

PRELIMINARY DECISION

SA Power Networks determination 2015−16 to 2019−20

Attachment 14 − Control mechanisms

April 2015

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1. Note
2. This attachment forms part of the AER's preliminary decision on SA Power Networks' 2015–20 distribution determination. It should be read with all other parts of the preliminary decision.
3. The preliminary decision includes the following documents:
4. Overview
5. Attachment 1 – Annual revenue requirement
6. Attachment 2 – Regulatory asset base
7. Attachment 3 – Rate of return
8. Attachment 4 – Value of imputation credits
9. Attachment 5 – Regulatory depreciation
10. Attachment 6 – Capital expenditure
11. Attachment 7 – Operating expenditure
12. Attachment 8 – Corporate income tax
13. Attachment 9 – Efficiency benefit sharing scheme
14. Attachment 10 – Capital expenditure sharing scheme
15. Attachment 11 – Service target performance incentive scheme
16. Attachment 12 – Demand management incentive scheme
17. Attachment 13 – Classification of services
18. Attachment 14 – Control mechanism
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21. Attachment 17 – Negotiated services framework and criteria
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1. 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 |
| 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 |

# Control mechanisms

1. The control mechanism imposes limits over the prices of direct control services, and/or the revenue from these services. For standard control services, the National Electricity Rules (NER) state the control mechanism must be of the prospective CPI–X form (or some incentive-based variant).[[1]](#footnote-1)

This attachment sets out the formulae for SA Power Networks' control mechanism, the revenue cap, 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[[2]](#footnote-2)
* the mechanism through which SA Power Networks will recover distribution use of system (DUoS) charges—including adjustments for revenue under or over recovery—in the 2015–20 regulatory control period[[3]](#footnote-3)
* how SA Power Networks must report to us on its recovery of designated pricing proposal charges and jurisdictional scheme amounts[[4]](#footnote-4)
* the procedures SA Power Networks must apply for assigning or reassigning retail customers to tariff classes.[[5]](#footnote-5)

## Preliminary decision

1. Our preliminary decision for SA Power Networks is as follows:
* the control mechanism for standard control services provided by SA Power Networks is a revenue cap.[[6]](#footnote-6)
* section 14.5.3 contains the formula that gives effect to the control mechanism for standard control services.[[7]](#footnote-7) The revenue cap for any given regulatory year is the total annual revenue (TAR) (for distribution services) for that regulatory year (calculated using the formula in figure 14.1) plus any adjustment required to move the DUoS under/over account to zero.
* the side constraints applying to the price movements of each SA Power Networks tariff class must be consistent with the formula in figure 14.2 below.
* SA Power Networks must demonstrate compliance with the control mechanism for standard control services in accordance with appendix A of this attachment.
* SA Power Networks 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.[[8]](#footnote-8)
* SA Power Networks must report to us its jurisdictional scheme amounts recovery in accordance with appendix C of this attachment.
* appendix D of this attachment contains the procedures SA Power Networks must apply for assigning retail customers to tariff classes or reassigning retail customers from one tariff class to another.

## SA Power Networks' proposal

1. SA Power Networks noted we will apply a revenue cap for standard control services in the 2015–20 regulatory control period.[[9]](#footnote-9) SA Power Networks also described its assumptions regarding the control mechanism, including the formula.[[10]](#footnote-10)

SA Power Networks supported the final framework and approach (final F&A) and proposed no change in most matters. SA Power Networks noted it is currently under a variant of the STPIS and proposed a method to transition to the national scheme.[[11]](#footnote-11)

## AER’s assessment approach

1. In our final F&A we decided the control mechanism for standard control services would be a revenue cap. The basis must be of the prospective CPI–X form (or some incentive-based variant).[[12]](#footnote-12) We also stated we would finalise certain aspects of the control mechanism during the distribution determination process.[[13]](#footnote-13)
2. 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. This approach:
* satisfies the requirements of the NER

confirms our decision in the final F&A decision to apply a revenue cap control mechanism for SA Power Networks' standard control services in the 2015–20 regulatory control period.

