



**FINAL DECISION**  
**Energex determination 2015–16**  
**to 2019–20**

**Attachment 14 – Control**  
**mechanisms**

October 2015

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## Note

This attachment forms part of the AER's final decision on Energex's 2015–20 distribution determination. It should be read with all other parts of the final decision.

The final decision includes the following documents:

### Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Demand management incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanism

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – Connection policy

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## Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	Expenditure Forecast Assessment Guideline for electricity distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators

Shortened form	Extended form
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
TAR	total annual revenue
WACC	weighted average cost of capital

## 14 Control mechanisms for standard control services

A control mechanism imposes limits over the prices of direct control services and/or the revenues that a distribution network service provider can recover from customers. For standard control services, the NER requires the control mechanism be of the prospective CPI-X form (or some incentive-based variant).<sup>1</sup>

This attachment sets out the revenue cap formulae as the control mechanism for Energex's standard control services for the 2015–20 regulatory control period. It discusses:

- how we will apply the revenue cap
- how we will determine compliance with the price controls<sup>2</sup>
- the mechanism through which Energex will recover distribution use of system (DUoS) charges—including adjustments for revenue under or over recovery—in the 2015–20 regulatory control period<sup>3</sup>
- how Energex must report to us on its recovery of designated pricing proposal charges and jurisdictional scheme amounts<sup>4</sup>
- the procedures Energex must apply for assigning or reassigning retail customers to tariff classes.<sup>5</sup>

The control mechanisms applying to Energex's alternative control services are set out separately in attachment 16.

### 14.1 Final decision

Our final decision for Energex is as follows:

- The control mechanism for standard control services is a revenue cap.<sup>6</sup>
- Section 14.4.5 contains the revenue cap formulae that give effect to the control mechanism for standard control services.<sup>7</sup> The revenue cap for any given regulatory year is the total annual revenue, or TAR, for standard control services calculated using the formula in Figure 14.1.

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<sup>1</sup> NER, cl. 6.2.6(a).

<sup>2</sup> NER, cl. 6.12.1(13).

<sup>3</sup> NER, cl. 6.12.1(11).

<sup>4</sup> NER, cl. 6.12.1(19), 6.12.1(20).

<sup>5</sup> NER, cl. 6.12.1(17).

<sup>6</sup> AER, *Final framework and approach for Energex and Ergon Energy: Regulatory control period commencing 1 July 2015*, April 2014, p. 52.

<sup>7</sup> NER, cl. 6.12.1(11).



- The side constraints applying to the price movements of each Energex tariff class must be consistent with the formula in Figure 14.2.
- Energex must demonstrate compliance with the control mechanism for standard control services in accordance with Figure 14.1—including adjustments for DUoS revenue under or over recovery in accordance with appendix A of this attachment.
- Energex must submit as part of its annual pricing proposal, a record of the amount of revenue recovered from designated pricing proposal charges and associated payments in accordance with appendix B of this attachment.<sup>8</sup>
- Energex must report to us its jurisdictional scheme amounts recovery in accordance with appendix C of this attachment.
- Appendix D of this attachment specifies the procedures Energex must apply in assigning retail customers to tariff classes or reassigning retail customers from one tariff class to another.

## 14.2 Energex's revised proposal

Energex's revised proposal did not contain any discussion on the control mechanism for its standard control services for the 2015–20 regulatory control period as set out in our preliminary decision. Rather, Energex made a general statement regarding its entire revised proposal, indicating that it relies upon all previous material provided as part its original proposal without resubmitting this material with its revised proposal.<sup>9</sup>

## 14.3 AER's assessment approach

Our final framework and approach (final F&A) set the control mechanism for standard control services as a revenue cap.<sup>10</sup> The basis of the revenue cap must be of the prospective CPI–X form (or some incentive based variant).<sup>11</sup>

In determining the control mechanism for standard control services, we considered the factors in clause 6.2.5(c) of the NER for each revenue adjustment mechanism and its application.

Our final F&A set out a generic formula to give effect to the control mechanism for standard control services.<sup>12</sup> The generic formula requires parameters that need to be specified with more precision in order to be implemented. This final decision clarifies our position regarding the control mechanism formula and its respective parameters.

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<sup>8</sup> We referred to this as the 'TUoS unders and overs account' in previous distribution determinations. In this final decision, we use the term 'designated pricing proposal charges' to reflect the wording of the NER (cl. 6.12.1(19)).

<sup>9</sup> Energex, *Revised regulatory proposal*, 3 July 2015, p. 2.

<sup>10</sup> AER, *Final framework and approach for Energex and Ergon Energy: Regulatory control period commencing 1 July 2015*, April 2014, p. 74; NER, cl. 6.2.6(a), 6.8.1(b)(2)(ii).

<sup>11</sup> NER, cl. 6.2.6(a).

<sup>12</sup> AER, *Final framework and approach for Energex and Ergon Energy: Regulatory control period commencing 1 July 2015*, April 2014, pp. 91–92.

## 14.4 Reasons for final decision

While Energex did not comment on the preliminary decision, we have amended the control mechanism since our preliminary decision to account for issues raised in Ergon Energy's revised proposal.<sup>13</sup> These amendments ensure a consistent approach to the control mechanism for standard control services across the Queensland distributors.

