specific assets. Costing rates are calculated based on budgeted figures and are reviewed periodically in order to ensure the correct amount of overhead is being allocated to relevant cost objects.

6.5 Directly attributable costs

Ausgrid utilises a comprehensive costing hierarchy that incorporates the use of various cost objects and cost elements. The attributes assigned to project specific cost objects when set up in SAP, or the nature and source of the expenditure for other cost objects, defines the following important characteristics of the costs incurred:

- Whether the costs are related to operating expenditure or capital expenditure.

Costs are allocated to services according to the substances of the transactions or events.

- If related to operating expenditure, whether the costs relate to external, recoverable, contestable or operations works.
- If related to capital expenditure, whether the costs relate to system assets or non-system assets.
- The nature of the expenditure incurred and the source of the expenditure.

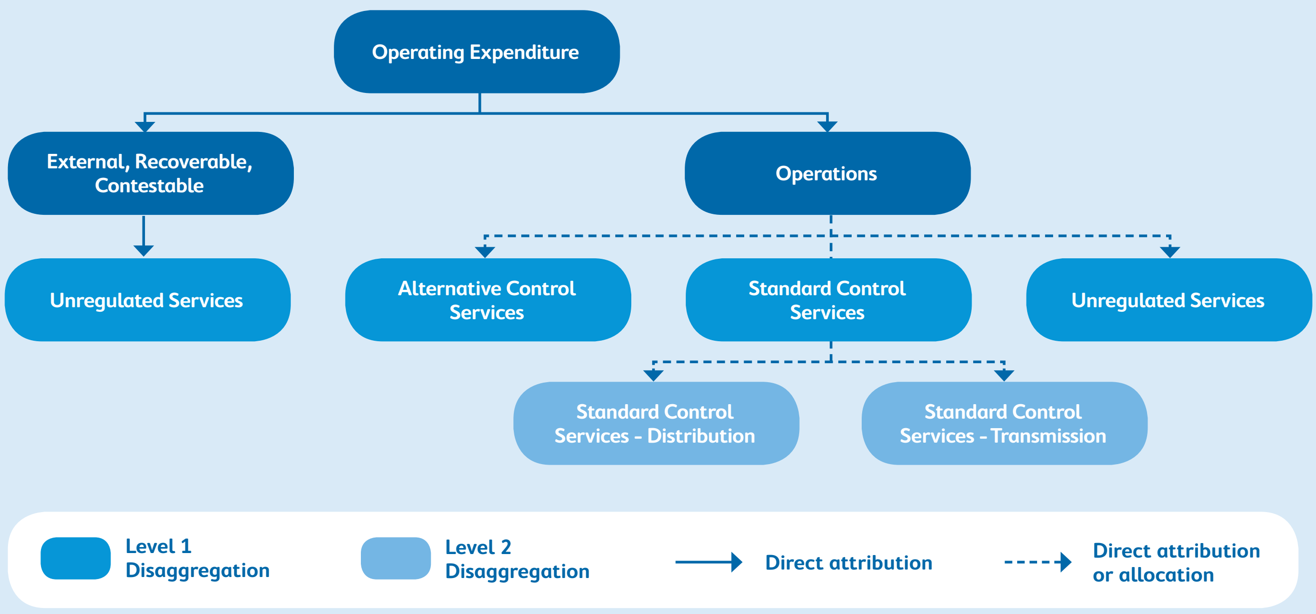
Using the attributes specific to each cost object (for project specific cost objects), or the nature and source of the expenditure (for other cost objects), and therefore based on the substance of the underlying transactions, Ausgrid identifies those cost objects which are directly attributable to a specific service category. For those cost objects identified as not being of a directly attributable nature (i.e. the cost is shared between several service categories), Ausgrid allocates the costs in accordance with section 6.6 of this document. A cost can only be either directly attributed to a service or allocated to a service based on the relevant allocator, and cannot be allocated more than once.

The procedure by which costs are directly attributed to a specific service category differs between operating expenditure and capital expenditure.

6.5.1 Operating expenditure

The disaggregation of Ausgrid's operating expenditure into different service categories involves the application of the cost allocation principles at different levels of disaggregation. This is shown in Figure 4 below.

