



Powercor Australia Ltd
Distribution determination 2011–2015

Pursuant to Orders of the Australian Competition Tribunal in
Application by United Energy Distribution Pty Limited (No 2)
[2012] ACompT 8

October 2012

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Addendum

On 19 November 2010, Powercor Australia Limited (**Powercor**) applied to the Australian Competition Tribunal (**Tribunal**) for review of various parts of its 2011–15 distribution determination. On 5 April 2012, the Tribunal made orders¹ requiring the AER to remake Powercor’s distribution determination by:

- replacing the figure “3.74%” for the debt risk premium in the distribution determination with the figure “3.89%”;
- replacing the figure “0.5” as the value for gamma with figure “0.25” as the value for gamma when used as an input into calculation of the cost of corporate income tax;
- recalculating the annual revenue requirements for 2011–15 by removing efficiency carryover amounts which arose by operation of the Office of the Regulator-General (Vic)’s 2001–05 efficiency carryover mechanism, and also the Essential Services Commission of Victoria’s 2006–10 efficiency carryover mechanism;
- reconsidering its decision in respect of the vegetation management step change operating expenditure step change.

In remaking this distribution determination:

- replacing the debt risk premium figure results in variations to Powercor’s weighted average cost of capital, public lighting charges, revenue requirements and X factors, capital expenditure and corporate income tax liability;
- replacing the value for gamma results in variations to Powercor’s corporate income tax liability, public lighting charges, and revenue requirements and X factors;
- removing the efficiency carryover amounts result in variations to Powercor’s efficiency carryover amounts, operating expenditure, corporate income tax liability and revenue requirements and X factors.

The reconsideration of the vegetation management step change operating expenditure decision is set out in the Final Decision: Vegetation Management Operating Expenditure Step Change 2011-15, August 2012. This decision results in variations to Powercor’s operating expenditure, revenue requirements and X factors, corporate income tax liability, and forecast controllable operating expenditure for EBSS purposes.

Together, Powercor’s revenue requirements and X factors for the 2011–15 regulatory control period arising from the Tribunal’s orders are detailed as below:

¹ *Application by United Energy Distribution Pty Limited (No 2) [2012] ACompT 8, Orders of ACT 9 of 2010.*

	2011	2012	2013	2014	2015
Annual revenue requirements	438.7	471.3	532.2	562.6	606.0
X factors (per cent)	-0.11	-3.00	-6.30	-6.90	-7.40

Energy Legislation Amendment Act 2012 (Vic)

On 18 September 2012, the *Energy Legislation Amendment Act 2012 (Vic)* was enacted. This legislation provides that the rewards and penalties arising from Essential Services Commission of Victoria's efficiency carryover mechanism (**ECM**) and S-factor incentive scheme, as determined by the AER in October 2010, are to be applied for the purposes of the pricing proposals that Powercor must submit to the AER for the regulatory years 2013–2015.

To illustrate the resulting revenues Powercor may recover for the regulatory years 2013–15, the AER has included the building block amounts that give effect to these reward and penalties in remaking this distribution determination. These building block amounts are set out in the legislation as follows:²

Table 19 Building block amounts resulting from ESCV ECM carryover for Powercor (\$ million, 2010)

	2011	2012	2013	2014	Total
	0.0	11.18	-4.66	-9.72	-3.20

The resulting revenue requirement and X factors are:

	2011	2012	2013	2014	2015
Annual revenue requirements	438.7	472.6	521.9	548.1	606.0
X factors (per cent)	-0.11	-3.00	-5.67	-6.00	-6.50

	2011	2012	2013	2014	2015
Annual revenue requirements	438.7	483.1	527.2	551.8	606.0
X factors (per cent)	-0.11	-3.00	-6.36	-6.70	-7.20

The AER has determined Powercor's X factors to minimise any price impact on consumers as far as reasonably possible in accordance with the National Electricity Rules.

² *Energy Legislation Amendment Act 2012 (Vic)*, Sch 1.

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Shortened forms

AER	Australian Energy Regulator
AH	after hours
BH	business hours
capex	capital expenditure
CPI	Consumer Price Index
cl/cll.	clause/clauses
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
DNSP	distribution network service provider
DUOS	distribution use of system
EBSS	efficiency benefit sharing scheme
ESCV	Essential Services Commission of Victoria
GSL	Guaranteed service level
GWh	gigawatt hours
m	million
MAIFI	momentary average interruption frequency index
MWh	megawatt hours
NDSC	Negotiated distribution services criteria
NEL	National Electricity Law
NER	National Electricity Rules
opex	operating expenditure
PTRM	post tax revenue model
RAB	regulatory asset base
s.	section
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme
TUOS	transmission use of system
WACC	weighted average cost of capital
WAPC	weighted average price cap

Nature and authority

Clause 6.11.1 of the National Electricity Rules (NER) requires the Australian Energy Regulator (AER) to make a distribution determination in relation to Powercor Australia Ltd ABN 89 064 651 109 (Powercor).

- Clause 6.2.3 states that classification forms part of a distribution determination and operates for the regulatory control period for which the distribution determination is made.
- Clause 6.2.5 (a) states that 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.
- Chapter 10 states that an event nominated in a distribution determination as a pass through event is a pass through event for the determination (in addition to those listed in the NER, that is, a regulatory change event, a service standard event, a tax change event and a terrorism event).
- Clause 6.3.1 requires the AER to make a building block determination in relation to Powercor as a component of a distribution determination. Clause 6.3.2(a) states that the building block determination is to specify the following matters for a regulatory control period:
 - (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 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).
- Clause 6.7.3 requires the AER to make a 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.
- Clause 6.7.4(a) requires the AER to make a determination by the AER specifying the Negotiated Distribution Service Criteria which form part of a distribution determination for a Distribution Network Service Provider. This is to set out the criteria that are to be applied:
 - (1) by the providers 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.
- Clause 6.7.4(b) sets out that 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.
 - Clause 6.12.3(a) allows the AER the discretion to accept or approve, or refuse to accept or approve any element of a regulatory proposal.
 - Clause 6.12.3(f) requires that 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:
 - (1) determined on the basis of the current regulatory proposal; and
 - (2) amended from that basis only to the extent necessary to enable it to be approved in accordance with the Rules.

