news release

AUSTRALIAN ENERGY REGULATOR

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Attention: Energy writers

A.E.R. ISSUES REGULATORY GUIDELINES FOR ELECTRICITY DISTRIBUTION BUSINESSES

The Australian Energy Regulator today published its final decisions on regulatory guidelines for electricity distribution networks. The guidelines' purpose is to assist electricity distribution businesses and their customers to understand the AER's approach to the regulation of electricity distribution businesses under the National Electricity Rules.

The guidelines, first issued for public comment on 1 April 2008, are required under the National Electricity Rules.

"These guidelines, will assist in providing greater certainty and clarity to both regulated businesses and other interested parties on the AER's regulatory approach," AER Board member, Mr Ed Willett, said.

"The guidelines recognise the transition of distribution regulation from State and Territory regulators to the AER, and in doing so have regard to the differing nature of regulation which has been applied to date in individual jurisdictions," he said.

The guidelines incorporate:

- the post-tax revenue model
- the roll forward model
- an efficiency benefit sharing scheme
- a service target performance incentive scheme, and
- cost allocation guidelines.

"It is intended that these will evolve over time. The AER will in the future review the models, guidelines and schemes having regard to aspects that can be streamlined, while ensuring that they continue to represent best practice regulation," Mr Willett said.

A copy of each of the guidelines, models and schemes and related material will be available from the AER's website, www.aer.gov.au.

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Summary of regulatory guidelines

Separate guidelines cover each of the following regulatory requirements on distribution network service providers when making applications to the AER in relation to their allowed revenues and prices:

Post-Tax Revenue Model

The PTRM is a spreadsheet model which is used by the AER to determine the allowed stream of future revenues of a regulated business in each year of the regulatory period. These allowed annual revenues need to be sufficient to recover the return on capital, a return of capital, operating expenditure and tax payable. In this way, the PTRM ensures that the allowed annual revenue stream is equal to the annual expenditure stream of the regulated business.

Roll-Forward Model

This model provides a method for regulated businesses to use to calculate the regulatory asset base (RAB) from the beginning of one regulatory period to the beginning of the next period, as well as from year to year within each period. The RAB values from the RFM form inputs into the PTRM, where they are used to determine the return of and on capital of the regulated business.

Efficiency Benefit Sharing Scheme

This scheme sets out an incentive mechanism whereby the business can earn additional revenue or be penalised depending on whether the business beats or exceeds targets for its operational expenditure in each year of the regulatory control period. This provides a business with a continuous incentive to make efficiency savings on its operating costs throughout a regulatory period.

Service Target Performance Incentive Scheme

This scheme is designed to balance the incentive to reduce expenditure with the need to maintain and improve service performance by providing the regulated business with financial incentives to maintain and improve its service performance. The scheme does this by assigning rewards or penalties where performance is either better or worse than past average performance.

Cost Allocation Guidelines

This guideline sets out the basis on which a regulated business must allocate costs to the categories of activity within the business. Its primary purpose is to ensure that costs charged to regulated activities are properly related to those regulated activities. Note that this guideline does not cover the allocation of costs for pricing purposes which is to be the subject of a future pricing guideline.