In response to Energex's statement that it relies upon its original proposal without resubmitting this material with its revised proposal, we consider our preliminary decision addressed these issues. Therefore our final decision has not readdressed issues raised in Energex's initial proposal.

The following discusses the reasons for our final decision for each component of the revenue cap control mechanism, including the reporting on designated pricing proposal charges and jurisdictional scheme amounts.

### 14.4.1 Application of the revenue cap

#### Total annual revenue

The revenue cap for any given regulatory year is the total annual revenue (TAR) for standard control services. Figure 14.1 contains the revenue cap formulae.

#### Intra-period adjustment to the weighted average cost of capital

As per our preliminary decision, changes to the TAR resulting from the trailing average cost of debt update will be implemented through annual revisions to the X factors. Further discussion on this adjustment can be found in attachment 3—rate of return—which discusses the WACC annual adjustment and attachment 1—annual revenue requirement—which details issues relating to X factors.

#### Incentive scheme adjustments (I factor)

The I factor will include the final carryover amount from the conclusion of the demand management incentive scheme (DMIS) applied to Energex in the 2010–15 regulatory control period.<sup>14</sup> This amount is not known at the time of making the final decision and must therefore be applied via the control mechanism. Specifically, the DMIS adjustment includes:

- any amount of the allowance unspent or not approved by the AER over the period

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<sup>13</sup> Ergon Energy, *Revised regulatory proposal*, July 2015, pp. 38–47.

<sup>14</sup> AER, *Preliminary decision: Energex determination 2015–16 to 2019–20: Attachment 14—Control mechanism*, April 2015, p. 8.

- the time value of money accrued or lost as a result of the expenditure profile selected by the distributor.<sup>15</sup>

This adjustment will be calculated by Energex using the method set out in the DMIS and added or detracted from the TAR in its 2016–17 pricing proposal. We will approve these amounts as part of our assessment of that pricing proposal.

## **S factor adjustment**

As per our preliminary decision, an S factor will apply in the revenue control mechanism to give effect to any rewards or penalties related to the service target performance incentive scheme. The service scheme applying to Energex in the 2015–20 regulatory control period is discussed in attachment 11 – STPIS.

## **Annual adjustments (B factor)**

As per our preliminary decision, the B factor will include adjustments to true-up any under or over recovery of revenues in respect of capital contributions from 2013–14 and 2014–15.<sup>16</sup> We note this adjustment relates to obligations under the transitional rules.

We have also amended the B factor since our preliminary decision to include the true-up of any under or over recoveries of revenue related to DUoS charges. We have amended the method to calculate the DUoS unders and overs account due its outcomes being included in the B factor. The amended DUoS unders and overs account is detailed in appendix A of this attachment.

### ***DUoS revenue under and over recovery adjustments***

Our preliminary decision to exclude the DUoS revenue under and over recovery in the B factor was to ensure consistency with the approach adopted in the 2010–15 regulatory control period.<sup>17</sup> However, we acknowledge this approach potentially reduces transparency in the process for setting prices. This occurs because the calculated TAR is not the total amount of revenue Energex is allowed to recover from customers. In practice the total amount of revenue would be determined by the calculated TAR *plus* an adjustment for the amount calculated in the DUoS unders and overs account. Such an approach can mislead customers and stakeholders, as it is not transparent as to why Energex is allowed to recover more revenue than the TAR.

To overcome this issue, we requested Energex to include an additional DUoS factor in the revenue cap formula in its 2015–16 pricing proposal to make this adjustment to the

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<sup>15</sup> AER, *Demand management incentive scheme: Energex, Ergon Energy and ETSA Utilities 2010–15*, October 2008, p. 17.

<sup>16</sup> AER, *Preliminary decision: Energex determination 2015–16 to 2019–20: Attachment 14–Control mechanism*, April 2015, p. 9.

<sup>17</sup> AER, *Final decision: Queensland distribution determination 2010–11 to 2014–15*, May 2010, pp. 26–27.

TAR.<sup>18</sup> However, for our final decision we consider that a more transparent approach is to include the amount calculated in the DUoS unders and overs account in the TAR via the B factor. Because the latter is a subset of the former, this ensures the published TAR is the total amount of revenue Energex is allowed to recover from its customers.<sup>19</sup>

Wrapping the DUoS revenue under and over recovery into the B factor mechanism is consistent with our final F&A.<sup>20</sup> Appendix A of this attachment sets out the method in which to calculate the under or over recovery amount to be included in the B factor.

## Annual adjustments (C factor)

As per our preliminary decision, the C factor will include:

- feed-in tariff pass through amounts relating to the 2013–14 and 2014–15 regulatory years
- any AER approved cost pass through amounts during 2015–20 regulatory control period.

## Calculation of the consumer price index escalation

The method for calculating the consumer price index (CPI) escalation is based on the annual movement between the Australian Bureau of Statistics' (ABS) published December quarter data. The application of this calculation is set out in Figure 14.1.