The AER's final distribution determination for Powercor is detailed below. Detailed analysis and discussion of the AER's considerations, reasoning and conclusions are set out in the AER's *Final decision, Victorian distribution determination 2011–2015* dated 29 October 2010 which accompanies this distribution determination (the 'final decision').

The final decision is to be read in conjunction with the AER's *Draft decision, Victorian distribution determination 2011 to 2015* dated 4 June 2010 (the 'draft decision').

1 Service classification determination

In accordance with clause 6.2.1(a) and 6.12.1(1) of the NER, the AER determines the following classification of services for Powercor for the 2011–2015 regulatory control period.

1.1 Direct control services (standard control services)

1.1.1 Network services

- Constructing the distribution network
- Maintaining the distribution network and connection assets
- Operating the distribution network and connection assets (for DNSP purposes)
- Designing the distribution network
- Planning the distribution network
- Emergency response
- Administrative support (for example, call centre, network billing)
- Location of underground cables

1.1.2 Connection services

- New connections requiring augmentations

1.2 Alternative control services

1.2.1 Fee based services

- Fault response (not DNSP fault)
- Energisation of new connections
- Temporary disconnect / reconnect services
- Wasted attendance (not DNSP fault)
- Service truck visits
- Fault level compliance service
- Reserve feeder
- Photovoltaic installation
- Routine connections (customers below 100 amps)

- Temporary supply services

1.2.2 Quoted services

- Rearrangement of network assets at customer request, excluding alteration and relocation of existing public lighting assets
- Supply enhancement at customer request
- Emergency recoverable works (that is, emergency works where customer is at fault and immediate action needs to be taken by the DNSP)
- Auditing of design and construction
- Specification and design enquiry fees
- Elective underground service where an existing overhead service exists
- Covering of low voltage mains for safety reasons
- Damage to overhead service cables caused by high load vehicles
- High load escorts (lifting overhead lines)
- Routine connections (customers above 100 amps)
- Supply abolishment
- After hours truck by appointment.

1.2.3 Public lighting services - fee based

- Operation, repair, replacement and maintenance of DNSP public lighting assets

1.2.4 Metering services – fee based

- De-energisation of existing connections
- Re-energisation of existing connections
- Meter investigation
- Special meter reading
- Re-test of types 5 and 6 metering installations for first tier customers with annual consumption greater than 160 MWh

1.3 Negotiated services

- Alteration and relocation of DNSP public lighting assets
- New public lighting assets (that is, new lighting types not subject to a regulated charge and new public lighting at green field sites)

1.4 Unregulated services

- The installation, maintenance and provision and repair of watchman (security) lights
- Provision of possum guards

2 Control mechanisms

In accordance with clause 6.2.5, 6.12.1(11) and 6.12.1(12), of the NER, the AER has decided that the following control mechanisms to apply to Powercor's direct control services for the 2011–15 regulatory control period.

The AER's considerations, reasons and decision on control mechanisms are also set out in the final decision at chapters 4, 19 and 20, and appendices E, F, G and Q.

2.1 Standard control services

The following weighted average price cap (WAPC) formula is to apply to Powercor:

$$\frac{\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} \times q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} \times q_{t-2}^{ij}} \leq \left(+ CPI_t \right) \times \left(- X_t \right) \times \left(+ S_t \right) \times \left(+ L_t \right) \pm \left(passthrough_t \right)$$

where a DNSP has n distribution tariffs, which each have up to m distribution tariff components, and where:

regulatory year "t" is the regulatory year in respect of which the calculation is being made;

regulatory year "t-1" is the regulatory year immediately preceding regulatory year "t";

regulatory year "t-2" is the regulatory year immediately preceding regulatory year "t-1";

p_t^{ij} is the proposed distribution tariff for component j of distribution tariff i in regulatory year t ;

p_{t-1}^{ij} is the distribution tariff being charged in regulatory year $t-1$ for component j of distribution tariff i ;

q_{t-2}^{ij} is the quantity of component j of distribution tariff i that was delivered in regulatory year $t-2$;

CPI_t is calculated as follows:

The Consumer Price Index, All Groups Index Number (weighted average of eight capital cities) published by the Australia Bureau of Statistics for the September Quarter immediately preceding the start of regulatory year t ;

divided by

The Consumer Price Index, All Groups Index Number (weighted average of eight capital cities) published by the Australia Bureau of Statistics for the September Quarter immediately preceding the start of regulatory year $t-1$;

minus one.

X_t is the value of X for year t of the regulatory control period as determined by the AER in chapter 18 of the final decision;

S_t is the Service Target Performance Incentive Scheme factor to be applied in regulatory year t ;

L_t is the licence fee pass through adjustment to be applied in regulatory year t in accordance with appendix E of the final decision; and

$passthrough_t$ represents approved pass through amounts with respect to regulatory year t as determined by the AER under clause 6.6 of the NER and chapter 16 and appendix E of this final decision.

With the side constraints formula to apply as follows:

$$\frac{\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} \times q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} \times q_{t-2}^{ij}} \leq \left(+CPI_t \right) \times \left(-X_t \right) \times \left(+S_t \right) \times \left(+L_t \right) \times \left(+2\% \right) \pm passthrough_t$$

Where for each tariff class a DNSP has n distribution tariffs, which each have up to m distribution tariff components, and where:

regulatory year “t” is the regulatory year in respect of which the calculation is being made;

regulatory year “t-1” is the regulatory year immediately preceding regulatory year “t”;

regulatory year “t-2” is the regulatory year immediately preceding regulatory year “t-1”;

p_t^{ij} is the proposed distribution tariff for component j of distribution tariff i in regulatory year t ;

p_{t-1}^{ij} is the distribution tariff being charged in regulatory year $t-1$ for component j of distribution tariff i ;

q_{t-2}^{ij} is the quantity of component j of distribution tariff i that was delivered in regulatory year $t-2$;

CPI_t is defined as set out in chapter 4 of the final decision;

X_t is the value of X for year t of the regulatory control period as determined by the AER in chapter 18 of this final decision. If $X > 0$, then X will be set equal to zero for the purposes of the side constraint formula;

S_t is the Service Target Performance Incentive Scheme factor to be applied in regulatory year t ;

L_t is the licence fee pass through adjustment to be applied in regulatory year t in accordance with appendix E of the final decision; and

$passthrough_t$ represents approved pass through amounts with respect to regulatory year t as determined by the AER under clause 6.6 of the NER and chapter 16 and appendix E of the final decision.

