

Draft Decision

ActewAGL distribution determination

2015–16 to 2018–19

Attachment 14: Control mechanisms

November 2014

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1. AER reference: 52254
2. Note
3. This attachment forms part of the AER's draft decision on ActewAGL’s 2015–19 distribution determination. It should be read with other parts of the draft decision.
4. The draft decision includes the following documents:
5. Overview
6. Attachment 1 – Annual revenue requirement
7. Attachment 2 – Regulatory asset base
8. Attachment 3 – Rate of return
9. Attachment 4 – Value of imputation credits
10. Attachment 5 – Regulatory depreciation
11. Attachment 6 – Capital expenditure
12. Attachment 7 – Operating expenditure
13. Attachment 8 – Corporate income tax
14. Attachment 9 – Efficiency benefit sharing scheme
15. Attachment 10 – Capital expenditure sharing scheme
16. Attachment 11 – Service target performance incentive scheme
17. Attachment 12 – Demand management incentive scheme
18. Attachment 13 – Classification of services
19. Attachment 14 – Control mechanism
20. Attachment 15 – Pass through events
21. Attachment 16 – Alternative control services
22. Attachment 17 – Negotiated services framework and criteria
23. Attachment 18 – Connection methodology
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1. Shortened forms

| 1. Shortened form
 | 1. Extended form
 |
| --- | --- |
| 1. AARR
 | 1. aggregate annual revenue requirement
 |
| 1. AEMC
 | 1. Australian Energy Market Commission
 |
| 1. AEMO
 | 1. Australian Energy Market Operator
 |
| 1. AER
 | 1. Australian Energy Regulator
 |
| 1. ASRR
 | 1. aggregate service revenue requirement
 |
| 1. augex
 | 1. augmentation expenditure
 |
| 1. capex
 | 1. capital expenditure
 |
| 1. CCP
 | 1. Consumer Challenge Panel
 |
| 1. CESS
 | 1. capital expenditure sharing scheme
 |
| 1. CPI
 | 1. consumer price index
 |
| 1. CPI-X
 | 1. consumer price index minus X
 |
| 1. DRP
 | 1. debt risk premium
 |
| 1. DMIA
 | 1. demand management innovation allowance
 |
| 1. DMIS
 | 1. demand management incentive scheme
 |
| 1. distributor
 | 1. distribution network service provider
 |
| 1. DUoS
 | 1. distribution use of system
 |
| 1. EBSS
 | 1. efficiency benefit sharing scheme
 |
| 1. ERP
 | 1. equity risk premium
 |
| 1. expenditure assessment guideline
 | 1. expenditure forecast assessment guideline for electricity distribution
 |
| 1. F&A
 | 1. framework and approach
 |
| 1. MRP
 | 1. market risk premium
 |
| 1. NEL
 | 1. national electricity law
 |
| 1. NEM
 | 1. national electricity market
 |
| 1. NEO
 | 1. national electricity objective
 |
| 1. NER
 | 1. national electricity rules
 |
| 1. NSP
 | 1. network service provider
 |
| 1. opex
 | 1. operating expenditure
 |
| 1. PPI
 | 1. partial performance indicators
 |
| 1. PTRM
 | 1. post-tax revenue model
 |
| 1. RAB
 | 1. regulatory asset base
 |
| 1. RBA
 | 1. Reserve Bank of Australia
 |
| 1. repex
 | 1. replacement expenditure
 |
| 1. RFM
 | 1. roll forward model
 |
| 1. RIN
 | 1. regulatory information notice
 |
| 1. RPP
 | 1. revenue pricing principles
 |
| 1. SAIDI
 | 1. system average interruption duration index
 |
| 1. SAIFI
 | 1. system average interruption frequency index
 |
| 1. SLCAPM
 | 1. Sharpe-Lintner capital asset pricing model
 |
| 1. STPIS
 | 1. service target performance incentive scheme
 |
| 1. WACC
 | 1. weighted average cost of capital
 |

