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Mr Chris Amos  
Manager - Network Pricing  
Network Regulation & Pricing  
Energy Australia  
GPO Box 4009  
Sydney NSW 2001

**SUBJECT: 2009-10 DISTRIBUTION LOSS FACTOR APPROVAL PROCESS**

Dear Mr Amos,

I am writing to you in relation to the AER's process for approving Distribution Network Service Providers (DNSPs) distribution loss factor (DLF) calculations for 2009-10. This assessment is required under clause 3.6.3(i) of the National Electricity Rules (NER). You will be aware that DLFs must be determined in accordance with a methodology published either by the AER or the DNSP (where the AER has not published a methodology).

The AER has undertaken an investigation of DLF calculation methodologies across the NEM in contemplation of the AER adopting a common methodology. In this process we have received advice from IES Consulting P/L. IES has reported to the AER that they believe a common methodology is not feasible in the short-term. IES also reported that the medium-term priority should include measures to better calculate loss factors for embedded generators and work towards developing a common treatment of losses due to energy theft.

After considering the IES advice, the AER has decided that a process to address these matters should be undertaken in the new year in consultation with distribution businesses. The AER has therefore decided against publishing an AER DLF calculation methodology for 2009-10. Accordingly, the AER has determined that the AER's proposed timeline and process for approval of 2009-10 DLFs will be a continuation of the approach used by the AER in approving 2008-09 DLFs.

To meet your obligation to provide DLFs approved by the AER to NEMMCO for publication by 1 April 2009 the AER considers the following process should be adopted:

*1. Publication of methodology for determining DLFs*

DNSPs will continue to determine DLFs in accordance with their own published methodology or, where appropriate, the relevant published methodology operating in their jurisdiction as at 31 December 2007. Methodologies may be amended where necessary to better reflect the principles set out in the NER so long as the revised methodology is published by the DNSP in an accessible form and provided to the AER.

2. *AER approval of DNSPs' DLFs*

DNSPs must determine their DLFs in accordance with their respective published methodologies. For approval by the AER the DNSP is to provide to the AER:

- the DLFs in a format fit for publication by NEMMCO
- a copy of the methodology (in electronic form) and
- an independent positive assurance/certification that the DLFs have been calculated by the application of the relevant published methodology.

The AER considers that a positive assurance/certification provided to the DNSPs by an auditor, a consultant or the Jurisdictional Regulator (where the Jurisdictional Regulator agrees to provide this) is acceptable.

As with the 2008-09 DLF approval process the AER does not intend certification to be unduly burdensome, but set at a standard sufficient for the certifying party to be confident that the appropriate data has been used, the correct methodology applied and that the results are a fair statement of the applicable loss factors for that firm.

3. *Proposed timeline for AER approval of DNSPs' 2009-10 DLFs*

Friday 13 March 2009                      DNSPs submit DLFs and supporting documentation to the AER by close of business.

Thursday 26 March 2009                      AER provides approved DLFs to NEMMCO.

DNSPs DLF calculations and independent certification of these calculations should be submitted in electronic form to [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au).

Whilst no change has been proposed to the approval process for 2009-10, the AER intends to begin consultation with DNSPs in early 2009 on the potential to harmonise the DLF calculation methodologies used across the NEM and the approval process for 2010-11. I will write to you separately in this regard early next year.

Yours sincerely



Chris Pattas  
General Manager  
Network Regulation South