



Revised Proposal Attachment 4.06 - Control Mechanisms for Standard Control Services and Alternative Control Services

January 2019

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1 INTRODUCTION

In its Draft Decision, the Australian Energy Regulator (AER) determined that the form of control to apply to standard control services would be a revenue cap. The Draft Decision set out the proposed formula to give effect to the revenue cap.

In this attachment, we set out our response to the AER's Draft Decision control formula for standard control services, our proposed amendments to the formula and how we consider the formula should be applied in the next regulatory control period.¹

This document also sets out our response to the AER's Draft Decision on:

- The control formula for revenue from our dual function assets (i.e. transmission standard control services)
- Reporting on the recovery of jurisdictional scheme amounts (NSW Climate Change Fund) DUOS overs and unders account and designated pricing proposal charges.²

¹ National Electricity Rules, clause 6.12.1(11).

² National Electricity Rules, clause 6.12.1(20) and (21).

2 FORM OF CONTROL MECHANISM FOR STANDARD CONTROL SERVICES

This section provides our response to the AER's Draft Decision for the application of control mechanisms for standard control services.

2.1 Proposed control formula for distribution standard control services

The formulaic expression to give effect to the revenue cap on distribution standard control services in the next regulatory control period in the AER's Draft Decision aligned with the Framework and approach paper and Ausgrid's proposal:

Figure 1. AER's proposed control mechanism for standard control services

$$TAR_t \geq \sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij} \quad i = 1, \dots, n \text{ and } j = 1, \dots, m \text{ and } t = 1, 2, \dots, 5$$

$$TAR_t = AAR_t + I_t + B_t + C_t \quad t = 1, 2, \dots, 5$$

$$AAR_t = AR_t \times (1 + S_t) \quad t = 1$$

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

Where:

TAR_t is the total allowable revenue in year t.

p_t^{ij} is the price of component 'j' of tariff 'i' in year t.

q_t^{ij} is the forecast quantity of component 'j' of tariff 'i' in year t.

t is the regulatory year.

AR_t is the annual smoothed revenue requirement for year t.

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

I_t is the sum of incentive scheme adjustments in year t.

B_t is the sum of annual adjustment factors in year t.

C_t is the sum of approved cost pass through amounts and any end-of-period adjustments in year t.

S_t is the s-factor for regulatory year t

ΔCPI_t Is the annual percentage change in the consumer price index (CPI)

X_t Is the X-factor in year t, incorporating adjustments for the trailing cost of debt

Ausgrid accepts the AER's Draft Decision with respect to the each component of this formula, including the clarification regarding timing of the S and I factors. Further, Ausgrid accepts the Draft Decision with respect to operation of the overs and unders account, jurisdictional schemes and designated pricing proposal charges.

2.2 Proposed control formula for transmission standard control services

The AER's Draft Decision control formula for transmission standard control services aligned with our proposal.

$$MAR_t = AR_t \pm PT_t$$

$$AR_t = AR_{t-1}(1 + \Delta CPI_t)(1 - X_t)$$

Where:

MAR_t	is the maximum allowable average revenue in year t.
AR_t	is the annual smoothed expected revenue for year t. For the 2019–20 regulatory year, it is the annual smoothed expected revenue in the Post Tax Revenue Model for the regulatory year 2019-20.
PT_t	is an annual adjustment factor that reflects the pass through amounts approved by the AER with respect to regulatory year t.
ΔCPI_t	is the annual percentage change in the Australian Bureau of Statistics (ABS) Consumer Price Index All Groups, Weighted Average of Eight Capital Cities from December in year t–2 to December in year t–1.
X_t	the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the return on debt appendix I calculated for the relevant year.

3 CONTROL MECHANISM FOR ALTERNATIVE CONTROL SERVICES

Alternative control services comprise of public lighting, type 5-6 metering services and ancillary network services. Ancillary network services are further divided into fee-based and quoted services. We accept the control formulae as specified by the AER in its Draft Decision.

3.1 Price cap formula to apply to the NSW distributors' legacy metering, public lighting and ancillary services (fee based)

The proposed price cap formula for metering, public lighting and fee-based ancillary services is:

$$\bar{p}_t^i \geq p_t^i \quad i=1,\dots,n \text{ and } t=1, 2,\dots,5$$

$$\bar{p}_t^i = \bar{p}_{t-1}^i \times (1 + \Delta CPI_t) \times (1 - X_t^i) + A_t^i$$

Where:

\bar{p}_t^i is the cap on the price of service i in year t.

p_t^i is the price of service i in year t. The initial value is to be decided in the distribution determination.

\bar{p}_{t-1}^i is the cap on the price of service i in year t-1.

t is the regulatory year.

ΔCPI_t is the annual percentage change in the ABS consumer price index (CPI) All Groups, Weighted Average of Eight Capital Cities³ from the December quarter in year t-2 to the December quarter in year t-1, calculated using the following method:

- The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t-1
divided by
- The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t-2
minus one.

For example, for 2020-21, year t-2 is the December quarter 2018 and year t-1 is the December quarter 2019.

X_t^i is the X factor for service i in year t. The X factors are to be decided in the distribution determination and will be based on the approach the distributor undertakes to develop its initial prices.

A_t^i is the sum of any adjustments for service i in year t. Likely to include, but not limited to adjustments for any approved cost pass through amounts (positive or negative) with respect to regulatory year t, as determined by the AER.

³ If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

3.2 Price cap formula to apply to the NSW distributors' quoted services

The proposed price cap formula for quoted-fee ancillary services is:

$$\text{Price} = \text{Labour} + \text{Contractor Services} + \text{Materials}$$

Where:

Labour consists of all labour costs directly incurred in the provision of the service which may include labour on-costs, fleet on-costs and overheads. Labour is escalated annually by $(1 + \Delta CPI_t)(1 - X_t^i)$ where:

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities⁴ from the December quarter in year t-2 to the December quarter in year t-1, calculated using the following method:

- The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t-1
divided by
- The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t-2
minus one.

For example, for 2020-21, year t-2 is the December quarter 2018 and year t-1 is the December quarter 2019.

X_t^i is the X factor for service i in year t. The X factor is to be decided in the distribution determination and will be based on the approach the distributor undertakes to develop its initial prices.

Contractor Services reflect all costs associated with the use of external labour including overheads and any direct costs incurred. The contracted services charge applies the rates under existing contractual arrangements. Direct costs incurred are passed on to the customer.

Materials reflect the cost of materials directly incurred in the provision of the service, material storage and logistics on-costs and overheads.

We accept the AER's Draft Decision regarding the treatment of new services that might arise during the regulatory control period and the smoothing mechanism applied to public lighting services.

⁴ If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the AER considers is the best available alternative index.