2.2 Alternative control services

2.2.1 Public lighting

In accordance with clause 6.12.1(12) of the NER, the control mechanism to apply to Powercor's public lighting services is caps on the prices of individual services in each regulatory year of the forthcoming regulatory control period, as set out in table 1 below, and price paths for the remaining regulatory years of the forthcoming regulatory control period.

Table 1 Final determination on public lighting OMR charges for Powercor (\$, nominal)

Lighting service	2011	2012	2013	2014	2015
Mercury vapour 80 watt	41.22	44.32	53.05	52.19	52.45
			54.27	53.39	53.68
Sodium high pressure 150 watt	75.14	79.02	84.17	84.96	86.65
			85.92	86.73	88.48
Sodium high pressure 250 watt	77.74	81.80	87.21	87.84	89.49
			89.03	89.68	91.39
T5 2x14 watt	28.93	29.95	31.10	32.32	33.36
			31.74	32.99	34.06
Fluorescent 20 watt	114.59	123.22	147.49	145.09	145.80
			150.87	148.43	149.22
Fluorescent 40 watt	114.59	123.22	147.49	145.09	145.80
			150.87	148.43	149.22
Mercury vapour 50 watt	57.30	61.61	73.74	72.55	72.90
			75.44	74.22	74.61
Mercury vapour 125 watt	55.65	59.84	71.62	70.46	70.80
			73.27	72.08	72.46
Mercury vapour 250 watt	59.08	62.17	66.28	66.76	68.01
			67.66	68.16	69.45
Mercury vapour 400 watt	68.41	71.98	76.75	77.30	78.75
			78.35	78.92	80.42
Mercury vapour 700 watt	103.39	108.79	115.99	116.83	119.02
			118.41	119.27	121.54
Sodium low pressure 90 watt	101.44	106.68	113.62	114.70	116.98
			115.99	117.08	119.45
Sodium low pressure 180 watt	101.44	106.68	113.62	114.70	116.98
			115.35	116.41	118.74

Sodium high pressure 400 watt	103.39	108.79	115.99	116.83	119.02
			118.41	119.27	121.54
Incandescent 100 watt	114.59	123.22	147.49	145.09	145.80
			150.87	148.43	149.22
Incandescent 150 watt	114.59	123.22	147.49	145.09	145.80
			150.87	148.43	149.22
Metal halide 250 watt	103.39	108.79	115.99	116.83	119.02
			118.41	119.27	121.54
Metal halide 400 watt	103.39	108.79	115.99	116.83	119.02
			118.41	119.27	121.54

Source: AER analysis.

2.2.2 Fee based alternative control services

In accordance with clause 6.12.1(12) of the NER, the control mechanism to apply to Powercor's fee based alternative control services is caps on the prices of individual fee based alternative control services in the first regulatory year of the forthcoming regulatory control period, as set out in Table 2 below, and price paths for the remaining regulatory years of the forthcoming regulatory control period. The approved price path consists of the 2011 price escalated by the X factors set out in Table 3.

Table 2 AER final determination for Powercor—fee based alternative control services prices for 2011 (\$, 2010)

Fee based services	Draft decision price	Revised proposal price	AER final decision price	Difference between proposed price and AER price (per cent)
Meter Accuracy Test—single phase—BH	152.48	342.45	315.24	–8%
Meter Accuracy Test—single phase—AH	182.66	373.22	345.94	–7%
Meter Accuracy Test—Single phase additional meter—BH	41.27	139.94	128.70	–8%
Meter Accuracy Test—multi phase—BH	168.58	438.83	403.70	–8%
Meter Accuracy Test—multi phase—AH	202.79	479.20	443.98	–7%
Meter Accuracy Test—Multi phase additional meter—BH	57.36	236.72	217.52	–8%
Meter Accuracy Test—CT—BH	216.87	430.14	395.72	–8%
Meter Accuracy Test—CT—AH	263.16	469.64	435.14	–7%
Meter Investigation Test—BH	148.79	271.34	249.98	–8%
Meter Investigation Test—AH	178.06	295.03	273.62	–7%
Reconnections (incl Customer Transfer)—BH	17.70	18.71	17.70	–5%
Reconnections (same day)—BH	27.98	29.58	27.98	–5%
Reconnections (incl Customer Transfer)—AH	73.48	77.67	73.48	–5%
Disconnection (includes DNP)—BH	18.73	19.80	18.73	–5%
Special reading / Customer Transfers—BH	14.37	15.70	14.86	–5%
Service Truck Visit—BH	248.05	454.52	391.68	–14%
Service Truck Visit—AH	304.40	447.90	435.43	–3%
Wasted Truck Visit—BH	114.73	238.12	209.39	–12%
Wasted Truck Visit—AH	138.88	259.93	231.26	–11%
Solar PV Conn—Single phase—BH (unit cost)	167.87	204.76	200.84	–2%

