

Essential Energy – Revised Proposal – Attachment 1.1

Compliance with the National Electricity Rules

January 2019



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Purpose and context

Our Revised Regulatory Proposal comprises a suite of documents that provides information required under the National Electricity Rules (NER). This includes:

- > A customer overview of the Revised Regulatory Proposal document in plain English.
- > A Revised Regulatory proposal document which sets out information required under the NER.
- > Supporting attachments to substantiate our Revised Regulatory Proposal.
- > Confidentiality templates which identify the page and paragraph number of the documents containing confidential information.

The purpose of this document is to provide a reference table which identifies where we have provided information or addressed matters required by the NER within our Revised Regulatory Proposal.

Reference table

The reference table below highlights:

- a. those NER provisions that require a determination from the AER;
- b. states whether the AER's draft decision was to approve or reject, distinguishing between:
 - i. rejections on minor grounds or which may not require a revised proposal; and
 - ii. rejections on more substantive grounds; and
- c. provides a reference to the section of the Revised Proposal document or attachments where the matter has been addressed.

NB. Items highlighted with teal text indicate where an update is required regardless of the Draft Decision outcome or because of a rejection in the Draft Decision.

We have made it clear where we intend to rely on information previously provided to the AER as part of our April Proposal.

Table 1: Reference table for Rules Compliance

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
Part A Introduction (N/A)			
Part B Classification of Distribution Services and Distribution Determinations			
6.2.1	Classification of Distribution Services	Some departures from F&A (Attachment 12)	Chapter 7 Framework and Approach
6.2.5	Control mechanisms for <u>standard</u> control services	Approved (Attachment 13)	Rely on information provided with our 30 April 2018 Proposal
6.2.5	Control mechanisms for alternative control services	Rejected (Attachment 14) AER rejected due to: <ul style="list-style-type: none"> > some fees for ancillary network services due to labour rates (section 15.4) > public lighting charges (section 15.5) > metering charges (section 15.6) 	Chapter 13 – Alternative Control Services

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
Part C Building Block Determinations for Standard Control Services			
6.3.1	(c) The building block proposal: (1) must be prepared in accordance with the post-tax revenue model and other relevant requirements of this Part; and (3) must be prepared in accordance with Schedule 6.1.	Some of the information required by Schedule 6.1 will need to be updated.	Chapter 8 – Our Revenue Requirement Appendix A – Our Revenue Requirement Components Attachment 8.1 – SCS PTRM Attachment 8.2 – SCS RFM
6.4B.1	Asset exemption decisions and Asset Exemption Guidelines.	N/A (no proposal)	N/A
6.4B.2	Exemption applications	N/A (no proposal)	N/A
6.5.1	Regulatory Asset Base	Rejected (Attachment 2) AER rejected <i>closing RAB</i> due to: > minor change to forecast capex; > change to inflation rate; > minor change to depreciation	Chapter 8 – Our Revenue Requirement Appendix A – Our Revenue Requirement Components Attachment 8.1 – SCS PTRM Attachment 8.2 – SCS RFM
6.5.2	Calculation of return on capital	Rejected (Attachment 3) AER rejected due to: > market risk premium (6.0%) > equity beta (0.6%) > implementation of approach to cost of debt under 2013 guideline (relying on 2018 draft guideline instead) > inflation (2.42% – <i>but methodology appears to be accepted</i>)	Chapter 11 – Allowed Rate of Return Appendix B – Allowed rate of Return
6.5.3	Estimated cost of corporate income tax	Rejected (Attachment 7) AER rejected: due to > gamma (4.0) > standard asset lives > treatment of revenue adjustments under CESS and DMIAM > changes to return on capital and depreciation	Chapter 8 – Our Revenue Requirement Appendix A – Our Revenue Requirement Components Attachment 8.1 - PTRM
6.5.5	Depreciation	Rejected (Attachment 4) AER approved a <i>higher</i> depreciation allowance due to differences in inflation rate and forecast capex	Chapter 8 – Our Revenue Requirement Appendix A – Our Revenue Requirement Components Attachment 8.1 - PTRM