# Control mechanism for standard control services

1. The control mechanism imposes limits over the prices of direct control and alternative control services, and/or the revenue to be derived from these services. Our stage 1 framework and approach paper determined that the control mechanism should:
* be of the prospective CPI-X form (or some incentive-based variant)
* accord with Part C of chapter 6 of the NER
* have a basis as specified in the AER's draft and final distribution determinations.[[1]](#footnote-1)

This chapter sets out the final formulaic expression of the revenue cap for the 2015–19 regulatory control period. It discusses:

* how the average revenue cap will be applied
* how we will determine compliance with the price controls
* the mechanism through which ActewAGL will recover transmission and distribution use of system charges (TUoS and DUoS)—including adjustments for revenue under or over recovery—in the 2015–19 regulatory control period.[[2]](#footnote-2)

Also discussed is how ActewAGL must report to us on its recovery of jurisdictional scheme amounts and its procedures for assigning or reassigning retail customers to tariff classes.[[3]](#footnote-3)

## Draft decision

1. Our draft decision for ActewAGL is as follows:
* The control mechanism for standard control services provided by ActewAGL is an average revenue cap.[[4]](#footnote-4) This was set out in or stage 1 framework and approach paper.
* The average revenue cap for any given regulatory year is the average annual revenue requirement (AARR) (for distribution services) plus the maximum average allowable revenue (MAAR) (for transmission services) for that regulatory year (calculated using the formula in section 14.5.5) plus any adjustment required to move the DUoS and TUoS under/over account to zero.
* The side constraints applying to the price movements of each ActewAGL's tariff class must be consistent with the formula in section 14.5.5.
* ActewAGL must demonstrate compliance with the control mechanism for standard control services in accordance with appendices A and B.
* ActewAGL must submit, in its annual pricing proposal, a record of the amount of revenues recovered from TUoS charges and associated payments in accordance with appendix B.
* ActewAGL must report to us its jurisdiction scheme amounts recovery in accordance with appendix C of this draft decision.
* The procedures to be applied by ActewAGL for assigning retail customers to tariff classes or re-assigning retail customers from one tariff class to another are specified in appendix D.

## ActewAGL's proposal

1. ActewAGL proposed an average revenue cap for standard control services in accordance with our stage 1 framework and approach paper.[[5]](#footnote-5)

## AER's assessment approach

1. Our stage 1 framework and approach paper decided the control mechanism for standard control services would be an average revenue cap. We also stated our distribution determination would set out the basis of the control mechanism. The basis must be of the prospective CPI-X form (or some incentive-based variant).[[6]](#footnote-6)
2. ActewAGL accepted our high level control mechanism for standard control services as set out in our stage 1 framework and approach paper.[[7]](#footnote-7)
3. In determining the control mechanism for standard control services, we must consider the factors in clause 6.2.5(c) of the NER for each revenue adjustment mechanism proposed and its application. This approach (1) satisfies the requirements of the NER and (2) reaffirms the framework and approach paper's decision to apply a revenue cap control mechanism for ActewAGL's standard control services in the next regulatory control period.

## Reasons for draft decision

Our stage 1 framework and approach paper deliberately set out a generic formula to give effect to the control mechanism for standard control services.[[8]](#footnote-8) The NER requires our framework and approach paper to include a control formula for the control mechanism even though the control formula requires parameters that would only be completed in our final distribution determination. This draft decision clarifies our position regarding the control formula and its respective parameters.

## Application of the revenue cap

Annual revenue requirement as opposed to maximum allowable revenue

1. The revenue cap for any given regulatory year is the average annual revenue requirement (AARR) for distribution services and not the maximum average allowable revenue (MAAR). We consider this change necessary to reflect chapter 6 of the NER.

