

NATIONAL ELECTRICITY (ECONOMIC REGULATION OF
DISTRIBUTION SERVICES) AMENDMENT RULE 2007

Subordinate Legislation No. [] of 2007

TABLE OF PROVISIONS

Rule

1. Citation

Schedule 1 New Chapter 6 of the National Electricity Rules

(Clause **)

[1] New Chapter 6

For Chapter 6, substitute:

6. Economic Regulation of Distribution Services

Part A – Introduction

6.1 Introduction to Chapter 6

6.1.0 Definitions

alternative control service means a *direct control service* other than a *standard control service*;

annual revenue requirement for a *Distribution Network Service Provider* means an amount representing revenue calculated for each *regulatory year* of a *regulatory control period* in accordance with Part C of Chapter 6;

approved pricing proposal means a *pricing proposal* approved by the *AER*;

direct control service means a *distribution service* that is a direct control network service within the meaning of section 2B of the NEL;

negative change event means a pass through event that materially reduces the costs of providing *direct control services*;

negotiated distribution service means a *distribution service* that is a *negotiated network service* within the meaning of section 2C of the NEL;

pass through event means:

- (a) a *regulatory change event*; or
- (b) a *service standard event*; or
- (c) a *tax change event*; or
- (d) a *terrorism event*; or
- (e) an event nominated in a *distribution determination* as a pass through event for the purposes of the determination;

positive change event means a pass through event that materially increases the costs of providing *direct control services*;

pricing proposal means a pricing proposal under Part J of Chapter 6;

regulatory proposal means a proposal under rule 6.8;

revenue proposal means the part of a *regulatory proposal* relevant to the regulation of *standard control services*;

standard control service means a *direct control service* that is subject to a control mechanism based on the *Distribution Network Service Provider's total revenue requirement*;

total revenue requirement for a *Distribution Network Service Provider* means an amount representing revenue calculated for the whole of a *regulatory control period* in accordance with Part C of Chapter 6;

[These definitions are to be re-located to Chapter 10.]

6.1.1 AER's regulatory responsibility

The AER is responsible, in accordance with this Chapter, for the economic regulation of *distribution services* provided by means of, or in connection with, *distribution systems* that form part of the *national grid*.

6.1.2 Structure of this Chapter

- (a) This Chapter deals with the classification and economic regulation of *distribution services*.
- (b) It is divided into parts as follows:
 - (1) this Part is introductory; and
 - (2) Part B confers power on the AER to classify *distribution services*, to determine the forms of control for *distribution services*, and to make *distribution determinations*; and
 - (3) Part C regulates the revenues that may be earned by *Distribution Network Service Providers* from the provision of services classified as *standard control services*; and
 - (4) Part D regulates the prices that may be charged by *Distribution Network Service Providers* for the provision of services classified as *negotiated distribution services*; and
 - (5) Part E sets out the procedures for making a *distribution determination*; and
 - (6) Part G regulates cost allocation; and

- (7) Part H contains the *distribution consultation procedures*; and
- (8) Part I deals with ring-fencing; and
- (9) Part J deals with *tariff classes* and tariffs; and
- (10) Part K deals with billing, settlements and prudential requirements; and
- (11) Part L deals with prepayments and capital contributions; and
- (12) Part M deals with dispute resolution.

6.1.3 Meaning of terms and conditions of access for distribution services

For the purposes of the economic regulation of *direct control services* and *negotiated distribution services*, the terms and conditions of access:

- (a) in relation to *negotiated distribution services* are:
 - (1) the price of those services (including, if relevant, access charges); and
 - (2) other terms and conditions for the provision of those *negotiated distribution services*,

under Chapters 4, 5, this Chapter 6 and Chapter 7 of the *Rules*; and

- (b) in relation to *direct control services*, are:
 - (1) the price of those services; and
 - (2) other terms and conditions for the provision of those services,as determined under Chapters 4, 5, this Chapter 6 and Chapter 7 of the *Rules*.

6.1.4 Access to direct control services and negotiated distribution services

Subject to and in accordance with the *Rules*:

- (1) a person ('a *Service Applicant*') may apply to a *Distribution Network Service Provider* for provision of *direct control services* or *negotiated distribution services*;
- (2) a *Distribution Network Service Provider* must provide *direct control services* or *negotiated distribution services* (as the case may be) on *terms and conditions of access* that are consistent with the

requirements of Chapters 4, 5, this Chapter 6 and Chapter 7 of the *Rules*;

- (3) a *Distribution Network Service Provider* or a person who is provided *direct control services* or *negotiated distribution services* (whether the person is provided those services under an agreement, as a result of an arbitration under the Law) must not engage in conduct for the purpose of preventing or hindering access to those services.

Part B – Classification of Distribution Services and Distribution Determinations

Division 1 – Classification of distribution services

6.2 Classification

6.2.1 Classification of distribution services

- (a) The *AER* may classify a *distribution service* to be provided by a *Distribution Network Service Provider* as:
 - (1) a *direct control service*; or
 - (2) a *negotiated distribution service*.

Note:

If the *AER* decides against classifying a *distribution service*, the service is not regulated under the *Rules*.

- (b) The *AER* must, in classifying a *distribution service*, have regard to:
 - (1) the form of regulation factors; and
 - (2) the form of regulation (if any) applicable to the relevant service immediately before the commencement of the *distribution determination* for which the classification is made; and
 - (3) the need for consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction); and
 - (4) any other factor the *AER* considers relevant.

Note:

Under subparagraph (2), the *AER* will have regard to previous classification of the service under the present system of classification or under the previous regulatory system (as the case requires).

- (c) If the *Rules*, however, require that a particular classification be assigned to a *distribution service* of a specified kind, a *distribution service* of the relevant kind is to be classified in accordance with that requirement.

6.2.2 Classification of direct control services as standard control services or alternative control services

- (a) *Direct control services* are to be further divided into 2 subclasses:
- (1) *standard control services*; and
 - (2) *alternative control services*.
- (b) The *AER* must, in classifying a *direct control service* as a *standard control service* or an *alternative control service*, have regard to:
- (1) the potential for development of competition in the relevant market and how the classification might influence that potential; and
 - (2) the possible effects of the classification on administrative costs of the *AER*, the *Distribution Network Service Provider* and users or potential users;
 - (3) the regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the *distribution determination* for which the classification is made; and
 - (4) the need for consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and
 - (5) any other factor the *AER* considers relevant.
- (c) If the *Rules* , however, require that a *direct control service* of a specified kind be classified either as a *standard control service* or as an *alternative control service*, a *direct control service* of the relevant kind is to be classified in accordance with that requirement.

6.2.3 Term for which classification operates

- (a) A classification under this Part forms part of a *distribution determination* and operates for the *regulatory control period* for which the *distribution determination* is made.
- (b) The classification is to be reviewed in the course of the process leading to the making of the next *distribution determination*, and a new classification

may be made for the purposes of that determination at the conclusion of the review.

Division 2 – Distribution determinations

6.2.4 Duty of AER to make distribution determinations

- (a) The AER must make a *distribution determination* for each *Distribution Network Service Provider*.
- (b) When the AER makes a *distribution determination* it must follow the process set out in Part E.
- (c) If more than one *distribution system* is owned, controlled or operated by a *Distribution Network Service Provider*, then, unless the AER otherwise determines, a separate *distribution determination* is to be made for each *distribution system*.

