



ETSA Utilities
draft distribution determination
2010–11 to 2014–15

25 November 2009

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Summary

Clause 6.11.1 of the National Electricity Rules (NER) requires the Australian Energy Regulator (AER) to make a distribution determination in relation to ETSA Utilities.

Under clause 6.12.1 of the NER, this distribution determination is predicated on the following constituent decisions:

- (1) a decision on the classification of the services to be provided by the Distribution Network Service Provider during the course of the regulatory control period;
- (2) a decision on the Distribution Network Service Provider's current building block proposal in which the AER either approves or refuses to approve:
 - (i) the annual revenue requirement for the provider, as set out in the building block proposal, for each regulatory year of the regulatory control period; and
 - (ii) the commencement and length of the regulatory control period as proposed in the building block proposal;
- (3) a decision in which the AER either:
 - (i) acting in accordance with clause 6.5.7(c), accepts the total of the forecast capital expenditure for the regulatory control period that is included in the current building block proposal; or
 - (ii) acting in accordance with clause 6.5.7(d), does not accept the total of the forecast capital expenditure for the regulatory control period that is included in the current building block proposal, in which case the AER must set out its reasons for that decision and an estimate of the total of the Distribution Network Service Provider's required capital expenditure for the regulatory control period that the AER is satisfied reasonably reflects the capital expenditure criteria, taking into account the capital expenditure factors;
- (4) a decision in which the AER either:
 - (i) acting in accordance with clause 6.5.6(c), accepts the total of the forecast operating expenditure for the regulatory control period that is included in the current building block proposal; or
 - (ii) acting in accordance with clause 6.5.6(d), does not accept the total of the forecast operating expenditure for the regulatory control period that is included in the current building block proposal, in which case the AER must set out its reasons for that decision and an estimate of the total of the Distribution Network Service Provider's required operating expenditure for the regulatory control period that the AER is satisfied reasonably reflects the operating expenditure criteria, taking into account the operating expenditure factors;
- (5) a decision in relation to the rate of return on whether to apply or depart from a value, method or credit rating level set out in a statement of regulatory intent in accordance with clause 6.5.4;

- (6) a decision on the regulatory asset base as at the commencement of the regulatory control period in accordance with clause 6.5.1 and schedule 6.2;
- (7) a decision on the estimated cost of corporate income tax to the provider for each regulatory year of the regulatory control period in accordance with clause 6.5.3 and, where relevant, a statement of regulatory intent under clause 6.5.4;
- (8) a decision on whether or not to approve the depreciation schedules submitted by the Distribution Network Service Provider and, if the AER decides against approving them, a decision determining depreciation schedules in accordance with clause 6.5.5(b);
- (9) a decision on how any applicable efficiency benefit sharing scheme, service target performance incentive scheme, or demand management incentive scheme is to apply to the Distribution Network Service Provider;
- (10) a decision in which the AER decides other appropriate amounts, values or inputs;
- (11) a decision on the control mechanism (including the X factor) for standard control services (to be in accordance with the relevant framework and approach paper);
- (12) a decision on the control mechanism for alternative control services (to be in accordance with the relevant framework and approach paper);
- (13) a decision on how compliance with a relevant control mechanism is to be demonstrated;
- (14) a decision on the additional pass through events that are to apply for the regulatory control period;
- (15) a decision on the negotiating framework that is to apply to the Distribution Network Service Provider for the regulatory control period (which may be the negotiating framework as proposed by the provider, some variant of it, or a framework substituted by the AER);
- (16) a decision in which the AER decides the Negotiated Distribution Service Criteria for the Distribution Network Service Provider;
- (17) a decision on the procedures for assigning customers to tariff classes, or reassigning customers from one tariff class to another (including any applicable restrictions);
- (17A) a decision on the approval of the proposed pricing methodology for transmission standard control services (if rule 6.26 applies);
- (18) a decision on whether depreciation for establishing the regulatory asset base as at the commencement of the following regulatory control period is to be based on actual or forecast capital expenditure;
- (19) a decision on how the Distribution Network Service Provider is to report to the AER on its recovery of Transmission Use of System charges for each regulatory year of the regulatory control period and on the adjustments to be made to subsequent pricing proposals to account for over or under recovery of those charges.

In addition to the constituent decisions in clause 6.12.1, the NER sets out the following requirements for the distribution determination:

- Clause 6.3.2(a) requires the AER to make a building block determination in relation to ETSA Utilities, as a component of a distribution determination. The building block determination is to specify the following matters for a regulatory control period:
 - (1) the Distribution Network Service Provider's annual revenue requirement for each regulatory year of the regulatory control period;
 - (2) appropriate methods for the indexation of the regulatory asset base;
 - (3) how any applicable efficiency benefit sharing scheme, service target performance incentive scheme, or demand management incentive scheme are to apply to the distribution network service provider;
 - (4) the commencement and length of the regulatory control period;
 - (5) any other amounts, values or inputs on which the building block determination is based (differentiating between those contained in, or inferred from, the service provider's building block proposal and those based on the AER's own estimates or assumptions).