## Reasons for preliminary decision

In our final F&A we deliberately set out a generic formula to give effect to the control mechanism for standard control services.[[14]](#footnote-14) The NER requires our final F&A to include a formula for the control mechanism.[[15]](#footnote-15) The control formula requires parameters that we would complete in our final distribution determination. This preliminary decision clarifies our position regarding the control formula and its respective parameters.

## Application of the revenue cap

1. Total annual revenue

The revenue cap for any given regulatory year is the total annual revenue (TAR) for distribution services.[[16]](#footnote-16) Figure 14.1 contains the formula that gives effect to the revenue cap.[[17]](#footnote-17)

1. Incentive Adjustment

SA Power Networks was silent on closing off the demand management incentive scheme applying in the 2010–15 regulatory control period.

We consider SA Power Networks should recover the final carryover amount through the pricing proposal process as this was the approach we decided in the scheme. We have incorporated the final carryover amount in the control mechanism and side constraint formulas (see figure 14.1 and figure 14.2).

S-factor

SA Power Networks accepted our decision to apply an annual adjustment to revenue from distribution services, as a consequence of the operation of an incentive scheme. As discussed in the service standards attachment, we will apply a Service Target Performance Incentive Scheme (S-factor) to SA Power Networks in the 2015–20 regulatory control period.

Intra-period adjustment to WACC

We consider that changes to revenue resulting from the annual return on debt update should be implemented through revising the X-factors.

The attachment on the cost of capital discusses the WACC adjustment. The revenue attachment details issues relating to 'X-factors'.

1. Annual adjustment (B-factor)
2. In the final framework and approach, we stated the B-factor will encompass the sum of annual adjustment factors in year t. It would likely incorporate, but not be limited to, adjustments for the overs and unders account. We stated we would decide the definition of the B-factor in the final decision.[[18]](#footnote-18)
3. We have omitted the B-factor from the revenue cap formula in this preliminary decision. The instructions for compliance with the control mechanism already require consideration of the DUoS unders and overs account (see section 14.5.3). This is consistent with our approach in previous distribution determinations where a revenue cap applied. Further, SA Power Networks did not propose other amendments to the B-factor definition.
4. Annual adjustment (C-factor)
5. The generic formulaic expression in our final F&A does include a factor in the total annual revenue to adjust for approved pass through amounts. At that time we envisaged that any approved pass through amounts would be adjusted for as part of the C-factor.[[19]](#footnote-19) SA Power Networks will recover approved pass throughs via the C-factor during the 2015–20 regulatory control period.

Under and over recovery mechanism for DUoS

1. Under a revenue cap, SA Power Networks' revenues are adjusted annually to clear any under or over recovery of actual revenue collected through DUoS charges. Under these arrangements, there is generally a two year lag between the year in which the DUoS under or over recovery occurs and the year in which adjustments are made to prices to ‘clear’ the under or over recovery. This method creates a smoothing of the under and over recovery amounts for designated pricing proposal charges because it provides more updated and accurate estimated and forecast data. Appendix A details the operation of this method.
2. The under and over recovery mechanism in appendix A for DUoS is consistent with the TUoS unders and overs mechanism in the 2010–15 regulatory control period.[[20]](#footnote-20)

Under and over recovery mechanism for designated pricing proposal charges

1. The NER requires us to make a decision on how SA Power Networks will report on the recovery of designated pricing proposal changes, including under and over recovery.[[21]](#footnote-21) We will apply an under and over recovery mechanism to smooth the impact of over and under recovery into tariffs year on year. Appendix B details the operation of this method.

The under and over recovery mechanism in appendix B is consistent with the TUoS unders and overs mechanism in the 2010–15 regulatory control period.[[22]](#footnote-22)

### Reporting on jurisdictional scheme amounts

1. We must decide how SA Power Networks will report recovery of jurisdictional scheme amounts for each year of the regulatory control period. This includes adjustments necessary to account for over or under recovery of those charges.[[23]](#footnote-23) Appendix C details the operation of this method.