6.2.5 Control mechanisms for direct control services

- (a) A *distribution determination* is to impose controls over the prices of *direct control services*, the revenue to be derived from *direct control services* or both.
- (b) The control mechanism may consist of:
 - (1) a schedule of fixed prices;
 - (2) caps on the prices of individual services;
 - (3) caps on the revenue to be derived from a particular combination of services;
 - (4) tariff basket price control;
 - (5) revenue yield control;
 - (6) a combination of any of the above.
- (c) In deciding on a control mechanism for *standard control services*, the AER must have regard to:
 - (1) the need for efficient tariff structures; and
 - (2) the possible effects of the control mechanism on administrative costs of the AER, the *Distribution Network Service Provider* and users or potential users;

- (3) the regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the *distribution determination*; and
 - (4) the need for consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and
 - (5) any other factor the *AER* considers relevant.
- (d) In deciding on a control mechanism for *alternative control services*, the *AER* must have regard to:
- (1) the potential for development of competition in the relevant market and how the control mechanism might influence that potential; and
 - (2) the possible effects of the control mechanism on administrative costs of the *AER*, the *Distribution Network Service Provider* and users or potential users;
 - (3) the regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the *distribution determination*; and
 - (4) the need for consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and
 - (5) any other factor the *AER* considers relevant.

6.2.6 Basis of control mechanisms for direct control services

- (a) For *standard control services*, the control mechanism must be of the prospective CPI minus X form, or some incentive-based variant of the prospective CPI minus X form.
- (b) The control mechanism for *standard control services*:
 - (1) must be set by the *AER* with regard to the *Distribution Network Service Provider's total revenue requirement* for the *regulatory control period*; and
 - (2) must be designed to equalise (in terms of present values) the revenue to be earned by the *Distribution Network Service Provider* from the provision of *standard control services* over the *regulatory control period* with the provider's *total revenue requirement* for the *regulatory control period*.

- (c) For *alternative control services*, the control mechanism must have a basis stated in the *distribution determination*.
- (d) The control mechanism for *alternative control services* may (but need not) be based on the building block approach.

6.2.7 Negotiated distribution services

Negotiated distribution services are regulated in accordance with Part D.

Division 3 - Guidelines

6.2.8 Guidelines

- (a) The *AER* may *publish* on its website guidelines as to:
 - (1) the classification of *distribution services*; and
 - (2) the control mechanisms for *direct control services*; and
 - (3) the calculation of stand-alone, avoidable and long-run marginal costs; and
 - (4) other matters relevant to this Chapter.

Example:

The guidelines could indicate that DUOS (Distribution Use of System) services are likely to be classified as *standard control services*

- (b) The guidelines may relate to a specified *Distribution Network Service Provider* or *Distribution Network Service Providers* of a specified class.
- (c) The guidelines are not binding on the *AER* but, if the *AER* makes a *distribution determination* that is not in accordance with a relevant guideline, the *AER* must state, in its reasons for the determination, the reasons for departing from the guideline.
- (d) If the guidelines indicate that there may be a change to a form of regulation, or a regulatory mechanism, in future *distribution determinations*, the guidelines should also (if practicable) indicate how transitional issues are to be dealt with.
- (e) In making or amending a guideline, the *AER* must follow the *distribution consultation procedures* in Part H.

Part C – Revenue Determinations for Standard Control Services

6.3 Revenue determinations

6.3.1 Introduction

- (a) A *revenue determination* is a component of a *distribution determination*.
- (b) The procedure for making a *revenue determination* is contained in Part E of this Chapter and involves the submission of a *revenue proposal* to the AER by the *Distribution Network Service Provider*.
- (c) The *revenue proposal*:
 - (1) must be prepared in accordance with the *post-tax revenue model* and other relevant requirements of this Part; and
 - (2) must comply with the requirements of any relevant regulatory information instrument.

6.3.2 Contents of revenue determination

- (a) A *revenue determination* for a *Distribution Network Service Provider* is to specify, for a *regulatory control period*, the following matters:
 - (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) the values that are to be attributed to the *performance incentive scheme parameters* for the purposes of the application to the provider of any *service target performance incentive scheme* that applies in respect of the *regulatory control period*;
 - (4) the values that are to be attributed to the *efficiency benefit sharing scheme parameters* for the purposes of the application to the provider of any *efficiency benefit sharing scheme* that applies in respect of the *regulatory control period*;
 - (5) the commencement and length of the *regulatory control period*; and

- (6) any other amounts, values or inputs on which the *revenue determination* is based (differentiating between those contained in, or inferred from, the service provider's *revenue proposal* and those based on the *AER's* own estimates or assumptions).
- (b) A *regulatory control period* must be not less than 5 *regulatory years*.

6.4 Post-tax revenue model

6.4.1 Preparation, publication and amendment of post-tax revenue model

- (a) The *AER* must, in accordance with the *distribution consultation procedures*, prepare and *publish* a *post-tax revenue model*.
- (b) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace the *post-tax revenue model*.
- (c) The *AER* must develop and *publish* the first *post-tax revenue model* within 6 months after the commencement of this clause and there must be such a model in force at all times after that date.

6.4.2 Contents of post-tax revenue model

- (a) The *post-tax revenue model* must set out the manner in which the *Distribution Network Service Provider's annual revenue requirement* for each *regulatory year* of a *regulatory control period* is to be calculated.
- (b) The contents of the *post-tax revenue model* must include (but are not limited to):
 - (1) a method that the *AER* determines is likely to result in the best estimates of expected inflation;
 - (2) the timing assumptions and associated discount rates that are to apply in relation to the calculation of the building blocks referred to in clause 6.4.3;
 - (3) the manner in which working capital is to be treated;
 - (4) the manner in which the estimated cost of corporate income tax is to be calculated.

6.4.3 Building blocks approach

(a) Building blocks generally

The *annual revenue requirement* for a *Distribution Network Service Provider* for each *regulatory year* of a *regulatory control period* must be determined using a building blocks approach, under which the building blocks are:

- (1) indexation of the regulatory asset base - see paragraph (b)(1);
- (2) a return on capital for that year - see paragraph (b)(2);
- (3) the depreciation for that year - see paragraph (b)(3);
- (4) the estimated cost of corporate income tax of the provider for that year - see paragraph (b)(4);
- (5) certain revenue increments or decrements for that year arising from the *efficiency benefit sharing scheme* - see paragraph (b)(5);
- (6) the forecast operating expenditure accepted or substituted by the *AER* for that year – see paragraph (b)(6); and
- (7) compensation for other risks - see paragraph (b)(7).

(b) Details of the building blocks

For the purposes of paragraph (a):

- (1) for indexation of the regulatory asset base:
 - (i) the regulatory asset base is calculated in accordance with clause 6.5.1 and schedule 6.2; and
 - (ii) the building block comprises a negative adjustment equal to the amount referred to in clause S6.2.4(c)(4) for that year;
- (2) the return on capital is calculated in accordance with clause 6.5.2;
- (3) the depreciation is calculated in accordance with clause 6.5.3;
- (4) the estimated cost of corporate income tax is determined in accordance with clause 6.5.4;

- (5) the revenue increments or decrements are those that arise as a result of the operation of the applicable *efficiency benefit sharing scheme*, as referred to in clause 6.5.5;
- (6) the forecast operating expenditure is accepted or substituted by the *AER* in accordance with clause 6.5.6(c) or clause 6.11.2(b)(3) and (5) (as the case may be); and
- (7) the compensation for other risks is such amounts as the *AER* determines are necessary for that year to compensate a *Distribution Network Service Provider* for risks that are not compensated in the return on capital.

6.5 Matters relevant to the making of revenue determinations

6.5.1 Regulatory asset base

Nature of regulatory asset base

- (a) The regulatory asset base for a *distribution system* owned, controlled or operated by a *Distribution Network Service Provider* is the value of those assets that are used by the provider to provide *standard control services*, but only to the extent that they are used to provide such services.