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
6.5.6	Forecast operating expenditure	Approved (Attachment 6)	Included for completeness in Chapter 9 – Operating Expenditure Appendix C – Our Expenditure in Detail
6.5.7	Forecast capital expenditure	Rejected (Attachment 5) The rejection relates only to one component (CPI escalation) resulting in a change of less than 1% (see pp 5-8, 5-26). If this change is accepted by Essential, then its capex forecast is, in effect, approved by the AER	Chapter 10 – Capital Expenditure Appendix C – Our Expenditure in Detail
6.5.9	The X factor	Rejected (Attachment 1) AER applied building block adjustments and its own smoothing factors	Chapter 8 – Our Revenue Requirement Appendix A – Our Revenue Requirement Components Attachment 8.1 - PTRM
6.5.10	Pass through events	Rejected (Attachment 14) AER rejected pass through events (from p 14-13) for: > war; > major supplier credit risk; > major cyber. Four other pass through events were accepted.	Not required – accept AER decision
6.6A.1	6.6A.1 Acceptance of a contingent project	N/A (no proposal)	N/A
Part D Negotiated Distribution Services			
6.7.4	Negotiated Distribution Service Criteria determination	Approved (Attachment 16)	Rely on information provided with our 30 April 2018 Proposal
6.7.5	Preparation of and requirements for negotiating framework for negotiated distribution services	Approved (Attachment 16)	Rely on information provided with our 30 April 2018 Proposal
Part DA Connection policies			
6.7A.1	Preparation of, and requirements for, connection policy	Approved (Attachment 17)	Rely on information provided with our 30 April 2018 Proposal
Part E Regulatory Proposals (N/A)			
Part F Cost Allocation (N/A)			
Part G Distribution Consultation Procedures (N/A)			
Part H Ring-Fencing Arrangements for Distribution Network Service Providers (N/A)			

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
Part I Distribution Pricing Rules			
6.18.1A	Tariff structure statement	Rejected (Attachment 18) AER rejected due to: <ul style="list-style-type: none"> > description of how Essential will base tariffs on long run marginal costs and its approach to recovering residual costs; > tariff assignment policy; > long run marginal costs calculation. 	Chapter 12 – Our Approach to Pricing Attachment 12.1 - Revised Tariff Structure Statement Attachment 12.2 - Tariff Structure Explanatory Statement
Part J Billing and Settlements (N/A)			
Part K Prudential requirements, capital contributions and prepayments (N/A)			
Part L Dispute Resolution (N/A)			
Part M Separate disclosure of transmission and distribution charges (N/A)			
Part N Dual Function Assets (N/A)			
Part O Annual Benchmarking Report (N/A)			
Part P Distribution Reliability Measures Guidelines (N/A)			
Schedule 6.1 Contents of building block proposals			
S6.1.1	Information and matters relating to capital expenditure A building block proposal must contain at least the following information and matters relating to capital expenditure:		
	(1) a forecast of the required capital expenditure that complies with the requirements of clause 6.5.7 and identifies the forecast capital expenditure by reference to well accepted categories such as: <ul style="list-style-type: none"> (i) asset class (eg. distribution lines, substations etc); or (ii) category driver (eg. regulatory obligation or requirement, replacement, reliability, net market benefit, business support), and identifies, in respect of proposed material assets: <ul style="list-style-type: none"> (iii) the location of the proposed asset; (iv) the anticipated or known cost of the proposed asset; and (v) the categories of distribution services which are to be provided by the proposed asset; 		Rely on information provided with our 30 April 2018 Proposal as well as the information provided in Chapter 10 – Capital Expenditure Appendix C – Our Expenditure in Detail

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
	(2) the method used for developing the capital expenditure forecast;		Rely on information provided with our 30 April 2018 Proposal
	(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;		Rely on information provided with our 30 April 2018 Proposal
	(4) the key assumptions that underlie the capital expenditure forecast;		Rely on information provided with our 30 April 2018 Proposal
	(5) a certification of the reasonableness of the key assumptions by the directors of the Distribution Network Service Provider;		Rely on information provided with our 30 April 2018 Proposal
	(6) capital expenditure for each of the past regulatory years of the previous and current regulatory control period, and the expected capital expenditure for each of the last two regulatory years of the current regulatory control period, categorised in the same way as for the capital expenditure forecast and separately identifying for each such regulatory year: (i) margins paid or expected to be paid by the Distribution Network Service Provider in circumstances where those margins are referable to arrangements that do not reflect arm's length terms; and (ii) expenditure that should have been treated as operating expenditure in accordance with the policy submitted under paragraph (8) for that regulatory year;		Rely on information provided with our 30 April 2018 Proposal Chapter 10 – Capital Expenditure
	(7) an explanation of any significant variations in the forecast capital expenditure from historical capital expenditure; and		Rely on information provided with our 30 April 2018 Proposal Chapter 10 – Capital Expenditure
	(8) the policy that the Distribution Network Service Provider applies in capitalising operating expenditure.		Rely on information provided with our 30 April 2018 Proposal