Solar PV Conn—Single phase—AH (unit cost)	191.34	217.79	214.59	-1%
<i>New Connections—DNSP Responsible for metering, customers<100amps</i>				
AMI Single phase—BH	278.05	364.08	326.29	-10%
AMI Single phase—AH	320.31	388.87	351.03	-10%
AMI Multi phase DC—BH	377.74	469.46	425.99	-9%
AMI Multi phase DC—AH	420.00	494.25	450.72	-9%
AMI Multi phase CT—BH	1 432.50	1,950.30	1761.09	-10%
AMI Multi phase CT—AH	1 695.12	2,104.35	1914.80	-9%
<i>Routine New Connections—DNSP Not Responsible for metering, customers<100amps</i>				
AMI Single phase—BH	220.39	306.43	268.64	-12%
AMI Single phase—AH	262.65	331.22	293.38	-11%
AMI Multi phase DC—BH	320.09	411.81	368.34	-11%
AMI Multi phase DC—AH	362.35	436.59	393.07	-10%
AMI Multi phase CT—BH	1 374.85	1,892.65	1703.44	-10%
AMI Multi phase CT—AH	1 637.46	2,046.70	1857.15	-9%
<i>Miscellaneous fee based services</i>				
Reserve feeder—sub-transmission (\$/kVA)	Further information requested	0.78	0.78	0%
Reserve feeder—high voltage (\$/kVA)	Further information requested	3.99	3.99	0%
Reserve feeder—low voltage (\$/kVA)	Further information requested	14.11	14.11	0%
Re-test of type 5 & 6 metering installations for first tier customers with annual consumption greater than 160MWh—BH	Further information requested	337.65	310.24	-7%
Re-test of type 5 & 6 metering installations for first tier customers with annual consumption greater than 160MWh—AH	Further information requested	370.08	342.59	-8%

Table 3 AER final determination for Powercor—X factors for fee based alternative control services (per cent)

	2012	2013	2014	2015
Powercor—fee based 'connection' services - including reconnection, disconnection, and special reads services	-41.59	-29.36	-0.18	-0.14
Powercor—other fee based services	-1.24	-1.81	-2.67	-1.00

Source: CitiPower and Powercor, *Response to AER information request of 12 October 2010*, 15 October 2010.

Note: Negative X factors convert to positive price increases in the CPI-X control mechanism.

2.2.3 Quoted alternative control services

In accordance with clause 6.12.1(12) of the NER, the control mechanism for Powercor's quoted alternative control services consists of caps on the applicable labour rates in the first regulatory year of the forthcoming regulatory control period, set out in Table 4 below, and price paths for the labour rates for the remaining regulatory years of the forthcoming regulatory control period. The approved price path consists of the 2011 quoted services labour rate escalated by the X factors set out in Table 5. Materials for quoted services are to be recovered at cost.

Table 4 AER final determination for Powercor—quoted alternative control services charge out rates for 2011 (\$, 2010)

Quoted services	AER draft decision \$/hour rate	Revised proposed \$/hour rate (not including a vehicle)	AER final decision \$/hour rate (including a vehicle)	Difference between proposed rate and AER rate (per cent)
General line worker (including a vehicle)—BH	79.80	112.11	108.76	-3%
General line worker (including a vehicle)—AH	99.75	123.28	120.54	-2%
Design/survey (including a vehicle)—BH	n/a	120.31	103.45	-14%
Design/survey (including a vehicle)—AH	n/a	135.50	121.89	-10%
Administration	n/a	45.34	45.34	0%

Table 5 AER final determination for Powercor—X factors for quoted alternative control services labour rates (per cent)

	2012	2013	2014	2015
X (per cent)	-3.02	-2.22	-0.67	-1.40

Note: Negative X factors convert to positive price increases in the CPI-X control mechanism.

Source: CitiPower and Powercor, *Response to AER information request of 12 October 2010*, 15 October 2010.

3 Building block determination

3.1 Revenue requirement

In accordance with clause 6.3.2(a)(1) and 6.12.1(2) of the NER, the AER rejects Powercor's proposed annual revenue requirement for each regulatory year of forthcoming regulatory control period. In accordance with clause 6.12.1 (2) and 6.12.1 (11) of the NER, the AER's final determination on Powercor's revenue requirements and X factors is set out in table 6 below. The AER's considerations, reasons and decision on the annual revenue requirement for Powercor are also set out in the final decision at chapter 18.³

³ The relevant inputs into this table are discussed in the final decision as follows – chapter 10 (depreciation), chapter 11 (cost of capital), chapter 7 (opex), chapter 13 (efficiency measurements – ESCV's ECM 2006-2010), chapter 12 (corporate income tax and imputation credits), chapter 18 (overall revenue requirement and x factors) and chapter 15 (service target performance incentive scheme).

Table 6 AER final determination on revenue requirements and X factors for Powercor (\$'m, nominal)

	2010	2011	2012	2013	2014	2015
Return on capital		208.0	227.7	247.1	267.2	288.8
		210.0	230.1	250.1	270.7	292.9
Regulatory depreciation		62.1	69.9	77.9	86.3	96.8
Operating expenditure		160.9	167.8	169.9	179.3	188.2
		153.1	173.1	187.6	182.1	189.3
Efficiency carryover amounts		0.0	1.2	-10.4	-14.5	0.0
			0.0	0.0	0.0	
S factor amounts		-6.1	-22.0	-5.6	-0.3	0.9
						0.8
Tax allowance		12.5	12.9	14.1	15.0	16.4
		19.6	20.3	22.3	23.9	26.2
Annual revenue requirements		437.4	457.4	492.9	532.9	591.1
		438.7	471.3	532.2	562.6	606.0
Expected revenues	422.2	440.7	470.0	497.4	529.0	568.8
				513.3	563.9	626.1
Forecast CPI (per cent)		2.57	2.57	2.57	2.57	2.57
X factors (per cent)		-0.11	-3.00	-3.00	-3.50	-4.00
				-6.30	-6.90	-7.40

Note: Negative values for X indicate real price increases under the CPI-X formula.

3.2 Indexation of regulatory asset base

In accordance with clause 6.3.2(a)(2) of the NER, an appropriate methodology for indexation of Powercor's regulatory asset base is the same as that used to escalate the form of control mechanism for that relevant year—that is, to apply the annual change in the Consumer Price Index: All Groups Index for the Eight State Capitals as published by the Australian Bureau of Statistics for the September quarter immediately preceding the start of the relevant regulatory year.