### 14.4.2 Reporting on designated pricing proposal charges

We must decide how Energex will report on the recovery of designated pricing proposal charges for each year of the 2015–20 regulatory control period and how to account for any under or over recovery of revenue associated with those charges.<sup>21</sup> Continuing the preliminary decision method, we will apply an under and over recovery mechanism to facilitate this reporting and account for the true-up of under and over recovery of revenue. This approach is consistent with the DUoS revenue under and over recovery mechanism and requirements of the NER.<sup>22</sup> The operation of this method is detailed in appendix B.

We note the presentation of the under and over recovery mechanism for designated pricing proposal charges has been improved since our preliminary decision to be consistent with its application in other jurisdictions and to be more transparent. It also includes an adjustment for avoided transmission use of system charges which was erroneously omitted from our preliminary decision.

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<sup>18</sup> AER, Letter to Energex: *The AER's 2015 preliminary decision*, 20 May 2015

<sup>19</sup> The TAR is published in the annual pricing proposal.

<sup>20</sup> AER, *Final framework and approach for Energex and Ergon Energy: Regulatory control period commencing 1 July 2015*, April 2014, p. 74.

<sup>21</sup> NER, cl. 6.12.1(19).

<sup>22</sup> NER, cl. 6.12.1(19), 6.18.7.

### 14.4.3 Reporting on jurisdictional scheme amounts

We must decide how Energex will report on the recovery of jurisdictional scheme amounts for each year of the 2015–20 regulatory control period and how to account for any under or over recovery of revenue associated with those charges.<sup>23</sup> Continuing the preliminary decision method, we will apply an under and over recovery mechanism to facilitate this reporting and account for the true-up of under and over recovery of revenue. This approach is consistent with the DUoS revenue under and over recovery mechanism and requirements of the NER.<sup>24</sup> The operation of this method is detailed in appendix C.

We note the presentation of the under and over recovery mechanism for jurisdictional scheme amounts has been improved since our preliminary decision for consistency with the application in other jurisdictions and to be more transparent.

### 14.4.4 Side constraints

Figure 14.2 sets out the side constraints formula. For each year after the first year of a regulatory control period, side constraints will apply to the weighted average revenue to be raised from each tariff class. In accordance with the NER, the permissible percentage increase is the greater of CPI–X plus 2 per cent or CPI plus 2 per cent.<sup>25</sup> Recovery of certain revenues, such as those to accommodate pass throughs, is disregarded in deciding whether the permissible percentage has been exceeded.

We reiterate that we have also amended the side constraints formula from our preliminary decision to include DUoS unders and overs account adjustments in the B–factor. Therefore we have removed the DUoS factor that applied in the preliminary decision side constraints formula.

### 14.4.5 Control mechanism formulae

Energex must submit annual pricing proposals to us with proposed tariffs and charging parameters.<sup>26</sup> To the extent possible, Energex's pricing proposals should publicly disclose the separate charging parameters relating to DUoS, designated pricing proposal charges and jurisdictional scheme amounts.

That is, for each tariff and charging parameter element, Energex must show the breakdown of the DUoS, designated pricing proposal charges and jurisdictional scheme amounts separately—not just in combination.

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<sup>23</sup> NER, cl. 6.12.1(20).

<sup>24</sup> NER, cl. 6.18.7A.

<sup>25</sup> NER, cl. 6.18.6(c).

<sup>26</sup> NER, cl. 6.18.2.

This presentation style has been a common practice of distributors in other jurisdictions. It enables regulators, retailers, policy makers and consumers to see the varied pricing impacts and effects of the different charging parameter elements.

Energex's revenues must be consistent with the total annual revenue formulae and side constraint formulae set out below.

### Figure 14.1 Revenue cap formulae

$$1. \quad TAR_t \geq \sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij} \quad i=1,\dots,n \text{ and } j=1,\dots,m \text{ and } t=1,\dots,5$$

$$2. \quad TAR_t = AR_t + I_t + B_t + C_t \quad t = 1,2,\dots,5$$

$$3. \quad AR_t = AR_{t-1}(1 + \Delta CPI_t)(1 - X_t)(1 + S_t)$$

where;

$TAR_t$  is the total annual revenue in year t.

$p_t^{ij}$  is the price of component 'j' of tariff 'i' in year t.

$q_t^{ij}$  is the forecast quantity of component 'j' of tariff 'i' in year t.

$AR_t$  is the annual smoothed expected revenue for regulatory year t. For the first year of the 2015–20 regulatory control period, this amount will be equal to the smoothed revenue requirement for 2015–16 set out in the PTRM.

$I_t$  is the final carryover amount from the application of the DMIS from the 2010–15 distribution determination. This amount will be calculated using the method set out in the DMIS and deducted from/added to allowed revenue in the 2016–17 pricing proposal.

$B_t$  is the sum of:

- any under or over recoveries relating to capital contributions from 2013–14 and 2014–15
- any under or over recovery of actual revenue collected through DUoS charges in regulatory year t–2 as calculated using the method in appendix A.

$C_t$  is the sum of adjustments related to:

- feed-in tariff pass through amounts relating to the 2013–14 and 2014–15 regulatory years
- any AER approved cost pass through amounts during 2015–20 regulatory control period.