Figure 4: Disaggregation of operating expenditure



The following procedures are applied to identify and directly attribute operating expenditure:

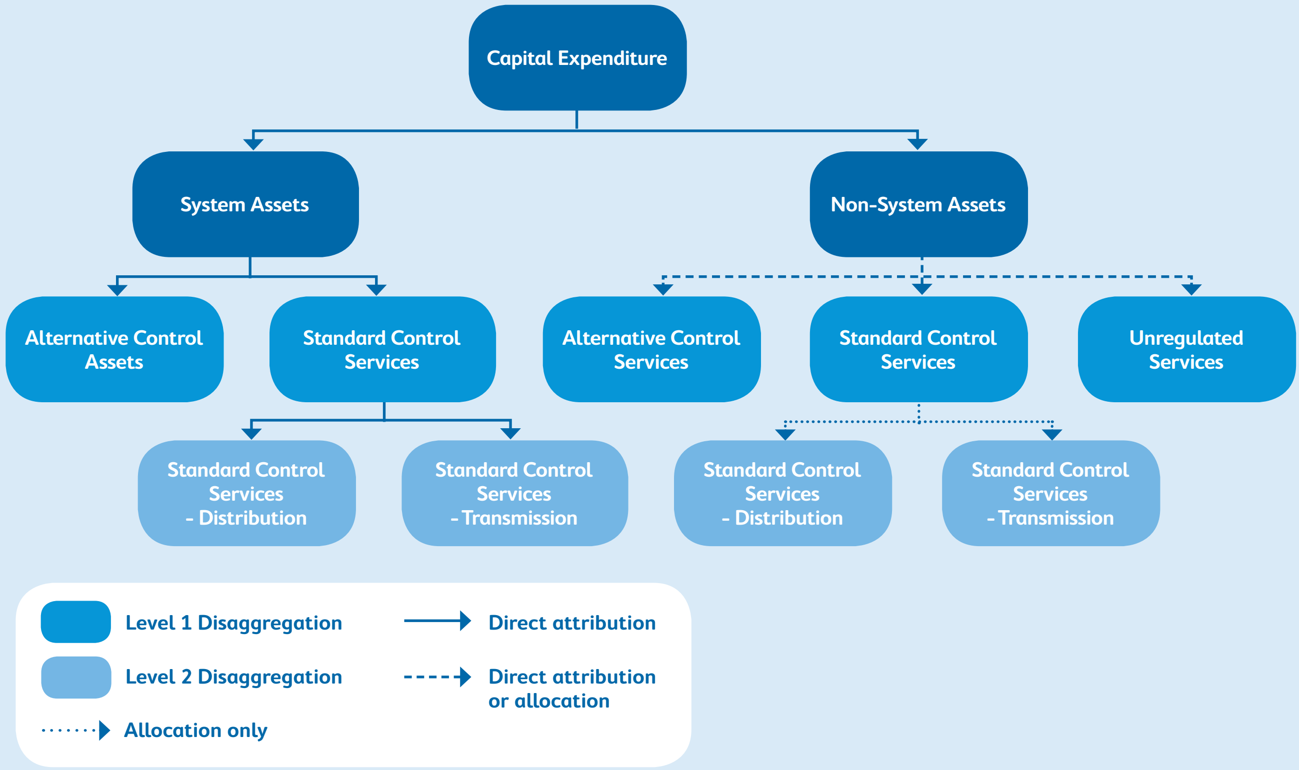
- All costs relating to external, recoverable and contestable works are directly attributed to unregulated services. This is because these services are provided in an effective competitive environment and are therefore not subject to regulation.
- Costs relating to operations work are directly attributed, if possible, to standard control services, alternative control services or unregulated services based on the attributes specific to each cost object (for project specific cost objects), or the nature and source of the expenditure incurred (for other cost objects).

Ausgrid identifies and disaggregates directly attributable operating expenditure at the cost object level, based on the characteristics unique to each cost object. Ausgrid maintains and reports on a significant number of cost objects (over one thousand per year), each of which is separately identified and analysed to determine if it represents a directly attributable cost for the purposes of the CAM. Ausgrid does not aggregate its directly attributable cost objects into broader categories, and for this reason, Ausgrid has not included the list of cost object classifications in this CAM. This information is available and can be provided to the AER upon request.

6.5.2 Capital expenditure

The disaggregation of Ausgrid's capital expenditure into different service categories involves the application of the cost allocation principles at different levels of disaggregation. This is shown in Figure 5 (on page 13).

