



Rule change proposal

**Economic regulation of transmission and
distribution network service providers**

**AER's proposed changes to the
National Electricity Rules**

Complete Chapter 6 Draft Rules

September 2011

Chapter 6

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Table 1.1 Proposed rule change: forecasts of capital expenditure and operating expenditure

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.1]	6.5.6(c)(1) 6.5.6(c)(2) 6.5.6(c)(3) 6.5.6(d)	6.5.6(c)	Revision to: <ul style="list-style-type: none">– remove the requirement that the AER is to accept or reject the DNSP’s proposed forecast opex;– remove the opex criteria; and– provide that the AER is to determine the forecast opex that it considers would meet the efficient costs that a prudent DNSP would require to achieve the opex objectives.
[6.1.1]	6.4.3(b)(7) 6.5.8(a) 6.12.1(4)(i) 6.12.1(4)(ii)	6.4.3(b)(7) 6.5.8(a) 6.12.1(4)	Consequential revisions to replace references to ‘accept’ or ‘refuse to accept’ to ‘determine’.
[6.2]	6.5.6(e)	6.5.6(d)	Revision to: <ul style="list-style-type: none">– the chapeau to the opex factors; and– consequential renumbering amendment.
[6.3]	6.5.6(e)(1) 6.5.6(e)(2) 6.5.6(e)(3)	6.10.1(a) 6.10.1(b) 6.10.1(c) 6.11.1(a) 6.11.1(b) 6.11.1(d)	Revision to: <ul style="list-style-type: none">– relocate procedural opex factors; and– remove requirement that analysis undertaken by or for the AER be published prior to the AER’s decision.
[6.3.1]	6.10.1 6.11.1 6.5.6(e)(4) 6.5.6(e)(5) 6.5.6(e)(6) 6.5.6(e)(7) 6.5.6(e)(9) 6.5.6(e)(10)	6.10.1(d) 6.11.1(e) 6.5.6(d)(1) 6.5.6(d)(2) 6.5.6(d)(3) 6.5.6(d)(4) 6.5.6(d)(6) 6.5.6(d)(7)	Consequential renumbering revisions.
[6.4]	6.5.6(e)(8)	6.5.6(d)(5)	Revision to opex factor to provide for the AER to consider whether the forecast opex is consistent with the incentives provided in each of the service target performance incentive scheme, the efficiency benefit sharing scheme, the demand management incentive scheme and other incentive scheme or schemes made under clause 6.6.5.
[6.5]	6.5.6(c)(10)	6.5.6(c)(7)	Revision to existing opex factor to provide for the AER to consider any efficient and prudent non network alternatives may impact the forecast.
[6.6]	–	6.5.6(d)(8)	New opex factor to provide that the AER may have regard to a realistic expectation of the demand forecast and cost inputs (existing opex criterion at clause 6.5.6(c)(3)).

[6.7]	–	6.5.6(d)(10)	New opex factor to provide for the AER to have regard to any factor it considers relevant.
[6.8]	6.5.7(c)(1) 6.5.7(c)(2) 6.5.7(c)(3) 6.5.7(d)	6.5.7(c)	Revision to: <ul style="list-style-type: none"> – remove the requirement that the AER is to accept or reject the DNSP’s proposed forecast capex; – remove the capex criteria; and – provide that the AER is to determine the forecast capex that it considers would meet the efficient costs that a prudent DNSP would require to achieve the capex objectives.
[6.8.1]	6.12.1(3)(i) 6.12.1(3)(ii)	6.12.1(3)	Consequential revisions to replace references to ‘accept’ or ‘refuse to accept’ to ‘determine’.
[6.9]	6.5.7(e)	6.5.7(d)	Revision to: <ul style="list-style-type: none"> – the chapeau to the opex factors; and – consequential renumbering amendment.
[6.10]	6.5.7(e)(1) 6.5.7(e)(2) 6.5.7(e)(3)	6.10.1(a) 6.10.1(b) 6.10.1(d) 6.11.1(a) 6.11.1(b) 6.11.1(d)	Revision to: <ul style="list-style-type: none"> – move existing procedural capex factors to clauses 6.10.1 and 6.11.1; and – remove requirement that analysis undertaken by or for the AER be published prior to AER decision.
[6.10.1]	6.10.1 6.11.1 6.5.7(e)(4) 6.5.7(e)(5) 6.5.7(e)(6) 6.5.7(e)(7) 6.5.7(e)(9) 6.5.7(e)(10)	6.10.1(d) 6.11.1(e) 6.5.7(d)(1) 6.5.7(d)(2) 6.5.7(d)(3) 6.5.7(d)(4) 6.5.7(d)(6) 6.5.7(d)(7)	Consequential renumbering revisions.
[6.11]	6.5.7(e)(8)	6.5.7(d)(5)	Revision to existing capex factor to provide for the AER to consider whether the capex forecast is consistent with the incentives provided in each of the service target performance incentive scheme, the efficiency benefit sharing scheme, the demand management incentive scheme and other incentive scheme or schemes made under clause 6.6.5.
[6.12]	6.5.7(c)(10)	6.5.7(c)(7)	Revision to capex factor to provide for the AER to consider any efficient and prudent non network alternatives may displace parts of the forecast.
[6.13]	–	6.5.7(d)(8)	New capex factor to provide that the AER may have regard to a realistic expectation of the demand forecast and cost inputs (existing capex criterion at clause 6.5.7(c)(3)).
[6.14]	–	6.5.7(d)(10)	New capex factor to provide that the AER may have regard to any factor it considers relevant.

Table 1.2 Proposed rule change: regulatory asset base roll forward incentive mechanism

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.15]	S6.2.1(e)(1) S6.2.1(e)(2) S6.2.1(e)(5)	S6.2.1(e)(1)(i)(a) S6.2.1(e)(1)(i)(b) S6.2.1(e)(1)(ii) S6.2.1(e)(1) Note S6.2.1(e)(4) S6.2.1(e)(4) Note	Revision to: <ul style="list-style-type: none"> – provide that only actual capex (and where actual capex is not available, estimated capex) up to the amount of the forecast capex allowance determined in the distribution determination for the relevant regulatory control period adjusted to include (or remove) the amount of any capex used to determine any approved pass through amounts or negative pass through amounts; and – provide that 60% of any actual capex that exceeds the forecast capex allowance, is to be rolled into the regulatory asset base.
[6.15.1]	S6.2.1(e)(3) S6.2.1(e)(4) S6.2.1(e)(5) S6.2.1(e)(6) S6.2.1(e)(7) S6.2.1(e)(8)	S6.2.1(e)(2) S6.2.1(e)(3) S6.2.1(e)(4) S6.2.1(e)(5) S6.2.1(e)(6) S6.2.1(e)(7)	Consequential renumbering revision.
[6.15.2]	S6.2.1(e)(4)	S6.2.1(e)(4)	Revision to clarify that all capex must be properly allocated to the provision of standard control services in accordance with the cost allocation methodology.

Table 1.3 Proposed rule change: reopening of distribution determination for capital expenditure

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.16]	–	6.6.4 6.6.4(a) 6.6.4(a)(1) 6.6.4(a)(2) 6.6.4(a)(3) 6.6.4(a)(4) 6.6.4(a)(4)(i) 6.6.4(a)(4)(ii) 6.6.4(a)(5) 6.6.4(a)(6) 6.6.4(a)(7) 6.6.4(b) 6.6.4(c) 6.6.4(c)(1) 6.6.4(c)(2) 6.6.4(d) 6.6.4(e) 6.6.4(f)	New clause to provide a distribution determination to be reopened for capex for an event beyond the reasonable control of a DNSP.

6.6.4(f)(1)
6.6.4(f)(2)
6.6.4(f)(2)(i)
6.6.4(f)(2)(ii)
6.6.4(f)(2)(iii)
6.6.4(g)

Table 1.4 Proposed rule change: amending, revoking or substituting a distribution determination

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.17]	6.13(a)(1) 6.13(a)(2) 6.13(a)(3) 6.13(a)(4)	6.13(a)(1) 6.13(a)(2)	Revisions to provide that the AER may revoke and substitute or amend a distribution determination subject to clause 6.6.4.
[6.17.1]	6.13(b) 6.13(c) 6.13(d)	6.13(b) 6.13(c) 6.13(d)	Consequential referencing revisions.

Table 1.5 Proposed rule change: contingent projects

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.18]	–	6.6A 6.6A.1(a) 6.6A.1(b)(1) 6.6A.1(b)(2) 6.6A.1(c) 6.6A.1(d) 6.6A.1(e)(1) 6.6A.1(e)(2) 6.6A.1(e)(3) 6.6A.1(f)(1) 6.6A.1(f)(2) 6.6A.1(f)(3) 6.6A.1(f)(4) 6.6A.1(f)(5)(i) 6.6A.1(f)(5)(ii) 6.6A.2(a) 6.6A.2(b)(1) 6.6A.2(b)(2) 6.6A.2(b)(3)(i) 6.6A.2(b)(3)(ii) 6.6A.2(b)(3)(iii) 6.6A.2(b)(3)(iv) 6.6A.2(b)(3)(v) 6.6A.2(b)(3)(vi) 6.6A.2(b)(3)(vii) 6.6A.2(b)(4)(i) 6.6A.2(b)(4)(ii) 6.6A.2(b)(4)(iii) 6.6A.2(b)(4)(iv)	<p>New rule to provide for contingent projects in a distribution determination including:</p> <ul style="list-style-type: none"> – new clause 6.6A.1 to provide for the AER to identify any contingent projects in the distribution determination; – new clause 6.6A.2 to provide for a DNSP to apply during the regulatory control period for the AER to reopen the distribution determination in the event a trigger event for a contingent project occurs; and – new clause 6.6A.3 to provide for the AER to develop and publish the Distribution Contingent Project Guidelines to specify the appropriate threshold for the purposes of new clause 6.6A.1(b)(1).

		6.6A.2(b)(4)(v) 6.6A.2(c) 6.6A.2(d) 6.6A.2(e) 6.6A.2(e)(1)(i) 6.6A.2(e)(1)(ii) 6.6A.2(e)(1)(iii) 6.6A.2(e)(1)(iv) 6.6A.2(e)(1)(v) 6.6A.2(e)(2)(i) 6.6A.2(e)(2)(ii) 6.6A.2(e)(2)(iii) 6.6A.2(e)(3) 6.6A.2(f)(1) 6.6A.2(f)(2) 6.6A.2(f)(3)(i) 6.6A.2(f)(3)(ii) 6.6A.2(g) 6.6A.3(a) 6.6A.3(b) 6.6A.3(c) 6.6A.3(d)	
[6.18.1]	–	6.5.6(d)(9) 6.5.7(d)(9)	New capex factor and opex factor which provides that the AER may have regard to whether the forecast of required capex includes any amounts that should more appropriate be included as a contingent project.
[6.18.2]	–	6.5.7(e) 6.5.7(f) 6.5.7(g) 6.5.7(h) 6.5.7(i)	New clauses to allow for any unspent capex for a contingent project during a regulatory control period to be carried over into the next regulatory control period.
[6.18.3]	–	6.12.1(3A)	New constituent decision requiring the AER to make a decision identifying the contingent projects and associated trigger events for the regulatory control period.
[6.18.4]	–	S6.1.3(14)	New clause to provide that a building block proposal is to include information regarding contingent projects (if applicable).