$\Delta CPI_t$  is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities<sup>27</sup> from the December quarter in year t–2 to the December quarter in year t–1, calculated using the following method:

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t–1

divided by

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t–2

minus one.

For example, for the 2015–16 year, t–2 is December quarter 2013 and t–1 is December quarter 2014 and in the 2016–17 year, t–2 is December quarter 2014 and t–1 is December quarter 2015 and so on.

$X_t$  is the X factor for each year of the 2015–20 regulatory control period as determined in the PTRM, and annually revised for the return on debt update in accordance with the formula specified in the rate of return attachment 3—rate of return—calculated for the relevant year.

$S_t$  is the s-factor determined in accordance with the service target performance incentive scheme (STPIS) for regulatory year t.<sup>28</sup>

### Figure 14.2 Side constraints

$$\frac{\left(\sum_{i=1}^n \sum_{j=1}^m d_t^{ij} q_t^{ij}\right)}{\left(\sum_{i=1}^n \sum_{j=1}^m d_{t-1}^{ij} q_t^{ij}\right)} \leq (1 + \Delta CPI_t) \times (1 - X_t) \times (1 + 2\%) \times (1 + S_t) + I_t' + B_t' + C_t'$$

where each tariff class has "n" tariffs, with each up to "m" components, and where:

$d_t^{ij}$  is the proposed price for component 'j' of tariff 'i' for year t.

$d_{t-1}^{ij}$  is the price charged for component 'j' of tariff 'i' in year t–1.

$q_t^{ij}$  is the forecast quantity of component 'j' of tariff 'i' in year t.

<sup>27</sup> If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

<sup>28</sup> In the formulas in the STPIS attachment, the  $AR_{(t+1)}$  is equivalent to  $AR_t$  in this formula. Calculations of the S factor adjustment are to be made accordingly.

$\Delta CPI_t$  is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities<sup>29</sup> from the December quarter in year t-2 to the December quarter in year t-1, calculated using the following method:

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t-1

divided by

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t-2

minus one.

For example, for the 2015-16 year, t-2 is December quarter 2013 and t-1 is December quarter 2014 and in the 2016-17 year, t-2 is December quarter 2014 and t-1 is December quarter 2015 and so on.

$X_t$  is the X factor for each year of the 2015-20 regulatory control period as determined in the PTRM, and annually revised for the return on debt update in accordance with the formula specified in the rate of return attachment 3—rate of return—calculated for the relevant year. If  $X > 0$ , then X will be set equal to zero for the purposes of the side constraint formula.

$S_t$  is the s-factor determined in accordance with the STPIS for regulatory year t.<sup>30</sup>

$I_t'$  is the annual percentage change from the final carryover amount from the application of the DMIS from the 2010-15 distribution determination. This amount will be deducted from/added to allowed revenue in the 2016-17 pricing proposal.

$B_t'$  is the annual percentage change from the sum of:

- any under or over-recoveries relating to capital contributions from 2013-14 and 2014-15
- any under or over recovery of actual revenue collected through DUoS charges in regulatory year t-2 as calculated using the method in appendix A.

$C_t'$  is the annual percentage change from the sum of adjustments related to:

- feed-in tariff pass through amounts relating to 2013-2014 and 2014-2015

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<sup>29</sup> If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

<sup>30</sup> In the formulas in the STPIS attachment, the  $AR_{(t+1)}$  is equivalent to  $AR_t$  in this formula. Calculations of the S factor adjustment are to be made accordingly.



- amounts relating to the occurrence of any of the prescribed and nominated cost pass through events.

With the exception of the CPI, X factor and S factor, the percentage for each of the other factors above can be calculated by dividing the incremental revenues (as used in the total annual revenue formula) for each factor by the expected revenues for regulatory year  $t-1$  (based on the prices in year  $t-1$  multiplied by the forecast quantities for year  $t$ ).

## A DUoS unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2015–20 regulatory control period, Energex must maintain a DUoS unders and overs account in its annual pricing proposal.<sup>31</sup>

Energex must provide the amounts for the following entries in their DUoS unders and overs account for the most recently completed regulatory year (t–2) and the next regulatory year (t):

1. The amount of revenue recovered/to be recovered from DUoS charges, less the TAR for the regulatory years t–2 and t.
2. The calculated under/over recovery of revenue for regulatory years t–2 and t.
3. An interest charge for two years on the under/over recovery of revenue for regulatory year t–2. This adjustment is to be calculated using the respective approved nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.<sup>32</sup> The WACC applied for each year will be that approved by the AER for the relevant year.
4. Sum of items 2–3 to derive a closing balance for regulatory year t–2.
5. Opening balance in regulatory year t which is the closing balance in item 4.
6. Offsetting over/under recovery of revenue amount in item 5 to derive a closing balance as close as practicable to zero for regulatory year t. This amount will become the approved DUoS revenue under/over recovery for regulatory year t.

Energex must provide details of calculations in the format set out in Table 14.1. Amounts provided for the most recently completed regulatory year (t–2) must be audited. Amounts provide for the next regulatory year (t) will be regard as a forecast.