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
S6.1.2	<p>Information and matters relating to operating expenditure</p> <p>A building block proposal must contain at least the following information and matters relating to operating expenditure:</p>		
	<p>(1) a forecast of the required operating expenditure that complies with the requirements of clause 6.5.6 and identifies the forecast operating expenditure by reference to well accepted categories such as:</p> <p>(i) particular programs; or</p> <p>(ii) types of operating expenditure (eg. maintenance, payroll, materials etc),</p> <p>and identifies in respect of each such category:</p> <p>(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</p> <p>(iv) the categories of distribution services to which that forecast expenditure relates;</p>		<p>Rely on information provided with our 30 April 2018 Proposal as well as the information provided in Chapter 9 – Operating Expenditure Appendix C – Our Expenditure in Detail</p>
	<p>(2) the method used for developing the operating expenditure forecast;</p>		<p>Rely on information provided with our 30 April 2018 Proposal</p>
	<p>(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;</p>		<p>Rely on information provided with our 30 April 2018 Proposal</p>
	<p>(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;</p>		<p>Rely on information provided with our 30 April 2018 Proposal</p>
	<p>(5) the key assumptions that underlie the operating expenditure forecast;</p>		<p>Rely on information provided with our 30 April 2018 Proposal</p>

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
	(6) a certification of the reasonableness of the key assumptions by the directors of the Distribution Network Service Provider;		Rely on information provided with our 30 April 2018 Proposal
	(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;		Rely on information provided with our 30 April 2018 Proposal Chapter 9 – Operating Expenditure
	(8) an explanation of any significant variations in the forecast operating expenditure from historical operating expenditure.		Rely on information provided with our 30 April 2018 Proposal Chapter 9 – 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;		Rely on information provided with our 30 April 2018 Proposal as well as updated information contained in: <ul style="list-style-type: none"> > Chapter 5 – Delivering Value > Appendix C – Our Expenditure in Detail
	(2) [Deleted]		N/A
	(3) a description, including relevant explanatory material, of how the Distribution Network Service Provider proposes any efficiency benefit sharing scheme that has been specified in a framework and approach paper that applies in respect of the forthcoming distribution determination should apply to it;	Approved (Attachment 8)	Rely on information provided with our 30 April 2018 Proposal

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
	(3A) a description, including relevant explanatory material, of how the Distribution Network Service Provider proposes any capital expenditure sharing scheme that has been specified in a framework and approach paper that applies in respect of the forthcoming distribution determination should apply to it;	Rejected (Attachment 9) AER approved a higher increment due to: > an updated CESS model; and > revised inflation figures	Accept AER decision Chapter 8 – Our Revenue Requirement Appendix A – Our Revenue Requirement Components
	(4) a description, including relevant explanatory material, of how the Distribution Network Service Provider proposes any service target performance incentive scheme that has been specified in a framework and approach paper that applies in respect of the forthcoming distribution determination should apply to it;	Rejected (Attachment 10) AER did not accept: > exclusion criteria for load interruption resulting from directions; > sustained outage definition of greater than 3 minutes; > calculation of customer service parameter	Accept AER decision Chapter 7 – Framework and Approach
	(5) a description, including relevant explanatory material, of how the Distribution Network Service Provider proposes any demand management incentive scheme or demand management innovation allowance mechanism that has been specified in a framework and approach paper that applies in respect of the forthcoming distribution determination should apply to it;	Approved (Attachment 11)	Rely on information provided with our 30 April 2018 Proposal
	(5A) a description, including relevant explanatory material, of how the Distribution Network Service Provider proposes any small-scale incentive scheme that has been specified in a framework and approach paper that applies in respect of the forthcoming distribution determination should apply to it;	N/A (not applicable)	N/A