Table 1.6 Proposed rule change: excluding related party margins and capitalised overheads from the regulatory asset base

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.19]	S6.2.1(e)(1)	S6.2.1(e)(1)	New clause to provide that related party margins or capitalised overheads are only included to the extent that they have been incurred consistently with and as provided for in the total of the forecast capex decided in the revenue determination for that previous period.

Table 1.7 Proposed rule change: other incentive schemes

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.20]	–	6.6.5(a) 6.6.5(b)(1) 6.6.5(b)(2) 6.6.5(b)(3) 6.6.5(b)(4) 6.6.5(b)(5) 6.6.5(c) 6.6.5(d) 6.6.5(e) 6.6.5(f) 6.6.5(g)(1) 6.6.5(g)(2)	New clause to provide for the AER to develop and publish an incentive scheme or schemes other than the service target performance incentive scheme and the efficiency benefit sharing scheme where the AER considers that there are benefits to end users or customers arising from the incentive scheme or schemes.
[6.20.1]	6.3.2(a)(3)	6.3.2(a)(3)	New clause to require a building block proposal to state how any applicable other incentive scheme or schemes are to apply.
[6.20.2]	6.4.3(a)(5) 6.4.3(b)(5)	6.4.3(a)(5) 6.4.3(b)(5)	Revision to require adjustment in the building blocks of any revenue increments or decrements arising from the application of other incentive scheme or schemes developed and published under clause 6.6.5.
[6.20.3]	6.5.6(e)(8) 6.5.7(e)(8)	6.5.6(d)(5) 6.5.7(d)(5)	Revision to include reference in the operating and capex factors to other incentives scheme.
[6.20.4]	6.12.1(9)	6.12.1(9)	Revision to require the AER to make a constituent decision on how any applicable other incentive scheme or schemes are to apply.
[6.20.5]	–	S6.1.3(5A)	New clause to require a DNSP to provide in the building block proposal the values that it proposes are to be attributed to the parameters for the purposes of the application to the provider of any applicable incentive scheme or schemes.

Table 1.8 Proposed rule change: treatment of shared assets

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.21]		6.4.3(a)(8) 6.8.1(b)(2) 6.12.1(13A)	Revisions to: <ul style="list-style-type: none"> – introduce new clause to allow for any revenue decrement for that year arising from; – introduce new clause to provide for the AER to set out in the framework and approach paper its likely approach to; and – to require the AER to make a constituent decision in relation to,

the use or forecast use of assets forming part of the regulatory asset base for the provision of services other than the provision of standard control services.

[6.21.1] 6.4.3(a)(7) 6.4.3(a)(7) Consequential renumbering and referencing revisions.

Table 1.9 Proposed rule change: cost of capital

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.22]	6.5.2(b)	6.5.2(b)(1) 6.5.2(b)(2)	Revision to: – clarify the chapeau of clause 6.5.2(b); and – require that the WACC is to be calculated in accordance with the statement on the cost of capital.
[6.22.1]	6.5.4(c) 6.5.4(f) 6.5.4(g) 6.4.3(b)(2) Note 6.4.3(b)(4) Note 6.12.1(7)	6.5.4(c) 6.5.4(f) 6.5.4(g) 6.12.1(7)	Revisions to replace reference to the ‘statement of regulatory intent’ with the ‘statement on the cost of capital’.
[6.22.2]	6.5.4(d)(1) 6.5.4(d)(2) 6.5.4(d)(3) 6.5.4(d)(5)	6.5.4(d)(1) 6.5.4(d)(2) 6.5.4(d)(3) 6.5.4(d)(5)	Consequential referencing revisions.
[6.22.3]	6.12.1(5)	6.12.1(5)	Consequential revision to the relevant constituent decision.
[6.22.4]	S6.1.3(9)	S6.1.3(9)	Revision to require the DNSP’s proposed rate of return to be calculated in accordance with the statement on the cost of capital to be included as part of a building block proposal.
[6.23]	6.5.2(c)(1) 6.5.2(c)(2) 6.5.2(c)(2)(i) 6.5.2(c)(2)(ii) 6.5.2(c)(2)(iii) 6.5.2(c)(2)(iv) 6.5.2(d) 6.5.2(e)	Deleted	Revision to remove the prescription on how to calculate the nominal risk free rate and the debt risk premium.
[6.23.1]	6.5.4(c) 6.5.4(d)(4) 6.5.4(d)(6) 6.5.4(e)(1) 6.5.4(f)	6.5.4(c) 6.5.4(d)(4) 6.5.4(f)	Consequential revisions to remove the reference to the credit rating level, maturity period and bond rates.
[6.23.2]	6.5.4(d)(7)	6.5.4(d)(6)	Consequential renumbering revision.
[6.23.3]	–	6.5.4(d)(4)	New clause to provide for the debt risk premium to be reviewed.

[6.23.4]	6.5.4(e)(3)	6.5.4(e)(4)	Consequential revision to replace reference to ‘parameters’ with ‘matters’ as it is no longer the case it is only parameters to be reviewed.
[6.23.5]	S6.1.3(8)	S6.1.3(8)	Revision to: <ul style="list-style-type: none"> – remove requirement that a building block proposal is to specify the commencement and length of period for the purposes of calculating the nominal risk free rate; and – require a building block proposal to include any information required by the statement on the cost of capital.
[6.24]	6.5.4(e)(4)(i) 6.5.4(e)(4)(ii) 6.5.4(e)(5) 6.5.4(g) 6.5.4(h)(1) 6.5.4(h)(2) 6.5.4(i)	6.5.4(e)(4) 6.5.4(e)(5) 6.5.4(g)	Revision to: <ul style="list-style-type: none"> – remove the reference to the need for persuasive evidence before adopting a different value or method of calculating a parameter which cannot be determined with certainty; and – preserve the requirements that in undertaking a review, the AER must have regard to the previously adopted value or method and the national electricity objective.
[6.25]	6.5.4(a) 6.5.4(b)	6.5.4(a) 6.5.4(b)	Revision to: <ul style="list-style-type: none"> – provide that the next review is to be concluded by 1 March 2014 and subsequent reviews within five year intervals thereafter; and – provide that a review must be undertaken in accordance with the distribution consultation procedures, subject to the reference in rule 6.16(e) to 80 business days being read as a reference to 100 business days and the AER not being able to extend the time within which it is to make the final decision under rule 6.16(g).

Table 1.10 Proposed rule change: cost pass throughs

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.26]	6.2.8(4) 6.2.8(5)	6.2.8(4)	Revision to remove the ability for the AER to publish guidelines setting out its likely approach to determining materiality in the context of possible pass through events, consequential to defining material for the purposes of clause 6.6.1: see [10.8].

[6.27]	S6.2.1(e)(4)	S6.2.1(e)(4)	Revision to include the effect of the amount of any capex included in determining any approved or required pass through amounts on the total forecast capex and depreciation for the purposes of establishing the opening value of the regulatory asset base.
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Table 1.11 Proposed rule change: confidential information

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.28]	6.8.2(c)(6)	6.8.2(c)(6) 6.10.3(c1) 6.14.2(e)	Revision to: <ul style="list-style-type: none"> – require a DNSP to identify the confidential parts of a regulatory proposal or a revised regulatory proposal; – remove the reference to the parts of the proposal that the DNSP wants suppressed, which is redundant; and – introduce new clauses to provide for the AER to give such weight it considers appropriate to confidential information in a regulatory proposal or a revised regulatory proposal.

Table 1.12 Proposed rule change: submissions and late proposals

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.29]	6.9.3(a)(2) 6.9.3(b) 6.9.3(c)	6.9.3(a)(2)(i) 6.9.3(a)(2)(i) 6.9.3(a)(3) 6.9.3(b) 6.9.3(c) 6.9.3(d)(1) 6.9.3(d)(2) 6.9.3(d)(3) 6.9.3(d)(4)	Revisions to restrict a DNSP from making a submission on its own regulatory proposal and where there are concurrent proposals being assessed, on another DNSP's regulatory proposal unless there are material differences between the two. See Australian Government Solicitor, <i>Advice on possible amendments to the National Electricity Rules</i> , 27 September 2011 (AGS advice), [26]–[28]; proposed change [1].
[6.30]	6.10.1 6.10.2(a)(5) 6.10.2(c) 6.10.3(a) 6.10.3(e) 6.11.1	6.10.1 6.10.1(a) 6.10.2(a)(5) 6.10.2(a)(6) 6.10.2(c) 6.10.2(d)(1) 6.10.2(d)(2) 6.10.2(d)(3) 6.10.2(d)(4) 6.10.3(a) 6.10.3(e) 6.10.3(f) 6.10.3(g)	Revisions to restrict a DNSP from making a submission on its own revised regulatory proposal and where there are concurrent proposals being assessed, on another a draft distribution determination applying to another DNSP unless there are material differences between the two. See AGS advice, [29]–[32]; proposed changes [2] and [3].

		6.10.3(h) 6.10.3(i)(1) 6.10.3(i)(2) 6.10.3(i)(3) 6.10.3(i)(4) 6.11.1 6.11.1(a) 6.11.1(c)	
[6.31]	6.14(a)	6.14.1(a) 6.14.1(b)(1) 6.14.1(b)(2) 6.14.1(c)	<p>New clause to specify that the AER:</p> <ul style="list-style-type: none"> – must not consider any submission that does not comply with clause 6.9.3 and 6.10.2; – any resubmitted or revised regulatory proposals which are late or do not address the matters permitted in clause 6.10.3 – may accept corrections or errors that do not affect the substance of the regulatory proposal. <p>See AGS advice, [33]–[39]; proposed change [4].</p>
[6.31.1]	6.14(b) 6.14(c) 6.14(d) 6.14(e) 6.14(f)	6.14.2(a) 6.14.2(b) 6.14.2(c) 6.14.2(d) 6.14.2(f)	<p>Consequential renumbering and referencing revisions.</p> <p>See AGS advice, [33]–[39]; proposed change [4].</p>

Table 1.13 Proposed rule change: framework and approach paper

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.32]	6.12.3(b)	6.12.3(b)	Revision to provide for the AER to change the classification of services from that specified in the framework and approach paper if unforeseen circumstances arise from the regulatory proposal and submissions received.
[6.33]	6.12.3(c) 6.8.1(c)	6.12.3(c) 6.8.1(b)(3)	<p>Revision to:</p> <ul style="list-style-type: none"> – provide for the AER to change the control mechanism from that specified in the framework and approach paper if unforeseen circumstances arise from the regulatory proposal and submissions received; and – replaced reference in existing clause 6.8.1(c) to ‘must set out’ with new clause 6.8.1(b)(4) which requires the AER to set out its likely approach in relation to the control mechanism.
[6.33.1]	6.8.1(b)(5)	6.8.1(b)(5)	Consequential renumbering revision.

[6.34]	6.8.1(b)(2) 6.8.1(b)(3) 6.8.1(b)(4)	Deleted	Revision to remove the requirement for the AER to state its likely approach to application of incentive schemes.
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Table 1.14 Proposed rule change: extension of time frames

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.35]	–	6.6.1(l)(1) 6.6.1(l)(2)	New clauses to: <ul style="list-style-type: none"> – extend the timeframes by when a TNSP must make an application to the AER regarding a positive change event and a negative change event if the AER is satisfied that the difficulty of assessing or quantifying its effect justifies the extension; and – allow the AER to extend the timeframe by up to a further 60 business days in which it makes its decision regarding the positive change event and the approved pass through amount if the decision involves questions of unusual complexity or if it requires further information from the DNSP.
[6.35.1]	6.6.1(e)	6.6.1(e)	Revision to change 60 business days to 40 business days.
[6.36]	–	6.6.4(h)(1) 6.6.4(h)(2)	New clause to provide for the AER to extend the timeframe by up to a further 60 business days in which it makes its decision regarding the TNSP’s reopening application if the decision involves questions of unusual complexity or if it requires further information from the DNSP.
[6.37]	–	6.6A.2(h)(1) 6.6A.2(h)(2)	New clause to provide for the AER to extend the timeframe by up to a further 60 business days in which it makes its decision regarding the DNSP’s trigger event application if the decision involves questions of unusual complexity or if it requires further information from the DNSP.