SA Power Networks expected similar arrangements to the pass-through controls for TUoS will apply in the 2015–20 regulatory control period.[[24]](#footnote-24) We agree with SA Power Networks. The under and over recovery mechanism in appendix C is consistent with the TUoS unders and overs mechanism in the 2010–15 regulatory control period.[[25]](#footnote-25)

### Side constraints

We consider the application of the unders and overs in the side constraint formula provides for the appropriate treatment of these revenue adjustments.[[26]](#footnote-26)

For each year after the first year of each regulatory period, side constraints will apply to the weighted average revenue to be raised from each tariff class. In accordance with NER, the permissible percentage increase is the greater of CPI–X plus 2 per cent or CPI plus 2 per cent. Recovery of revenue to accommodate cost pass throughs and pass through of designated pricing proposal charges and jurisdictional scheme amounts is disregarded in deciding whether the permissible percentage has been exceeded.

Jurisdictional derogation

We were required to apply the following side constraint to distribution tariffs for small customers for the 2010−15 regulatory control period:[[27]](#footnote-27)

The fixed supply charge component of the tariff must not increase by more than $10 from one regulatory year to the next.

However, this derogation does not apply for the forthcoming period and we are required to decide whether the above side constraint should continue with or without modification for the 2015−20 regulatory control period. Our preliminary decision is to remove the jurisdictional specific side constraint on the fixed supply charge component of the distribution tariff. This is because a national framework for managing issues of tariff volatility has been implemented. As discussed in our F&A for SAPN,[[28]](#footnote-28) we acknowledge that price stability through constraints on tariff movements or other consumer protection measures are an important issue for consumers. However, such measures should be considered and applied consistently as part of a national framework.

We did not receive any further submissions on this issue since setting out our proposed approach in the final F&A. As explained there, the AEMC was expected to make changes to network pricing arrangements arising from the Power of Choice Review and the subsequent COAG EC rule amendments.[[29]](#footnote-29) The AEMC has now made a rule change which establishes a new pricing objective and new pricing principles for distribution businesses. The changes will require that network prices reflect the efficient costs of providing network services.[[30]](#footnote-30)

Under the national framework distributors will need to comply with new pricing principles that require the direct consideration of the impacts on customers of changes in their tariff structures from one year to the next. In doing so, the principles require that distributors have regard to the need to transition customers over a period of time – even beyond a single regulatory control period.

Distributors will also have to provide a tariff structure statement for a five year period, providing consumers with expectations on the tariff structures that are to be offered by distributors. Attached to this tariff structure statement will also be a schedule of indicative price levels, to provide broad expectations to consumers on likely tariff level movements.

Therefore, the new rules introduce a dialogue based framework for distributors to manage issues of movements in tariffs together with stakeholders—using the tariff structure statement as the basis for that dialogue and the new customer impact pricing principles as the impetus.

Network prices based on the new pricing objective and pricing principles will be gradually phased in from 2017. Under the new rule, SA Power Networks will need to submit its initial tariff structure statement to us by late 2015 and for this to be approved by mid-2016.

Given the rule change has occurred, our preliminary decision is to remove the side constraint on the fixed supply charge component of the distribution tariff.

### Control mechanism formulas

1. Prescribed (Distribution) services
2. SA Power Networks’ pricing proposals must submit to the AER proposed tariffs and charging parameters. SA Power Networks’ revenues must be consistent with the total annual revenue formula set out below plus any unders and overs adjustment needed to move the balance of its DUoS unders and overs account to zero.

Figure 14.1 Revenue cap formula

1. $TAR\_{t}\geq \sum\_{i=1}^{n}\sum\_{j=1}^{m}p\_{t}^{ij}q\_{t}^{ij}$ i=1,...,n and j=1,...,m and t=1,...,5
2. $TAR\_{t}=AR\_{t}\pm I\_{t}\pm C\_{t}$
3. $AR\_{t}=AR\_{t-1}\left(1+∆CPI\_{t}\right)\left(1-X\_{t}\right)\left(1+S\_{t}\right)$
4. Where:

$TAR\_{t}$ is total annual revenue in year t.