Preparation, publication and amendment of model for rolling forward regulatory asset base

- (b) The *AER* must, in accordance with the *distribution consultation procedures*, develop and *publish* a model for the roll forward of the regulatory asset base for *distribution systems*, referred to as the *roll forward model*.
- (c) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace the *roll forward model*.
- (d) The *AER* must develop and *publish* the first *roll forward model* within 6 months after the commencement of this clause, and there must be such a model available at all times after that date.

Contents of roll forward model

- (e) The *roll forward model* must set out the method for determining the roll forward of the regulatory asset base for *distribution systems*:
 - (1) from the immediately preceding *regulatory control period* to the beginning of the first year of the subsequent

regulatory control period, so as to establish the value of the regulatory asset base as at the beginning of the first *regulatory year* of that subsequent *regulatory control period*; and

- (2) from one *regulatory year* in a *regulatory control period* to a subsequent *regulatory year* in that same *regulatory control period*, so as to establish the value of the regulatory asset base as at the beginning of the subsequent *regulatory year* of that *regulatory control period*;

under which:

- (3) the roll forward of the regulatory asset base from the immediately preceding *regulatory control period* to the beginning of the first *regulatory year* of a subsequent *regulatory control period* entails the value of the first mentioned regulatory asset base being adjusted for outturn inflation, consistent with the method that was used in the *distribution determination* (if any) for the first mentioned *regulatory control period* for the indexation of the *total revenue requirement* during that *regulatory control period*.

Other provisions relating to regulatory asset base

- (f) Other provisions relating to regulatory asset bases are set out in schedule 6.2.

6.5.2 Return on capital

Calculation of return on capital

- (a) The return on capital for each *regulatory year* must be calculated by applying a rate of return for the relevant *Distribution Network Service Provider* for that *regulatory control period* (calculated in accordance with this clause 6.5.2) to the value of the regulatory asset base for the relevant *distribution system* as at the beginning of that *regulatory year* (as established in accordance with clause 6.5.1 and schedule 6.2).

Weighted average cost of capital

- (b) The rate of return for a *Distribution Network Service Provider* for a *regulatory control period* is the cost of capital as measured by the return required by investors in a commercial enterprise with a similar nature and degree of non-diversifiable risk as that faced by the *distribution* business of the provider and, subject to any values, methods and levels arising from a review under paragraphs (f)-(j),

must be calculated as a nominal post-tax *weighted average cost of capital* ("WACC") in accordance with the following formula:

$$\text{WACC} = k_e \frac{E}{V} + k_d \frac{D}{V}$$

where:

k_e is the return on equity (determined using the Capital Asset Pricing Model) and is calculated as:

$$r_f + \beta_e \times \text{MRP}$$

where:

r_f is the nominal risk free rate for the *regulatory control period* determined in accordance with paragraph (c);

β_e is the equity beta; and

MRP is the market risk premium;

k_d is the return on debt and is calculated as:

$$r_f + \text{DRP}$$

where:

DRP is the debt risk premium for the *regulatory control period* determined in accordance with paragraph (e);

E/V is the market value of equity as a proportion of the market value of equity and debt, which is $1 - D/V$; and

D/V is the market value of debt as a proportion of the market value of equity and debt.

Meaning of nominal risk free rate

(c) The nominal risk free rate for a *regulatory control period* is the rate determined for that *regulatory control period* by the AER on a moving average basis from the annualised yield on Commonwealth Government bonds with a maturity of 10 years using:

(1) the indicative mid rates *published* by the Reserve Bank of Australia; and

- (2) a period of time which is either:
- (i) a period ('the **agreed period**') proposed by the relevant *Distribution Network Service Provider*, and agreed by the *AER* (such agreement is not to be unreasonably withheld); or
 - (ii) a period specified by the *AER*, and notified to the provider prior to the commencement of that period, if the period proposed by the provider is not agreed by the *AER* under subparagraph (i),

and, for the purposes of subparagraph (i):

- (iii) the start date and end date for the agreed period may be kept confidential, but only until the expiration of the agreed period; and
 - (iv) the *AER* must notify the *Distribution Network Service Provider* whether or not it agrees with the proposed period within 30 *business days* of the date of submission of the *revenue proposal*.
- (d) If there are no Commonwealth Government bonds with a maturity of 10 years on any day in the period referred to in paragraph (c)(2), the *AER* must determine the nominal risk free rate for the *regulatory control period* by interpolating on a straight line basis from the two Commonwealth Government bonds closest to the 10 year term and which also straddle the 10 year expiry date.

Meaning of debt risk premium

- (e) The debt risk premium for a *regulatory control period* is the premium determined for that *regulatory control period* by the *AER* as the margin between the 10 year Commonwealth annualised bond rate and the observed annualised Australian benchmark corporate bond rate for corporate bonds which have a maturity of 10 years and a Standard and Poors credit rating.

Review of rate of return parameters

- (f) The *AER* must, in accordance with the *distribution consultation procedures* and paragraphs (g)-(j), carry out reviews of the matters referred to in paragraph (i).
- (g) The *AER* must initiate the first review on 1 July 2009 and every five years thereafter.

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- (h) The *AER* may, as a consequence of a review, adopt values, methods or credit rating levels for *Distribution Network Service Providers* generally, and, if it does so, it must use those values, methods and levels, but only for the purposes of a *revenue proposal* submitted to the *AER* after completion of the relevant review .
- (i) The following matters (and the basis of their calculation) may form the subject of a review:
 - (1) the nominal risk free rate;
 - (2) the equity beta;
 - (3) the market risk premium;
 - (4) the maturity period and bond rates referred to in paragraph (d); and
 - (5) the ratio of the market value of debt to the market value of equity and debt; and
 - (6) credit rating levels.
- (j) In undertaking a review under this clause 6.5.2 and under clause 6.5.4(b), the *AER* must have regard to:
 - (1) the need for the rate of return calculated for the purposes of paragraph (b) to be a forward looking rate of return that is commensurate with prevailing conditions in the market for funds and the risk involved in providing *standard control services*;
 - (2) the need for the market value of debt to reflect the current cost of borrowings for comparable debt;
 - (3) the need for the values attributable to the parameters that vary according to the efficiency of the *Distribution Network Service Provider* to be based on a benchmark efficient *Distribution Network Service Provider*; and
 - (4) where the values that are attributable to parameters referred to in paragraph (i) cannot be determined with certainty:
 - (i) the need to achieve an outcome that is consistent with the *market objective*; and
 - (ii) the need for persuasive evidence before adopting a value for that parameter that differs from the value that has previously been adopted for it.

6.5.3 Depreciation

- (a) The depreciation for each *regulatory year*:
 - (1) must be calculated on the value of the assets as included in the regulatory asset base, as at the beginning of that *regulatory year*, for the relevant *distribution system*; and
 - (2) must be calculated:
 - (i) providing such depreciation schedules conform with the requirements set out in paragraph (b), using the depreciation schedules for each asset or category of assets that are nominated in the relevant *Distribution Network Service Provider's revenue proposal*; or
 - (ii) to the extent the depreciation schedules nominated in the provider's *revenue proposal* do not so conform, using the depreciation schedules determined for that purpose by the *AER* in its final decision on the provider's *revenue proposal*.
- (b) The depreciation schedules referred to in paragraph (a) must conform to the following requirements:
 - (1) the schedules must depreciate using a profile that reflects the nature of the assets or category of assets over the economic life of that asset or category of assets;
 - (2) the sum of the real value of the depreciation that is attributable to any asset or category of assets over the economic life of that asset or category of assets (such real value being calculated as at the time the value of that asset or category of assets was first included in the regulatory asset base for the relevant *distribution system*) must be equivalent to the value at which that asset or category of assets was first included in the regulatory asset base for the relevant *distribution system*; and
 - (3) the economic life of the relevant assets and the depreciation methods and rates underpinning the calculation of actual depreciation for a given *regulatory control period* must be consistent with those determined for the same assets on a prospective basis in the *distribution determination* for that period.