Table 1.15 Proposed rule change: decision making process

No.	Current rule(s)	Proposed rule(s)	Remarks
[6.38]	6.12.1(2)(i) 6.12.1(2)(ii) 6.12.3(d) 6.12.3(f)	6.12.1(2) 6.12.1(2A)	Revision to: <ul style="list-style-type: none"> – remove clause 6.12.3(d) and 6.12.3(f) consistent with the AER now determining the forecast capex and forecast opex and consequential renumbering amendments; – revise clause 6.12.1(2) to provide that the AER is to determine the annual revenue requirement; and

- preserve in new clause 6.12.1(2A), that the AER is to accept or refuse to accept the proposed regulatory control period.

[6.38.1]	6.12.3(e)	6.12.3(d)
	6.12.3(g)	6.12.3(e)
	6.12.3(h)	6.12.3(f)

Consequential renumbering revisions.

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*.

6.1.2 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*;
 - (5) Part E sets out the procedures for making 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; and

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

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*.
- (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 customer 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; or
 - (2) caps on the prices of individual services; or
 - (3) caps on the revenue to be derived from a particular combination of services; or
 - (4) tariff basket price control; or
 - (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* may *publish* guidelines as to:

- (1) the classification of *distribution services*; and
- (2) the control mechanisms for *direct control services*; and
- (3) the calculation of stand-alone, avoidable and long-run marginal costs; and
- ~~(4) the AER's likely approach to determining materiality in the context of possible *pass through events*; and~~

[6.26]

~~(5)~~(4) other matters relevant to this Chapter.

[6.26]

- (b) The guidelines may relate to a specified *Distribution Network Service Provider* or *Distribution Network Service Providers* of a specified class.
- (c) The guidelines are not mandatory (and hence do not bind the *AER* or anyone else) but, if the *AER* makes a distribution determination that is not in accordance with a relevant guideline, the *AER* must state, in its reasons for the distribution determination, the reasons for departing from the guideline.
- (d) If the guidelines indicate that there may be a change of regulatory approach in future distribution determinations, the guidelines should also (if practicable) indicate how transitional issues are to be dealt with.
- (e) In making or amending a guideline, the *AER* must follow the *distribution consultation procedures* in Part G.

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 for making 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*, other relevant requirements of this Part, and Schedule 6.1; and
 - (2) must comply with the requirements of, and must contain or be accompanied by the information required by, any relevant *regulatory information instrument*.

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, service target performance incentive scheme, ~~or~~ demand management incentive scheme* [or other incentive scheme or schemes developed and published under clause 6.6.5](#) are to apply to the *Distribution Network Service Provider*;
 - (4) the commencement and length of the *regulatory control period*;
 - (5) any other amounts, values or inputs on which the *building block determination* is based (differentiating between those contained in, or inferred from, the 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*.

[6.20.1]

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); and
- (2) a return on capital for that year – see paragraph (b)(2); and
- (3) the depreciation for that year – see paragraph (b)(3); and
- (4) the estimated cost of corporate income tax of the provider for that year – see paragraph (b)(4); and
- (5) the revenue increments or decrements (if any) for that year arising from the application of the *efficiency benefit sharing scheme*, the *service target performance incentive scheme*, ~~and~~ the *demand management incentive scheme* and other incentive scheme or schemes developed and published under clause 6.6.5 – see paragraph (b)(5); and [6.20.2]
- (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); and
- (7) the forecast operating expenditure for that year – see paragraph (b)(7); ~~and~~ [6.21.1]
- (8) if applicable, any revenue decrement for that year arising from the use or forecast use of assets forming part of the regulatory asset base for the provision of services other than the provision of *standard control services*. [6.21]

(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; and

Note:

[6.22.1]

~~A statement of regulatory intent may be relevant to the calculation (See clause 6.5.4).~~

[6.22.1]

- (3) the depreciation is calculated in accordance with clause 6.5.5; and
- (4) the estimated cost of corporate income tax is determined in accordance with clause 6.5.3; and

Note:

[6.22.1]

~~A statement of regulatory intent may be relevant to the calculation (See clause 6.5.4).~~

[6.22.1]

- (5) the revenue increments or decrements referred to in paragraph (a)(5) are those that arise as a result of the operation of an applicable *efficiency benefit sharing scheme, service target performance incentive scheme, or demand management incentive scheme* ~~or other incentive scheme or schemes~~ as referred to in clauses 6.5.8, 6.6.2, ~~and 6.6.3 and 6.6.5~~; and
- (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*; and
- (7) the forecast operating expenditure for the year is the forecast operating expenditure as ~~accepted or substituted~~ determined by the AER in accordance with clause 6.5.6.

[6.20.2]

[6.1.1]

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 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 control period* (calculated in accordance with this clause 6.5.2) 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).

Weighted average cost of capital

- (b) The rate of return for a *Distribution Network Service Provider* for a *regulatory control period* is the cost of capital as measured by the return required by investors in a commercial enterprise with a similar nature and degree of non-diversifiable risk as that faced by the *distribution* business of the provider and must be calculated ~~as a nominal post-tax weighted average cost of capital (WACC) in accordance with the following formula:~~

[6.22]

(1) as a nominal vanilla weighted average cost of capital (WACC) in accordance with the following formula:

$$WACC = k_e \frac{E}{V} + k_d \frac{D}{V}$$

where:

k_e is the return on equity (determined using the Capital Asset Pricing Model) and is calculated as:

$$r_f + \beta_e \times MRP$$

where:

r_f is the nominal risk free rate for the *regulatory control period* ~~determined in accordance with paragraph (e);~~

β_e is the equity beta; and

MRP is the market risk premium;

k_d is the return on debt and is calculated as:

$$r_f + DRP$$

where:

DRP is the debt risk premium for the *regulatory control period* ~~determined in accordance with paragraph (e);~~

E/V is the value of equity as a proportion of the value of equity and debt, which is $1 - D/V$; and

D/V is the value of debt as a proportion of the value of equity and debt: and

[6.22]

(2) in accordance with the statement on the cost of capital.

[6.22]

Meaning of nominal risk free rate

- ~~(c) The nominal risk free rate for a *regulatory control period* is (unless some different provision is made by a relevant *statement of regulatory intent*) the rate determined for that *regulatory control period* by the AER on a moving average basis from the annualised yield on Commonwealth Government bonds with a maturity of 10 years using:~~ [6.23]
- ~~(1) the indicative mid rates published by the Reserve Bank of Australia; and~~ [6.23]
- ~~(2) a period of time which is either:~~ [6.23]
- ~~(i) a period (**the agreed period**) proposed by the relevant *Distribution Network Service Provider*, and agreed by the AER (such agreement is not to be unreasonably withheld); or~~ [6.23]
- ~~(ii) a period specified by the AER, and notified to the provider within a reasonable time prior to the commencement of that period, if the period proposed by the provider is not agreed by the AER under subparagraph (i);~~ [6.23]
- ~~and, for the purposes of subparagraph (i):~~ [6.23]
- ~~(iii) the start date and end date for the agreed period may be kept confidential, but only until the expiration of the agreed period; and~~ [6.23]
- ~~(iv) the AER must notify the *Distribution Network Service Provider* whether or not it agrees with the proposed period within 30 *business days* of the date of submission of the *building block proposal*.~~ [6.23]
- ~~(d) If there are no Commonwealth Government bonds with a maturity of 10 years on any day in the period referred to in paragraph (c)(2), the AER must (unless some different provision is made by a relevant *statement of regulatory intent*) determine the nominal risk free rate for the *regulatory control period* by interpolating on a straight line basis from the two Commonwealth Government bonds closest to the 10 year term and which also straddle the 10 year expiry date.~~ [6.23]

Meaning of debt risk premium

- ~~(e) The debt risk premium for a *regulatory control period* is the premium determined for that *regulatory control period* by the AER as the margin between the annualised nominal risk free rate and the observed annualised Australian benchmark corporate bond rate for corporate bonds which have a maturity equal to that used to derive the nominal risk free rate and a credit rating from a recognised credit rating agency.~~ [6.23]

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 calculated 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 assumed utilisation of imputation credits.

For these purposes:

- (1) the cost of debt must be based on that of a benchmark efficient *Distribution Network Service Provider*; and
- (2) the estimate must take into account the estimated depreciation for that *regulatory year* for tax purposes, for a benchmark efficient *Distribution Network Service Provider*, of assets where the value of those assets is included in the regulatory asset base for the relevant *distribution system* for that *regulatory year*.

6.5.4 Review of rate of return

- (a) The *AER* must, ~~in accordance with the *distribution consultation procedures* and this clause~~, carry out reviews of the matters referred to in paragraph (d); in accordance with this clause and the *distribution consultation procedures*, subject to:
 - (1) the reference in rule 6.16(e) to 80 *business days* being read as a reference to 100 *business days*; and [6.25]
 - (2) the *AER* may not extend the time within which it is required to publish its final decision under rule 6.16(g). [6.25]
- (b) ~~The first~~^A review is to be concluded by ~~1 May 2009~~^{1 March 2014} and further reviews are to follow at intervals not exceeding, in any case, five years with the first interval starting from ~~31 March 2009~~^{1 March 2014}. [6.25]
- (c) The *AER* must, in consequence of a review, issue a statement (a ~~*statement of regulatory intent*~~^{statement on the cost of capital}) adopting values; and

- methods ~~and credit rating levels~~ for *Distribution Network Service Providers* or for specified classes of *Distribution Network Service Providers*. **[6.22.1] [6.23.1]**
- (d) The following matters (and the method of their calculation) may form the subject of a review:
- (1) the nominal risk free rate referred to in clause ~~6.5.2(e)~~6.5.2(b)(1); **[6.22.2]**
 - (2) the equity beta referred to in clause ~~6.5.2(b)~~6.5.2(b)(1); **[6.22.2]**
 - (3) the market risk premium referred to in clause ~~6.5.2(b)~~6.5.2(b)(1); **[6.22.2]**
 - (4) ~~the maturity period and bond rates referred to in clause 6.5.2(d)~~the debt risk premium referred to in clause 6.5.2(b)(1); **[6.23.1] [6.23.3]**
 - (5) the ratio of the value of debt to the value of equity and debt referred to in clause ~~6.5.2(b)~~6.5.2(b)(1); and **[6.22.2]**
 - ~~(6) credit rating levels referred to in clause 6.5.2(e);~~ **[6.23.1]**
 - ~~(7)~~(6)the assumed utilisation of imputation credits referred to in clause 6.5.3. **[6.23.2]**
- (e) In undertaking a review, the *AER* must have regard to:
- (1) the need for the rate of return calculated for the purposes of clause 6.5.2(b) to be a forward looking rate of return that is commensurate with prevailing conditions in the market for funds and the risk involved in providing *standard control services*; and
 - (2) the need for the return on debt to reflect the current cost of borrowings for comparable debt; and
 - (3) the need for ~~the credit rating levels or~~ the values attributable to, or the methods of calculating, the ~~parameters~~matters referred to in paragraph (d) that vary according to the efficiency of the *Distribution Network Service Provider* to be based on a benchmark efficient *Distribution Network Service Provider*; and **[6.23.1] [6.23.4]**
 - (4) ~~where the credit rating levels or the values attributable to, or the method of calculating, parameters referred to in paragraph (d) cannot be determined with certainty:~~
 - ~~(i)~~the need to achieve an outcome that is consistent with the *national electricity objective*; and **[6.24]**
 - ~~(ii) the need for persuasive evidence before adopting a credit rating level or a value for, or a method of calculating, that parameter that differs from the credit rating level, value or the method of calculation that has previously been adopted for it.~~ **[6.24]**