Incentive Adjustment

1. ActewAGL accepted our decision that an annual adjustment should be applied to the AARR for revenue from distribution services, as a consequence of the operation of an incentive scheme. As stated in the service standards attachment we will apply a Service Target Performance Incentive Scheme (S-factor) to ActewAGL in the 2015–19 period.[[9]](#footnote-9)

Transitional Adjustment (T-factor)

We included a transitional adjustment parameter in our control formula to account for the difference in the notional revenue for the 2014-15 regulatory year established in this decision and the placeholder revenue in our transitional decision for NSW and ACT. We consider that a transitional adjustment parameter is no longer required as we have taken into account this difference as part of the true-up in establishing the smoothed total revenues over the 2015-19 period for this decision. Refer to the revenue attachment for further details on the true-up.

Annual adjustment (B-factor): pass through and metering residual values

1. Our stage 1 framework and approach paper included an annual adjustment (B-factor) to account for any differences in revenue recovered compared to AARR for any given year. In its regulatory proposal ActewAGL accepted our B-factor.
2. We consider that the B-factor should account for:
* approved pass through amounts
* residual metering asset costs from alternative control exit fees.

Adding DUoS unders and overs to the B factor would over complicate the mechanism. Consequently we consider that DUoS unders and overs recovery should be accounted for as an additional factor outlined in section 14.5.1 below.

Approved pass through amounts

1. The generic formulaic expression in our framework and approach paper does include a factor to adjust the AARR for approved pass through amounts. At that time we envisaged that any approved pass through amounts would be adjusted for as part of the B-factor. Approved pass throughs will be recovered via the B-factor during 2015–19.
2. We consider that the control mechanism should be adjusted for any cost pass through amounts that we approve. This is consistent with our previous decisions on distribution control mechanisms.

Residual metering assets costs from alternative control exit fees

We consider that recovering residual metering costs[[10]](#footnote-10) by way of a lump sum unbundled exit fee in alternative control services would:

* not promote efficient long term outcomes for consumers and
* may also stymie meter switching given the lack of connection between a these costs and a customer’s exact metering specifications.

We therefore consider that recovering these residual costs by way of an adjustment to standard control services would least distort efficient outcomes. Our detailed discussion on residual metering costs is found in the metering attachment of this draft decision.

1. To limit price shocks we have determined that ActewAGL will implement tolerance limits to its recovery of residual metering asset costs from alternative control service exit fees. If the residual metering asset costs under/over recovery compared to the AARR for year t are:
* less than two per cent, the residual metering assets costs under/over recovery will be cleared within one regulatory year
* greater than two per cent, the residual metering assets costs under/over recovery will be recovered in the remainder of the regulatory control period.

### Under and over recovery mechanism for DUoS

1. DUoS charges are recovered from distribution customers through the pricing proposal. ActewAGL's proposal is silent on the unders and overs mechanism. In accordance with the price controls we will apply an unders and overs mechanism in the side constraint formula because it reduces the likelihood of price shocks. This method also creates a smoothing of the DUoS under and over recovery amounts because it provides more updated and accurate estimated and forecast data. It is also consistent with our approach current approach for ActewAGL.
2. We are also required to make a decision on how ActewAGL will report to us on the recovery of designated pricing proposal charges (DUoS unders and overs account).[[11]](#footnote-11) The operation of this method is detailed in appendix A.
3. In deciding on the control mechanism for standard control services, we must consider the five factors under clause 6.2.5 (c) of the NER. In deciding that the DUoS unders and overs mechanism should operate, we considered that the impact on efficient tariff structures and the desirability for a consistent regulatory approach. Consideration of these factors is outlined in Table 14.1 below:

Table 14. NER factors and the DUoS unders and overs mechanism

|  |  |
| --- | --- |
| NER Factor | AER consideration |
| Efficient tariff structures | We consider efficient tariff structures should reflect the efficient costs of providing services. Mechanisms that do not result in changes in tariffs reflecting underlying changes in the costs of providing services distort the ability of tariffs to send appropriate signals to consumers. Such distortions are not consistent with the need to set efficient tariff structures. |
| Administrative costs | There are no additional administrative costs associated with ActewAGL's proposed approach to accounting for DUoS under and overs. |
| Previous regulatory arrangements | We have applied ActewAGL's proposed approach in the current regulatory period.  |
| Desirability for a consistent regulatory approach | ActewAGL, Aurora and the Queensland distributors are subject to revenue caps in the NEM. The Queensland distributors and Aurora account for DUoS under and over recovery in the same way as proposed by ActewAGL. |
| Any other relevant factor | There are no other relevant factors. |

Source: AER analysis.

### Under and over recovery mechanism for TUoS

1. We have decided to apply ActewAGL's proposed TUoS under and over recovery mechanism to smooth the impact of over and under recovery into prices year on year. Our reasons are the same for the DUoS under and over recovery as set out above.
2. We have developed a TUoS unders and overs account based on the approach used in the current regulatory control period. See appendix B for a more detailed discussion.

### Reporting on jurisdictional scheme amounts

1. We must decide how ActewAGL will report recovery of jurisdictional scheme amounts for each year of the regulatory control period and adjustments necessary in subsequent pricing proposals to account for over or under recovery of those charges.[[12]](#footnote-12)
2. Jurisdictional schemes amounts are those ActewAGL are required to pay pursuant to jurisdictional requirements recognised by the rules or the AER as amounts which may be recovered as part of ActewAGL’s pricing proposal.[[13]](#footnote-13)
3. We approve ActewAGL's method of reporting on jurisdiction scheme amounts because it is similar to the current reporting method, which we have previously approved.[[14]](#footnote-14)

### 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, in keeping with clause 6.18.6 of the NER.

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 the 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.

### Control mechanism formulas

1. As part of its pricing proposals, ActewAGL must submit to us proposed tariffs and charging parameters which lead to expected revenues consistent with the AARR (distribution services) and MAAR (transmission services) formulas set out below, plus any unders and overs adjustment needed to move the balance of its DUoS and TUoS unders and overs account to zero.

### Control mechanism formulas

Distribution services

1. ActewAGL's pricing proposals must submit to the AER proposed tariffs and charging parameters. Its revenues must be consistent with the AARR 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. Average Revenue cap formula

* 1.  i=1,...,n and j=1,...,m and t=2,...,5
	2. 
	3. 
1. Where:
2.  is the average annual revenue requirement in year t.
3.  is the price of component i of tariff j in year t.
4.  is the quantity of component i of tariff j in year t–2.
5.  is the audited total kWh in year t–2.
6.  is the average annual smooth revenue in year t.
7.  is the forecast total kWh in year t.
8. is:
	* 1. the approved pass through amounts (positive or negative) with respect to regulatory year t, as determined by the AER, plus
		2. the residual metering costs as defined in the metering attachment of this decision. This value is subjected to a tolerance limit as per section 1.5 above.
9. 
10.  means the all groups index number for the weighted average of eight capital cities as published by the ABS, or if the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best estimate of the index.
11.  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 rate of return attachment calculated for the relevant year.

Figure 14. Side constraints

1. ActewAGL will be required to demonstrate in its pricing proposal that proposed DUoS prices for the next year (t) will meet the following side constraints formula (expressed in percentage terms) for each tariff class:
2. 
3. where each tariff class ‘j’ has up to ‘m’ components, and where:

 is the proposed price for component ‘j’ of the tariff class for year t

 is the price charged by ActewAGL for component ‘j’ of the tariff class in year t–1

 is the forecast quantity of component ‘j’ of the tariff class in year t



1.  means the all groups index number for the weighted average of eight capital cities as published by the ABS, or if the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best estimate of the index.