3.3 Schemes

3.3.1 EBSS

In accordance with clause 6.3.2(a)(3) and 6.12.1(9) of the NER, the AER has decided to apply the AER's *Electricity distribution network service providers, Efficiency benefit sharing scheme*, June 2008 to Powercor for the 2011–15 regulatory control period. In determining how the EBSS is to be applied, the AER has decided that:

- The excluded cost categories for Powercor are:
 - debt raising costs
 - self insurance costs
 - superannuation costs for defined benefits and retirement schemes
 - the DMIA
 - GSL payments.
- These excluded costs will be recognised in addition to the adjustments set out in section 2.3.2 of the EBSS.
- For the purpose of calculating carryover amounts, the AER will substitute actual values for customer numbers, the number of distribution transformers and zone substation capacity MVA and line length for the years 2011–14 and a revised forecast for 2015, for the forecasts of these metrics used in the final decision using the scale escalation method described in appendix J of the final decision.

The AER's determination on controllable opex for the EBSS is set out in Table 7.

The AER's considerations, reasons and conclusion on the application of the EBSS are also set out in the final decision at chapter 14.

Table 7 AER final determination on Powercor’s forecast controllable opex for EBSS purposes (\$’m, 2010)

	2011	2012	2013	2014	2015	Total
Total forecast opex	156.90	159.44	157.40	161.98	165.70	801.42
	149.28	164.50	173.79	164.50	166.75	818.82
Adjustment for debt raising costs	-1.16	-1.24	-1.32	-1.39	-1.46	-6.57
						-6.59
Adjustment for self insurance	0.00	0.00	0.00	0.00	0.00	0.00
Adjustment for defined benefit superannuation	-2.0	-1.4	-0.8	-0.2	0.3	-4.11
Adjustment for non-network alternatives	0.00	0.00	0.00	0.00	0.00	0.00
Adjustment for DMIA	-0.60	-0.60	-0.60	-0.60	-0.60	-3.00
Adjustment for GSL payments	-1.15	-1.12	-1.09	-1.06	-1.04	-5.45
Forecast opex for EBSS purposes	151.98	155.10	153.60	158.70	162.91	782.29
	144.36	160.15	169.99	161.21	163.96	799.67

Note: Totals may not add up due to rounding.

3.3.2 DMIS

In accordance with clause 6.3.2(a)(3) and 6.12.1(9) of the NER, the AER has decided to apply the *Demand management incentive scheme—CitiPower, Powercor, Jemena, SP AusNet and United Energy, April 2009* to Powercor for the 2011–15 regulatory control period. In determining how the DMIS is to be applied, the AER has decided that:

- Part A of the DMIS (that is, the DMIA) will apply to Powercor. Part B (the forgone revenue component) will also apply to Powercor.
- The DMIA is capped at \$3 million for the forthcoming regulatory control period and allocated to Powercor in equal annual instalments of \$600 000 (real \$2010) for each year of the forthcoming regulatory control period.
- Approval of DMIA amounts by the AER will be subject to satisfaction of the DMIA criteria in the DMIS.

The AER’s considerations, reasons and conclusion on the application of the DMIS are also set out in the final decision at chapter 17.

3.3.3 STPIS

In accordance with clause 6.3.2(a)(3) and 6.12.1(9) of the NER, , the AER has decided to apply the *Electricity distribution network service providers, Service target performance incentive scheme, November 2009* to Powercor for the 2011–15

regulatory control period. In determining how the STPIS is to be applied, the AER has decided that:

- The applicable parameters are the unplanned SAIDI, unplanned SAIFI and MAIFI reliability of supply parameters, and the telephone answering customer service parameter, defined as follows:

Unplanned SAIDI: The sum of the duration of each unplanned sustained customer interruption (in minutes) divided by the total number of distribution customers. Unplanned SAIDI excludes momentary interruptions (one minute or less).

Unplanned SAIFI: The total number of unplanned sustained customer interruptions divided by the total number of distribution customers. Unplanned SAIFI excludes momentary interruptions (one minute or less). SAIFI is expressed per 0.01 interruptions.⁴

MAIFI: The total number of momentary interruptions divided by the total number of distribution customers (where the distribution customers are network or per feeder based, as appropriate).⁵

Telephone answering: Calls to the fault line answered in 30 seconds where the time to answer a call is measured from when the call enters the telephone system of the call centre (including that time when it may be ringing unanswered by any response) and the caller speaks with a human operator, but excluding the time that the caller is connected to an automated interactive service that provides substantive information. This measure does not apply to calls to payment lines and automated interactive services; and calls abandoned by the customer within 30 seconds of the call being queued for response by a human operator. Where the time in which a telephone call is abandoned is not measured, then an estimate of the number of calls abandoned within 30 seconds will be determined by taking 20 per cent of all calls abandoned.

- For the reliability of supply parameters Powercor's network will be segmented into urban, short rural and long rural feeder types, and the performance target to apply to each applicable parameter in every regulatory year of the regulatory control period are set out in table 8.
- In accordance with clause 2.5(a) of the STPIS the cap on revenue at risk is set at ± 5 per cent. In accordance with clause 5.2(b) of the STPIS there is a cap on the revenue at risk of ± 0.5 per cent for the telephone answering parameter.
- The incentives rate to apply to each applicable parameter are calculated in accordance with clauses 3.2.2, 5.3.2(a)(1) and appendix B of the STPIS, and are set out in table 9. The values of customer reliability to be applied in accordance with clause 3.2.2(b) and appendix B of the STPIS are set out in table 10.

⁴ Defined as per the AER's *STPIS*, November 2009, pp. 22-23. SAIDI is measured by average minutes, SAIFI and MAIFI are measured by average interruptions.