- (5) the previously adopted values for, or methods of calculating, the matters referred to in paragraph (d). [6.24]
- (f) A ~~statement of regulatory intent~~statement on the cost of capital adopting a revised value, or method, or credit rating level in relation to the matters referred to in paragraph (d) applies only for the purposes of a *building block proposal* submitted to the AER after publication of the ~~statement of regulatory intent~~statement on the cost of capital. [6.22.1] [6.23.1]
- (g) A distribution determination to which a ~~statement of regulatory intent~~statement on the cost of capital is applicable must be consistent with the statement ~~unless there is persuasive evidence justifying a departure, in the particular case, from a value, method or credit rating level set in the statement.~~ [6.22.1] [6.24]
- ~~(h) In deciding whether a departure from a value, method or credit rating level set in a statement of regulatory intent is justified in a distribution determination, the AER must consider:~~ [6.24]
- ~~(1) the criteria on which the value, method or credit rating level was set in the statement of regulatory intent (the underlying criteria); and~~ [6.24]
- ~~(2) whether, in the light of the underlying criteria, a material change in circumstances since the date of the statement, or any other relevant factor, now makes a value, method or credit rating level set in the statement inappropriate.~~ [6.24]
- ~~(i) If the AER, in making a distribution determination, in fact departs from a value, method or credit rating level set in a statement of regulatory intent, it must:~~ [6.24]
- ~~(1) state the substitute value, method or credit rating level in the determination; and~~ [6.24]
- ~~(2) demonstrate, in its reasons for the departure, that the departure is justified on the basis of the underlying criteria.~~ [6.24]

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

- (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 of the 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:~~ [6.1]
- ~~(1) the efficient costs of achieving the operating expenditure objectives; and~~ [6.1]
 - ~~(2) the costs that a prudent operator in the circumstances of the relevant Distribution Network Service Provider would require to achieve the operating expenditure objectives; and~~ [6.1]
 - ~~(3) a realistic expectation of the demand forecast and cost inputs required to achieve the operating expenditure objectives.~~ [6.1]
- ~~(the operating expenditure criteria).~~ [6.1]
- The AER must determine the total of the forecast of required operating expenditure of a Distribution Network Service Provider for the regulatory control period, and the forecast of the required operating expenditure for each regulatory year of the regulatory control period, that the AER considers would meet the efficient costs that a prudent Distribution Network Service Provider would require to achieve the operating expenditure objectives. [6.1]
- ~~(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.~~ [6.1]
- ~~(e)~~(d) In determining the forecasts of required operating expenditure as referred to in paragraph (c), the AER ~~must~~may, as it considers appropriate, have regard to the following (the *operating expenditure factors*): [6.2]
- ~~(1) the information included in or accompanying the building block proposal;~~ [6.3]
 - ~~(2) submissions received in the course of consulting on the building block proposal;~~ [6.3]

- ~~(3)~~ ~~analysis undertaken by or for the AER and published before the distribution determination is made in its final form;~~ [6.3]
- ~~(4)~~(1) benchmark operating expenditure that would be incurred by an efficient *Distribution Network Service Provider* over the *regulatory control period*; [6.3.1]
- ~~(5)~~(2) the actual and expected operating expenditure of the *Distribution Network Service Provider* during any preceding *regulatory control periods*; [6.3.1]
- ~~(6)~~(3) the relative prices of operating and capital inputs; [6.3.1]
- ~~(7)~~(4) the substitution possibilities between operating and capital expenditure; [6.3.1]
- ~~(8)~~(5) whether ~~the total labour costs included in the capital and~~ operating expenditure forecasts for the *regulatory control period* ~~are~~ is consistent with the incentives provided by the applicable *service target performance incentive scheme* ~~in respect of the regulatory control period, efficiency benefit sharing scheme, demand management incentive scheme or other incentive scheme or schemes developed and published under clause 6.6.5;~~ [6.3.1] [6.4] [6.20.3]
- ~~(9)~~(6) the extent the forecast of required operating expenditure of the *Distribution Network Service Provider* is referable to arrangements with a person other than the provider that, in the opinion of the *AER*, do not reflect arm's length terms; [6.3.1]
- ~~(10)~~(7) the extent ~~the Distribution Network Service Provider has considered, and made provision for, to which any~~ efficient and prudent non-network alternatives; may impact the forecast of required operating expenditure; [6.3.1] [6.5]
- (8) a realistic expectation of the demand forecast and cost inputs; [6.6]
- (9) whether the forecast of required operating expenditure includes amounts relating to a project that should more appropriately be identified as a contingent project under clause 6.6A.1(c); [6.18.1]
- (10) any other factors the AER considers relevant. [6.7]

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) maintain the quality, reliability and security of supply of *standard control services*;
 - (4) maintain the reliability, safety and security 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*; and
 - (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 capital expenditure for the relevant *regulatory control period*; and
 - (ii) the forecast of the capital expenditure for each *regulatory year* of the relevant *regulatory control period*; and
 - (4) identify any forecast capital expenditure that is for an option that has satisfied the *regulatory test*.

(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:~~ [6.8]

~~(1) the efficient costs of achieving the *capital expenditure objectives*; and~~ [6.8]

~~(2) the costs that a prudent operator in the circumstances of the relevant *Distribution Network Service Provider* would require to achieve the *capital expenditure objectives*; and~~ [6.8]

~~(3) a realistic expectation of the demand forecast and cost inputs required to achieve the *capital expenditure objectives*.~~ [6.8]

~~(the *capital expenditure criteria*)~~ [6.8]

The AER must determine the total of the forecast of required capital expenditure of a *Distribution Network Service Provider* for the *regulatory control period*, and for and the forecast of the required capital expenditure each *regulatory year* of the *regulatory control period*, that the AER considers would meet the efficient costs that a prudent *Distribution Network*

Service Provider would require to achieve the capital expenditure objectives. [6.8]

~~(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.~~ [6.8]

~~(e)~~(d) In deciding whether or not the AER is satisfiedIn determining the forecasts of required capital expenditure as referred to in paragraph (c), the AER ~~must~~may, as it considers appropriate, have regard to the following (the capital expenditure factors): [6.9]

~~(1) the information included in or accompanying the building block proposal;~~ [6.10]

~~(2) submissions received in the course of consulting on the building block proposal;~~ [6.10]

~~(3) analysis undertaken by or for the AER and published before the distribution determination is made in its final form;~~ [6.10]

~~(4)~~(1) benchmark capital expenditure that would be incurred by an efficient *Distribution Network Service Provider* over the *regulatory control period*; [6.10.1]

~~(5)~~(2) the actual and expected capital expenditure of the *Distribution Network Service Provider* during any preceding *regulatory control periods*; [6.10.1]

~~(6)~~(3) the relative prices of operating and capital inputs; [6.10.1]

~~(7)~~(4) the substitution possibilities between operating and capital expenditure; [6.10.1]

~~(8)~~(5) whether ~~the total labour costs included in~~ the capital ~~and operating~~ expenditure forecasts for the *regulatory control period* ~~are~~is consistent with the incentives provided by the applicable *service target performance incentive scheme* ~~in respect of the regulatory control period, efficiency benefit sharing scheme, demand management incentive scheme~~ or other incentive scheme or schemes developed and published under clause 6.6.5; [6.10.1] [6.11] [6.20.3]

~~(9)~~(6) the extent the forecast of required capital expenditure of the *Distribution Network Service Provider* is referable to arrangements with a person other than the provider that, in the opinion of the AER, do not reflect arm's length terms; [6.10.1]

~~(10)~~(7) the extent ~~the Distribution Network Service Provider has considered, and made provision for,~~ to which any efficient and prudent non-network alternatives can displace parts of the forecast of required capital expenditure; [6.10.1] [6.12]

(8) a realistic expectation of the demand forecast and cost inputs; [6.13]

(9) whether the forecast of required capital expenditure includes amounts relating to a project that should more appropriately be identified as a *contingent project* under clause 6.6A.1(c); [6.18.1]

(10) any other factors the AER considers relevant. [6.14]

Forecast capital expenditure and contingent projects [6.18.2]

(e) Paragraphs (f) – (i) apply where: [6.18.2]

(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 [6.18.2]

(2) there is an unspent amount of capital expenditure for that *contingent project* under paragraph (f). [6.18.2]

(f) A *Distribution Network Service Provider's building block 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 paragraph (e)(2), that equals the difference (if any) between: [6.18.2]

(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 [6.18.2]

(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*. [6.18.2]

(g) The AER must include in any forecast capital expenditure for the second *regulatory control period* which the AER determined in accordance with clause 6.12.1(3), the amount of any unspent capital expenditure calculated in accordance with paragraph (f). [6.18.2]

(h) Without limiting the requirement in paragraph (g), in determining 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: [6.18.2]

(1) assess the reasonableness of the amount of unspent capital expenditure for a *contingent project* referred to in paragraph (f) or the remaining period to which the *contingent project* applies; [6.18.2]

(2) assess the reasonableness of the timing of the unspent capital expenditure within the remaining period for a *contingent project*

- referred to in paragraph (f) except as part of determining the total forecast capital expenditure under paragraph (c); or [6.18.2]
- (3) take into account any amount which represents for a *contingent project* referred to in paragraph (f) the difference between: [6.18.2]
- (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)(ii); and [6.18.2]
- (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*. [6.18.2]
- (i) A *building block 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*: [6.18.2]
- (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 [6.18.2]
- (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). [6.18.2]

6.5.8 Efficiency benefit sharing scheme

- (a) The AER must, in accordance with the *distribution consultation procedures*, develop and *publish* a 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~~ determined by the AER for that *regulatory control period*. [6.1.1]

- (b) An *efficiency benefit sharing scheme* may (but is not required to) be developed to cover efficiency gains and losses related to capital expenditure or *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 consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for *Distribution Network Service Providers*; and
 - (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 and, if the scheme extends to capital expenditure, capital expenditure; and
 - (3) the desirability of both rewarding *Distribution Network Service Providers* for efficiency gains and penalising *Distribution Network Service Providers* for efficiency losses; and
 - (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*.

6.5.9 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.

6.6 Adjustments after making of building block determination.

6.6.1 Cost pass through

- (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*; and
 - (2) the date on which the *positive change event* occurred; and
 - (3) the *eligible pass through amount* in respect of that *positive change event*; and
 - (4) the *positive pass through amount* the provider proposes in relation to the *positive change event*; and

- (5) the amount of the *positive pass through amount* that the provider proposes should be passed through to *Distribution Network Users* in each *regulatory year* during the *regulatory control period*; and
 - (6) evidence:
 - (i) of the actual and likely increase in costs referred to in subparagraph (3); and
 - (ii) that such costs occur solely as a consequence of the *positive change event*; 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 each *regulatory year* during the *regulatory control period*,
- taking into account the matters referred to in paragraph (j).
- (e) If the *AER* does not make the determinations referred to in paragraph (d) within ~~60~~40 *business days* from the date it receives the *Distribution Network Service Provider's* statement and accompanying evidence under paragraph (c), then, on the expiry of that period, the *AER* is taken to have determined that:

[6.35.1]

- (1) the *positive pass through amount* as proposed in the 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 provider proposes in its statement under paragraph (c) should be passed through to *Distribution Network Users* in each *regulatory year* during the *regulatory control period*, is the amount that should be so passed through in each such *regulatory year*.