Figure 5: Disaggregation of capital expenditure



The following procedures are applied to identify and directly attribute capital expenditure:

- Capital expenditure on system assets[7] is directly attributed to either standard control services or alternative control services. This attribution is performed based on the asset class.
- Capital expenditure on non-system assets which directly and entirely supports the provision of standard control services, alternative control services or unregulated services, are attributed to standard control services, alternative control services or unregulated services, respectively.

Table 2 (on page 14) contains the categories of directly attributable asset classes and the service category to which the capital expenditure is attributed.

[7] System assets are those assets that form the distribution, transmission or public lighting system network.

Table 2: Directly attributable capital expenditure

Asset class	Description	Service(s) allocated to
System assets		
System assets (excluding public lighting & metering)	Capital expenditure associated with planning, purchasing, replacing and constructing Ausgrid's electricity distribution network (excluding public lighting). Asset classes comprising system assets (excluding public lighting) include: • System land, easements and network buildings. Sub-transmission substations, transformers, mains, operational technology and network communications. • Distribution substations, transformers and mains.	Standard control services
Public lighting system assets	Capital expenditure associated with the provision of public lighting services.	Alternative control services
Metering system assets	Capital expenditure associated with the provision of type 5 and type 6 metering services.	Alternative control services[8]
Asset class	**Description**	**Service(s) allocated to**
Non-system assets		
Land and buildings	Capital expenditure associated with non-system land and buildings which directly and entirely supports the provision of standard control services, alternative control services or unregulated services. Directly attributed based on the purpose and use of the asset.	Standard control services, alternative control services or unregulated services
IT	Capital expenditure associated with IT infrastructure and systems which directly and entirely supports the provision of standard control services, alternative control services or unregulated services. Directly attributed based on the assessment of the business case and the divisions of the business benefiting from the project.	Standard control services, alternative control services or unregulated services
Meters contestable	Capital expenditure associated with the construction of meters for the contestable market.	Unregulated services
Energy light	Capital expenditure associated with the construction of security and display lighting for Ausgrid's commercial and industrial customers.	Unregulated services
Generation	Capital expenditure associated with the construction of renewable energy electricity generation facilities.	Unregulated services

6.6 Shared cost allocation

Once all directly attributable cost objects have been identified and attributed to the relevant service category, the remaining cost objects are considered to be shared costs (operating and capital). The majority of Ausgrid's shared costs (operating and capital) originate from the support divisions and Networks NSW and are allocated based on an appropriate causal or non-causal allocator. For each cost object comprising a shared cost, Ausgrid identifies:

- A causal allocator for the cost.
- A non-causal allocator if a causal allocator cannot be established without undue cost and effort.

Ausgrid calculates allocation percentages for each of these causal and non-causal allocators to allocate expenditure to standard control services, alternative control services and unregulated services.

6.6.1 Operating expenditure

As illustrated in Figure 4 above, shared costs relate only to operations work and are allocated to standard control services, alternative control services and unregulated services. Ausgrid has undertaken a detailed analysis and assessment of its shared cost allocators to identify the most appropriate cost drivers for each shared cost category. This includes the application of appropriate non-causal allocators for shared costs which are not material, or where a causal based method of allocation cannot be established without undue cost and effort. Table 3 below outlines the categories of shared operating costs[9], the relevant services to which the cost is allocated and the basis of the allocation.

[8] Operational cost centres are those cost centres which perform specific operational tasks and exclude divisional management and business support cost centres.

[9] These cost categories can be traced to vario us cost objects of Ausgrid's financial system.

Table 3: Shared operating expenditure

Shared cost item	Description	Service(s) allocated to	Basis of allocations (driver)	Casual/ Non-casual	Reason for allocator
Information and Communications Technology					
Office of the CIO Management	Costs associated with management of the Office of the CIO branch, ICT vendor & sourcing, IT strategy, IT systems architecture and IT governance.	• Standard control • Alternative control • Unregulated	Costs are allocated between the relevant services on the basis of FTE splits.	Causal	Reflects the strong causality between the number of staff and the need for CIO branch management and IT vendor sourcing.
Business Systems	Costs associated with the provision, maintenance and support of IT system software. This includes solutions management, portfolio delivery and management and technical services.	• Standard control • Alternative control • Unregulated	Costs are allocated between the relevant services on the basis of FTE splits.	Causal	Reflects the strong causality between the number of staff and the need and use of business technology services by Ausgrid personnel.
Infrastructure Services	Costs associated with the provision, maintenance and support of IT system hardware such as desktop delivery, server operations and infrastructure project management.	• Standard control • Alternative control • Unregulated	Costs are allocated between the relevant services on the basis of FTE splits.	Causal	Reflects the strong causality between the number of staff and the need and use of IT infrastructure services by Ausgrid personnel.
Distribution Systems and Telecommunications	Costs associated with the provision, maintenance and support of tele-communications systems.	• Standard control • Alternative control • Unregulated	Costs are allocated between the relevant services on the basis of FTE splits.	Causal	Reflects the strong causality between the number of staff and the need and use of telecom-munications infrastructure services by Ausgrid personnel.