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
	<p>(6) the Distribution Network Service Provider's calculation of revenues or prices for the purposes of the control mechanism proposed by the Distribution Network Service Provider together with:</p> <p>(i) details of all amounts, values and inputs (including X factors) relevant to the calculation;</p> <p>(ii) an explanation of the calculation and the amounts, values and inputs involved in the calculation; and</p> <p>(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;</p>	<p>See clause 6.5.9 above.</p> <ol style="list-style-type: none"> 1. Revenue calculations (amounts, values, inputs, etc) may need to be revised. 2. Only a brief explanation for the revisions should be needed. 3. No further demonstration should be required. 	<p>Chapter 8 – Our Revenue Requirement</p> <p>Appendix A – Our Revenue Requirement Components</p> <p>Attachment 8.1 – SCS PTRM</p>
	<p>(7) the Distribution Network Service Provider's calculation of the regulatory asset base for the relevant distribution system for each regulatory year of the relevant regulatory control period using the roll forward model referred to in clause 6.5.1 , together with:</p> <p>(i) details of all amounts, values and other inputs used by the Distribution Network Service Provider for that purpose;</p> <p>(ii) a demonstration that any such amounts, values and other inputs comply with the relevant requirements of Part C of Chapter 6 ; and</p> <p>(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);</p>	<p>See clause 6.5.1 above.</p> <ol style="list-style-type: none"> 4. Revenue calculations (amounts, values, inputs, etc) may need to be revised. 5. Only a brief explanation for the revisions should be needed. 	<p>Chapter 8 – Our Revenue Requirement</p> <p>Appendix A – Our Revenue Requirement Components</p> <p>Attachment 8.1 – PTRM</p>
	(8) [Deleted]		N/A

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
	(9) the Distribution Network Service Provider's calculation of the proposed return on equity, return on debt and allowed rate of return, for each regulatory year of the regulatory control period, in accordance with clause 6.5.2, including any departure from the methodologies set out in the Rate of Return Guidelines and the reasons for that departure;	See clause 6.5.2 above	Chapter 11 – Allowed Rate of Return Appendix B – Allowed Rate of Return
	(9A) if the Distribution Network Service Provider proposes that the return on debt for a regulatory year of the regulatory control period is to be determined using the methodology referred to in clause 6.5.2(i)(2), the formula it proposes should be applied in accordance with clause 6.5.2(l);	See clause 6.5.2 above	Chapter 11 – Allowed Rate of Return Appendix B – Allowed Rate of Return
	(9B) the Distribution Network Service Provider's proposed value of imputation credits as referred to in clause 6.5.3;	See clause 6.5.3 above	Chapter 11 – Allowed Rate of Return Appendix B – Allowed Rate of Return
	(10) the post-tax revenue model completed to show its application to the Distribution Network Service Provider and the completed roll-forward model;		Attachment 8.1 – SCS PTRM
	(11) the Distribution Network Service Provider's estimate of the cost of corporate income tax for each regulatory year of the regulatory control period;	See clause 6.5.3 above	Chapter 8 – Our Revenue Requirement Appendix A – Our Revenue Requirement Components Attachment 8.1 – SCS PTRM

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
	<p>(12) the depreciation schedules nominated by the Distribution Network Service Provider for the purposes of clause 6.5.5 , which categorise the relevant assets for these purposes by reference to well accepted categories such as:</p> <p>(i) asset class (eg distribution lines and substations); or</p> <p>(ii) category driver (eg regulatory obligation or requirement, replacement, reliability, net market benefit, and business support), together with:</p> <p>(iii) details of all amounts, values and other inputs used by the Distribution Network Service Provider to compile those depreciation schedules;</p> <p>(iv) a demonstration that those depreciation schedules conform with the requirements set out in clause 6.5.5(b) ; and</p> <p>(v) an explanation of the calculation of the amounts, values and inputs referred to in subparagraph (iii);</p>	See clause 6.5.5 above	Chapter 8 – Our Revenue Requirement Attachment 8.1 – SCS PTRM
	(13) the commencement and length of the regulatory control period proposed by the Distribution Network Service Provider; and	Approved	Rely on information provided with our 30 April 2018 Proposal

NER clause	Requirement	AER draft decision	Reference to Proposal document, or to a document that comprises our Regulatory Proposal
	<p>(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:</p> <p>(i) a description of the proposed contingent project, including reasons why the Distribution Network Service Provider considers the project should be accepted as a contingent project for the regulatory control period;</p> <p>(ii) a forecast of the capital expenditure which the Distribution Network Service Provider considers is reasonably required for the purpose of undertaking the proposed contingent project;</p> <p>(iii) the methodology used for developing that forecast and the key assumptions that underlie it;</p> <p>(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;</p> <p>(v) information that demonstrates that the proposed contingent capital expenditure for the proposed contingent project complies with the requirements set out in clause 6.6A.1(b)(2); and</p> <p>(vi) the trigger events which are proposed in relation to the proposed contingent project and an explanation of how each of those conditions or events addresses the matters referred to in clause 6.6A.1(c).</p>	N/A	N/A
Schedule 6.2	Regulatory Asset Base (N/A)		