 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 rate of return attachment calculated for the relevant year

1.  is an annual adjustment factor that reflects the pass through amounts approved by the AER with respect to regulatory year 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.[[15]](#footnote-15) for 2015 and 2016 are set at zero.

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

is an annual adjustment factor related to the balance of the TUoS 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 AAR 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).

Prescribed (transmission) services

1. ActewAGL has prescribed transmission services and must apportion its revenue between its distribution and transmission services. Therefore we are required to make a decision on the revenue cap formula for ActewAGL's transmission revenue.
2. We will apply the same revenue cap formula to ActewAGL for prescribed (transmission) standard control services as that applied in the current regulatory control period.
3. 
4. 
5. Where:
6.  is the maximum allowable revenue in year t
7.  is the allowable revenue in year t
8.  is an annual adjustment factor that reflects the pass through amounts approved by the AER with respect to regulatory year t
9.  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.
10.  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 rate of return attachment calculated for the relevant year.
	* + - 1. DUoS unders and overs account
11. To demonstrate compliance with its distribution determination in the 2015–19 regulatory control period, we require ActewAGL to maintain a DUoS unders and overs account. It must provide information on this account to us in its annual pricing proposal.[[16]](#footnote-16)
12. ActewAGL must provide the amounts for the following entries in its DUoS 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 in year t-2 and an interest charge for one year on the opening balance in year t-1. These adjustments are to be calculated using the approved nominal WACC. No such interest charge applies to the opening balance for year t;
	3. the amount of revenue recovered from DUoS charges in respect of that year, less any under/over adjustments approved by the AER for year t-2 and year t-1, less the AAR for the year in question;
	4. an interest charge for one year related to the net amounts in item 3 for year t-2 and an interest charge for one year for year t-1. These adjustments are to be calculated using the approved nominal WACC. No such charge applies to the net amount in item 2 for year t;
	5. the total of items 1-4 to derive the closing balance for each year.
13. ActewAGL must provide details of calculations in the format set out in Table 14.2. All of ActewAGL's approved revenue adjustments operate on a one year lag and are therefore to be entered in the DUoS unders and overs account inclusive of a single year interest charge. 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 provided for the next regulatory year (t) will be regarded as a forecast. This is normal regulatory practice.
14. In proposing variations to the amount and structure of DUoS charges, ActewAGL must attempt to achieve an expected zero balance on their DUoS unders and overs accounts in each forecast year in its annual pricing proposals in the 2015–19 regulatory control period, unless it can demonstrate for a given year that such an adjustment exceeds the agreed tolerance limits set out in this decision. In such circumstances, the balance at the end of the regulatory control period will reflect the amount by which the adjustment exceeded the first tolerance limit (that is, the amount by which the under/over adjustment exceeded two per cent of ActewAGL’s AAR for year t). That amount is to be cleared completely the following year. This has the effect of smoothing/delaying price changes for year one only. This guarantees end use customers do not face substantial price shocks many years after an unders or overs recovery was recorded.
15. The proposed prices for year t are based on the sum of the AARR for year t plus any adjustment for DUoS under or over recoveries.

Table 14. 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 | 60,518 |
| Less under/over adjustment approved by the regulator for year t–2 | 800 a |  |  |
| Less AARR for the relevant year | 43,039 | 43,012 | 59,927 |
| Smooth revenues (AARt) | 43,039 | 43,010 | 59,913 |
|  Approved pass throughs (pass through) | 0 | 2 | 14 |
| Under/over recovery for regulatory year | 2,940 | -5,715 | 591 |
| DUoS unders and overs account |  |  |  |
| Nominal WACC | 8.79% | 8.79% | 8.06% |
| Opening balance | 1,737 | 4,956 | -569 |
| Interest on opening balance | 153 | 436 | -46 |
| Under/over recovery for regulatory year | 2,940 | -5,715 | 591 |
| Interest on under/over recovery for regulatory year | 126 | -246 | 24 |
| Closing balance | 4,956 | -569 | 0 b |

Notes: (a) In this example, the regulator agreed ActewAGL could over recover its revenues by $800,000 in year t–2 due to under recoveries in year t–3.