Shared cost item	Description	Service(s) allocated to	Basis of allocations (driver)	Casual/ Non-casual	Reason for allocator
Finance and Compliance					
Finance & Compliance Management	Costs associated with management of the Finance & Compliance division.	• Standard control • Alternative control • Unregulated	No causal allocator: Costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between strategic business management and overall business activity and performance.
Financial Controller	Costs associated with the management of the finance branch, corporate accounting and reporting, taxation, and treasury & cash management functions.	• Standard control • Alternative control • Unregulated	No causal allocator: Costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between the work performed by the finance branch and overall business activity and performance.
Finance Transactions & Services	Costs associated with the operation of a centralised accounts payable and payroll services function.	• Standard control • Alternative control • Unregulated	No causal allocator: Costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between the work performed by the finance branch and overall business activity and performance.
Commercial & Decision Support	Costs associated with the management of corporate financial systems and corporate budget process.	• Standard control • Alternative control • Unregulated	No causal allocator: Costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between the work performed by the commercial branch and overall business activity and performance.
Project Management Office and Corporate Planning	Costs associated with the management of the PMO & Corporate Planning function.	• Standard control • Alternative control • Unregulated	No causal allocator: Costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between the role of information services and overall business activity and performance.

Shared cost item	Description	Service(s) allocated to	Basis of allocations (driver)	Casual/ Non-casual	Reason for allocator
Finance and Compliance					
Legal services	Legal counsel and legal compliance	• Standard control • Alternative control • Unregulated	No causal allocator: costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between the work performed by the legal branch and overall business activity and performance.
Information Services	Costs associated with document distribution services, document management and operation of the internal courier service, filing system and a corporate wide research and information service.	• Standard control • Alternative control • Unregulated	No causal allocator: costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between the role of information services and overall business activity and performance.
Insurance	Insurance premiums and associated costs to cover general risks including: • Public liability (general, bush fire and professional) • Directors and officers liability • Workers compensation • Industrial special risk • Contract works • Fidelity guarantee • Corporate travel • Mobile plant and equipment • Motor vehicle • Personal accident.	• Standard control • Alternative control • Unregulated	Insurance cost relates to the premiums paid by Ausgrid for various policies. These premiums are allocated between the various services (e.g. standard control services and alternative control services) based on the nature of insurance. For example, the premium for bushfire liability insurance is directly attributed to standard control services as a cost of operating the network. There are also common insurance policies that are corporate wide and should be allocated to all services as they are shared costs. For example, director indemnity insurance and general liability insurance are allocated across services on the basis of weighted average revenue.	Causal	Reflects the relationship between type of risk insured, the assets covered by the insurance and the parts of the business benefiting from the insurance.
Contact Centre	Operation of Ausgrid's contact centres.	• Standard control • Unregulated	Costs are allocated on the basis of contact centre work load and the type of call received. Work load is calculated as call volume multiplied by average handling time.	Causal	Reflects the strong causality between the costs incurred by the contact centre and the volume of activity for the contact centre.