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 provider, a written statement which specifies:
- (1) the details of the *negative change event* concerned; and
 - (2) the date the *negative change event* occurred; and

- (3) the costs in the provision of *standard control services* that the provider has saved and is likely to save until the end of the *regulatory control period* as a result of the *negative change event*; and
 - (4) the aggregate amount of those saved costs that the provider proposes should be passed through to *Distribution Network Users*; and
 - (5) the amount of the costs referred to in subparagraph (4) the provider proposes should be passed through to *Distribution Network Users* in each *regulatory year* during the *regulatory control period*; and
 - (6) such other information as may be required under any relevant *regulatory information instrument*.
- (g) If a *negative change event* occurs (whether or not the occurrence of that *negative change event* is notified by the 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 each *regulatory year* during the *regulatory control period*.
- (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 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 provider under paragraph (c) or (f); and

- (2) in the case of a *positive change event*, the increase in costs in the provision of *standard control services* that the provider has incurred and is likely to incur until the end of the *regulatory control period* as a result of the *positive change event*; and
- (3) in the case of a *positive change event*, the efficiency of the provider's decisions and actions in relation to the risk of the *positive change event*, including whether the 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 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*; and
- (4) the time cost of money based on the *weighted average cost of capital* for the provider for the relevant *regulatory control period*; and
- (5) the need to ensure that the 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*; and
- (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; and
- (7) whether the costs of the *pass through event* have already been factored into the calculation of the provider's *annual revenue requirement*; and
- (8) any other factors 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 clause 6.6.1(c) or clause 6.6.1(f) if the *AER* is satisfied that the difficulty of assessing or quantifying the effect of the relevant *pass through event* justifies the extension.

(l) The *AER* may extend the time limit fixed in clause 6.6.1(e) by up to a further 60 business days if:

[6.35]

(1) making the determination involves questions of unusual complexity or difficulty; or

[6.35]

(2) the *AER* requires information further to that specified in the *Distribution Network Service Provider's* written statement submitted under clause 6.6.1(c).

[6.35]

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 incentive 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 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 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 incentive scheme

- (a) The *AER* may, in accordance with the *distribution consultation procedures*, develop and *publish* an incentive scheme or schemes (*demand management incentive scheme*) to provide incentives for *Distribution Network Service Providers* to implement efficient non-network alternatives or to manage the expected demand for *standard control services* in some other way.
- (b) In developing and implementing a *demand management incentive scheme*, the *AER* must have regard to:
 - (1) the need to ensure that benefits to consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for *Distribution Network Service Providers*; and
 - (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; and
 - (3) the extent the *Distribution Network Service Provider* is able to offer efficient pricing structures; and
 - (4) the possible interaction between a *demand management incentive scheme* and other incentive schemes; and
 - (5) the willingness of the customer or end user to pay for increases in costs resulting from implementation of the scheme.
- (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) Nothing in this clause limits the content of an *efficiency benefit sharing scheme*.

6.6.4 Reopening of distribution determination for capital expenditure [6.16]

(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: [6.16]

(1) an event that is beyond the reasonable control of the 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 at the time of the making of the distribution determination ('the **event**'); [6.16]

(2) no forecast capital expenditure was determined by the *AER* for that period under clause 6.12.1(3) in relation to the event that has occurred; [6.16]

(3) the provider proposes to undertake capital expenditure to rectify the adverse consequences of the event; [6.16]

(4) the total of the capital expenditure required during the *regulatory control period* to rectify the adverse consequences of the event: [6.16]

(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*; [6.16]

(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 determined by the *AER* in accordance with clause 6.12.1(3); and [6.16]

(5) the provider can demonstrate that it is not able to reduce capital expenditure in other areas to avoid the consequence referred to in subparagraph (4)(ii) without materially adversely affecting the *reliability* and security of the relevant *distribution system*; [6.16]

(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 [6.16]

(7) the event is not a *pass through event*, or a *trigger event* associated with a *contingent project*. [6.16]

(b) An application referred to in paragraph (a) must not be made within 90 *business days* prior to the end of a *regulatory year*. [6.16]

(c) Following its receipt of an application made in accordance with paragraphs (a) and (b), the *AER* must: [6.16]

- (1) consult with the *Distribution Network Service Provider* and such other persons as it considers appropriate in relation to the application; and [6.16]
- (2) make its decision on the application within 40 *business days* of that application being made. [6.16]
- (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). [6.16]
- (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. [6.16]
- (f) The substituted distribution determination must only vary from the revoked distribution determination to the extent necessary: [6.16]
- (1) to adjust the forecast capital expenditure for that *regulatory control period* to accommodate the amount of such additional capital expenditure that the *AER* considers would meet the costs the prudent *Distribution Network Service Provider* would require to achieve one or more of the *capital expenditure objectives*, having regard to, as it considers appropriate, the *capital expenditure factors* (in which case the amount of that adjustment will be taken to be determined by the *AER* under clause 6.5.7(c); and [6.16]
- (2) to reflect the effect of any resultant increase in forecast capital expenditure on: [6.16]
- (i) the forecast operating expenditure for the remainder of the *regulatory control period*; [6.16]
- (ii) the *annual revenue requirement* for each *regulatory year* in the remainder of the *regulatory control period*; and [6.16]
- (iii) the *X factor* for each of the remaining *regulatory years* of the *regulatory control period*. [6.16]
- (g) 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*. [6.16]
- Extension of time limits** [6.36]
- (h) The *AER* may extend the time limit fixed in subparagraph (c)(2) by up to a further 60 *business days* if: [6.36]
- (1) making the decision involves questions of unusual complexity or difficulty; or [6.36]

- (2) the AER requires information further to that specified in the Distribution Network Service Provider's application submitted under paragraph (a). [6.36]

6.6.5 Other incentive schemes [6.20]

- (a) The AER may, in accordance with the distribution consultation procedures, develop and publish an incentive scheme or schemes other than the service target performance incentive scheme, demand management incentive scheme and the efficiency benefit sharing scheme to apply to Distribution Network Service Providers where the AER considers that there are benefits to end users or customers arising from applying the incentive scheme or schemes to Distribution Network Service Providers. [6.20]

- (b) In developing and implementing an incentive scheme or schemes under this clause, the AER must have regard to: [6.20]

- (1) the possible effects of the scheme or schemes on the incentives for Distribution Network Service Providers to implement non-network alternatives; and [6.20]

- (2) 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 [6.20]

- (3) the need to ensure that benefits to consumers likely to result from the incentive scheme or schemes are sufficient to warrant any reward or penalty under the incentive scheme or schemes for Distribution Network Service Providers; and [6.20]

- (4) the willingness of the customer or end user to pay for improved performance in the delivery of services; and [6.20]

- (5) any other incentives available to the Distribution Network Service Provider under the Rules or under a relevant distribution determination. [6.20]

- (c) At the same time as it publishes an incentive scheme or schemes under this clause, the AER must also publish, if applicable, any parameters for the scheme. For the avoidance of doubt, the parameters may differ as between Distribution Network Service Providers and over time. [6.20]

- (d) The AER must set out in the incentive scheme or schemes that is developed and published under this clause any requirements with which the values attributed to the parameters referred to in paragraph (c) must comply. [6.20]

- (e) The AER may, from time to time and in accordance with the distribution consultation procedures, amend or replace any other incentive scheme or schemes that is developed and published under this clause, except that no such amendment or replacement may change the application of the incentive scheme or schemes to a Distribution Network Service Provider in respect of

a regulatory control period that has commenced before, or that will commence within 15 months of, the amendment or replacement coming into operation. [6.20]

(f) Subject to paragraph (g) the AER may, from time to time and in accordance with the distribution consultation procedures, amend or replace the values to be attributed to any parameters applicable to the incentive scheme or schemes. [6.20]

(g) An amendment or replacement referred to in paragraph (f) must not change the values to be attributed to any parameters applicable to the incentive scheme or schemes where: [6.20]

(1) those values must be included in information accompanying a regulatory proposal; and [6.20]

(2) the regulatory proposal is required to be submitted under clause 6.8.2(a) at a time that is within 2 months of the publication of the amended or replaced parameters applicable to the incentive scheme or schemes. [6.20]

6.6A Contingent Projects [6.18]

6.6A.1 Acceptance of a Contingent Project in a distribution determination [6.18]

(a) A building block 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. [6.18]

(b) The proposed contingent capital expenditure for each proposed contingent project must: [6.18]

(1) exceed the threshold set out in the Distribution Contingent Project Guidelines, or if there no such threshold, \$10 million; and [6.18]

(2) not be otherwise provided for (either in part or in whole) in the total forecast capital expenditure included in the building block proposal as referred to in clause 6.5.7(a). [6.18]

(c) The proposed contingent project and the proposed contingent capital expenditure must comply with the requirements of any relevant regulatory information instrument. [6.18]

(d) The trigger events in relation to each proposed contingent project must be appropriate. [6.18]

(e) The AER may identify any contingent project, which may include a proposed contingent project (if any), that: [6.18]

(1) meets the requirements specified in paragraphs (b), (c) and (d); [6.18]

- (2) the AER considers a prudent *Distribution Network Service Provider* would be required to undertake if the associated *trigger event* occurs during the *regulatory control period* to achieve one or more of the *capital expenditure objectives*; and [6.18]
- (3) is not otherwise provided for (either in part or in whole) in the total of the of required forecast capital expenditure for the relevant *regulatory control period* which is determined by the AER in accordance with clause 6.5.7(c). [6.18]
- (f) In determining whether a *trigger event* in relation to a *proposed contingent project* is appropriate for the purposes of paragraph (d), the AER must have regard to the need for: [6.18]
- (1) a *trigger event* to be reasonably specific and capable of objective verification; [6.18]
- (2) a *trigger event* to be a condition or event, which, if it occurs, makes the undertaking of the *proposed contingent project* reasonably necessary in order to achieve one or more of the *capital expenditure objectives*; [6.18]
- (3) a *trigger event* to be a condition or event that generates increased costs or categories of costs; [6.18]
- (4) a *trigger event* to be described in such terms that the occurrence of that event or condition is all that is required for a *Distribution Network Service Provider* to make an application to the AER under clause 6.6A.2; and [6.18]
- (5) a *trigger event* 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: [6.18]
- (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 [6.18]
- (ii) subject to the requirement to satisfy subparagraph (b)(1)(i), the costs associated with the event or condition are not sufficiently certain. [6.18]

6.6A.2 Amendment of distribution determination for contingent project [6.18]

- (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 provider where a *trigger event* for a *contingent project* in relation to that distribution determination has occurred. [6.18]
- (b) An application referred to in paragraph (a): [6.18]

- (1) must not be made within 90 *business days* prior to the end of a *regulatory year*; [6.18]
- (2) subject to subparagraph (1), must be made as soon as practicable after the occurrence of the *trigger event*; [6.18]
- (3) must contain the following information: [6.18]