 (b) ActewAGL must attempt to achieve an expected zero balance on their DUoS unders and overs accounts in each forecast year in its annual pricing proposals in the forthcoming regulatory control period.

* + - * 1. TUoS unders and overs account
1. To demonstrate compliance with its distribution determination in the 2015–19 regulatory control period, we require ActewAGL to maintain a TUoS unders and overs account. It must provide information on this account to us in its annual pricing proposal.[[17]](#footnote-17)
2. ActewAGL must provide the amounts for the following entries in its TUoS 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 in year t-2 and an interest charge for one year on the opening balance in year t-1. These adjustments are to be calculated using the approved nominal WACC. No such interest charge applies to the opening balance for year t;
	3. the amount of revenue recovered from TUoS charges applied in respect of that year, less any under/over adjustment approved by the AER for year t-2 (in relation to year t-3) and year t-1, less the amounts of all transmission related payments made by ActewAGL in respect of that year;
	4. an interest charge for one year related to the net amounts in item 3 for year t-2 and an interest charge for one year for year t-1. These adjustments are to be calculated using the approved nominal WACC. No such interest charge applies to the net amount in item 2 for year t;
	5. the total of items 1-4 to derive the closing balance for each year.
3. ActewAGL 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 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. This is normal regulatory practice.
4. In proposing variations to the amount and structure of TUoS charges, ActewAGL is to achieve a zero expected balance on its TUoS unders and overs account at the end of each of the forecast years in its annual pricing proposals in the forthcoming regulatory control period.

Table 14. Example calculation of TUoS unders and overs account ($000, nominal)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Year t–2 (actual) | Year t-1 (estimate) | Year t (forecast) |
| Revenue from TUoS charges | 40,077 | 34,944 | 36,706 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 | -2,494 |
| TUoS unders and overs account |  |  |  |
| Nominal WACC | 8.28% | 8.28% | na |
| Opening balance | 0 | 5,948 | 2,494 |
| Interest on opening balance | 0 |  493  |  na  |
| Under/over recovery for regulatory year | 5,712 | -3,790 | -2,494 |
| Interest on under/over recovery for regulatory year | 236 | -157 | na |
| Closing balance | 5,948 | 2,494 | 0b |

Source: AER analysis.

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

 (b) This figure will be the under/over adjustment approved by the regulator for year t-1 for the annual price approval process in two years' time.

* + - * 1. Reporting on recovery of jurisdictional schemes
1. To demonstrate compliance with its distribution determination in the forthcoming regulatory control period, we require ActewAGL to maintain a jurisdictional scheme unders and overs account. It must provide information on this account to us in its annual pricing proposal.[[18]](#footnote-18)
2. ActewAGL 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 in year t-2 and an interest charge for one year on the opening balance in year t-1. These adjustments are to be calculated using the approved nominal WACC. No such interest charge applies to the opening balance for year t;
	3. either the amount of revenue recovered from jurisdictional charges applied in respect of that year or the amount included in the operating expenditure allowance within the 2009–14 Distribution Determination (as in the case of 2012–13 and 2013–14), less any under/over adjustment approved by the AER for year t-2 (in relation to year t-3) and year t-1, less the amounts of all jurisdictional scheme related payments made by ActewAGL in respect of that year;
	4. an interest charge for one year related to the net amounts in item 3 for year t-2 and an interest charge for one year for year t-1. These adjustments are to be calculated using the approved nominal WACC. No such interest charge applies to the net amount in item 2 for year t;
	5. the total of items 1-4 to derive the closing balance for each year.

See Table 14.4 for an example of the reporting format.