$p\_{t}^{ij}$ is the price of component i of tariff j in year t.

$q\_{t}^{ij}$ is the forecast quantity of component i of tariff j in year t.

$AR\_{t}$ is the annual smoothed expected revenue for 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 deducted from/added to allowed revenue in the 2016-17 pricing proposal.

$C\_{t}$ is the approved pass through amounts (positive or negative) with respect to regulatory year t, as determined by the AER.

$∆CPI\_{t}$ is the annual percentage change in the Australian Bureau of Statistics (ABS) Consumer Price Index All Groups, Weighted Average of Eight Capital Cities from December in year t–2 to December in year t–1. For example, for the 2015–16 year, t–2 is December 2013 and t–1 is December 2014 and in the 2016–17 year, t–2 is December 2014 and t–1 is December 2015 and so on.

$X\_{t}$ the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the return on debt appendix I calculated for the relevant year.

1. $S\_{t}$ is the STPIS factor sum of the raw s-factors for all reliability of supply and customer service parameters (as applicable) to be applied in year t.[[31]](#footnote-31)

Side constraints

SA Power Networks must demonstrate in its pricing proposal that proposed DUoS prices for the next year (t) will meet the side constraints formula in figure 14.2 for each tariff class.[[32]](#footnote-32)

Figure 14.2 Side constraints

1. 
2. where each tariff class has up to ‘m’ components, and where:

$d\_{t}^{j}$ is the proposed price for component ‘j’ of the tariff class for year t

$d\_{t-1}^{j}$ is the price charged by SA Power Networks for component ‘j’ of the tariff class in year t–1

$q\_{t}^{j}$ is the forecast quantity of component ‘j’ of the tariff class in year t

1. $∆CPI\_{t}$ is the annual percentage change in the Australian Bureau of Statistics (ABS) CPI All Groups, Weighted Average of Eight Capital Cities from December in year t-2 to December in year t-1.

$X\_{t}$ is the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the return on debt appendix I 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 STPIS factor sum of the raw s-factors for all reliability of supply and customer service parameters (as applicable) to be applied in year t.[[33]](#footnote-33)

1.  is 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.

 is the sum of adjustments relating to pass through events.

$DUoS\_{t}$ is an annual adjustment factor related to the balance of the DUoS unders and overs account with respect to regulatory year t

1. With the exception of the CPI and X factors, 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).
2. DUoS unders and overs account

To demonstrate compliance with its distribution determination in the 2015–20 regulatory control period, SA Power Networks must maintain a DUoS unders and overs account in its annual pricing proposal under clause 6.18.2(b)(7) of the NER.

1. SA Power Networks 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):
2. opening balance for year t-2, year t-1 and year t;
3. an interest charge for one year on the opening balance for each regulatory year (t-2, t-1 and t). These adjustments are to be calculated using the approved nominal WACC.
4. the amount of revenue recovered from DUoS charges in respect of that year, less the total annual revenue for the year in question;
5. an adjustment to the net amount in item 6 by six months of interest. These adjustments are to be calculated using the approved nominal WACC.
6. the total of items 1–4 to derive the closing balance for each year.

SA Power Networks 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. Those provided for the current regulatory year (t-1) will be regarded as an estimate. Amounts provided for the next regulatory year (t) will be regarded as a forecast.

In proposing variations to the amount and structure of DUoS charges, SA Power Networks is to achieve an expected zero balance on their DUoS unders and overs accounts in each forecast year in its annual pricing proposals in the 2015–20 regulatory control period.

The proposed prices for year t are based on the sum of the total annual revenue for year t plus any adjustment for DUoS under or over recoveries.