⁵ As a transitional provision and in accordance with clause 2.6(c) of the STPIS, the AER has decided to apply the definition of MAIFI as previously adopted in Victoria under the ESCV's *Information Specification (Service Performance) for Victorian Electricity Distributors*, 1 January 2009, p. 30; For the definition of MAIFI, momentary interruptions are as defined in the *Information Specification (Service Performance) for Victorian Electricity Distributors*, 1 January 2009, p. 30

- The building blocks to apply as a result of the close out of the ESCV S factor scheme are calculated in accordance with section 15.6.6 of the final decision, and are set out in table 11.
- As required under clause 6.6.2(b)(2) of the NER, and clauses 2.1(c) and 6.1 of the STPIS, the AER will apply the GSL scheme specified in section 6 of the Electricity Distribution Code and section 2.5 of the Public Lighting Code.⁶ The AER concludes that, pursuant to clause 6.5.6(a)(2) of the NER, it will include forecast nominal GSL payments of \$1 176 156 as a line item in the opex allowance, for each year in the 2011–15 regulatory period.
- The major event day threshold is set to exclude natural events which are more than 2.8 standard deviations greater than the mean of the log normal distribution of five regulatory years' SAIDI data. The major event day threshold is to be calculated in accordance with section 3.3 of the STPIS.
- The 'St' factor derived under the STPIS and applied to the WAPC formula for 2011 and 2012 will be zero.

The AER's considerations and reasons are set out in chapter 15 of the final decision, and the AER's conclusion on the application of the STPIS is set out below.

Table 8 AER conclusion on the performance targets for SAIDI, SAIFI, MAIFI and the telephone answering parameter for Powercor

Feeder	Parameter	Powercor
Urban	SAIDI	82.467
	SAIFI	1.263
	MAIFI	1.412
Rural short	SAIDI	114.807
	SAIFI	1.565
	MAIFI	2.881
Rural long	SAIDI	233.759
	SAIFI	2.540
	MAIFI	6.535
Customer service parameter	Telephone answering	64.84

⁶ ESCV, Electricity Distribution Code, February 2010, p.19; ESCV, Public Lighting Code, April 2005, p.3.

Table 9 AER conclusion on the incentive rates for SAIDI, SAIFI, MAIFI and the telephone answering parameter for Powercor

Feeder	Parameter	Powercor
Urban	SAIDI	0.0474
	SAIFI	3.1881
	MAIFI	0.2550
Rural short	SAIDI	0.0274
	SAIFI	2.1849
	MAIFI	0.1748
Rural long	SAIDI	0.0238
	SAIFI	2.3799
	MAIFI	0.1904
Customer service parameter	Telephone answering	-0.040

Table 10 AER conclusion on the value of customer reliability (\$, MWh)

	Value of customer reliability
Urban	50 867
Rural short	50 867
Rural long	50 867

Table 11 AER conclusion on the building blocks resulting from the ESCV S factor close out (\$ million, 2010)

	2011	2012	2013	2014	2015
Powercor	- 5.95	- 20.94	- 5.22	- 0.31	-0.82
					0.67

3.4 Regulatory control period

In accordance with clause 6.3.2(a)(4) and 6.12.1 (2) of the NER, the regulatory control period is five years long, commencing 1 January 2011 and ceasing on 31 December 2015.

3.5 Other amounts, values or inputs

In accordance with clause 6.3.2(a)(5) and 6.12.1(10) of the NER, any other amounts, values or inputs on which Powercor's building block determination is based are as specified below.

3.5.1 Opening regulatory asset base and roll forward

In accordance with clause 6.12.1(6), 6.5.1 and Schedule 2 of the NER, the opening regulatory asset base for Powercor as at 1 January 2011 is \$2212.8 million for standard control services.

Table 12 sets out the AER's decision for rolling-forward Powercor's RAB during the 2011–15 regulatory control period.

The AER's considerations, reasons and decision on the RAB for Powercor are also set out in the final decision at chapters 9 and 18.

Table 12 AER forecast roll-forward of the RAB for Powercor (\$'m, nominal)

	2011	2012	2013	2014	2015
Opening RAB	2 212.8	2 422.4	2 629.0	2 843.0	3 072.9
		2 425.0	2 635.3	2 852.9	3 086.4
Net capital expenditure ^a	-271.7	-276.5	-291.9	-316.2	-329.2
	274.3	280.2	295.5	319.7	332.7
Indexation of opening RAB	57.0	62.4	-67.7	-73.2	-79.1
			67.9	73.5	79.5
Straight-line depreciation	-119.1	-132.3	-145.6	-159.5	-176.0
			-145.8	-159.7	-176.3
Closing RAB	2 422.4	2 629.0	2 843.0	3 072.9	3 305.2
	2 425.0	2 635.3	2 852.9	3 086.4	3 322.4

Note: The straight-line depreciation less the inflation adjustment on the opening RAB provides the regulatory depreciation building block allowance.

(a) In accordance with the timing assumptions of the PTRM, the nominal capex values include a half WACC allowance to compensate for the average six month period before capex is added to the RAB for revenue modelling purposes.

3.5.2 Capital expenditure

In accordance with clause 6.5.7(d) and 6.12.1(3)(ii) of the NER, the AER does not accept Powercor's proposed forecast capex for the forthcoming regulatory control period. The AER's considerations, reasons and decision on its estimate of the total of Powercor's required capex for the 2011–15 regulatory control period are set out in chapter 8 of the final decision.

The AER's estimate of the total of Powercor's required capex for the forthcoming regulatory control period is set out in table 13.⁷

Table 13 AER final determination on capital expenditure for Powercor (\$'m, 2010)

	2011	2012	2013	2014	2015	Total
Gross direct capex	264.4	264.2	266.5	273.5	272.8	1341.3
Direct overheads	4.6	5.4	5.4	5.6	5.6	26.6
Indirect overheads	20.1	20.5	21.1	21.9	22.4	106.0
Cost increases	8.7	12.6	17.7	24.9	29.6	93.5
Margins	0.0	0.0	0.0	0.0	0.0	0.0
Less contributions	47.6	48.3	48.9	49.3	49.6	243.7
	44.0	45.0	45.8	46.3	46.8	227.8
Total net capex	250.1	254.4	261.9	276.5	280.7	1323.7
	253.7	257.7	265.0	279.5	283.6	1339.6

Note: numbers may not add exactly due to rounding

3.5.3 Rate of return

In accordance with clause 6.12.1(5) of the NER, the AER's decision on Powercor's rate of return (the WACC) is set out in Table 14.