Table 14.4 Example calculation of jurisdictional 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 | 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 tariff classes.[[19]](#footnote-19) ActewAGL proposes to assign retail customers into one of three classes of network users, namely:

* Residential
* Commercial low voltage (LV)
* High voltage (HV).[[20]](#footnote-20)

ActewAGL proposed to assign retail customers into these classes in accordance with the requirements of the NER by:

* by grouping retail customers according to type of connection (residential or commercial)
* connection voltage (LV or HV).

Retail customers within each class have similar load and connection characteristics. The relevant costs for each class can then be identified and reflected in the tariffs for each class.[[21]](#footnote-21)

Our decision on the principles that ActewAGL must adhere to when assigning retail customers to tariff classes is outlined below.

AER's assessment approach

1. We apply the principles set out in clause 6.18.4 of the NER when formulating the provisions which ActewAGL 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.

Reasons for draft decision

We do not approve ActewAGL's proposed procedure for assigning retail customers to tariff classes because it should be amended to allow retail customers additional protection when they object to being assigned and/or re-assigned to a particular of tariff class.

Reassignment existing customers to a different tariff class

1. ActewAGL's proposal proposes that we should use the same procedure for assigning and reassigning customers to tariffs as that used during the current regulatory control period.[[22]](#footnote-22)
2. We do not approve ActewAGL's proposal because we consider that the procedure require minor amendments to allow for a more effective system of assessment and review in customer assignment and re-assignment.
3. The procedures to be applied by ActewAGL for assigning retail customers to tariff classes or re-assigning retail customers from one tariff class to another are specified below.

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. ActewAGL's retail customers will be taken to be “assigned” to the tariff class which ActewAGL was charging that retail customer immediately prior to 1 July 2015 if:
* they were an ActewAGL retail customer prior to 1 July 2015
* continue to be a retail customer of ActewAGL 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, ActewAGL becomes aware that a person will become a retail customer of ActewAGL, then ActewAGL 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, ActewAGL must take into account one or more of the following factors:[[23]](#footnote-23)
		1. the nature and extent of the retail customer’s usage
		2. the nature of the retail customer’s connection to the network[[24]](#footnote-24)
		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, ActewAGL, 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[[25]](#footnote-25)
		2. retail customers who have micro–generation facilities are not treated less favourably than retail customers with similar load profiles without such facilities.[[26]](#footnote-26)

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

* 1. ActewAGL 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, ActewAGL must take into account paragraphs 3 and 4 above.