In proposing variations to the amount and structure of DUoS charges, Energex is expected to achieve a closing balance as close as practicable to zero in its DUoS unders and overs account in each forecast year in its annual pricing proposals during the 2015–20 regulatory control period.

The proposed prices for each year t are based on the TAR for year t.

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<sup>31</sup> NER, cl. 6.18.2(b)(7).

<sup>32</sup> For clarity, two WACC adjustments are applied: one for a year of interest between year t–2 and year t–1; and a second for a year of interest between year t–1 and year t. The WACC for each year will be that approved by the AER for the respective year, such that rolling WACC's are applied.

**Table 14.1 Example calculation of DUoS unders and overs account  
(\$'000, nominal)**

	Year t-2 (actual)	Year t (forecast)
<b>(A) Revenue from DUoS charges</b>	<b>46 779</b>	<b>40 306</b>
<b>(B) Less TAR for regulatory year =</b>	<b>43 039</b>	<b>40 306</b>
+ Annual revenues (ARt)	34 820	44 393
+ DMIS carryover amount (It)	1013	0
+ Sum of over or under recoveries (Bt) =	5394	-4123
+ <i>Capital contributions</i>	25	0
+ <i>DUoS revenue under/over recovery approved</i>	5369 <sup>a</sup>	-4123 <sup>c</sup>
+ Sum of pass through adjustments (Ct) =	1812	36
+ <i>Feed-in tariff cost pass throughs</i>	-12	36
+ <i>Approved pass through amounts</i>	1824	0
<b>(A minus B) Under/over recovery of revenue for regulatory year</b>	<b>3740</b>	<b>0</b>
<b><i>DUoS unders and overs account</i></b>		
Nominal WACC t-2 (per cent)	5.00%	
Nominal WACC t-1 (per cent)	5.00%	
Opening balance	n/a <sup>b</sup>	4123
Under/over recovery of revenue for regulatory year	3740	-4123 <sup>c</sup>
Interest on under/over recovery for 2 regulatory years	383	n/a
<b>Closing balance</b>	<b>4123</b>	<b>0<sup>d</sup></b>

Notes:

- (a) Approved DUoS revenue under/over recovery for regulatory year t-2.
- (b) In this example and going forward there should be no opening balance in year t-2 due to no application of tolerance limits. However, should it be required to close out previous carryovers, an opening balance adjustment and interest can be accounted for.
- (c) Amount should offset the closing balance for DUoS unders and overs account for year t-2.
- (d) Energex is expected to achieve a closing balance as close to zero as practicable in its DUoS unders and overs account in each forecast year in its annual pricing proposals in the 2015-20 regulatory control period.

## B Designated pricing proposal charges unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2015–20 regulatory control period, Energex must maintain a designated pricing proposal charges unders and overs account in its annual pricing proposal.<sup>33</sup>

Energex must provide the amounts for the following entries in its designated pricing proposal charges under and overs account for the most recently completed regulatory year (t–2) and the next regulatory year (t):

1. The amount of revenue recovered/to be recovered from designated pricing proposal charges, less the amount of designated pricing proposal charges related payments for the regulatory years t–2 and t.
2. The calculated under/over recovery of revenue for regulatory years t–2 and t.
3. An interest charge for two years on the under/over recovery of revenue for regulatory year t–2. This adjustment is to be calculated using the respective approved nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.<sup>34</sup> The WACC applied for each year will be that approved by the AER for the relevant year.
4. Sum of items 2–3 to derive a closing balance for regulatory year t–2.
5. Opening balance in regulatory year t which is the closing balance in item 4.
6. Offsetting over/under recovery of revenue amount in item 5 to derive a closing balance as close as practicable to zero for regulatory year t. This amount will become the approved designated pricing proposal charges revenue under/over recovery for regulatory year t.

Energex must provide details of calculations in the format set out in Table 14.2. Amounts provided for the most recently completed regulatory year (t–2) must be audited. Amounts for the next regulatory year (t) will be regarded as a forecast.

In proposing variations to the amount and structure of designated pricing proposal charges, Energex is expected to achieve a closing balance as close as practicable to zero in its designated pricing proposal charges unders and overs account in each forecast year in its annual pricing proposals during the 2015–20 regulatory control period.

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<sup>33</sup> NER, cl. 6.18.2(b)(6), 6.12.1(19).

<sup>34</sup> For clarity, two WACC adjustments are applied: one for a year of interest between year t–2 and year t–1; and a second for a year of interest between year t–1 and year t. The WACC for each year will be that approved by the AER for the respective year, such that rolling WACC's are applied.