 - (i) an explanation that substantiates the occurrence of the *trigger event*; [6.18]
 - (ii) a forecast of the total capital expenditure for the *contingent project*; [6.18]
 - (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*; [6.18]
 - (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)(1); [6.18]
 - (v) the intended date for commencing the *contingent project* (which must be during the *regulatory control period*); [6.18]
 - (vi) the anticipated date for completing the *contingent project* (which may be after the end of the *regulatory control period*); and [6.18]
 - (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 [6.18]
- (4) the estimate referred to in subparagraph (3)(vii) must be calculated: [6.18]

 - (i) on the basis of the capital expenditure referred to in subparagraph (3)(iii); [6.18]
 - (ii) on the basis of the rate of return for that *Distribution Network Service Provider* for the *regulatory control period* as determined pursuant to clause 6.5.2; [6.18]
 - (iii) consistently with the manner in which depreciation is calculated under clause 6.5.5; [6.18]
 - (iv) to include the incremental operating expenditure referred to in subparagraph (3)(iii); and [6.18]

- (v) in accordance with the requirements for roll forward in the roll-forward model and revenue calculation in the post-tax revenue model. [6.18]
- (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. [6.18]
- (d) The AER must consider any written submissions made under paragraph (c) and must make its decision on the application within 40 business days of its receipt of that application. 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 and the capital expenditure factors. [6.18]
- (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)(1)(i), it must: [6.18]
- (1) determine:
- (i) the scope of the contingent project that the AER considers a prudent Distribution Network Service Provider would be required to undertake to achieve one or more of the capital expenditure objectives; [6.18]
- (ii) the amount of capital and incremental operating expenditure, for the purpose of undertaking the contingent project for each remaining regulatory year which the AER considers would, respectively, meet the efficient costs that a prudent Distribution Network Service Provider would require to achieve one or more of the capital expenditure objectives and one or more of the operating expenditure objectives; [6.18]
- (iii) the total capital expenditure for the purpose of undertaking the contingent project, which the AER considers would meet the efficient costs that a prudent Distribution Network Service Provider would require to achieve one or more of the capital expenditure objectives; [6.18]
- (iv) the likely commencement and completion dates for the contingent project; and [6.18]
- (v) 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); [6.18]
- (2) calculate the estimate referred to in subparagraph (3)(v): [6.18]

- (i) on the basis of the capital expenditure referred to in subparagraph (3)(i); [6.18]
- (ii) to include the incremental operating expenditure referred to in subparagraph (3)(i); and [6.18]
- (iii) otherwise in accordance with subparagraph (b)(4); and [6.18]
- (3) amend the distribution determination in accordance with paragraph (f). [6.18]
- (f) Amendments to a distribution determination referred to in subparagraph (e)(3) must only vary the determination to the extent necessary: [6.18]

 - (1) to adjust the forecast capital expenditure for that *regulatory control period* to accommodate the amount of capital expenditure determined under subparagraph (3)(i) (in which case the amount of that adjustment will be taken to be determined by the AER under clause 6.5.7(c)); [6.18]
 - (2) to adjust the forecast operating expenditure for that *regulatory control period* to accommodate the amount of incremental operating expenditure determined under subparagraph (3)(i) (in which case the amount of that adjustment will be taken to be determined by the AER under clause 6.5.6(c)); [6.18]
 - (3) to reflect the effect of any resultant increase in forecast capital and operating expenditure on: [6.18]

 - (i) the *annual revenue requirement* for each *regulatory year* in the remainder of the *regulatory control period*; and [6.18]
 - (ii) the X factor for each of the remaining *regulatory years* of the *regulatory control period*. [6.18]
- (g) Amendments to a distribution determination take effect from the commencement of the next *regulatory year* of the *regulatory control period*. [6.18]
- Extension of time limits** [6.37]
- (h) The AER may extend the time limit fixed in paragraph (d) by up to a further 60 *business days* if: [6.37]

 - (1) making the decision involves questions of unusual complexity or difficulty; or [6.37]
 - (2) the AER requires information further to that specified in the *Distribution Network Service Provider's* application submitted under paragraph (c). [6.37]

6.6A.3 Distribution Contingent Project Guidelines [6.18]

Preparation, publication and amendment of Distribution Contingent Project Guidelines [6.18]

(a) The AER may, in accordance with the *distribution consultation procedures*, prepare and *publish* the *Distribution Contingent Project Guidelines*. [6.18]

(b) The AER may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace the *Distribution Contingent Project Guidelines*. [6.18]

Contents of Distribution Contingent Project Guidelines [6.18]

(c) The *Distribution Contingent Project Guidelines* may include, but are not limited to the threshold for a *contingent project* for the purposes of clause 6.6A.1(b)(1)(i) [6.18]

(d) The *Distribution Contingent Project Guidelines* may vary in application as between different *participating jurisdictions* and over time. [6.18]

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 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 and 5.4A, 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 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 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 E Regulatory proposal

6.8 Regulatory proposal

6.8.1 AER's framework and approach paper

- (a) The *AER* must prepare and *publish* a document (a *framework and approach paper*) in anticipation of every distribution determination.
- (b) The *framework and approach paper* should set out the *AER's* likely approach (together with its reasons for the likely approach), in the forthcoming distribution determination, to:
 - (1) the classification of *distribution services* in accordance with Part B; and
 - ~~(2) the application to the *Distribution Network Service Provider* of a *service target performance incentive scheme or schemes*; and~~ [6.34]
 - ~~(3) the application to the *Distribution Network Service Provider* of an *efficiency benefit sharing scheme or schemes*; and~~ [6.34]
 - ~~(4) the application to the *Distribution Network Service Provider* (if applicable) of a *demand management incentive scheme or schemes*; and~~ [6.34]
 - (2) whether there is to be an adjustment for the use or forecast use of assets forming part of the regulatory asset base for the provision of services other than the provision of *standard control services* in the

control mechanism or by an adjustment to the building blocks as referred to in clause 6.4.3(a)(8) or a combination of these adjustments; and

[6.21]

(3) the form (or forms) of the control mechanisms to be applied by the distribution determination and the AER's reasons for deciding on control mechanisms of the relevant form (or forms);

[6.33]

~~(5)~~(4) any other matters on which the AER thinks fit to give an indication of its likely approach.

[6.33.1]

~~(e) The framework and approach paper must state the form (or forms) of the control mechanisms to be applied by the distribution determination and the AER's reasons for deciding on control mechanisms of the relevant form (or forms).~~

[6.33]

(ca) The *framework and approach paper* must include the AER's determination under clause 6.25(b) 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*.

(d) A *framework and approach paper* is to be prepared in consultation with the relevant *Distribution Network Service Provider* and with other interested stakeholders.

(e) The AER should complete its *framework and approach paper* for a particular *distribution network* sufficiently in advance of the making of the relevant distribution determination to enable it to be of use to the *Distribution Network Service Provider* in preparing its *regulatory proposal*.

(f) If a distribution determination is currently in force, the AER must commence preparation of, and consultation on, the *framework and approach paper* for the distribution determination that is to supersede it at least 24 months before the end of the current *regulatory control period* and must complete preparation at least 19 months before the end of that *regulatory control period*.

(g) On completing its *framework and approach paper*, the AER must:

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

(2) *publish* it.

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

6.8.2 Submission of regulatory proposal

(a) A *Distribution Network Service Provider* must, whenever required to do so under paragraph (b), submit a *regulatory proposal* to the AER for

distribution services provided by means of, or in connection with, the provider's *distribution system*.

- (b) A *regulatory proposal* must be submitted:
- (1) at least 13 months before the expiry of a distribution determination that applies to the service provider; or
 - (2) if no distribution determination applies to the 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 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; and
 - (2) for *direct control services* classified under the proposal as *standard control services* – a *building block proposal*; and
 - (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; and
 - (4) for *direct control services* – indicative prices for each year of the *regulatory control period*; and
 - (5) for services classified under the proposal as *negotiated distribution services* – the proposed *negotiating framework*; and
 - (6) an indication/identification of the parts of the proposal (if any) the *Distribution Network Service Provider* claims to be confidential ~~and wants suppressed from publication on that ground.~~
- (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*.
- (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* is to be submitted for each *distribution system*.

[6.28]

- (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* is 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 a *regulatory proposal* (or the accompanying information) does not comply, in any respect, with a requirement of the Law or the *Rules*, the *AER* may notify the provider that it requires resubmission of the proposal.
- (b) The notice must be given as soon as practicable and must state why, and in what respects, the *AER* considers the *regulatory proposal* 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* 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* to address the deficiencies identified in the notice.

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 a regulatory proposal* submitted or resubmitted to it by the provider under this Part, together with:

- (1) the *AER's* proposed *Negotiated Distribution Service Criteria* for the provider; and

- (2) ~~an invitation for written submissions on the *regulatory proposal* and the proposed *Negotiated Distribution Service Criteria*,~~ [6.29]

a notice inviting written submissions: [6.29]

- (i) on the *regulatory proposal*, from any person other than the *Distribution Network Service Provider* that submitted the *regulatory proposal*; and [6.29]

- (ii) on the proposed *Negotiated Distribution Service Criteria*, from any person; and [6.29]

(3) the date by which written submissions must be made, which must not be earlier than 30 business days after the notice inviting written submissions is published, [6.29]

after the AER decides that the *regulatory proposal* complies (or that there is sufficient compliance) with the requirements of the Law and the *Rules*.

(b) The AER may *publish* an issues paper examining issues related to the *regulatory proposal* and the proposed *Negotiated Distribution Service Criteria*, at the same time as, or subsequent to, *publication* of the ~~invitation notice~~ referred to in paragraph (a)(2). [6.29]

(c) ~~Any person may make a written submission to the AER on the regulatory proposal or the proposed Negotiated Distribution Service Criteria within the time specified in the invitation referred to in paragraph (a)(2), which must be not earlier than 30 business days after the invitation for submissions is published under that paragraph.~~ [6.29]

Subject to subparagraph (a)(2), a Distribution Network Service Provider may only make a written submission in response to a notice published under subparagraph (a)(2) in respect of a regulatory proposal that was submitted by another Distribution Network Service Provider. [6.29]

(d) Where: [6.29]

(1) the AER is making distribution determinations in relation to two or more Distribution Network Service Providers at the same time; and [6.29]

(2) a Distribution Network Service Provider makes a written submission referred to in paragraph (c), [6.29]

that written submission may only address material differences between: [6.29]

(3) the regulatory proposal that was submitted by it; and [6.29]

(4) a regulatory proposal that was submitted by another Distribution Network Service Provider. [6.29]

6.10 Draft distribution determination and further consultation

6.10.1 Making of draft distribution determination

Subject to the Law and rule 6.14(a), the AER must; [6.3] [6.10] [6.30]

(a) consider any written submissions made under in accordance with rule 6.9; [6.3] [6.10] [6.30]

(b) consider any regulatory proposal submitted under rule 6.8 or 6.9; [6.3] [6.10]

(c) have regard to analysis undertaken by or for the AER; and [6.3] [6.10]

(d) ~~must~~ make a draft distribution determination in relation to the Distribution Network Service Provider. [6.3.1] [6.10.1]

6.10.2 Publication of draft determination and consultation

- (a) The *AER* must *publish*:
- (1) the draft distribution determination; and
 - (2) notice of the making of the draft distribution determination; and
 - (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; and
 - (4) notice of a predetermination conference; and
 - (5) ~~an invitation for a notice inviting~~ written submissions on its draft distribution determination, from any person other than the *Distribution Network Service Provider* that submitted the *regulatory proposal* on which the draft distribution determination was based; and [6.30]
 - (6) the date by which written submissions must be made, which must not be earlier than 30 *business days* after the draft distribution determination is published. [6.30]
- (b) The *AER* must hold a predetermination conference at the time, date and place specified in the notice under paragraph (a)(4) for the purpose of explaining the draft distribution determination and receiving oral submissions from interested parties. Any person may attend such a predetermination conference but the procedure to be adopted at the conference will be at the discretion of the senior *AER* representative in attendance.
- (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 30 *business days* after the making of the draft determination.~~ [6.30]
- A *Distribution Network Service Provider* may only make a written submission in response to a notice published under subparagraph (a)(5) in respect of a draft distribution determination that has been made in respect of another *Distribution Network Service Provider*. [6.30]
- (d) Where: [6.30]
- (1) the *AER* is making distribution determinations in relation to two or more *Distribution Network Service Providers* at the same time; and [6.30]
 - (2) a *Distribution Network Service Provider* makes a written submission referred to in paragraph (c). [6.30]
- that written submission may only address material differences between: [6.30]

(3) the draft distribution determination that has been in made in relation to it; and [6.30]

(4) the draft distribution determination that has been in made in relation to another *Distribution Network Service Provider*. [6.30]

6.10.3 Submission of revised proposal

(a) ~~In addition to making written submissions,~~ The *Distribution Network Service Provider* may, not more than 30 *business days* after the publication of the draft distribution determination, submit a revised *regulatory proposal* to the *AER*. [6.30]

(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.

