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Ms Natalie Lindsay
General Manager, Regulatory Affairs
Essential Energy

By email (natalie.lindsay@essentialenergy.com.au)

Dear Ms Lindsay

Proposed correction of an inflation calculation error impacting Essential Energy distribution determination 2014-2019

On 30 April 2015 the Australian Energy Regulator (AER) made its distribution determination for Essential Energy for the regulatory control period 1 July 2014 to 30 June 2019.¹

Subsequent to making the determination, in the merits review of Victorian Electricity and ACT Gas decisions the Australian Competition Tribunal (ACT) became aware of an inflation estimation error impacting each of the AER's determinations on review in this process.² The Tribunal noted the error in each of its decisions and stated it left it to the AER to determine the appropriate response to its error.³

The estimation error identified by the Tribunal in the above proceedings is also reflected in the AER's 30 April 2015 Essential Energy determination for its 2014-19 regulatory control period. This is a mathematical calculation error that impacts the Essential Energy distribution determination for 2014-2019.

The mathematical error results from an incorrect geometric average calculation undertaken on the annual inflation rates. In the final decision the geometric average is calculated using percentage numbers (e.g. 2.5% is expressed as 2.5). The correct approach is to calculate the geometric average using 1 + rate values (e.g. 1 + 2.5% (or 0.025) equals 1.025).

Under clause 6.13 of the NER, the AER may revoke a distribution determination where there has been a material error or deficiency of one or more of the following kinds:

¹ AER, *Essential Energy Final decision 2014-2019*, 30 April 2015

² File Nos: ACT 3, 4, 5, 6, 7, 8 of 2016; <http://www.competitiontribunal.gov.au/current-matters/tribunal-documents>.

³ For example, see ACT, *Application by ActewAGL Distribution [2017] ACompT 2*, 17 October 2017, p i – iii.

- (1) a clerical mistake or an accidental slip or omission;
- (2) a miscalculation or misdescription;
- (3) a defect in form; or
- (4) a deficiency resulting from the provision of false or materially misleading information to the *AER*.

For the purposes of clause 6.13(a), we consider the error identified above is material and would come within the scope of a ‘clerical mistake or an accidental slip or omission’ or a ‘miscalculation or misdescription’.

The error affects a number of service providers. The AER is considering whether it is appropriate to correct the affected determinations under clause 6.13 of the *NER*.

Table 1 Revenue impact in nominal net present value (unsmoothed) terms of the correction of inflation rates (\$ million, nominal)⁴

Determination	Inflation Rate (input for PTRM)		NPV Unsmoothed (\$m, Nominal)			
	Final Decision	Corrected Value	Final Decision	Corrected Value	Difference (\$)	Difference (%)
Essential Energy 2014-19	2.38%	2.42%	4238.051521	4227.304951	10.746570	0.254218%

However, as you are aware, we are currently remaking our 2014-19 determination for Essential Energy under the orders of the Australian Competition Tribunal as varied by the Full Federal Court.⁵ Given this, and subject to consideration of any submissions on our proposal, we intend to correct the identified error set out above when we make our remittal decision for Essential Energy.

If you wish to provide a submission in response to this letter, please respond by no later than 1 February 2018.

If you have any queries on this matter please contact me on (03) 9290 1956.

Yours sincerely



Esmond Smith

Director

AER Network Finance and Reporting

⁴ Calculated in 2013/14 dollars using the 2017-18 return on debt update PTRM.

⁵ Australian Competition Tribunal, Application by Public Advocacy Center Ltd and Essential Energy[2016], ACompT 3, February 2016; Australian Energy Regulator v Australian Competition Tribunal (No 2) [2017] FCAFC 79, May 2017.