Shared cost	Description	Service(s) allocated to	Basis of allocations (driver)	Casual/ Non-casual	Reason for allocator
People and Services					
Human resources	Costs associated with the management of the human resources function and employee relations including personnel issues, industrial relations, organisational capability and change.	• Standard control • Alternative control • Unregulated	Costs are allocated between the relevant services on the basis of FTE splits.	Causal	The activity of the human resources business unit is driven by the size of the workforce. Therefore, this allocator reflects the strong causality between the resource effort to achieve the objectives of the human resources business unit and the size of Ausgrid's workforce.
Internal Audit	Costs associated with Ausgrid's Internal Audit function, including independent review of business strategies, systems and processes	• Standard control • Alternative control • Unregulated	Costs are allocated on the basis of the audit plan for the year and the areas of the business subject to audit. The audit plan for each year details the various audit projects to be undertaken for that year, as approved by the Audit & Risk Committee. The nature of each audit project would then determine the services to which the costs would be allocated based on the hours for each project.	Causal	Reflects the strong causality between internal audit's focus on specific areas of the business and the costs incurred by the internal audit function.
Corporate Communications	Costs associated with Ausgrid's Corporate Communications function, to include stakeholder management and sponsorships.	• Standard control • Alternative control • Unregulated	No causal allocator: costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between stakeholder management, advertising and marketing and overall business activity and performance.
Property	Costs associated with management of the property branch and management of the property portfolio including rates, utilities and taxes, property acquisition and disposal and easement management relating to non-system assets.	• Standard control • Alternative control • Unregulated	Costs are allocated on the basis of floor space weighted by premium / non-premium rent.	Causal	Reflects the strong causality between the size and value of properties in Ausgrid's property portfolio and property management costs incurred by Ausgrid.

Shared cost	Description	Service(s) allocated to	Basis of allocations (driver)	Casual/ Non-casual	Reason for allocator
Health Safety and Environment					
Safety Management	Costs associated with the management of the safety services function including workers compensation and work health and safety.	• Standard control • Alternative control • Unregulated	Costs are allocated between the relevant services on the basis of FTE splits.	Causal	The activity of the safety services function is driven by the size of the workforce. Therefore, this allocator reflects the strong causality between the resource effort to achieve the objectives of the safety services function and the size of Ausgrid's workforce.

Shared cost	Description	Service(s) allocated to	Basis of allocations (driver)	Casual/ Non-casual	Reason for allocator
Networks NSW					
Office of the Chief Executive Officer	Costs associated with the Chief Executive Officer's office.	• Standard control • Alternative control • Unregulated	No causal allocator: costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between strategic business management and overall business activity and performance.
Networks NSW including Corporate Secretary	Services associated with Networks NSW and provided to Ausgrid's Board, governance and compliance.	• Standard control • Alternative control • Unregulated	No causal allocator: costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between the activities of the corporate secretary in supporting the Board of Directors and overall business activity and performance.
Ausgrid Board	Costs associated with the operation of Ausgrid's Board of Directors.	• Standard control • Alternative control • Unregulated	No causal allocator: costs allocated on the basis of weighted average revenue.	Non-causal	Reflects the relationship between the activities and focus of the Board of Directors and overall business activity and performance.

For operating expenditure, cost allocation percentages are calculated and updated annually. The information used for the calculation of allocation percentages is sourced from the business units in Ausgrid responsible for reporting the relevant information. For example, information for FTE splits is obtained from the Human Resources business unit. The percentages are then uploaded to TM1 to enable the allocation of operating expenditure between standard control services, alternative control services and unregulated services.

An example of allocations using weighted average revenue is contained in Table 4 below. The example weightings are based on the 2012/13 financial position as at 30 June 2013. These allocation percentages are updated annually based on forecast budget data.

Table 4: Example of weighted average revenue allocator calculation

Allocator	Standard control services		Alternative control services		Unregulated services	
	$'000	%	$'000	%	$'000	%
Weighted Average Revenue	2,923,559	89.8%	44,129	1.4%	289,782	8.9%

6.6.2 Capital expenditure

As illustrated in Figure 5 above, shared capital costs relate only to non-system assets and are allocated to standard control services, alternative control services and unregulated services respectively. Table 5 below outlines the categories of shared capital costs, the relevant services to which the cost is allocated and the basis of the allocation.