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

|  | Year t–2 (actual) | Year t-1 (estimate) | Year t (forecast) |
| --- | --- | --- | --- |
| Revenue from DUoS charges | 46,779 | 37,297 | 59,575 |
| Less TAR for the relevant year | 43,039 | 43,012 | 59,927 |
| Smooth revenues (ARt) | 43,039 | 43,010 | 59,913 |
|  Approved pass throughs (pass through) | 0 | 2 | 14 |
| Under/over recovery for regulatory year | 3,740 | -5,715 | -352 |
| DUoS unders and overs account |  |  |  |
| Nominal WACC (per cent) | 8.79 | 8.79 | 8.06 |
| Opening balance | 1,737 | 5,791 | 339 |
| Interest on opening balance | 153 | 509 | 27 |
| Under/over recovery for regulatory year | 3,740 | -5,715 | -352 |
| Interest on under/over recovery for regulatory year | 161 | -246 | -14 |
| Closing balance | 5,791 | 339 | 0 a |

Notes: (a) SA Power Networks must achieve an expected zero balance on their DUoS unders and overs accounts in each forecast year in its annual pricing proposals in the 2015–20 regulatory control period.

1. Unders and overs account for designated pricing proposal charges

To demonstrate compliance with its distribution determination in the 2015–20 regulatory control period, SA Power Networks must maintain an unders and overs account for designated pricing proposal charges in its annual pricing proposal under clause 6.18.2(b)(6).

SA Power Networks must provide the amounts for the following entries in its unders and overs account for designated pricing proposal charges for the most recently completed regulatory year (t-2), the current regulatory year (t-1) and the next regulatory year (t):

1. opening balance for year t-2, year t-1 and year t;
2. an interest charge for one year on the opening balance for each regulatory year (t-2, t-1 and t). These adjustments are to be calculated using the approved nominal WACC.
3. the amount of revenue recovered from designated pricing proposal charges in respect of that year, less the amounts of designated pricing proposal related payments made by SA Power Networks in respect of that year;
4. an adjustment to the net amount in item 11 by six months of interest. These adjustments are to be calculated using the approved nominal WACC.
5. the total of items 1–4 to derive the closing balance for each year.

SA Power Networks 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 provided for the current regulatory year (t-1) will be regarded as an estimate. 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 for a given regulatory year t, SA Power Networks is to achieve a zero expected balance on its unders and overs account for designated pricing proposal charges at the end of each of the forecast years in the 2015–20 regulatory control period.

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

|  | Year t–2 (actual) | Year t-1 (estimate) | Year t (forecast) |
| --- | --- | --- | --- |
| Revenue from designated pricing proposal charges | 40,077 | 34,944 | 36,607 a |
| Less total transmission related payments | 34,365 | 38,734 | 39,200 |
| Transmission charges to be paid to TNSP | 33,793 | 38,000 | 38,400 |
| Avoided TUOS payments  | 572 | 734 | 800 |
| Under/over recovery for regulatory year | 5,712 | -3,790 | -2,593 |
| Unders and overs account for designated pricing proposal charges |  |  |  |
| Nominal WACC (per cent) | 8.28 | 8.28 | 8.28 |
| Opening balance | 0 | 5,944 | 2,492 |
| Interest on opening balance | 0 | 492 | 206 |
| Under/over recovery for regulatory year | 5,712 | -3,790 | -2,593 |
| Interest on under/over recovery for regulatory year | 232 | -154 | -105 |
| Closing balance | 5,944 | 2,492 | 0 |

Notes: (a) Forecast revenue from designated pricing proposal charges will be set to achieve an expected zero balance in the unders and overs account for designated pricing proposal charges for year t.

1. Reporting on recovery of jurisdictional schemes

To demonstrate compliance with its distribution determination in the 2015–20 regulatory control period, SA Power Networks must maintain a jurisdictional scheme unders and overs account in its annual pricing proposal under clause 6.18.2(b)(6A) of the NER.[[34]](#footnote-34)

SA Power Networks must provide the amounts for the following entries in its jurisdictional schemes unders and overs account for the most recently completed regulatory year (t-2), the current regulatory year (t-1) and the next regulatory year (t):

1. opening balance for year t-2, year t-1 and year t;
2. an interest charge for one year on the opening balance for each regulatory year (t-2, t-1 and t). These adjustments are to be calculated using the approved nominal WACC.
3. the amount of revenue recovered from jurisdictional scheme related charges applied in respect of that year, less the amounts of all jurisdictional scheme related payments made by SA Power Networks in respect of that year;
4. an adjustment to the net amount in item 16 by six months of interest. These adjustments are to be calculated using the approved nominal WACC.
5. the total of items 1–4 to derive the closing balance for each year.