6.5.4 Estimated cost of corporate income tax

- (a) The estimated cost of corporate income tax of a *Distribution Network Service Provider* for each *regulatory year* (ETC_t) must be calculated in accordance with the following formula:

$$ETC_t = (ETI_t \times r_t) (1 - \gamma)$$

where:

ETI_t is an estimate of the taxable income for that *regulatory year* that would be earned by a benchmark efficient entity as a result of the provision of *standard control services* if such an entity, rather than the *Distribution Network Service Provider*, operated the business of the *Distribution Network Service Provider*, such estimate being determined in accordance with the *post-tax revenue model*;

r_t is the expected statutory income tax rate for that *regulatory year* as determined by the *AER*; and

γ is the assumed utilisation of imputation credits.

For these purposes:

- (1) the cost of debt must be based on that of a benchmark efficient *Distribution Network Service Provider*; and
 - (2) the estimate must take into account the estimated depreciation for that *regulatory year* for tax purposes, for a benchmark efficient *Distribution Network Service Provider*, of assets where the value of those assets is included in the regulatory asset base for the relevant *distribution system* for that *regulatory year*.
- (b) The *AER* must, in accordance with the *distribution consultation procedures* and clause 6.5.2(j), carry out reviews of the matters referred to in paragraph (d).
- (c) The *AER* must initiate the first review on 1 July 2009 and every five years thereafter.
- (d) The *AER* may determine (and revise on review) the value of and method used to calculate the assumed utilisation of imputation credits as referred to in paragraph (a).

- (e) Where the value of the assumed utilisation of imputation credits referred to in paragraph (d) cannot be determined with certainty, the *AER* must have regard to:
 - (1) the need to achieve an outcome that is consistent with the *market objective*; and
 - (2) the need for persuasive evidence before adopting a value that differs from the value that has previously been adopted for it.
- (f) If, as a consequence of a review, the *AER* decides to adopt a revised value or method, it must use that revised value or method, but only for the purposes of a *revenue proposal* that is submitted to the *AER* after the completion of the first review or after completion of the five yearly reviews (as the case may be).

6.5.5 Efficiency benefits sharing scheme

- (a) The *AER* must, in accordance with the *distribution consultation procedures*, develop and *publish* a scheme (an *efficiency benefit sharing scheme*) that provides for a fair sharing between *Distribution Network Service Providers* and *Distribution Network Users* of:
 - (1) the efficiency gains derived from the operating expenditure of *Distribution Network Service Providers* for a *regulatory control period* being less than; and
 - (2) the efficiency losses derived from the operating expenditure of *Distribution Network Service Providers* for a *regulatory control period* being more than,

the forecast operating expenditure accepted or substituted by the *AER* for that *regulatory control period* in accordance with clause 6.5.6(c) or clause 6.11.2(b)(3) and (5) (as the case may be).
- (b) An *efficiency benefit sharing scheme* may (but is not required to) extend to efficiency gains and losses related to capital expenditure.
- (c) In developing and implementing an *efficiency benefit sharing scheme*, the *AER* must have regard to:
 - (1) the need to provide *Distribution Network Service Providers* with a continuous incentive to reduce operating expenditure and, if the scheme extends to capital expenditure, to avoid inefficient capital expenditure; and

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- (2) the desirability of both rewarding *Distribution Network Service Providers* for efficiency gains and penalising *Distribution Network Service Providers* for efficiency losses; and
 - (3) any incentives that *Distribution Network Service Providers* may have to inappropriately capitalise operating expenditure.
- (d) At the same time as it *publishes* an *efficiency benefit sharing scheme*, the *AER* must also *publish* parameters ('the *efficiency benefit sharing scheme parameters*') for the scheme. For the avoidance of doubt, unless the *AER* provides otherwise in that scheme, such values may differ as between *Distribution Network Service Providers* and over time.
- (e) The *AER* must set out in each *efficiency benefit sharing scheme* any requirements with which the values attributed to the *efficiency benefit sharing scheme parameters* must comply, but such requirements must not be inconsistent with those factors to which the *AER* must have regard under paragraph (c).
- (f) The *AER* must develop and *publish* the first *efficiency benefit sharing scheme* within 6 months after the commencement of this clause, and there must be an *efficiency benefit sharing scheme* in force at all times after that date.
- (g) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace an *efficiency benefit sharing scheme*, except that no such amendment or replacement may change the application of the scheme to a *Distribution Network Service Provider* in respect of a *regulatory control period* that has commenced before, or that will commence within 15 months of, the amendment or replacement coming into operation.
- (h) Subject to paragraph (i) the *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace the values to be attributed to the *efficiency benefit sharing scheme parameters*.
- (i) An amendment or replacement referred to in paragraph (h) must not change the values to be attributed to the *efficiency benefit sharing scheme parameters* where:
- (1) those values must be included in information accompanying a *revenue proposal*; and

- (2) the *revenue proposal* is required to be submitted under clause 6.8.2 within 2 months of the *publication* of the amended or replaced *efficiency benefit sharing scheme parameters*.

6.5.6 Forecast operating expenditure

- (a) A *revenue proposal* must include the total forecast operating expenditure for the relevant *regulatory control period* which the *Distribution Network Service Provider* considers is required in order to achieve each of the following ('the *operating expenditure objectives*'):
 - (1) meet the expected demand for *standard control services* over that period;
 - (2) comply with all applicable *regulatory obligations* associated with the provision of *standard control services*;
 - (3) maintain the quality, reliability and security of supply of *standard control services*; and
 - (4) maintain the reliability, safety and security of the *distribution system* through the supply of *standard control services*.
- (b) The forecast of required operating expenditure of a *Distribution Network Service Provider* that is included in a *revenue proposal* must:
 - (1) comply with the requirements of any relevant regulatory information instrument;
 - (2) be for expenditure that is properly allocated to *standard control services* in accordance with the principles and policies set out in the *Cost Allocation Method* for the *Distribution Network Service Provider*; and
 - (3) include both:
 - (i) the total of the forecast operating expenditure for the relevant *regulatory control period*; and
 - (ii) the forecast of the operating expenditure for each *regulatory year* of the relevant *regulatory control period*.