**Table 14.2 Example calculation of designated pricing proposal charges unders and overs account (\$'000, nominal)**

	Year t-2 (actual)	Year t (forecast)
<b>(A) Revenue from designated pricing proposal charges (DPPC)</b>	<b>40 077</b>	<b>32 967</b>
<b>(B) Less DPPC related payments for regulatory year =</b>	<b>34 846</b>	<b>32 967</b>
+ DPPC charges to be paid to TNSP	33 793	38 000
+ Avoided TUoS payments	560	700
+ Inter-distributor payments	12	34
+ DPPC revenue under/over recovery approved	481 <sup>a</sup>	-5767 <sup>b</sup>
<b>(A minus B) Under/over recovery of revenue for regulatory year</b>	<b>5231</b>	<b>0</b>
<b><i>DPPC unders and overs account</i></b>		
Nominal WACC t-2 (per cent)	5.00%	
Nominal WACC t-1 (per cent)	5.00%	
Opening balance	n/a	5767
Under/over recovery of revenue for regulatory year	5231	-5767 <sup>b</sup>
Interest on under/over recovery for 2 regulatory years	536	n/a
<b>Closing balance</b>	<b>5767</b>	<b>0<sup>c</sup></b>

Notes: (a) Approved DPPC revenue under/over recovery for regulatory year t-2.  
(b) Amount should offset the closing balance for DPPC unders and overs account for year t-2.  
(c) Energex is expected to achieve a closing balance as close to zero as practicable in its DPPC unders and overs account in each forecast year in its annual pricing proposals in the 2015-20 regulatory control period.

## C Jurisdictional scheme amounts unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2015–20 regulatory control period, Energex must maintain a jurisdictional scheme amounts unders and overs account in its annual pricing proposal.<sup>35</sup>

Energex must provide the amounts for the following entries in its jurisdictional scheme amounts unders and overs account for the most recently completed regulatory year (t–2) and the next regulatory year (t):

1. The amount of revenue recovered/to be recovered from jurisdictional schemes, less the amount of jurisdictional scheme related payments for the regulatory years t–2 and t.
2. The calculated under/over recovery of revenue for regulatory years t–2 and t.
3. An interest charge for two years on the under/over recovery of revenue for regulatory year t–2. This adjustment is to be calculated using the respective approved nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.<sup>36</sup> The WACC applied for each year will be that approved by the AER for the relevant year.
4. Sum of items 2–3 to derive a closing balance for regulatory year t–2.
5. Opening balance in regulatory year t which is the closing balance in item 4.
6. Offsetting over/under recovery of revenue amount in item 5 to derive a closing balance of zero for regulatory year t. This amount will become the approved jurisdictional scheme amounts revenue under/over recovery for regulatory year t.

Energex must provide details of calculations in the format set out in Table 14.3. Amounts provided for the most recently completed regulatory year (t–2) must be audited. Amounts for the next regulatory year (t) will be regarded as a forecast.

In proposing variations to the amount and structure of jurisdictional scheme charges, Energex is expected to achieve a closing balance as close as practicable to zero in its jurisdictional scheme amounts unders and overs accounts in each forecast year in its annual pricing proposals during the 2015–20 regulatory control period.

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<sup>35</sup> NER, cl. 6.12.1(20), 6.18.2(b)(6A).

<sup>36</sup> For clarity, two WACC adjustments are applied: one for a year of interest between year t–2 and year t–1; and a second for a year of interest between year t–1 and year t. The WACC for each year will be that approved by the AER for the respective year, such that rolling WACC's are applied.

**Table 14.3 Example calculation of jurisdictional scheme amounts unders and overs account (\$'000, nominal)**

	Year t-2 (actual)	Year t (forecast)
<b>(A) Revenue from jurisdictional schemes</b>	<b>19 777</b>	<b>22 050</b>
<b>(B) Less jurisdictional scheme payments for regulatory year =</b>	<b>20 767</b>	<b>22 050</b>
+ Jurisdictional scheme 1 payments	14 159	13 954
+ Jurisdictional scheme 2 payments	6 113	7 005
+ Jurisdictional scheme amounts revenue under/over recovery approved	495 <sup>a</sup>	1 091 <sup>b</sup>
<b>(A minus B) Under/over recovery of revenue for regulatory year</b>	<b>-990</b>	<b>0</b>
<b><i>Jurisdictional scheme amount unders and overs account</i></b>		
Nominal WACC t-2 (per cent)	5.00%	
Nominal WACC t-1 (per cent)	5.00%	
Opening balance	n/a	-1 091
Under/over recovery of revenue for regulatory year	-990	1 091 <sup>b</sup>
Interest on under/over recovery for 2 regulatory years	-101	n/a
<b>Closing balance</b>	<b>-1 091</b>	<b>0<sup>c</sup></b>

Notes: (a) Approved jurisdictional scheme amount revenue under/over recovery for regulatory year t-2.  
(b) Amount should offset the closing balance for jurisdictional amount unders and overs account for year t-2.  
(c) Energex is expected to achieve a closing balance as close to zero as practicable in its jurisdictional scheme amount unders and overs account in each forecast year in its annual pricing proposals in the 2015-20 regulatory control period.

## D Assigning retail customers to tariff classes

We are required to decide on the principles governing assignment or reassignment of retail customers (customers) to or between tariff classes.<sup>37</sup> Our decision on the principles that Energex is to adhere to in assigning and reassigning customers to tariff classes is outlined below.