Table 14.3 provides an example calculation of the jurisdictional schemes unders and overs account. Amounts provided for the most recently completed regulatory year (t-2) must be audited. Amounts provided for the current regulatory year (t-1) will be regarded as an estimate. Amounts for the next regulatory year (t) will be regarded as a forecast.

In proposing variations to the amount and structure of jurisdictional schemes charges for a given regulatory year t, SA Power Networks is to achieve a zero expected balance on its unders and overs account for designated pricing proposal charges at the end of each of the forecast years in the 2015–20 regulatory control period.

Table 14.3 Example calculation of jurisdictional schemes unders and overs account ($000, nominal)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Year t–2 (actual) | Year t-1 (estimate) | Year t (forecast) |
| Revenue from jurisdictional schemes |  19,777  |  23,121  |  26,881  |
| Jurisdictional scheme 1 payments  |  14,159  |  13,954  |  13,961  |
| Jurisdictional scheme 2 payments  |  6,113  |  7,005  |  14,680  |
| Total payments form jurisdictional scheme |  20,272  |  20,959  |  28,641  |
| Over (under) recovery for financial year | -495 | 2162 | -1760 |
| **Overs and unders account** |   |   |   |
| Annual rate of interest applicable to balances (per cent) | 8.79 | 8.79 | 8.06 |
| Opening balance  |  -  | - 517  |  1,693  |
| Interest on opening balance  |  -  | - 45  |  136  |
| Over/ under recovery for financial year  | - 495  |  2,162  | -1,760  |
| Interest on over/ under recovery  | - 22  |  93  | -69  |
| Closing balance  | - 517  |  1,693  | 0  |

1. Assigning retail customers to tariff classes

We are required to decide on the principles governing assignment or reassignment of retail customers to or between tariff classes.[[35]](#footnote-35) There is no requirement on SA Power Networks to propose such procedures and consequently we must develop the required procedure.

* 1. AER's approach
1. We apply the principles set out in clause 6.18.4(a) of the NER when formulating the provisions which SA Power Networks must apply with assignment or re-assigning retail customers to tariff classes. A distributor's decision to assign a retail customer to a particular tariff class or to re-assign a retail customer from one tariff class to another should be subject to an effective system of assessment and review.[[36]](#footnote-36)
	1. Reasons for preliminary decision

The following procedures governing the assignment or reassignment of retail customers to tariff classes will apply for SA Power Networks because its regulatory proposal did not submit a procedure for our assessment.

* 1. Procedures for assigning or reassigning retail customers to tariff classes

The procedures outlined in this section apply to all direct control services.

**Assignment of existing retail customers to tariff classes at the commencement of the forthcoming regulatory control period**

* 1. SA Power Networks' retail customers will be taken to be “assigned” to the tariff class which SA Power Networks was charging that retail customer immediately prior to 1 July 2015 if:
* they were an SA Power Networks retail customer prior to 1 July 2015
* they continue to be a retail customer of SA Power Networks as at 1 July 2015.

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

* 1. If, after 1 July 2015, SA Power Networks becomes aware that a person will become a retail customer of SA Power Networks, then SA Power Networks must determine the tariff class to which the new retail customer will be assigned.
	2. In determining the tariff class to which a retail customer or potential retail customer will be assigned, or reassigned, in accordance with paragraphs 2 or 5 of this section, SA Power Networks must take into account one or more of the following factors:[[37]](#footnote-37)
		1. the nature and extent of the retail customer’s usage
		2. the nature of the retail customer’s connection to the network[[38]](#footnote-38)
		3. whether remotely-read interval metering or other similar metering technology has been installed at the retail customer's premises as a result of a regulatory obligation or requirement.
	3. In addition to the requirements of paragraph 3 above, SA Power Networks, when assigning or reassigning a retail customer to a tariff class, must ensure:
		1. retail customers with similar connection and usage profiles are treated equally[[39]](#footnote-39)
		2. retail customers who have micro–generation facilities are not treated less favourably than retail customers with similar load profiles without such facilities.[[40]](#footnote-40)