- Clause 6.12.3(a) of NER allows the AER the discretion to accept or approve, or refuse to accept or approve any element of a regulatory proposal.

- Clause 6.12.3(f) of the NER requires that if the AER refuses to approve an amount or value referred to in clause 6.12.1, the substitute amount or value on which the distribution determination is based must be:
 - (1) determined on the basis of the current regulatory proposal; and
 - (2) amended from that basis only to the extent necessary to enable it to be approved in accordance with the Rules.

The AER's draft decisions for ETSA Utilities' draft distribution determination are set out below. Detailed analysis and discussion of the AER's considerations and reasoning is set out in the AER's draft decision, released with this draft determination. Reference to the draft decision is a reference to the AER's draft decision released with this determination on 30 November 2009, entitled *Draft decision, South Australia draft distribution determination 2010–11 to 2014–15*, 25 November 2009. Abbreviations have the meaning given to them in the draft decision.

Draft determination – constituent decisions

In accordance with clause 6.12.1(1) of the NER, the classification of services set out in appendix A of the draft decision will apply to ETSA Utilities for the next regulatory control period.

In accordance with clause 6.12.1(2)(i) of the NER, the AER does not approve the annual revenue requirement proposed by ETSA Utilities.

In accordance with clause 6.12.1(2)(ii) of the NER, ETSA Utilities' regulatory control period is from 1 July 2010 to 30 June 2015.

In accordance with clause 6.12.1(3)(ii) of the NER, the AER does not accept ETSA Utilities' forecast capex for the next regulatory control period. The AER is not satisfied that ETSA Utilities' forecast capex, taking into account the capex factors, reasonably reflects the capex criteria in clause 6.5.7 of the NER.

The AER's reasons for this decision are set out in section 7.8 of the draft decision.

The AER's estimate of the total capex required by ETSA Utilities in the next regulatory period, that reflects the capex criteria taking into account the capex factors, is set out in table 7.17 of the draft decision.

In accordance with clause 6.12.1(4)(ii) of the NER, the AER does not accept ETSA Utilities' proposed forecast opex for the next regulatory control period. The AER is not satisfied that ETSA Utilities' forecast opex, taking into account the opex factors, reasonably reflects the opex criteria in clause 6.5.6 of the NER.

The AER's reasons are set out in section 8.8 of the draft decision.

The AER's estimate of ETSA Utilities' required opex for the next regulatory control period, that reflects the opex criteria taking into account the opex factors, is set out at table 8.20 of the draft decision.

In accordance with clause 6.12.1(5) of the NER, the rate of return to apply to ETSA Utilities is 10.02 per cent.

In accordance with clause 6.12.1(6) of the NER, the total opening RAB for ETSA Utilities as at 1 July 2010 is \$2768.4 million for standard control services.

In accordance with clause 6.12.1(7) of the NER the estimated cost of corporate tax to ETSA Utilities for each regulatory year of the next regulatory control period is as specified in table 9.4 of the draft decision.

In accordance with clause 6.12.1(8) of the NER the AER has not accepted the depreciation allowances submitted by ETSA Utilities. The AER has determined the depreciation allowances for ETSA Utilities set out in table 10.3 of the draft decision.

In accordance with clause 6.12.1(9) of the NER, the AER has determined that the national distribution STPIS will apply to ETSA Utilities in the next regulatory control period in the following form:

1. the applicable component and parameters are the SAIDI and SAIFI reliability of supply parameters and the telephone answering customer service parameter
2. overall revenue at risk of ± 3 per cent and ± 0.3 per cent for the telephone answering parameter
3. the incentive rates to apply to each applicable parameter will be calculated in accordance with clauses 3.2.2, 5.3.2(a)(1) and appendix B of the STPIS, and are set out in table 12.2 of the draft decision
4. the performance targets to apply to each applicable parameter in each regulatory year of the next regulatory control period as set out at table 12.4 of the draft decision
5. the GSL component will not apply while ESCOSA's GSL scheme remains in place. In the event that ESCOSA's GSL scheme is withdrawn the AER will implement such a scheme from the day the jurisdictional scheme is withdrawn.

In accordance with clause 6.12.1(9) of the NER, the DMIS to apply to ETSA Utilities is the DMIS set out in the AER's document, *Demand management incentive scheme - Energex, Ergon Energy and ETSA Utilities 2010–15*, October 2008.