### D.1 AER's assessment approach

We apply the principles set out in the NER when formulating provisions which Energex must apply with assignment or reassignment of customers to tariff classes.<sup>38</sup> A distributor's decision to assign a customer to a particular tariff class or to reassign a customer from one tariff class to another should be subject to an effective system of assessment and review.

### D.2 Reasons for the final decision

Energex's revised proposal did not contain any discussion on the principles governing assignment or reassignment of customers to or between tariff classes as set out in our preliminary decision. However, we have amended the principles since our preliminary decision to account for issues raised in Ergon Energy's revised proposal.<sup>39</sup> We consider these amendments ensure a consistent approach to tariff assignment and reassignment across the Queensland distributors. These amendments are as follows:

- Clarified that a customer's retailer—not the customer—should be notified when a tariff class assignment or reassignment is expected to occur.
- Clarified that the Energy and Water Ombudsman Queensland as an entity to resolve tariff assignment or reassignment dispute resolution for small scale customers. Resolution of this type for large scale customers is not within its jurisdictional powers.
- Agreed that adjustments to a customer's tariffs should occur at the next network bill if an objection to a tariff assignment or reassignment is upheld.
- Included specific principles for assigning or reassigning customers to alternative control services.

These issues and our reasons for making these amendments are discussed below.

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<sup>37</sup> NER, cl. 6.12.1(17).

<sup>38</sup> NER, cl. 6.18.4.

<sup>39</sup> Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, pp. 34–36.



## D.2.1 Approach of notifying retailers instead of the affected customer

It was considered there was some confusion in our preliminary decision on whether the customer or the customer's retailer should be notified regarding tariff class reassignments and that the customer's retailer should be notified.<sup>40</sup>

Consistent with the approach in our final decisions for the New South Wales distributors we accept that the customer's retailer should be notified and not necessarily the customer.<sup>41</sup> We note that notifying both the customer and the customer's retailer may impose an additional cost on distributors. Further, notification sent by distributors to customers may also add a level of confusion. That is, the final bill paid by a customer will depend on the offer made by the retailer to that customer and not those applied by Energex. As such, correspondence about network tariff class changes may cause confusion to the customer about their retail electricity bill.

## D.2.2 Energy and Water Ombudsman Queensland powers

Our preliminary decision stated that any customer may be able to escalate its objection to an assignment or reassignment with the Energy and Water Ombudsman Queensland if their objection had not been satisfactorily resolved by Energex.<sup>42</sup> However, our final decision has clarified that the Energy and Water Ombudsman Queensland can only resolve this type of dispute resolution for small scale customers. This type of dispute resolution for large customers is not within its jurisdictional powers.

As noted below, all customers are still entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the NEL.

## D.2.3 Adjustments to retail customers tariffs if objection is upheld

We consider that if a customer's objection to an assignment or reassignment is upheld by an external dispute resolution body, that tariff adjustments are made at the time of the next network bill after the date of effect. Our preliminary decision considered this adjustment should be made at the next annual review of prices.<sup>43</sup> However, we consider that is better for customers and is administratively simpler to make tariff adjustments as soon as possible after the date of effect.

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<sup>40</sup> Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, pp. 34–36.

<sup>41</sup> See for example: AER, *Final Decision: Ausgrid distribution determination 2015–16 to 2018–19: Attachment 14: Control mechanism for standard control services*, April 2015, Appendix D, p. 29.

<sup>42</sup> AER, *Preliminary decision: Ergon Energy determination 2015–16 to 2019–20: Attachment 14–Control mechanism*, April 2015, Appendix D, pp. 27–28.

<sup>43</sup> AER, *Preliminary decision: Energex determination 2015–16 to 2019–20: Attachment 14–Control mechanism*, April 2015, Appendix D, pp. 25–26.

## **D.2.4 Principles for assigning or reassigning retail customers to alternative control services**

We consider that the requirement to provide written notification to a customer's retailer for each tariff class assignment or reassignment for alternative control services is not practical.<sup>44</sup> We consider that customers or customer's retailers essentially assign themselves to a tariff class when requesting the alternative control service they require.

We note that Ergon Energy proposed amendments to the principles for assigning or reassigning customers to tariff classes to specifically address alternative control services.<sup>45</sup> We have accepted these additions for the final decision for both Ergon Energy and Energex.

## **D.3 Procedures for assigning and reassigning retail customers to tariff classes**

The procedure outlined in this paragraph applies to direct control services.

### **Assignment of existing retail customers to tariff classes at the commencement of the 2015–20 regulatory control period**

1. Energex's customers will be taken to be "assigned" to the tariff class which Energex was charging that customer immediately prior to 1 July 2015 if:
  - (a) they were an Energex customer prior to 1 July 2015; and
  - (b) they continue to be a customer of Energex as at 1 July 2015.

### **Assignment of new retail customers to a tariff class during the forthcoming regulatory control period**

2. If, from 1 July 2015, Energex becomes aware that a person will become a customer of Energex, then Energex must determine the tariff class to which the new customer will be assigned.
3. In determining the tariff class to which a customer or potential customer will be assigned, or reassigned, in accordance with paragraphs 2 or 5, Energex must take into account one or more of the following factors:
  - (a) the nature and extent of the customer's usage
  - (b) the nature of the customer's connection to the network<sup>46</sup>

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<sup>44</sup> Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 37.