****Reassignment of existing retail customers to another existing or a new tariff during the next regulatory control period****

* 1. SA Power Networks may reassign a retail customer to another tariff class if the existing retail customer's load characteristics or connection characteristics (or both) have changed such that it is no longer appropriate for that retail customer to be assigned to the tariff class to which the retail customer is currently assigned or a retail customer no longer has the same or materially similar load or connection characteristics as other retail customers on the retail customer’s existing tariff class, then it may reassign that retail customer to another tariff class. In determining the tariff class to which a retail customer will be reassigned, SA Power Networks must take into account paragraphs 3 and 4 above.

****Objections to proposed assignments and reassignments****

* 1. SA Power Networks must notify a customer's retailer in writing of the tariff class to which the retail customer has been assigned or reassigned, prior to the assignment or reassignment occurring.
	2. A notice under paragraph 6 above must include advice informing the customer's retailer that they may request further information from SA Power Networks and that the retail customer may object to the proposed reassignment. This notice must specifically include:
		1. a written document describing SA Power Networks’ internal procedures for reviewing objections, if the customer's retailer provides express consent, a soft copy of such information may be provided via email
		2. that if the objection is not resolved to the satisfaction of the customer's retailer under SA Power Networks’ internal review system within a reasonable timeframe, then, to the extent resolution of such disputes are within the jurisdiction of the South Australian Energy Industry Ombudsman, or like officer, the customer's retailer is entitled to escalate the matter to such a body
		3. that if the objection is not resolved to the satisfaction of the customer's retailer under SA Power Networks’ internal review system and the body noted in clause 7.b above, then the customer or its retailer is entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the NEL.
	3. If, in response to a notice issued in accordance with paragraph 7 above, SA Power Networks receives a request for further information from a customer's retailer, then it must provide such information within a reasonable timeframe. If SA Power Networks reasonably claims confidentiality over any of the information requested by the customer's retailer, then it is not required to provide that information to the customer's retailer. If the customer's retailer disagrees with such confidentiality claims, he or she may have resort to the dispute resolution procedures referred to in section 7.a (as modified for a confidentiality dispute).
	4. If, in response to a notice issued in accordance with paragraph 7 above, a customer's retailer makes an objection to SA Power Networks about the proposed assignment or reassignment, SA Power Networks must reconsider the proposed assignment or reassignment. In doing so SA Power Networks must take into consideration the factors in paragraphs 3 and 4 above, and notify the customer's retailer in writing of its decision and the reasons for that decision.
	5. If a customer's retailer’s objection to a tariff class assignment or reassignment is upheld by the relevant body noted in paragraph 7.b and 7.c above, then any adjustment which needs to be made to tariffs will be done by SA Power Networks as part of the next annual review of prices.
	6. If a customer's retailer objects to SA Power Networks' tariff class assignment SA Power Networks 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's retailer and resolution of the objection.