(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*.

(c1) A revised *regulatory proposal* must identify the parts of the proposal (if any) the *Distribution Network Service Provider* claims to be confidential. [6.28]

(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* 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, but need not, ~~invite~~ publish a notice inviting, from any person other than the *Distribution Network Service Provider* that submitted the revised *regulatory proposal*, written submissions on the revised *regulatory proposal*. [6.30]

(f) Paragraphs (g), (h) and (i) apply if the *AER publishes* a written notice under paragraph (e). [6.30]

(g) Any person, other than the *Distribution Network Service Provider* that submitted the proposal, may make a written submission to the *AER* on the revised *regulatory proposal* within the time specified in the notice, which must be not earlier than 30 *business days* after the publication of the notice. [6.30]

(h) A *Distribution Network Service Provider* may only make a written submission in response to a notice *published* under paragraph (e) in respect of a revised *regulatory proposal* that was submitted by another *Distribution Network Service Provider*. [6.30]

(i) Where: [6.30]

- (1) the AER is making distribution determinations in relation to two or more *Distribution Network Service Providers* at the same time; and [6.30]
- (2) a *Distribution Network Service Provider* makes a written submission referred to in paragraph (h). [6.30]
- that written submission may only address material differences between: [6.30]
- (3) the revised *regulatory proposal* that was submitted by it; and [6.30]
- (4) a revised *regulatory proposal* that was submitted by another *Distribution Network Service Provider*. [6.30]

6.11 Distribution determination

6.11.1 Making of distribution determination

Subject to the Law and rule 6.14~~(a)~~, the AER must: [6.3] [6.10] [6.30]

(a) consider any submissions made on the draft distribution determination, ~~or~~
~~or;~~ [6.3] [6.10] [6.30]

(b) consider any revised *regulatory proposal* submitted to it under clause 6.10.3; [6.3] [6.10]

(c) consider any submissions on any revised *regulatory proposal*; [6.30]

(d) have regard to analysis undertaken by or for the AER; and [6.3] [6.10]

(e) ~~must~~ make a distribution determination in relation to the *Distribution Network Service Provider*. [6.3.1] [6.10.1]

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; and
- (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; and
 - (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:~~determines [6.38]
 - (i) ~~the *annual revenue requirement* for the provider, as set out in the *building block proposal*, for each *regulatory year* of the *regulatory control period*; and~~ [6.38]
 - (2A) (ii) ~~a decision in which the *AER* either approves or refuses to approve~~ the commencement and length of the *regulatory control period* as proposed in the *building block proposal*; [6.38]
- (3) ~~a decision in which the *AER* either:~~ [6.8.1]
 - (i) ~~acting in accordance with clause 6.5.7(e), accepts the total of the forecast capital expenditure for the *regulatory control period* that is included in the current *building block proposal*; or~~ [6.8.1]
 - (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;~~ [6.8.1]
- a decision in accordance with clause 6.5.7(c) on the *Distribution Network Service Provider's* total of the forecast of required capital expenditure for the *regulatory control period* and the forecast of required capital expenditure for each *regulatory year* of the *regulatory control period*; [6.8.1]
- (3A) a decision in accordance with clause 6.6A.1(c) that identifies the *contingent projects* and their associated *trigger events* for the *regulatory control period*; [6.18.3]
- (4) ~~a decision in which the AER either:~~ [6.1.1]
- (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~~ [6.1.1]
- (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*;~~ [6.1.1]
- a decision in accordance with clause 6.5.6(c) on the *Distribution Network Service Provider's* total of the forecast of required operating expenditure for the *regulatory control period* and the forecast of required capital expenditure for each *regulatory year* of the *regulatory control period*; [6.1.1]
- (5) a decision in relation to the rate of return ~~on whether to apply or depart from a value, method or credit rating level set out in a *statement of regulatory intent*~~ in accordance with clause ~~6.5.4~~6.5.2; [6.22.3]
- (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 provider for each *regulatory year* of the *regulatory control period* in accordance with clause 6.5.3 and, where relevant, a ~~*statement of regulatory intent*~~statement on the cost of capital under clause 6.5.4; [6.22.1]
- (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*, *service target performance incentive scheme*, ~~or~~ *demand management incentive*

scheme or other incentive scheme or schemes developed and published under clause 6.6.5 is to apply to the *Distribution Network Service Provider*;

[6.20.4]

- (10) a decision in which the *AER* decides other appropriate amounts, values or inputs;
- (11) a decision on the control mechanism (including the X factor) for *standard control services* (to be in accordance with the relevant *framework and approach paper*);
- (12) a decision on the control mechanism for *alternative control services* (to be in accordance with the relevant *framework and approach paper*);
- (13) a decision on how compliance with a relevant control mechanism is to be demonstrated;

(13A) a decision on whether there is to be an adjustment for the use or forecast use of assets forming part of the regulatory asset base for the provision of services other than the provision of *standard control services* in the control mechanism or by an adjustment to the building blocks or a combination of these adjustments;

[6.21]

- (14) a decision on the additional *pass through events* that are to apply for the *regulatory control period*;
- (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 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 procedures for assigning customers to *tariff classes*, or reassigning 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;
- (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; and
- (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.

6.12.2 Reasons for decisions

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; and
- (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 provider's current *building block proposal*; and
 - (ii) if not, the rationale for the adoption of those values; and
- (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.

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*.
- (b) The classification of services must be as set out in the relevant *framework and approach paper* unless the AER considers that, in the light of the *Distribution Network Service Provider's regulatory proposal* and the submissions received, there are ~~good reasons for departing~~circumstances that were unforeseen at the time the AER published the relevant framework and approach paper which justify a departure from the classification ~~proposed~~specified in that paper.
- (c) The control mechanisms must be as set out in the relevant *framework and approach paper* unless the AER considers that, in the light of the Distribution Network Service Provider's regulatory proposal and the submissions received, there are circumstances that were unforeseen at the

[6.32]

time the AER published the relevant framework and approach paper which justify a departure from the control mechanisms specified in that paper. [6.33]

~~(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 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.~~ [6.38]

~~(e)~~(d) The AER must approve a proposed *regulatory control period* if the proposed period consists of 5 *regulatory years*. [6.38.1]

~~(f) If the AER refuses to approve an amount or value referred to in clause 6.12.1, the substitute amount or value on which the distribution determination is based must be:~~ [6.38]

~~(1) determined on the basis of the current *regulatory proposal*; and~~ [6.38]

~~(2) amended from that basis only to the extent necessary to enable it to be approved in accordance with the *Rules*.~~ [6.38]

~~(g)~~(e) The AER must approve a proposed *negotiating framework* if the AER is satisfied that it adequately complies with the requirements of Part D. [6.38.1]

~~(h)~~(f) If the AER refuses to approve the proposed *negotiating framework*, the approved amended *negotiating framework* must be: [6.38.1]

(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*.

6.13 Revocation and substitution or amendment of distribution determination for wrong information or error [6.17]

~~(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 determination is affected by a material error or deficiency of one or more of the following kinds:~~ [6.17]

~~(1) a clerical mistake or an accidental slip or omission;~~ [6.17]

~~(2) a miscalculation or misdescription;~~ [6.17]

~~(3) a defect in form;~~ [6.17]

~~(4) a deficiency resulting from the provision of false or materially misleading information to the AER.~~ [6.17]

- (a) Except as provided for in clause 6.6.4(d), the AER may only (but is not required to) revoke or amend a distribution determination during a regulatory control period where it appears to the AER that: [6.17]
- (1) the annual revenue requirement was set on the basis of information provided by or on behalf of the relevant Distribution Network Service Provider to the AER that was false or misleading in a material particular; or [6.17]
- (2) there was a material error or deficiency in the distribution determination. [6.17]
- (b) If the AER revokes a distribution determination under paragraph ~~(a)~~(a)(1) or (a)(2), 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. [6.17.1]
- (c) If the AER revokes and substitutes or amends a distribution determination under paragraph (a)(1) or (a)(2), the substituted or amended distribution determination must only vary from the revoked or existing distribution determination to the extent necessary to correct the relevant error or deficiency. [6.17.1]
- (d) The AER may only revoke and substitute or amend 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. [6.17.1]

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.~~ [6.31]

6.14.1 Out-of-scope submissions and late submissions [6.31]

- (a) Subject to the Law, where the AER publishes a notice inviting submissions under this Part E, the AER must not consider any submission, or any material supplied with a submission, that does not comply with clause 6.9.3, 6.10.2 or 6.10.3, or is otherwise not relevant to the purpose of the invitation. [6.31]
- (b) Where a Distribution Network Service Provider resubmits a regulatory proposal under clause 6.9.2 or submits a revised regulatory proposal under clause 6.10.3, the AER must not consider: [6.31]
- (1) a resubmitted or revised regulatory proposal that was submitted late; or [6.31]
- (2) if the revised regulatory proposal includes material that is not permitted under clause 6.10.3—that material. [6.31]

(c) This clause does not prevent the AER from accepting typographical corrections, corrections of miscalculations and corrections of other errors that do not affect the substance of a regulatory proposal. [6.31]

6.14.2 Other matters [6.31.1]

~~(b)~~(a) 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. [6.31.1]

~~(e)~~(b) Subject to paragraph ~~(d)~~(c), as soon as practicable after the AER receives a submission in response to an invitation referred to in clause 6.9.3(a)(2) or 6.10.2(a)(5) (whether or not the submission was made before the time for making it has expired), the AER must publish that submission. [6.31.1]

~~(d)~~(c) The AER must not publish a submission referred to in paragraph ~~(e)~~(b) to the extent it contains information which has been clearly identified as confidential by the person making the submission. [6.31.1]

~~(e)~~(d) The AER may give such weight to confidential information identified in accordance with paragraph ~~(d)~~(c) in a submission as it considers appropriate, having regard to the fact that such information has not been made publicly available. [6.31.1]

(e) The AER may give such weight to confidential information identified in accordance with clause 6.8.2(c)(6) in a regulatory proposal or clause 6.10.3(c1) in a revised regulatory proposal, as it considers appropriate, having regard to the fact that such information has not been made publicly available. [6.28]