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- (c) The *AER* must accept the forecast of required operating expenditure of a *Distribution Network Service Provider* that is included in a *revenue proposal* if the *AER* is satisfied that the total of the forecast operating expenditure for the *regulatory control period* reasonably reflects:
- (1) the efficient costs of achieving the *operating expenditure objectives*;
 - (2) the costs that a prudent operator in the circumstances of the relevant *Distribution Network Service Provider* would require to achieve the *operating expenditure objectives*; and
 - (3) a realistic expectation of the demand forecast and cost inputs required to achieve the *operating expenditure objectives*.
- (‘the *operating expenditure criteria*’).
- (d) If the *AER* is not satisfied as referred to in paragraph (c), it must not accept the forecast of required operating expenditure of a *Distribution Network Service Provider* that is included in a *revenue proposal*.
- (e) In deciding whether or not the *AER* is satisfied as referred to in paragraph (c), the *AER* must have regard to the following (‘the *operating expenditure factors*’):
- (1) the information included in or accompanying the *revenue proposal*;
 - (2) submissions received in the course of consulting on the *revenue proposal*;
 - (3) such analysis as is undertaken by or for the *AER* and is *published* prior to or as part of the draft decision of the *AER* on the *revenue proposal* under rule 6.10 or the final decision of the *AER* on the *revenue proposal* under rule 6.11 (as the case may be);
 - (4) benchmark operating expenditure that would be incurred by an efficient *Distribution Network Service Provider* over the *regulatory control period*;
 - (5) the actual and expected operating expenditure of the provider during any preceding *regulatory control periods*;
 - (6) the relative prices of operating and capital inputs;

- (7) the substitution possibilities between operating and capital expenditure;
 - (8) whether the total labour costs included in the capital and operating expenditure forecasts for the *regulatory control period* are consistent with the incentives provided by the applicable *service target performance incentive scheme* in respect of the *regulatory control period*;
 - (9) the extent to which the forecast of required operating expenditure of the *Distribution Network Service Provider* is referable to arrangements with a person other than the provider that, in the opinion of the *AER*, do not reflect arm's length terms.
- (f) If, in its final decision on the *revenue proposal* under rule 6.11, the *AER* does not accept the total of the forecast required operating expenditure for the *regulatory control period* under paragraph (d), then the *AER* must, in accordance with clause 6.11.2(b), use a substituted forecast of required operating expenditure.

6.5.7 Forecast capital expenditure

- (a) A *revenue proposal* must include the total forecast capital expenditure for the relevant *regulatory control period* which the *Distribution Network Service Provider* considers is required in order to achieve each of the following ('the *capital expenditure objectives*')
- (1) meet the expected demand for *standard control services* over that period;
 - (2) comply with all applicable *regulatory obligations* associated with the provision of *standard control services*;
 - (3) maintain the quality, reliability and security of supply of *standard control services*; and
 - (4) maintain the reliability, safety and security of the *distribution system* through the supply of *standard control services*.

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- (b) The forecast of required capital expenditure of a *Distribution Network Service Provider* that is included in a *revenue proposal* must:
- (1) comply with the requirements of any relevant regulatory information instrument;
 - (2) be for expenditure that is properly allocated to *standard control services* in accordance with the principles and policies set out in the *Cost Allocation Method* for the *Distribution Network Service Provider*;
 - (3) include both:
 - (i) the total of the forecast capital expenditure for the relevant *regulatory control period*; and
 - (ii) the forecast of the capital expenditure for each *regulatory year* of the relevant *regulatory control period*; and
 - (4) identify any forecast capital expenditure that is for an option that has satisfied the *regulatory test*.
- (c) The *AER* must accept the forecast of required capital expenditure of a *Distribution Network Service Provider* that is included in a *revenue proposal* if the *AER* is satisfied that the total of the forecast capital expenditure for the *regulatory control period* reasonably reflects:
- (1) the efficient costs of achieving the *capital expenditure objectives*;
 - (2) the costs that a prudent operator in the circumstances of the relevant *Distribution Network Service Provider* would require to achieve the *capital expenditure objectives*; and
 - (3) a realistic expectation of the demand forecast and cost inputs required to achieve the *capital expenditure objectives*.
- (‘the *capital expenditure criteria*’)
- (d) If the *AER* is not satisfied as referred to in paragraph (c), it must not accept the forecast of required capital expenditure of a *Distribution Network Service Provider*.

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- (e) In deciding whether or not the *AER* is satisfied as referred to in paragraph (c), the *AER* must have regard to the following ('the *capital expenditure factors*')
- (1) the information included in or accompanying the *revenue proposal*;
 - (2) submissions received in the course of consulting on the *revenue proposal*;
 - (3) such analysis as is undertaken by or for the *AER* and is *published* prior to or as part of the draft decision of the *AER* on the *revenue proposal* under rule 6.10 or the final decision of the *AER* on the *revenue proposal* under rule 6.11 (as the case may be);
 - (4) benchmark capital expenditure that would be incurred by an efficient *Distribution Network Service Provider* over the *regulatory control period*;
 - (5) the actual and expected capital expenditure of the *Distribution Network Service Provider* during any preceding *regulatory control periods*;
 - (6) the relative prices of operating and capital inputs;
 - (7) the substitution possibilities between operating and capital expenditure;
 - (8) whether the total labour costs included in the capital and operating expenditure forecasts for the *regulatory control period* are consistent with the incentives provided by the applicable *service target performance incentive scheme* in respect of the *regulatory control period*;
 - (9) the extent to which the forecast of required capital expenditure of the *Distribution Network Service Provider* is referable to arrangements with a person other than the provider that, in the opinion of the *AER*, do not reflect arm's length terms.
- (f) If, in its final decision on the *revenue proposal* made under rule 6.11, the *AER* does not accept the total of the forecast of required capital expenditure for the *regulatory control period* under paragraph (d), then the *AER* must, in accordance with clause 6.11.2(b), use a substitute forecast of required capital expenditure.

6.5.8 The X factor

- (a) A *revenue determination* is to include the X factor for each *regulatory year* of the *regulatory control period*.
- (b) There may be a different X factors for different *regulatory years* of the *regulatory control period*.

6.6 Revenue adjustments after making of revenue determination.

6.6.1 Cost pass through

- (a) If a *positive change event* occurs, a *Distribution Network Service Provider* may seek the approval of the AER to pass through to *Distribution Network Users* a *positive pass through amount*.
- (b) If a *negative change event* occurs, the AER may require the *Distribution Network Service Provider* to pass through to *Distribution Network Users* a *negative pass through amount* as determined by the AER under paragraph (g).

Positive pass through

- (c) To seek the approval of the AER to pass through a *positive pass through amount*, a *Distribution Network Service Provider* must submit to the AER, within 90 *business days* of the relevant *positive change event* occurring, a written statement which specifies:
 - (1) the details of the *positive change event*;
 - (2) the date on which the *positive change event* occurred;
 - (3) the *eligible pass through amount* in respect of that *positive change event*;
 - (4) the *positive pass through amount* the provider proposes in relation to the *positive change event*;
 - (5) the amount of the *positive pass through amount* that the provider proposes should be passed through to *Distribution Network Users* in each *regulatory year* during the *regulatory control period*;
 - (6) evidence:
 - (i) of the actual and likely increase in costs referred to in subparagraph (3); and

- (ii) that such costs occur solely as a consequence of the *positive change event*; and
- (7) such other information as may be required under any relevant regulatory information instrument.
- (d) If the *AER* determines that a *positive change event* has occurred in respect of a statement under paragraph (c), the *AER* must determine:
 - (1) the *approved pass through amount*; and
 - (2) the amount of that *approved pass through amount* that should be passed through to *Distribution Network Users* in each *regulatory year* during the *regulatory control period*,
taking into account the matters referred to in paragraph (j).
- (e) If the *AER* does not make the determinations referred to in paragraph (d) within 60 *business days* from the date it receives the *Distribution Network Service Provider's* statement and accompanying evidence under paragraph (c), then, on the expiry of that period, the *AER* is taken to have determined that:
 - (1) the *positive pass through amount* as proposed in the provider's statement under paragraph (c) is the *approved pass through amount* in respect of that *positive change event*; and
 - (2) the amount of that *positive pass through amount* that the provider proposes in its statement under paragraph (c) should be passed through to *Distribution Network Users* in each *regulatory year* during the *regulatory control period*, is the amount that should be so passed through in each such *regulatory year*.