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

* 1. Where the charging parameters for a particular tariff result in a basis of charge that varies according to the retail customer’s usage or load profile, SA Power Networks must set out in its annual pricing proposal a method by which it will review and assess the basis on which a retail customer is charged.
1. NER, clause 6.2.6(a). [↑](#footnote-ref-1)
2. NER, cl 6.12.1(13). [↑](#footnote-ref-2)
3. NER, cl 6.12.1(11). [↑](#footnote-ref-3)
4. NER, cl 6.12.1(19) and 6.12.1(20). [↑](#footnote-ref-4)
5. NER, cl 6.12.1(17). [↑](#footnote-ref-5)
6. AER, Final framework and approach for SA Power Networks: Regulatory control period commencing 1 July 2015, April 2014, p. 39. [↑](#footnote-ref-6)
7. NER, cl 6.12.1(11). [↑](#footnote-ref-7)
8. We referred to this as the ‘TUoS unders and overs account’ in previous distribution determinations. In this preliminary decision, we use the term ‘designated pricing proposal charges’ to reflect the wording of the NER (cl 6.12.1(19)). [↑](#footnote-ref-8)
9. SA Power Networks, Regulatory proposal 2015–20, 31 October 2014, p. 171. [↑](#footnote-ref-9)
10. SA Power Networks, Regulatory proposal, 31 October 2014, pp. 171, 351–356. [↑](#footnote-ref-10)
11. SA Power Networks, Regulatory proposal, 31 October 2014, p. 77. [↑](#footnote-ref-11)
12. AER, Final framework and approach for SA Power Networks: Regulatory control period commencing 1 July 2015, April 2014, p. 41; NER, cl 6.2.6(a). [↑](#footnote-ref-12)
13. AER, Framework and approach paper, April 2014, pp. 49–50. [↑](#footnote-ref-13)
14. AER, Framework and approach paper, April 2014, pp. 49–50. [↑](#footnote-ref-14)
15. NER, cl 6.8.1(b)(2)(ii). [↑](#footnote-ref-15)
16. The final F&A included the term 'total revenue' (TR) in the revenue cap formula. In the NER, the term 'total revenue' generally refers to revenue for an entire regulatory control period. To avoid confusion, this preliminary decision uses 'total annual revenue'. [↑](#footnote-ref-16)
17. NER, cl 6.12.1(11). [↑](#footnote-ref-17)
18. AER, Framework and approach paper, April 2014, p. 50. [↑](#footnote-ref-18)
19. AER, Framework and approach paper, April 2014, p. 50. [↑](#footnote-ref-19)
20. NER, cl 6.2.5(c)(3) and 6.2.5(c)(4); AER, Final decision: South Australia distribution determination 2010–11 to 2014–15, May 2010, pp. 322–323. [↑](#footnote-ref-20)
21. NER, cl 6.12.1(19). [↑](#footnote-ref-21)
22. NER, cl 6.2.5(c)(3) and 6.2.5(c)(4); AER, Final decision: South Australia distribution determination 2010–11 to 2014–15, May 2010, pp. 322–323. [↑](#footnote-ref-22)
23. NER, cl 6.12.1 (20). [↑](#footnote-ref-23)
24. SA Power Networks, Regulatory proposal 2015–20, 31 October 2014, p. 362. [↑](#footnote-ref-24)
25. NER, cl 6.2.5(c)(3) and 6.2.5(c)(4); AER, Final decision: South Australia distribution determination 2010–11 to 2014–15, May 2010, pp. 322–323. [↑](#footnote-ref-25)
26. NER, cl 6.18.6. [↑](#footnote-ref-26)
27. NER, cl. 9.29.5(d). This is a jurisdictional derogation in the NER. The $10 side constraint to the fixed supply charge for small customers under the jurisdictional derogation is in addition to the 2 per cent tariff basket side constraints under cl. 6.18.6 of the NER. [↑](#footnote-ref-27)
28. AER, Final framework and approach for SAPN, April 2014, pp. 77−78. [↑](#footnote-ref-28)
29. AEMC, Power of choice review −giving consumers options in the way they use electricity, Final report, 30 November 2012. [↑](#footnote-ref-29)
30. AEMC, National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014 No. 9, 27 November 2014. [↑](#footnote-ref-30)
31. 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. [↑](#footnote-ref-31)
32. NER, cl. 6.18.6 [↑](#footnote-ref-32)
33. 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. [↑](#footnote-ref-33)
34. NER, cl. 6.18.7A(a) to (c). [↑](#footnote-ref-34)
35. NER, cl 6.12.1(17). [↑](#footnote-ref-35)
36. NER, cl 6.18.4(a)(4) [↑](#footnote-ref-36)
37. NER, cl 6.18.4(a)(i). [↑](#footnote-ref-37)
38. The AER interprets 'nature' to include the installation of any technology capable of supporting time based tariffs. [↑](#footnote-ref-38)
39. NER, cl 6.18.4(2). [↑](#footnote-ref-39)
40. NER, cl 6.18.4(3). [↑](#footnote-ref-40)