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Mr Brent Cleeve
Manager Regulation
Powercor

By email (bcleeve@powercor.com.au)

Dear Mr Cleeve

Proposed revocation and substitution of Powercor electricity distribution determination 2016-2020

On 26 May 2016 the Australian Energy Regulator (AER) made its distribution determination for Powercor for the regulatory control period 1 January 2016 to 31 December 2020.¹

Subsequent to making the determination, in the merits review of Victorian Electricity and ACT Gas decisions the Australian Competition Tribunal (ACT) became aware of an inflation estimation error impacting each of the AER's determinations on review in this process.² The Tribunal noted the error in each of its decisions and stated it left it to the AER to determine the appropriate response to its error.³

The estimation error identified by the Tribunal in the above proceedings is reflected in the AER's 26 May 2016 Powercor determination for its 2016-20 regulatory control period. This is a mathematical calculation error that impacts the Powercor distribution determination for 2016-2020.

The mathematical error results from an incorrect geometric average calculation undertaken on the annual inflation rates. In the final decision the geometric average is calculated using percentage numbers (e.g. 2.5% is expressed as 2.5). The correct approach is to calculate the geometric average using 1 + rate values (e.g. 1 + 2.5% (or 0.025) equals 1.025).

Under clause 6.13 of the NER, the AER may revoke a distribution determination where there has been a material error or deficiency of one or more of the following kinds:

¹ AER, *Powercor Final decision 2016-2020*, 26 May 2016

² File Nos: ACT 3, 4, 5, 6, 7, 8 of 2016; <http://www.competitiontribunal.gov.au/current-matters/tribunal-documents>

³ For example, see ACT, Application by ActewAGL Distribution [2017] ACompT 2, 17 October 2017, p i – iii.

- (1) a clerical mistake or an accidental slip or omission;
- (2) a miscalculation or misdescription;
- (3) a defect in form; or
- (4) a deficiency resulting from the provision of false or materially misleading information to the AER.

For the purposes of clause 6.13(a), we consider the error identified above is material and would come within the scope of a 'clerical mistake or an accidental slip or omission' or a 'miscalculation or misdescription'.

The AER, therefore, considers it appropriate to revoke the determination under clause 6.13 of the NER and substitute it with a new determination. The substituted determination may only vary from the prior determination to the extent necessary to correct the relevant material error or deficiency. The revenue difference that would result from correcting the error is set out at Table 1.⁴

Table 1 Revenue impact in nominal net present value (unsmoothed) terms of the correction of inflation rates

Determination	Inflation Rate (input for PTRM)		NPV Unsmoothed (\$m, Nominal)			
	Final Decision	Corrected Value	Final Decision	Corrected Value	Difference (\$)	Difference (%)
Powercor 2016-20	2.32%	2.35%	2675.383080	2672.169962	3.213118	0.120244%

Subject to consideration of any submissions on our proposal, we intend to make a determination to correct the identified error set out above under clause 6.13 of the NER by no later than 1 March 2018.

If you wish to provide a submission in response to this letter, please respond by no later than 1 February 2018.

If you have any queries on this matter please contact me on (03) 9290 1956.

Yours sincerely



Esmond Smith

Director

AER Network Finance and Reporting

⁴ Calculated in 2015 dollars using the 2018 return on debt update PTRM.