Negative pass through

- (f) A *Distribution Network Service Provider* must submit to the *AER*, within 60 *business days* of becoming aware of the occurrence of a *negative change event* for the provider, a written statement which specifies:
 - (1) the details of the *negative change event* concerned;
 - (2) the date the *negative change event* occurred;

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- (3) the costs in the provision of *standard control services* that the provider has saved and is likely to save until the end of the *regulatory control period* as a result of the *negative change event*;
 - (4) the aggregate amount of those saved costs that the provider proposes should be passed through to *Distribution Network Users*;
 - (5) the amount of the costs referred to in subparagraph (4) the provider proposes should be passed through to *Distribution Network Users* in each *regulatory year* during the *regulatory control period*; and
 - (6) such other information as may be required under any relevant regulatory information instrument.
- (g) If a *negative change event* occurs (whether or not the occurrence of that *negative change event* is notified by the provider to the *AER* under paragraph (f)) and the *AER* determines to impose a requirement on the provider in relation to that *negative change event* as described in paragraph (b), the *AER* must determine:
- (1) the *required pass through amount*; and
 - (2) taking into account the matters referred to in paragraph (j):
 - (i) how much of that *required pass through amount* should be passed through to *Distribution Network Users* ('the *negative pass through amount*'); and
 - (ii) the amount of that *negative pass through amount* that should be passed through to *Distribution Network Users* in each *regulatory year* during the *regulatory control period*.
- (h) A *Distribution Network Service Provider* must provide the *AER* with such information as the *AER* requires for the purpose of making a determination under paragraph (g) within the time specified by the *AER* in a notice provided to the provider by the *AER* for that purpose.

Consultation

- (i) Before making a determination under paragraph (d) or (g), the *AER* may consult with the relevant *Distribution Network Service Provider* and such other persons as the *AER* considers appropriate,

on any matters arising out of the relevant *pass through event* as the *AER* considers appropriate.

Relevant factors

- (j) In making a determination under paragraph (d) or (g) in respect of a *Distribution Network Service Provider*, the *AER* must take into account:
- (1) the matters and proposals set out in any statement given to the *AER* by the provider under paragraphs (c) or (f) (as the case may be);
 - (2) in the case of a *positive change event*, the increase in costs in the provision of *standard control services* that the provider has incurred and is likely to incur until the end of the *regulatory control period* as a result of the *positive change event*;
 - (3) in the case of a *positive change event*, the efficiency of the provider's decisions and actions in relation to the risk of the *positive change event*, including whether the provider has failed to take any action that could reasonably be taken to reduce the magnitude of the *eligible pass through amount* in respect of that *positive change event* and whether the provider has taken or omitted to take any action where such action or omission has increased the magnitude of the amount in respect of that *positive change event*;
 - (4) the time cost of money based on the *weighted average cost of capital* for the provider for the relevant *regulatory control period*;
 - (5) the need to ensure that the provider only recovers any actual or likely increment in costs under this paragraph (j) to the extent that such increment is solely as a consequence of a *pass through event*;
 - (6) in the case of a *tax change event*, any change in the way another *tax* is calculated, or the removal or imposition of another *tax*, which, in the *AER*'s opinion, is complementary to the *tax change event* concerned; and
 - (7) any other factors the *AER* considers relevant.

6.6.2 Service target performance incentive scheme

- (a) The AER must, in accordance with the *distribution consultation procedures*, develop and *publish* an incentive scheme ('a *service target performance incentive scheme*') to provide incentives for the *Distribution Network Service Provider* to maintain and improve performance.
- (b) In formulating a *service target performance incentive scheme*, the AER:
 - (1) must consult with the authorities responsible for the administration of relevant *jurisdictional electricity legislation*; and
 - (2) must apply the relevant *distribution service standards*; and
 - (3) must take into account:
 - (i) the regulatory obligations to which the *Distribution Network Service Provider* is subject; and
 - (ii) the past performance of the *distribution network*; and
 - (iii) any other incentives available to the *Distribution Network Service Provider* under the *Rules* or a relevant *distribution determination*; and
 - (iv) the need to ensure that the incentives are sufficient to offset any financial incentives the service provider may have to reduce costs at the expense of service levels.
- (c) At the same time as it *publishes* a *service target performance incentive scheme*, the AER must also *publish* parameters (the *performance incentive scheme parameters*) for the scheme. For the avoidance of doubt, the parameters may differ as between *Distribution Network Service Providers* and over time.
- (d) The AER must set out in each *service target performance incentive scheme* any requirements with which the values attributed to the *performance incentive scheme parameters* must comply, and those requirements must be consistent with the principles set out in paragraph (b).
- (e) The AER must develop and *publish* the first *service target performance incentive scheme* under the *Rules* within 6 months after the commencement of this clause and there must be a *service*

target performance incentive scheme in force at all times after that date.

- (f) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace any scheme that is developed and *published* under this clause, except that no such amendment or replacement may change the application of the scheme to a *Distribution Network Service Provider* in respect of a *regulatory control period* that has commenced before, or that will commence within 15 months of, the amendment or replacement coming into operation.
- (g) Subject to paragraph (h) the *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace the values to be attributed to the *performance incentive scheme parameters*.
- (h) An amendment or replacement referred to in paragraph (g) must not change the values to be attributed to the *performance incentive scheme parameters* where:
 - (1) those values must be included in information accompanying a *revenue proposal*; and
 - (2) the *revenue proposal* is required to be submitted at a time that is within 2 months of the *publication* of the amended or replaced *performance incentive scheme parameters*.

Part D – Negotiated distribution services

6.7 Negotiated distribution services

6.7.1 Principles relating to access to negotiated distribution services

The following principles constitute the *Negotiated Distribution Service Principles*:

- (1) the price for a *negotiated distribution service* should be based on the costs incurred in providing that service, determined in accordance with the principles and policies set out in the *Cost Allocation Method* for the relevant *Distribution Network Service Provider*;
- (2) subject to subparagraphs (3) and (4), the price for a *negotiated distribution service* should be at least equal to the avoided cost of providing it but no more than the cost of providing it on a stand alone basis;

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- (3) if the *negotiated distribution service* is the provision of a *shared distribution service* that:
- (i) exceeds the *network* performance requirements (if any) which that *shared distribution service* is required to meet under any *jurisdictional electricity legislation*; or
 - (ii) exceeds the *network* performance requirements set out in schedules 5.1a and 5.1,

then the differential between the price for that service and the price for the *shared distribution service* which meets (but does not exceed) the *network* performance requirements under any *jurisdictional electricity legislation* or as set out in schedules 5.1a and 5.1 (as the case may be) should reflect the increase in the *Distribution Network Service Provider's* incremental cost of providing that service;

- (4) if the *negotiated distribution service* is the provision of a *shared distribution service* that does not meet (and does not exceed) the *network* performance requirements set out in schedules 5.1a and 5.1, the differential between the price for that service and the price for the *shared distribution service* which meets (but does not exceed) the *network* performance requirements set out in schedules 5.1a and 5.1 should reflect the amount of the *Distribution Network Service Provider's* avoided cost of providing that service;
- (5) the price for a *negotiated distribution service* must be the same for all *Distribution Network Users* unless there is a material difference in the costs of providing the *negotiated distribution service* to different *Distribution Network Users* or classes of *Distribution Network Users*;
- (6) the price for a *negotiated distribution service* should be subject to adjustment over time to the extent that the assets used to provide that service are subsequently used to provide services to another person, in which case the adjustment should reflect the extent to which the costs of that asset are being recovered through charges to that other person;
- (7) the price for a *negotiated distribution service* should be such as to enable the *Distribution Network Service Provider* to recover the efficient costs of complying with all regulatory obligations associated with the provision of the *negotiated distribution service*;

- (8) any access charges should be based on the costs reasonably incurred by the *Distribution Network Service Provider* in providing *Distribution Network User* access and, in the case of compensation referred to in clause 5.5(f)(4)(ii) and (iii), on the revenue that is likely to be foregone and the costs that are likely to be incurred by a person referred to in those provisions where an event referred to in those provisions occurs;
- (9) the *terms and conditions of access* for a *negotiated distribution service* should be fair and reasonable and consistent with the safe and reliable operation of the power system in accordance with the *Rules* (for these purposes, the price for a *negotiated distribution service* is to be treated as being fair and reasonable if it complies with principles (1) to (7) of this clause;
- (10) the *terms and conditions of access* for a *negotiated distribution service* (including, in particular, any exclusions and limitations of liability and indemnities) must not be unreasonably onerous taking into account the allocation of risk between the *Distribution Network Service Provider* and the other party, the price for the *negotiated distribution service* and the costs to the *Distribution Network Service Provider* of providing the *negotiated distribution service*; and
- (11) the *terms and conditions of access* for a *negotiated distribution service* should take into account the need for the service to be provided in a manner that does not adversely affect the safe and reliable operation of the power system in accordance with the *Rules*.