Objections to proposed assignments and reassignments

* 1. ActewAGL must notify a retail customer 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 retail customer that they may request further information from ActewAGL and that the retail customer may object to the proposed reassignment. This notice must specifically include:
		1. a written document describing ActewAGL’s internal procedures for reviewing objections, if the retail customer provides express consent, a soft copy of such information via email
		2. that if the objection is not resolved to the satisfaction of the retail customer under ActewAGL’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 or like officer, the retail customer is entitled to escalate the matter to such a body
		3. that if the objection is not resolved to the satisfaction of the retail customer under ActewAGL’s internal review system and the body noted in clause 7.b. above, then the retail customer 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, ActewAGL receives a request for further information from a retail customer, then it must provide such information within a reasonable timeframe. If ActewAGL reasonably claims confidentiality over any of the information requested by the retail customer, then it is not required to provide that information to the retail customer. If the retail customer disagrees with such confidentiality claims, he or she may have resort to the dispute resolution procedures referred to in sections 7(a)—(b) above, mutatis mutandis.
	4. If, in response to a notice issued in accordance with paragraph 7 above, a retail customer makes an objection to ActewAGL about the proposed assignment or reassignment, ActewAGL must reconsider the proposed assignment or reassignment. In doing so ActewAGL must take into consideration the factors in paragraphs 3 and 4 above, and notify the retail customer in writing of its decision and the reasons for that decision.
	5. If a retail customer’s objection to a tariff class assignment or reassignment is upheld by the relevant body noted in paragraph 7 b and c above, then any adjustment which needs to be made to tariffs will be done by ActewAGL as part of the next annual review of prices.
	6. If a retail customer objects to ActewAGL's tariff class assignment ActewAGL 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 retail customer 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 varies according to the retail customer’s usage or load profile, ActewAGL 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.
	2. If the AER considers the method provided under paragraph 12 above does not provide for an appropriate system of assessment and review by ActewAGL of the basis on which a retail customer is charged, the AER may, at any time, request additional information or request ActewAGL to submit a revised pricing method.
	3. If the AER considers ActewAGL's method for reviewing and assessing the basis on which a retail customer is charged, provided in accordance with paragraph 12 and 13 above, is not reasonable it will advise ActewAGL in writing.
1. AER, Stage 1 Framework and approach paper ActewAGL, March 2013, p. 28. [↑](#footnote-ref-1)
2. NER, cl 6.12.1. [↑](#footnote-ref-2)
3. NER, cll 6.12.1(17) and 6.12.1(20). [↑](#footnote-ref-3)
4. ActewAGL, Regulatory Proposal 2015–19 Subsequent regulatory control period, June 2014, p. 304. [↑](#footnote-ref-4)
5. ActewAGL, Regulatory Proposal 2015–19 Subsequent regulatory control period, June 2014, p. 304. [↑](#footnote-ref-5)
6. AER, Stage 1 Framework and approach paper ActewAGL, March 2013, p. 38. [↑](#footnote-ref-6)
7. ActewAGL, Regulatory Proposal 2015–19 Subsequent regulatory control period, June 2014, p. 304. [↑](#footnote-ref-7)
8. AER, Stage 1 Framework and approach paper ActewAGL, March 2013, p. 28. [↑](#footnote-ref-8)
9. ActewAGL, Regulatory Proposal 2015–19 Subsequent regulatory control period, June 2014, p. 304. [↑](#footnote-ref-9)
10. Costs unrecovered upon a customer’s departure from ActewAGL's metering services. [↑](#footnote-ref-10)
11. NER, clause 6.12.1 (19). [↑](#footnote-ref-11)
12. NER, clause 6.12.1 (20). [↑](#footnote-ref-12)
13. The ACT jurisdictional schemes are: the feed-in tariff scheme (including the new scheme for large customers), the Utilities Network Facilities Tax (UNFT) and the Energy Industry Levy (EIL). [↑](#footnote-ref-13)
14. AER, Placeholder determination for the transitional regulatory control period 2014-15 ActewAGL, April 2014, p. 5. [↑](#footnote-ref-14)
15. In the formulas in the STPIS attachment, theis equivalent to  set out in this chapter. Calculations of the S factor adjustment are to be made accordingly. [↑](#footnote-ref-15)
16. NER, clause 6.12.1(19). [↑](#footnote-ref-16)
17. NER, clause 6.12.1(19). [↑](#footnote-ref-17)
18. NER, clause 6.18.7A(a) to (c). [↑](#footnote-ref-18)
19. NER, clause 6.12.1(17). [↑](#footnote-ref-19)
20. ActewAGL Distribution 2014/15 Network Pricing Proposal, May 2014, p. 3. [↑](#footnote-ref-20)
21. ActewAGL, Distribution 2014/15 Network Pricing Proposal, May 2014, p. 3. [↑](#footnote-ref-21)
22. ActewAGL, Regulatory Proposal 2015–19 Subsequent regulatory control period, June 2014 p. 309. [↑](#footnote-ref-22)
23. NER, clause 6.18.4(a)(i). [↑](#footnote-ref-23)
24. The AER interprets 'nature' to include the installation of any technology capable of supporting time based tariffs. [↑](#footnote-ref-24)
25. NER, clause 6.18.4(2). [↑](#footnote-ref-25)
26. NER, clause 6.18.4(3). [↑](#footnote-ref-26)