Table 5: Shared capital expenditure

Shared cost	Description	Service(s) allocated to	Basis of allocations (driver)	Casual/ Non-casual	Reason for allocator
Non-system land and buildings	Capital expenditure associated with non-system land and buildings which are used by Ausgrid personnel in the provision of standard control services, alternative control services and unregulated services.	• Standard control • Alternative control • Unregulated	Allocated between the relevant services on the basis of floor space weighted by premium / non-premium rent.	Causal	Reflects the strong causality between the size and value of the properties in Ausgrid's property portfolio and capital expenditure on non-system land and buildings to support Ausgrid's existing properties.
Furniture	Capital expenditure associated with furniture which is used by Ausgrid personnel in the provision of standard control services, alternative control services and unregulated services.	• Standard control • Alternative control • Unregulated	Allocated between the relevant services on the basis of FTE splits.	Causal	Reflects the strong causality between the number of staff and the need and use of furniture by Ausgrid personnel.
Plant and tools	Capital expenditure associated with plant and tools which are used by Ausgrid personnel in the provision of standard control services, alternative control services and unregulated services.	• Standard control • Alternative control • Unregulated	Allocated between the relevant services on the basis of FTE splits.	Causal	Reflects the strong causality between the number of staff and the need and use of plant and tools by Ausgrid personnel.
Fleet	Capital expenditure associated with the purchase and fit-out of vehicles.	• Standard control • Alternative control • Unregulated	Allocated between the relevant services on the basis of fleet charges which have been directly attributed to a category of service.	Causal	Reflects the strong causality between fleet costs which have been directly attributed to a category of service and the need and use of vehicles.
IT	Capital expenditure associated with IT infrastructure and systems which are used by Ausgrid personnel in the provision of standard control services, alternative control services and unregulated services.	• Standard control • Alternative control • Unregulated	Allocated between the relevant services on the basis of FTE splits.	Causal	Reflects the strong causality between the number of staff and the need and use of IT infrastructure by Ausgrid personnel.

The allocation of shared capital expenditure (which relates solely to non-system assets) is performed in Microsoft Excel and based on allocation percentages which are calculated and updated annually. The information used for the calculation of allocation percentages is sourced from the business units in Ausgrid responsible for reporting the relevant information. For example, information for FTE splits is obtained from the Human Resources business unit.

6.7 Disaggregation of standard control services between distribution and transmission

The disaggregation of standard control services costs between distribution standard control services and transmission standard control services is performed by identifying the relationship between:

- The nature of the cost captured by each cost object.
- The asset classes that are classified under the NER as either distribution network assets or transmission network assets.

The specific procedures applied to disaggregate standard control services costs are set out below.

6.7.1 Operating expenditure

The disaggregation of the total standard control services operating expenditure between distribution standard control services and transmission standard control services is performed using three allocation methods. These methods are:

A. Direct allocation to distribution standard control services or transmission standard control services of costs that specifically relate to these services, respectively. For example, costs incurred in the maintenance of distribution overhead cables are directly allocated to distribution standard control services[10].

B. Allocations based on distribution and transmission asset values. For example, land tax and IT operations and infrastructure costs are allocated between distribution standard control services and transmission standard control services based on the proportion of distribution and transmission asset values.

C. Indirect allocation of remaining support and corporate costs based on the proportion of costs that have been allocated between distribution

[10]Actual maintenance costs are directly allocated to distribution standard control services and transmission standard control services as these are recorded in our financial system. However, for forecast standard control services operating expenditure proposed in our regulatory proposal, we allocate this total forecast opex between transmission and distribution using actual operating expenditure as a proxy.

standard control services and transmission standard control services using the methods described in A and B above.

The allocation percentages for methods B and C above are calculated at the beginning of each regulatory control period based on operating expenditure forecasts and remain constant throughout the regulatory control period.

6.7.2 Capital expenditure

The disaggregation of the total standard control services capital expenditure between distribution standard control services and transmission standard control services is performed using two allocation methods. These methods are:

A. Capital expenditure on system assets is directly attributed to either distribution standard control services or transmission standard control services based on the type of asset constructed and whether the asset is considered a distribution or transmission asset in accordance with the definitions set out in the NER; and

B. Capital expenditure on non-system assets is allocated between distribution standard control services and transmission standard control services based on the value of distribution assets and transmission assets as a proportion of total assets, respectively.

The allocation percentage for method B above are calculated at the beginning of each regulatory control period based on capital expenditure forecasts and remain constant throughout the regulatory control period.

6.8 Related party costs

All related party transactions undertaken by Ausgrid are contained in its audited financial statements and audited Regulatory Accounts. Costs and revenues for related party transactions are directly attributed or allocated in accordance with the CAM, consistent with the methodology applied for transactions with external parties.

6.9 Negotiated distribution services

Whilst it is possible, Augrid does not anticipate any negotiated distribution services during the 2014-19 period. The AER in its Framework and Approach paper stated that none of the services provided by the NSW distributors are suited to being classified as negotiated distribution services[11] and consequently did not indicate that it would classify any services as negotiated distribution services.