6.7.2 Determination of terms and conditions of access for negotiated distribution services

- (a) A *Distribution Network Service Provider* must comply with:
 - (1) the provider's *negotiating framework*; and
 - (2) the provider's *Negotiated Distribution Service Criteria*,when the provider is negotiating the *terms and conditions of access* to *negotiated distribution services*.

- (b) The *Distribution Network Service Provider* must also comply with any other applicable requirements of the *Rules*, including the requirements of:
- (1) rules 5.3 and 5.5, when negotiating for the provision of *connection services* and the associated *connection service charges*; and
 - (2) rule 5.5 when negotiating the *use of system services charges* and *access charges* to be paid to or by a *Distribution Network User*.

6.7.3 Negotiating framework determination

The determination specifying requirements relating to the *negotiating framework* forming part of a *distribution determination* for a *Distribution Network Service Provider* is to set out requirements that are to be complied with in respect of the preparation, replacement, application or operation of its *negotiating framework*.

6.7.4 Negotiated Distribution Service Criteria determination

- (a) The determination by the *AER* specifying the *Negotiated Distribution Service Criteria* forming part of a *distribution determination* for a *Distribution Network Service Provider* is to set out the criteria that are to be applied:
- (1) by the provider in negotiating *terms and conditions of access* including:
 - (i) the prices that are to be charged for the provision of *negotiated distribution services* by the provider for the relevant *regulatory control period*; and
 - (ii) any *access charges* which are negotiated by the provider during that *regulatory control period*; and
 - (2) by the *AER* in resolving an access dispute, between the *Distribution Network Service Provider* and a person who wishes to receive a *negotiated distribution service*, in relation to *terms and conditions of access* including:
 - (i) the price that is to be charged for the provision of that service by the provider; and
 - (ii) any *access charges* that are to be paid to or by the provider.

- (b) The *Negotiated Distribution Service Criteria* must give effect to and be consistent with the *Negotiated Distribution Service Principles* set out in clause 6.7.1.

6.7.5 Preparation of and requirements for negotiating framework

- (a) A *Distribution Network Service Provider* must prepare a document (the *negotiating framework*) setting out the procedure to be followed during negotiations between that provider and any person (the *Service Applicant* or applicant) who wishes to receive a *negotiated distribution service* from the provider, as to the *terms and conditions of access* for the provision of the service.
- (b) The *negotiating framework* for a *Distribution Network Service Provider* must comply with and be consistent with:
 - (1) the applicable requirements of a *distribution determination* applying to the provider; and
 - (2) paragraph (c), which sets out the minimum requirements for a *negotiating framework*.
- (c) The *negotiating framework* for a *Distribution Network Service Provider* must specify:
 - (1) a requirement for the provider and a *Service Applicant* to negotiate in good faith the *terms and conditions of access* to a *negotiated distribution service*; and
 - (2) a requirement for the provider to provide all such commercial information a *Service Applicant* may reasonably require to enable that applicant to engage in effective negotiation with the provider for the provision of the *negotiated distribution service*, including the cost information described in subparagraph (3); and
 - (3) a requirement for the provider:
 - (i) to identify and inform a *Service Applicant* of the reasonable costs and/or the increase or decrease in costs (as appropriate) of providing the *negotiated distribution service*; and
 - (ii) to demonstrate to a *Service Applicant* that the charges for providing the *negotiated distribution service* reflect those costs and/or the cost increment or decrement (as appropriate); and

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- (4) a requirement for a *Service Applicant* to provide all such commercial information the provider may reasonably require to enable the provider to engage in effective negotiation with that applicant for the provision of the *negotiated distribution service*; and
 - (5) a requirement that negotiations with a *Service Applicant* for the provision of the *negotiated distribution service* be commenced and finalised within specified periods and a requirement that each party to the negotiations must make reasonable endeavours to adhere to the specified time limits; and
 - (6) a process for dispute resolution which provides that all disputes as to the *terms and conditions of access* for the provision of *negotiated distribution services* are to be dealt with in accordance with the relevant provisions of the Law for dispute resolution; and
 - (7) the arrangements for payment by a *Service Applicant* of the provider's reasonable direct expenses incurred in processing the application to provide the *negotiated distribution service*; and
 - (8) a requirement that the *Distribution Network Service Provider* determine the potential impact on other *Distribution Network Users* of the provision of the *negotiated distribution service*; and
 - (9) a requirement that the *Distribution Network Service Provider* must notify and consult with any affected *Distribution Network Users* and ensure that the provision of *negotiated distribution services* does not result in non-compliance with obligations in relation to other *Distribution Network Users* under the *Rules*; and
 - (10) a requirement that the *Distribution Network Service Provider* publish the results of negotiations on its website.
- (d) Notwithstanding the foregoing, the *negotiating framework* must not be inconsistent with any of the requirements of *Rules 5.3, 5.5* and Part C of this Chapter 6 and, in the event of any inconsistency, those requirements prevail.
- (e) Each *Distribution Network Service Provider* and *Service Applicant* who is negotiating for the provision of a *negotiated distribution*

service by the provider must comply with the requirements of the *negotiating framework* in accordance with its terms.

6.7.6 Confidential information

- (a) Commercial information to be provided to a *Service Applicant* in accordance with clause 6.7.5(c)(2):
 - (1) does not include *confidential information* provided to the *Distribution Network Service Provider* by another person; and
 - (2) may be provided subject to a condition that the *Service Applicant* must not provide any part of that commercial information to any other person without the consent of the *Distribution Network Service Provider* .
- (b) Commercial information to be provided to a *Distribution Network Service Provider* in accordance with clause 6.7.5(c)(4):
 - (1) does not include *confidential information* provided to a *Service Applicant* by another person; and
 - (2) may be provided subject to a condition that the provider must not provide any part of that commercial information to any other person without the consent of the *Service Applicant*.

Part E – Regulatory proposal

6.8 Regulatory proposal

6.8.1 Publication of issues papers

- (a) The *AER* may prepare and *publish* regulatory issues papers.
- (b) A regulatory issues paper may be relevant to *Distribution Network Service Providers* generally or a particular *Distribution Network Service Provider*.
- (c) A regulatory issues paper relating to a particular *Distribution Network Service Provider* must be *published* at least 5 months before the provider is required to submit a *regulatory proposal* for the relevant *distribution network*.
- (d) The *AER* is under no obligation to prepare and *publish* a regulatory issues paper for a particular *Distribution Network Service Provider*.