(f) Paragraph ~~(d)~~(c) 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. [6.31.1]

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 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*:
 - (1) must give effect to and be consistent with the *Cost Allocation Principles*; and

- (2) may be amended by the *AER* from time to time in accordance with the *distribution consultation procedures*.
- (c) Without limiting the generality of paragraph (b), the *Cost Allocation Guidelines* may specify:
 - (1) the format of a *Cost Allocation Method*; and
 - (2) the detailed information that is to be included in a *Cost Allocation Method*; and
 - (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 *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace the *Cost Allocation Guidelines*.
- (e) The *AER* must, in accordance with the *distribution consultation procedures*, develop and *publish* the first *Cost Allocation Guidelines* within 6 months after the commencement of these *Rules* and there must be *Cost Allocation Guidelines* available 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 making, developing or amending any guidelines, models or schemes, or in reviewing any values or methods, it must *publish*:
- (1) the proposed guideline, model, scheme, amendment or revised value or method; and
 - (2) an explanatory statement that sets out the provision of the *Rules* under or for the purposes of which the guideline, model, scheme or amendment is proposed to be made or developed or the value or method is required to be reviewed, and the reasons for the proposed guideline, model, scheme, amendment or revised value or method; and
 - (3) an invitation for written submissions on the proposed guideline, model, scheme, amendment or revised value or method.
- (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, model, scheme, amendment or revised value or method 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, model, scheme, amendment, value or method that sets out:
 - (i) the guideline, model, scheme, amendment or revised value or method (if any); and
 - (ii) the provision of the *Rules* under which or for the purposes of which the guideline, model, scheme or amendment is being made or developed or the value or method is being reviewed; and
 - (iii) the reasons for the guideline, model, scheme, amendment value or method; and
 - (2) notice of the making of the final decision on the guideline, model, scheme, amendment, value or method.
- (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) 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 questions of unusual complexity or difficulty; or
 - (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*.

6.18.2 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 2 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) set out the *tariff classes* that are to apply for the relevant *regulatory year*; and
 - (2) set out the proposed tariffs for each *tariff class*; and

- (3) set out, for each proposed tariff, the *charging parameters* and the elements of service to which each *charging parameter* relates; and
 - (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*; and
 - (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; and
 - (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*; and
 - (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; and
 - (6B) describe how each *approved jurisdictional scheme* that has been amended since the *last jurisdictional scheme approval date* meets the *jurisdictional scheme eligibility criteria*; and
 - (7) demonstrate compliance with the *Rules* and any applicable distribution determination; 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.

6.18.3 Tariff classes

- (a) A *pricing proposal* must define the *tariff classes* into which customers for *direct control services* are divided.
- (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 customers to whom *standard control services* are supplied and 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 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 customers to tariff classes and assessment and review of basis of charging

- (a) In formulating provisions of a distribution determination governing the assignment of customers to *tariff classes* or the re-assignment of customers from one *tariff class* to another, the *AER* must have regard to the following principles:
 - (1) 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 customer's premises as a result of a *regulatory obligation or requirement*;
 - (2) customers with a similar *connection* and usage profile should be treated on an equal basis;
 - (3) however, customers with micro-generation facilities should be treated no less favourably than 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

- (a) For each *tariff class*, the revenue expected to be recovered should lie on or between:
 - (1) an upper bound representing the stand alone cost of serving the customers who belong to that class; and

- (2) a lower bound representing the avoidable cost of not serving those customers.
- (b) A tariff, and if it consists of 2 or more *charging parameters*, each *charging parameter* for a *tariff class*:
 - (1) must take into account the long run marginal cost for the service or, in the case of a *charging parameter*, for the element of the service to which the *charging parameter* relates; and
 - (2) must be determined having regard to:
 - (i) transaction costs associated with the tariff or each *charging parameter*; and
 - (ii) whether customers of the relevant *tariff class* are able or likely to respond to price signals.
- (c) If, however, as a result of the operation of paragraph (b), the *Distribution Network Service Provider* may not recover the expected revenue, the provider must adjust its tariffs so as to ensure recovery of expected revenue with minimum distortion to efficient patterns of consumption.

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 $(1 + \text{CPI})(1 - X)(1 + 2\%)$
 - (2) CPI plus 2%.

Note:
The calculation is of the form $(1 + \text{CPI})(1 + 2\%)$
- (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 customers; and
 - (3) the recovery of revenue to accommodate pass through of *jurisdictional scheme amounts* for *approved jurisdictional schemes*.
- (e) This clause does not, however, limit the extent a tariff for customers with remotely-read interval metering or other similar metering technology may vary according to the time or other circumstances of the customer's usage.

6.18.7 Recovery of designated pricing proposal charges

- (a) A *pricing proposal* must provide for tariffs designed to pass on to customers the *designated pricing proposal charges* to be incurred by the *Distribution Network Service Provider* for *transmission use of system services*.
- (b) The amount to be passed on to 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 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 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 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 be 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 of the *Rules* and any applicable distribution determination; and

- (2) 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 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 and any applicable distribution determination.
- (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) a statement of the provider's *tariff classes* and the tariffs applicable to each class; and
 - (2) for each tariff – the *charging parameters* and the elements of the service to which each *charging parameter* relates; and
 - (3) a statement of expected price trends (to be updated for each *regulatory year*) giving an indication of how the *Distribution Network Service Provider* expects prices to change over the *regulatory control period* and the reasons for the expected changes.
- (b) The information for a particular *regulatory year* must, if practicable, be posted on the website 20 *business days* before the commencement of the relevant *regulatory year* and, if that is not practicable, as soon as practicable thereafter.

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 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 servicecharges* and *distribution servicecharges* 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 6.22.2(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* 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 of the *Rules* 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 of the *Rules*.
- (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 24 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 24 months prior to the end of the current *regulatory control period*.
- (b) The *AER* must review the information provided under paragraph (a) and determine, following consultation with the relevant *Distribution Network Service Provider* and with other interested parties in the course of preparing the *framework and approach paper* for that *Distribution Network Service Provider*, 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) must be notified to the relevant *Distribution Network Service Provider* in the *framework and approach paper* applicable to that *Distribution Network Service Provider*.

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*.

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 of the *Rules* 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; and
 - (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;
- (7) an explanation of any significant variations in the forecast capital expenditure from historical capital 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 of the *Rules* 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) a proposed pass through clause with a proposal as to the events that should be defined as *pass through events*;
- (3) a description, including relevant explanatory material, of how the *Distribution Network Service Provider* proposes the *efficiency benefit sharing scheme* should apply for the relevant *regulatory control period*;
- (4) a description, including relevant explanatory material, of how the *Distribution Network Service Provider* proposes the *service target performance incentive scheme* should apply for the relevant *regulatory control period*;
- (5) a description, including relevant explanatory material, of how the *Distribution Network Service Provider* proposes the *demand management incentive scheme* (if applicable) should apply for the relevant *regulatory control period*;

(5A) a description, including relevant explanatory material, of how the *Distribution Network Service provider* proposes any other incentive scheme or schemes developed and published under clause 6.6.5 (if applicable) should apply for the relevant *regulatory control period*;

[6.20.5]

- (6) the provider's calculation of revenues or prices for the purposes of the control mechanism proposed by the provider together with:
 - (i) details of all amounts, values and inputs (including X factors) relevant to the calculation; and
 - (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 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 of the *Rules*, together with:

- (i) details of all amounts, values and other inputs used by the provider for that purpose; and
 - (ii) a demonstration that any such amounts, values and other inputs comply with the relevant requirements of Part C of Chapter 6 of the *Rules*; 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) ~~the commencement and length of the period nominated by the *Distribution Network Service Provider* for the purposes of clause 6.5.2(e)(2) of the *Rules*~~any information or matters in relation to the rate of return calculated for the purposes of clause 6.5.2(b) as required by the applicable *statement on the cost of capital*; [6.23.5]
- (9) the provider's calculation of the proposed rate of return, ~~including any proposed departure from the values, methods or credit rating levels set out in an applicable *statement of regulatory intent* in accordance with clause 6.5.2 and the applicable *statement on the cost of capital*~~; [6.22.4]
- (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 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 of the *Rules*, 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 provider to compile those depreciation schedules; and
- (iv) a demonstration that those depreciation schedules conform with the requirements set out in clause 6.5.5(b) of the *Rules*; 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*;
- (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: [6.18.4]
- (i) a description of the *proposed contingent project*, including reasons why the provider considers the project should be accepted as a *contingent project* for the *regulatory control period*; [6.18.4]
 - (ii) a forecast of the capital expenditure which the provider considers is reasonably required for the purpose of undertaking the *proposed contingent project*; [6.18.4]
 - (iii) the methodology used for developing that forecast and the key assumptions that underlie it; [6.18.4]
 - (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*; [6.18.4]
 - (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); and [6.18.4]
 - (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(d). [6.18.4]

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	<i>Distribution Network Service Provider</i>	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 <i>AER</i> , 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	<i>Distribution Network Service Provider</i>	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), 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 increased by ~~the amount of all capital expenditure incurred during the previous control period.~~ [6.15]

(i) the lesser of: [6.15]

(a) the total amount of capital expenditure incurred during the previous control period and, for any part of the previous control period for which actual capital expenditure is not available, the amount of the estimated capital expenditure determined by the AER for that part of the previous control period for which actual capital expenditure is not available (the **total capital expenditure**); and [6.15]

(b) the total of the forecast capital expenditure determined in the distribution determination for the previous control period adjusted for any amount of capital expenditure forming part of an *approved pass through amount* or a *negative pass through amount* determined by the AER for the previous control period or, if an *approved pass through amount* or a *negative pass through amount* does not include all of the increase or decrease in capital expenditure that the AER considered should be passed through in relation to the relevant *pass through event*, that increase or decrease in capital expenditure (the **total forecast capital expenditure**); and [6.15]

(ii) 60% of the total capital expenditure that exceeds the total forecast capital expenditure. [6.15]

Any amounts of *related party margins* and *capitalised overheads* included in the total capital expenditure must not exceed the amounts determined in accordance with how *related party margins* and *capitalised overheads* were included in the total of the forecast capital expenditure determined in the distribution determination for the previous control period. [6.19]

Note: [6.15]

The total of the forecast capital expenditure determined in a distribution determination may be subject to clauses 6.6.4(f) and 6.6A.2(e)(3). [6.15]

~~(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. [6.15]

~~(3)~~(2) The previous value of the regulatory asset base must be adjusted for the difference between: [6.15.1]

- (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)~~(3) ~~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~~ The capital expenditure referred to in subparagraphs (1), (2) and (3) must only be capital expenditure as properly allocated to the provision of *standard control services* in accordance with the *Cost Allocation Method* for the relevant *Distribution Network Service Provider*. [6.15.1] [6.15.2]

~~(5)~~(4) 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 and taking into account the amount of capital expenditure (if any) included in any approved pass through amount or negative pass through amount for that period. [6.15] [6.15.1] [6.27]

Note: [6.15]

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 may be subject to clauses 6.6.4(f) and 6.6A.2(e)(3). [6.15]

~~(6)~~(5) 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*. [6.15.1]

~~(7)~~(6) 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*. [6.15.1]

~~(8)~~(7) 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:

[6.15.1]

- (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.

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 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 test*;
- (4) whether the 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 provider;

- (6) the need to provide incentives to the 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 prudence or efficiency of capital expenditure the *AER* must only take into account information and analysis that the provider could reasonably be expected to have considered or undertaken at the time that it undertook the relevant capital expenditure.

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 of the *Rules* 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.