There would be some scope for services provided by means of Ausgrid's transmission network to be negotiated distribution services. Clause 6.24.2(c) of the NER provides that "any service that is provided by a DNSP by means of or in connection with, the DNSP's dual function assets that, but for this Part would be a

negotiated transmission service under Chapter 6A is deemed to be a negotiated distribution service."

A negotiated transmission service is defined in Chapter 10 of the NER and includes connection services that are provided to serve transmission network users at a single connection point, (excluding connection services between network service providers) as well as use of system services agreed at the time of a connection where the network service provider has augmented or extended the network. Consequently a new connection to Ausgrid's transmission network would be a negotiated transmission service which must be treated as a negotiated distribution service. All costs associated with such a connection would need to be recovered from the relevant connection customer and they would be determined by applying the cost allocation principles and approach described in this CAM.

7. Record Maintenance

For the purposes of clause 3.2(a)(7) of the CAG, Ausgrid confirms that it maintains financial source documentation and records consistent with the accounting standards and statutory requirements to adequately demonstrate compliance with the CAM and the CAG.

Ausgrid will maintain records of cost attribution and allocation as follows:

- As described in section 6, cost collection and reporting is undertaken electronically using Ausgrid's integrated business management system (SAP). Cost attribution and allocation

[11] AER, Stage 1 Framework and approach paper, Ausgrid, Endeavour Energy and Essential Energy, Transitional regulatory control period, 1 July 2014 to 30 June 2015, Subsequent regulatory control period 1 July 2015 to 30 June 2019, March 2013, p8.

in accordance with the CAM is based on information sourced from SAP and performed in TM1 (for operating expenditure) and Microsoft Excel (for capital expenditure). This approach currently forms the basis for the independent verification of the annual Regulatory Accounts.

- The CAM will be applied to Ausgrid's audited annual financial statements to prepare the annual Regulatory Accounts and assign costs to their relevant services. As a result, the audited annual financial statements will form the basis of the annual Regulatory Accounts.
- Ausgrid will prepare and maintain appropriate documentation and information that supports the preparation of the Regulatory Accounts for submission to the AER. These records are provided to external auditors for the purpose of providing an opinion that the Regulatory Accounts are presented fairly in accordance with the approved CAM and the AER's Regulatory Information Notice ('RIN').
- As part of the audit of the Regulatory Accounts, Ausgrid's Chief Executive Officer, Chief Operating Officer, General Manager Finance & Compliance and other senior executives sign a Management Representation Letter, attesting to the auditors that the Regulatory Accounts have been prepared in accordance with the CAM. In addition, the Chief Executive Officer will sign a Statutory Declaration attesting that the Regulatory Accounts, to the best of his/her knowledge, is true and accurate in all material respects.
- Full documentation is maintained in preparation of the annual RIN. Supporting cost reports are generated and working files prepared, including cost allocations containing bases, as well as numeric and percentage values consistent with the approved CAM.
- Ausgrid's records management policy requires financial records to be retained for 7 years. In addition, records of expenditure and cost attribution and allocation are maintained in SAP and TM1 for at least 7 years.

8. Compliance with the Cost Allocation Method and the Cost Allocation Guidelines

The General Manager Finance & Compliance has overall responsibility for the governance and sign-off of the CAM. This includes ensuring Ausgrid complies with the CAM and the CAG. Ausgrid will monitor compliance with the CAM and the CAG through the following measures:

- The annual financial statements, SAP transactions and TM1 processes are reviewed by external audit. This audit is overseen by the General Manager Finance & Compliance.
- The Financial Controller is responsible for preparing annual Regulatory Accounts in accordance with the approved CAM and the CAG. Compliance is endorsed by executive management and reviewed by independent auditors. Furthermore, the Chief Executive Officer will sign a Statutory Declaration attesting that the Regulatory Accounts, to the best of his/her knowledge, is true and accurate in all material respects.

Ausgrid confirms that the detailed principles, policies and approach of this CAM are consistent with the ring-fencing guidelines as required by clause 2.2.6 of the CAG and clause 6.17 of the NER.

9. Effective Date

The CAM, once approved by the AER, will formally come into effect on 1 July 2014. However, the CAM will be applied for the purposes of developing expenditure forecasts for the regulatory proposals of the transitional regulatory control period and the subsequent regulatory control period.

Ausgrid will inform the AER of any material changes that occur during the period in which the approved CAM applies.