The AER's considerations, reasons and decision the rate of return for Powercor are also set out in the final decision at chapter 11.

⁷ The relevant inputs into forecast capex are discussed in the final decision as follows – chapter 6 (outsourcing and related party transactions), appendix N (equity raising costs) and appendix P

Table 14 AER final determination on WACC parameters for Powercor

Parameter	Powercor
Nominal risk-free rate	5.08%
Real risk-free rate	2.44%
Expected inflation rate	2.57%
Gearing level (debt/equity)	60%
Market risk premium	6.50%
Equity beta	0.8
Debt risk premium	3.74% 3.89%
Nominal pre-tax return on debt	8.81% 8.97%
Nominal post-tax return on equity	10.28%
Nominal WACC	9.40% 9.49%

3.5.4 Depreciation

In accordance with clause 6.12.1(8) of the NER, the AER does not approve Powercor's submitted depreciation schedule. The AER's decision determining depreciation schedules in accordance with clause 6.5.5(b) of the NER is set out in table 15.

Table 15 AER final determination on regulatory depreciation for Powercor (\$'m, nominal)

	2011	2012	2013	2014	2015	Total
Powercor	62.1	69.9	77.9	86.3	96.8	393.0

3.5.5 Forecast operating expenditure

In accordance with clause 6.5.6(d) and 6.12.1(4)(ii) of the NER, the AER does not accept Powercor's proposed forecast opex for the forthcoming regulatory control period. The AER's considerations, reasons and decision on its estimate of the total of Powercor's required opex for the 2011–15 regulatory control period are set out in chapter 7 of the final decision.

The AER's estimate of the total of Powercor's required opex for the 2011–15 regulatory control period is set out in table 16.⁸

Table 16 AER final determination on operating expenditure for Powercor (\$'m, 2010)

	2011	2012	2013	2014	2015	Total
Powercor proposed opex	175.6	180.8	182.6	190.3	197.3	926.6
<i>AER opex build-up^a</i>						
AER base year costs	129.6	129.6	129.6	129.6	129.6	648.1
AER scale escalation	1.2	2.3	3.5	4.7	5.9	17.7
AER real cost escalation	1.2	3.2	5.9	9.5	11.9	31.7
AER step changes ^b	22.0	21.3	15.3	15.0	15.2	88.9
	14.4	26.4	31.7	17.6	16.2	106.2
AER debt raising costs	1.2	1.2	1.3	1.4	1.5	6.6
AER self insurance	–	–	–	–	–	–
AER other (GSL)	1.1	1.1	1.1	1.1	1.0	5.5
AER total opex	156.3	158.8	156.8	161.4	165.1	798.4
	148.7	163.9	173.2	163.9	166.1	815.8
Adjustment	-19.3	-22.0	-25.8	-28.9	-32.2	-128.2
	-26.9	-16.9	-9.4	-26.4	-31.2	-110.8
Adjustment (per cent)	-11.0	-12.2	-14.1	-15.2	-16.3	-13.8
	-15.3	-9.4	-5.1	-13.9	-15.8	-12.0

Source: AER analysis.

^aExcludes DMIA allowance.

^bIncludes real cost escalation.

3.5.6 Cost of corporate income tax

In accordance with clause 6.12.1(7) of the NER, the AER's decision on the estimated cost of corporate income tax for Powercor is set out in table 17.

The AER's considerations, reasons and decision on cost of corporate income tax for Powercor are also set out in the final decision at chapter 12.

⁸ The relevant inputs to this table are discussed in the final decision as follows: chapter 6 (outsourcing), chapter 13 (efficiency carryover mechanism), appendix H (benchmarking), appendix J (scale escalation), appendix K (real cost escalation), appendix L (step changes), appendix M (self insurance), appendix N (debt raising costs).

Table 17 AER final determination on corporate income tax liability for Powercor (\$'m, nominal)

	2011	2012	2013	2014	2015
Powercor	12.5	12.9	14.1	15.0	16.4
	19.6	20.3	22.3	23.9	26.2

3.5.7 Other values, amounts and inputs

In accordance with clause 6.12.1(10) of the NER, the AER has decided other values, amounts and inputs.

These other values, amounts and inputs relate to growth forecasts, the ESCV's s-factor carryover amounts, and the ESCV's efficiency carryover mechanism (ECM) carryover amounts.

The AER's considerations, reasons and decisions on growth forecasts, s-factor carryover amounts and ECM carryover amounts for Powercor are set out in the draft decision at chapters 5, 13 and 15 respectively. The AER's decisions on these additional inputs for Powercor are set out in Table 18, 19 and 20 below.

Table 18 AER determination on growth forecasts—Powercor

	2011	2012	2013	2014	2015
Sum of coincident zone substations (MW)	2 481	2 557	2 652	2 747	2 848
Energy consumption (GWh)	10 726	10 795	10 781	10 761	10 797
Customer numbers	717 745	731 603	745 570	759 343	772 544

Table 19 AER final determination on building block amounts resulting from ESCV ECM carryover for Powercor (\$'m, 2010)

	2011	2012	2013	2014	Total
Powercor	0.0	1.2	9.7	13.1	21.7
	0.0	0.0	0.0	0.0	0.0

Table 20 AER conclusion on the building blocks resulting from the ESCV S factor close out (\$ million, 2010)

	2011	2012	2013	2014	2015
Powercor	- 5.95	- 20.94	- 5.22	- 0.31	0.82
					0.67

4 Pass through events

In accordance with clause 6.12.1(14) of the NER, the AER has decided that the additional (nominated) pass through events listed below are to apply to Powercor are listed below.

The AER's considerations, reasons and decision on pass throughs are also set out in chapter 16 of the final decision.

- a declared retailer of last resort event:

A declared retailer of last resort event is the occurrence of an event whereby an existing retailer is unable to continue to supply electricity to its customers and those customers are transferred to the declared retailer of last resort, and which:

- (a) falls within no other category of pass through event; and
- (b) materially increases the costs of providing direct control services.