Part A (the DMIA component) and the Part B (foregone revenue) of the DMIS will apply to ETSA Utilities. The DMIA will be capped at \$3 million for the next regulatory control period and allocated to ETSA Utilities in equal annual instalments of \$600 000 for each year of the next regulatory control period.

In accordance with clause 6.12.1(9) of the NER, the EBSS to apply to ETSA Utilities is as set out in the AER's *Final Framework and approach paper ETSA Utilities 2010–15*, published in November 2008.

The following opex cost categories will be excluded from the operation of the EBSS for the next regulatory control period:

- debt raising costs
- insurance and self insurance costs
- superannuation costs for defined benefits and retirement schemes
- the demand management innovation allowance
- other specific uncontrollable costs incurred and reported by ETSA Utilities during the next regulatory control period, which the AER considers should be excluded after assessment against the relevant principles expressed in clause 6.6.1(j) of the NER and the EBSS.

These excluded costs will be recognised in addition to the adjustments and exclusions set out in section 2.3.2 of the EBSS, which include non-network alternatives and recognised cost pass throughs events. Any negative opex carryover accrued under the current regulatory control period efficiency carryover mechanism can be deferred to offset any positive carryover accrued in the next regulatory control period, provided the negative carryover is accrued in an approved uncontrollable opex category under the EBSS.

In accordance with clause 6.12.1(10) the other appropriate amounts, values or inputs to be input to the PTRM are the energy sales forecasts specified in table 6.9 of the draft decision.

In accordance with clause 6.12.1(11) of the NER, the control mechanism for standard control services provided by ETSA Utilities is a weighted average price cap. The applicable WAPC and side constraint formulas are set out in section 4.6 of the draft decision.

In accordance with clause 6.12.1(11) of the NER, the X factors to apply to ETSA Utilities are as specified in table 16.5 of the draft decision.

In accordance with clause 6.12.1(12) of the NER, the control mechanism for alternative control services provided by ETSA Utilities is a weighted average price cap. The applicable WAPC formula is set out in section 17.3 of the draft decision.

In accordance with clause 6.12.1(13) of the NER, ETSA Utilities must demonstrate compliance with the control mechanism for standard control services in accordance with appendices E and F of the draft decision.

In accordance with 6.12.1(13) of the NER, ETSA Utilities must demonstrate compliance with the control mechanism for alternative control services by providing, as part of its annual pricing proposal, the proposed tariffs which correspond to the price terms contained in the WAPC equation.

In accordance with clause 6.12.1(14) of the NER, the additional pass through events that apply to ETSA Utilities for the next regulatory control period are the:

- smart meter event
- CPRS event
- feed-in tariff event
- native title event
- general nominated pass through event

as defined in section 15.7 of the draft decision.

In accordance with clause 6.12.1(15) of the NER, the AER does not approve the negotiating framework proposed by ETSA Utilities for the next regulatory control period. In accordance with clause 6.12.3(g), the AER does not approve the negotiating framework on the basis that it does not adequately comply with the requirements of Part D of the NER.

In accordance with clause 6.12.3(h), the AER decides that ETSA Utilities' proposed negotiating framework needs to be amended as set out in appendix D of the draft decision.

In accordance with clause 6.12.1(16) of the NER, the NDSC to apply to ETSA Utilities for the next regulatory control period are set out at appendix C of the draft decision.

In accordance with clause 6.12.1(17) of the NER, the procedures to be applied by ETSA Utilities for assigning customers to tariff classes or reassigning customers from one tariff class to another are specified in appendix B of the draft decision.

In accordance with clause 6.12.1(18) of the NER, the AER will use actual depreciation for establishing the regulatory asset base for the commencement of the 2015–20 regulatory control period.

In accordance with clause 6.12.1(19) of the NER, ETSA Utilities must submit, as part of its annual pricing proposal, a record of the amount of revenues recovered from TUOS charges and associated payments in accordance with appendix F of the draft decision.

Building block determination

In accordance with clause 6.3.2(a)(1) of the NER, ETSA Utilities' annual revenue requirement for each regulatory year of the next regulatory control period is as set out in table 16.5 of the draft decision.

In accordance with clause 6.3.2(a)(2) of the NER, an appropriate methodology for indexation of ETSA Utilities' regulatory asset base is as specified in section 16.5.5 of the draft decision.

In accordance with clause 6.3.2(a)(3) of the NER, the application of the EBSS to apply to ETSA Utilities is as specified in section 13.6 of the draft decision.

In accordance with clause 6.3.2(a)(4) of the NER, the regulatory control period is from 1 July 2010 to 30 June 2015.

In accordance with clause 6.3.2(a)(5) of the NER, any other amounts, values or inputs on which ETSA Utilities' building block determination is based are as specified in sections 16.5 and 16.6 of the draft decision.