<sup>45</sup> Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 38.

<sup>46</sup> We interpret 'nature' to include the installation of any technology capable of supporting time based tariffs.

- (c) whether remotely-read interval metering or other similar metering technology has been installed at the customer's premises as a result of a regulatory obligation or requirement.
4. In addition to the requirements of paragraph 3 above, Energex, when assigning or reassigning a customer to a tariff class, must ensure:
- (a) customers with similar connection and usage profiles are treated equally
  - (b) customers who have micro-generation facilities are not treated less favourably than customers with similar load profiles without such facilities.

### **Reassignment of existing retail customers to another existing or a new tariff class during the 2015–20 regulatory control period**

5. Energex may reassign an existing customer to another tariff class in the following situations:
- (a) Energex receives a request from the customer or customer's retailer to review the tariff to which the existing customer is assigned; or
  - (b) Energex believes that:
    - i. an existing customer's load characteristics or connection characteristics (or both) have changed such that it is no longer appropriate for that customer to be assigned to the tariff class to which the customer is currently assigned, or
    - ii. a customer no longer has the same or materially similar load or connection characteristics as other customers on the customer's existing tariff, then Energex may reassign that customer to another tariff class.

In determining the tariff class to which a customer will be reassigned, Energex must take into account paragraphs 3 and 4 above.

### **Notification of proposed assignments and reassignments and rights of objection for standard control services**

6. Energex must notify the customer's retailer in writing of the tariff class to which the customer has been assigned or reassigned, prior to the assignment or reassignment occurring.
7. A notice under paragraph 6 above must include advice informing the customer's retailer that they may request further information from Energex and that the customer or customer's retailer may object to the proposed reassignment. This notice must specifically include:
- (a) a written document describing Energex's internal procedures for reviewing objections, if the customer or customer's retailer provides express consent, a soft copy of such information may be provided via email

- (b) that for small scale customers if the objection is not resolved to the satisfaction of the customer or customer's retailer under Energex's internal review system within a reasonable timeframe, then, to the extent resolution of such disputes are within the jurisdiction of the Energy and Water Ombudsman Queensland, or like officer, the customer or customer's retailer is entitled to escalate the matter to such a body
- (c) that if the objection is not resolved to the satisfaction of the customer or customer's retailer under Energex's internal review system in clause 7(a) and/or the body noted in paragraph 7(b) within a reasonable timeframe, then the customer or customer's retailer is entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the NEL.
8. If, in response to a notice issued in accordance with paragraph 6 above, Energex receives a request for further information from a customer or a customer's retailer, then it must provide such information within a reasonable timeframe. If Energex reasonably claims confidentiality over any of the information requested, then it is not required to provide that information. If the customer or customer's retailer disagrees with such confidentiality claims, he or she may have resort to the dispute resolution procedures referred to in paragraph 7 above, (as modified for a confidentiality dispute).
9. If, in response to a notice issued in accordance with paragraph 6 above, a customer or customer's retailer makes an objection about the proposed assignment or reassignment, Energex must reconsider the proposed assignment or reassignment. In doing so Energex must take into consideration the factors in paragraphs 3 and 4 above, and notify the customer or customer's retailer in writing of its decision and the reasons for that decision.
10. If an objection to a tariff class assignment or reassignment is upheld by the relevant body noted in paragraph 7 above, then any adjustment which needs to be made to tariffs will be done by Energex as part of the next network bill.
11. If a customer or customer's retailer objects to Energex's tariff class assignment Energex must provide the information set out in paragraph 7 above and adopt and comply with the arrangements set out in paragraphs 8, 9 and 10 above in respect of requests for further information by the customer or customer's retailer and resolution of the objection.

### **Notification of proposed assignments and reassignments and rights of objection for alternative control services**

12. Energex must make available information on tariff classes and dispute resolution procedures referred to in paragraph 7 above to retailers operating in Energex's distribution area.
13. If Energex receives a request for further information from a customer or customer's retailer in relation to a tariff class assignment or reassignment, then it must provide such information within a reasonable timeframe. If Energex reasonably claims confidentiality over any of the information requested, then it is not required to provide that information. If the customer or customer's retailer disagrees with such

confidentiality claims, he or she may have resort to the dispute resolution procedures referred to in paragraph 7 above, (as modified for a confidentiality dispute).

14. If a customer or customer's retailer makes an objection to Energex about the proposed assignment or re assignment, Energex must reconsider the proposed assignment or reassignment. In doing so Energex must take into consideration the factors in paragraphs 3 and 4 above, and notify the customer or customer's retailer in writing of its decision and the reasons for that decision.
15. If an objection to a tariff class assignment or reassignment is upheld by the relevant body noted in paragraph 7 above, then any adjustment which needs to be made to tariffs will be done by Energex as part of the next network bill.

### **System of assessment and review of the basis on which a retail customer is charged**

16. Where the charging parameters for a particular tariff result in a basis charge that varies according to the retail customer's usage or load profile, Energex will set out in its pricing proposal a method of how it will review and assess the basis on which a customer is charged.