Our Ref: 63602
Contact Officer: Kami Kaur
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8 October 2020

Mr Tim Rourke
Chief Executive Officer
CitiPower, Powercor and United Energy
Locked Bag 14090
MELBOURNE VIC 8001

By email: ▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮

Dear Mr Rourke

Re: Key parameters to use in preparing Powercor's pricing proposal for the period 1 January to 30 June 2021

As you are aware, in April 2019 the Victorian Minister for Energy, Environment and Climate Change advised the AER and the Victorian distribution businesses of the government's intention to change the timing of the annual Victorian electricity and gas network price changes. The change would bring Victoria into alignment with the other NEM jurisdictions to operate on a financial – rather than calendar – year basis.

The change, which requires passage through the Victorian parliament to give effect through legislation, is intended to extend the current regulatory control period by six months and change the commencement of the next regulatory control period to 1 July 2021.

Due to unforeseen delays in passage of the legislation, the AER did not make a final revenue determination on the six-month period on 30 September 2020. Proceeding on the basis that the legislation will be in place in October 2020, we set out below an indicative timetable of steps for the revenue and pricing decisions for the six-month extension period.

In order for the pricing process for the six-month extension period to progress as quickly as possible after the legislation is in place, we are taking steps in this process before the final revenue determination for the six-month extension period is released.

In August we published our position setting out our approach to calculating revenue and price caps for the six-month extension period.

Last week we provided Powercor with the information required to prepare its annual pricing proposal for the prices that will apply from 1 January 2021.

This letter sets out the key parameters we have requested Powercor use in preparing its pricing proposal. We intend to publish this letter on our website for transparency.

The indicative timetable and any documents, models and values provided or published under the timetable – including those already provided – are subject to the legislation.

Indicative timetable

We expect to receive Powercor's draft pricing proposal on or before 13 October. Once confidentiality checks have been completed, Powercor's draft pricing proposal for the six-month extension period will then be published.

Our final decision for the six-month extension period will be published once the legislation is in place. Powercor will be required to submit a final pricing proposal for the six-month extension period shortly after our final decision is released. We expect this final pricing proposal to be unchanged from the draft proposal unless we have notified Powercor of any required changes.

Pending the above being completed on time, we expect to publish Powercor's approved prices for the six-month extension period no later than 20 November 2020.

Key parameters

Below are the key parameters we request Powercor uses in preparing its pricing proposal.

Tariff structure statement

Proposed prices for all of the below standard and alternative control services should be consistent with Powercor's 2017-20 tariff structure statement.

Standard control services

The following revenue cap formula should be applied to standard control services, with no other factors applied:

$$TAR_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} q_t^{ij} \qquad TAR_t = AR_t$$

The annual revenue requirement (AR_t) for the six-month extension period is $302.96 million.

Proposed prices should comply with the following side constraint formula:

$$\frac{\left(\sum_{i=1}^{n} \sum_{j=1}^{m} d_t^{ij} q_t^{ij}\right)}{\left(\sum_{i=1}^{n} \sum_{j=1}^{m} d_{t-1}^{ij} q_t^{ij}\right)} \leq (1 + \Delta CPI_t) \times (1 + 2\%)$$

Type 5 and 6 (inc. smart metering) metering services

The following revenue cap formula should be applied to revenue-capped type 5 and 6 (inc. smart metering) metering services, with no other factors applied:

$$TARM_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} q_t^{ij} \qquad TARM_t = AR_t$$

The annual revenue requirement (AR_t) for the six-month extension period is $28.35 million.

Proposed prices should comply with the side constraint formula above.[1]

Ancillary network services

The following price cap formula should be applied to ancillary network services:

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

The value of X_t for the six-month extension period is -0.1193 per cent.

CPI for the extended period should be measured as:

$$\Delta CPI_t = \frac{CPI_{Jun\,t-1}}{CPI_{Jun\,t-2}} - 1$$

Type 7 metering services

The following price cap formula should be applied to type 7 metering services:

$$\bar{p}_t^i \le \bar{p}_{t-1}^i (1 + \Delta CPI_t)$$

CPI for the extended period should be measured as shown immediately above.

Public lighting services and metering exit fees

The following price cap formula should be applied to public lighting services and metering exit fees:

$$\bar{p}_t^i \le \bar{p}_{t-1}^i$$

If you have any questions on the application of these parameters or the process in relation to the revenue and pricing decisions, please contact Kami Kaur, GM Distribution.

I would like to thank you in advance for your flexibility in accommodating this change in approach as we work to deliver approved network prices as quickly as is feasible following passage of the relevant legislation.

Yours sincerely

Clare Savage
Chair

Sent by email on: 08.10.2020

Cc: Renate Vogt, General Manager, CitiPower, Powercor and United Energy (███████████████████
        Brent Cleeve, Regulation, CitiPower, Powercor and United Energy (███████████████████████)
        Mark de Villiers, Head of Regulatory Strategy and Pricing, CitiPower, Powercor and United Energy
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[1] As there are no tariff classes or components for metering, the side constraints will be measured on individual metering tariffs, as per the standard approach in the 2016–20 regulatory period.