For the purpose of this event, an event is considered to materially increase costs where the event has an impact of one per cent of the smoothed forecast revenue of the regulatory year in which the costs are incurred

- insurer credit risk event:

An event where the insolvency of the DNSP's insurer, as a result of which the DNSP:

- (a) incurs materially higher or lower costs for insurance premiums than those allowed for in the distribution determination; or
- (b) in respect of a claim for a risk that would have been insured by the DNSP's insurers, is subject to materially higher or lower claim limit or a materially higher or lower deductible than would have applied under that policy.
- (c) incurs additional costs associated with self funding an insurance claim, which, would have otherwise been covered by the insolvent insurer.

For the purpose of this event, an event is considered to materially increase costs where the event has an impact of one per cent of the smoothed forecast revenue of the regulatory year in which the costs are incurred

- an insurance event:

An insurance event occurs if:

- (a) the DNSP makes a claim on an insurance policy that it holds; and
- (b) the DNSP incurs costs beyond the policy limit for the relevant insurance policy; and

(c) the DNSP must bear the costs that are in excess of the policy limit; and

(d) the event materially increases the costs to the DNSP of providing direct control services.

For the purpose of this event, an event is considered to materially increase costs where the event has an impact of one per cent of the smoothed forecast revenue of the regulatory year in which the costs are incurred.

For the purpose of this event, a relevant insurance policy refers to the policy coverage provided through a DNSP's forecast operating expenditure allowance for an insured risk, as approved by the AER in its distribution determination and the reasons for the determination.

■ a natural disaster event:

Any major fire, flood, earthquake, or other natural disaster beyond the control of the DNSP (but excluding those events for which external insurance or self insurance has been included within the DNSP's forecast operating expenditure) that occurs during the forthcoming regulatory control period and materially increases the costs to the DNSP of providing direct control services.

For the purpose of this event, an event is considered to materially increase costs where the event has an impact of one per cent of the smoothed forecast revenue of the regulatory year in which the costs are incurred.

■ a network charges event

A network charge pass through event occurs on an event date, if:

(a) during the event period to which the event date relates, the DNSP has incurred or saved or, in respect of the event period referred to in paragraph (i), is likely to incur or save, event costs; and

(b) those event costs are material.

The event costs are:

(c) charges for connection to the transmission system; and

(d) charges under Division 5A of Part 2 of the Electricity Industry Act 2000 (Vic) or rule 5.5(h) of the National Electricity Rules; and

(e) charges the DNSP pays to other DNSPs in respect of the provision of distribution services net of similar charges the DNSP receives from other DNSPs,

to the extent that these costs are not otherwise recoverable under the National Electricity Rules in force at the time the event occurs or when an application in relation to those costs is made under clause 6.6.1 of the National Electricity Rules.

An event date in relation to each event period referred to in paragraphs (f) to (i) is 1 June 2011, 1 June 2012, 1 June 2013 or 1 June 2014 respectively.

An event period is:

(f) from 1 January 2011 to 31 May 2011; or

(g) from 1 June 2011 to 31 May 2012; or

(h) from 1 June 2012 to 31 May 2013; or

(i) from 1 June 2013 to 31 December 2015.

For the purpose of this event, the event costs in respect of an event period are material if the total of those costs has an impact of, or more than, 1 per cent of the smoothed forecast revenue specified in the final decision for the applicable regulatory year(s), pro rata for the applicable event period.

5 Negotiating framework determination

In accordance with clause 6.12.3(g) and 6.12.1(15) of the NER, the AER has decided to apply Powercor's proposed negotiating framework.

The AER's considerations, reasons and decision on negotiating frameworks are also set out in chapter 3 of the final decision. The approved negotiating framework is set out at appendix C of the final decision.

6 Negotiated distribution services criteria determination

In accordance with clause 6.7.4 and 6.12.1 (16) of the NER, the negotiated distribution services criteria (NDSC) the AER has decided to apply to Powercor are set out at appendix D of the final decision. The AER's considerations, reasons and decision on the NDSC are also set out in chapter 3 final decision.

7 Other constituent decisions

In accordance with clause 6.12.1(13) of the NER, the AER has decided that compliance with the relevant control mechanisms for direct control services is to be demonstrated as follows.

7.1 Compliance with control mechanisms

7.1.1 Standard control services

Compliance with the control mechanism for standard control services will be monitored as set out in appendix E of the final decision.

7.1.2 Alternative control services

Compliance with the control mechanisms for fee based and quoted alternative control services will be demonstrated through an annual pricing proposal process, described in section 20.6.3.3 of the final decision.

Compliance with the control mechanism for public lighting services is to be demonstrated by Powercor through the annual pricing approval process and be consistent with the AER's decision for the relevant regulatory year. Operation, maintenance and repair charges approved by the AER will be subject to CPI adjustment for each year of the forthcoming regulatory control period.

7.2 Procedures for assigning customers to tariff classes

In accordance with clause 6.12.1(17), the AER has decided the procedures for assigning customers to tariff classes, or reassigning customers from one tariff class to another, as set out in appendix G of the final decision.

7.3 Depreciation for establishing the RAB as at the commencement of the following regulatory control period

In accordance with clause 6.12.1(18), the AER has decided that depreciation based on actual capital expenditure will be used to determine Powercor's regulatory asset base as at the commencement of the following regulatory control period.

7.4 Recovery of TUOS charges

7.4.1 Recovery of 6.18.7 charges⁹

In accordance with clause 6.12.1(19) of the NER, the AER has decided how Powercor is to report to the AER on its recovery of transmission use of system charges for each regulatory year of the forthcoming regulatory control period as set out in appendix F of the final decision.

⁹ 6.18.7 charges are the charges referred to in clause 6.18.7 of the NER.

7.4.2 Recovery of 6.18.7A charges¹⁰

In accordance with clause 6.12.1(20) of the NER, the AER has decided how Powercor is to report to the AER on its recovery of jurisdictional scheme amounts for each regulatory year of the 2011–15 regulatory control period as set out in appendix F of the final decision.

¹⁰ 6.18.7A charges are the amounts referred to in clause 6.18.7A of the NER.