6.8.2 Submission of regulatory proposal

- (a) A *Distribution Network Service Provider* must, whenever required to do so under paragraph (b), submit a *regulatory proposal* to the AER for *distribution services* provided by means of, or in connection with, the provider's *distribution system*.
- (b) A *regulatory proposal* must be submitted:
 - (1) at least 13 months before the expiry of a *distribution determination* that applies to the service provider; or
 - (2) if no *distribution determination* applies to the service provider, within 3 months after being required to do so by the AER.
- (c) A *regulatory proposal* consists of the following elements:
 - (1) a classification proposal showing how the *distribution services* to be provided by the *Distribution Network Service Provider* should, in the provider's opinion, be classified under this Chapter; and
 - (2) for *direct control services* classified under the proposal as *standard control services* – a *revenue proposal* and the proposed regulatory mechanism; and
 - (3) for *direct control services* classified under the proposal as *alternative control services* – the proposed regulatory mechanism; and
 - (4) for all *direct control services* – a *pricing proposal* for the first year of the *regulatory control period*; and
 - (5) for services classified under the proposal as *negotiated distribution services* – the proposed *negotiating framework*.
- (d) The *regulatory proposal* must comply with the requirements of, and must contain or be accompanied by the information required by any relevant regulatory information instrument.
- (e) If more than one *distribution system* is owned, controlled or operated by a *Distribution Network Service Provider*, then, unless the AER otherwise determines, a separate *regulatory proposal* is to be submitted for each *distribution system*.

6.9 Preliminary examination and consultation

6.9.1 Preliminary examination

- (a) If the *AER* determines that a *regulatory proposal* (or the accompanying information) does not comply, in any respect, with a requirement the Law, the *AER* must notify the provider of the determination as soon as practicable.
- (b) A determination under paragraph (a) must state why, and in what respects, the *AER* has determined the *regulatory proposal* to be non-compliant.

6.9.2 Resubmission of proposal

- (a) A *Distribution Network Service Provider* must, within 1 month after receiving notice of a determination under clause 6.9.1, resubmit its *regulatory proposal* in an amended form that complies with the relevant requirements set out in that determination.
- (b) A *Distribution Network Service Provider* may only make changes to its *regulatory proposal* to address the deficiencies identified in the determination.

6.9.3 Consultation

- (a) Subject to the provisions of the Law and the *Rules* about the disclosure of *confidential information*, the *AER* must *publish* a *regulatory proposal* submitted or resubmitted to it by the provider under this Part, together with:
 - (1) the *AER's* proposed *Negotiated Distribution Service Criteria* for the provider; and
 - (2) an invitation for written submissions on the *regulatory proposal* and the proposed pricing criteria,as soon as practicable after the *AER* determines that the *regulatory proposal* complies with the requirements of the Law and the *Rules*.
- (b) The *AER* may *publish* an issues paper examining issues related to the *regulatory proposal* and the proposed *Negotiated Distribution Service Criteria*, at the same time as, or subsequent to, *publication* of the invitation referred to in paragraph (a)(2).
- (c) Any person may make a written submission to the *AER* on the *regulatory proposal* or the proposed *Negotiated Distribution Service Criteria* within the time specified in the invitation referred

to in paragraph (a)(2), which must be not earlier than 30 *business days* after the invitation for submissions is *published* under that paragraph.

6.10 Draft decision and further consultation

6.10.1 Making of draft decision

- (a) Subject to rule 6.14(a), the *AER* must consider any written submissions made under rule 6.9 and must make a draft decision in relation to the *Distribution Network Service Provider*.
- (b) The *AER*'s draft decision must be made in accordance with, and must comply with, the relevant requirements of rule 6.12.
- (c) If the *AER* refuses to approve any of the classifications, amounts or values referred to in clause 6.12.1, the *AER*'s draft decision must include details of the changes required or matters to be addressed before the *AER* will approve those classifications, amounts or values.
- (d) If the *AER* refuses to approve the proposed *negotiating framework*, the *AER*'s draft decision must include details of the changes required or matters to be addressed before the *AER* will approve the framework.

6.10.2 Publication of draft decision and consultation

- (a) The *AER* must, as soon as practicable but not later than 6 months after submission of the regulatory proposal was required, *publish*:
 - (1) its draft decision and reasons under clause 6.10.1 and rule 6.12;
 - (2) notice of the making of the draft decision;
 - (3) notice of a predetermination conference; and
 - (4) an invitation for written submissions on its draft decision.
- (b) The *AER* must hold a predetermination conference at the time, date and place specified in the notice under paragraph (a)(3) for the purpose of explaining its draft decision and receiving oral submissions from interested parties. Any person may attend such a predetermination conference but the procedure to be adopted at the conference will be at the discretion of the senior *AER* representative in attendance.

- (c) Any person may make a written submission to the *AER* on the draft decision within the time specified in the invitation referred to in paragraph (a)(4), which must be not earlier than 45 *business days* after the holding of a predetermination conference.

6.10.3 Submission of revised proposal

- (a) In addition to making written submissions, the *Distribution Network Service Provider* may, not more than 30 *business days* after the publication of the draft decision, submit a revised *regulatory proposal* to the *AER*.
- (b) A *Distribution Network Service Provider* may only make the revisions referred to in paragraph (a) so as to incorporate the substance of any changes required by, or to address matters raised in, the draft decision.
- (c) A revised *regulatory proposal* must comply with the requirements of, and must contain or be accompanied by the information required by, any relevant regulatory information instrument.
- (d) Subject to the provisions of the Law and the *Rules* about the disclosure of *confidential information*, the *AER* must *publish* a *regulatory proposal* submitted by the *Distribution Network Service Provider* under paragraph (a), together with the accompanying information, as soon as practicable after receipt by the *AER*.

6.11 Final decision

6.11.1 Making of final decision

- (a) Subject to rule 6.14(a), the *AER* must consider any submissions made on the draft decision, or on any revised *regulatory proposal* submitted to it under clause 6.10.3, and must make a final decision in relation to the *Distribution Network Service Provider*.
- (b) The *AER's* final decision must be made in accordance with, and must comply with, the relevant requirements of rule 6.12.

6.11.2 Refusal to approve classification, amounts, values or framework

- (a) If the *AER's* final decision is to refuse to approve a classification or an amount or value referred to in clause 6.12.1, the *AER* must include in its final decision a substitute classification, amount or value which, except as provided in paragraph (b), is:
 - (1) determined on the basis of the current *regulatory proposal*;
and

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- (2) amended from that basis only to the extent necessary to enable it to be approved in accordance with the *Rules*.
- (b) If the *AER*'s final decision is to refuse to approve a classification or an amount or value referred to in clause 6.12.1 for the reason that, or a reason which includes the reason that, the *AER* is not satisfied that:
 - (1) the total of the forecast operating expenditure for the *regulatory control period* reasonably reflects the *operating expenditure criteria*, taking into account the *operating expenditure factors*; or
 - (2) the total of the forecast capital expenditure for the *regulatory control period* reasonably reflects the *capital expenditure criteria*, taking into account the *capital expenditure factors*,the *AER* must:
 - (3) where subparagraph (1) applies, include in its final decision (in addition to the estimate referred to in clause 6.12.1(4)(ii)) the forecast operating expenditure for each *regulatory year* which the *AER* is satisfied reasonably reflects the *operating expenditure criteria*, taking into account the *operating expenditure factors*, subject only to the requirement that the total of such forecasts must equate to the estimate referred to in clause 6.12.1(4)(ii);
 - (4) where subparagraph (2) applies, include in its final decision (in addition to the estimate referred to in clause 6.12.1(3)(ii)) the forecast capital expenditure for each *regulatory year* which the *AER* is satisfied reasonably reflects the *capital expenditure criteria*, taking into account the *capital expenditure factors*, subject only to the requirement that the total of such forecasts must equate to the estimate referred to in clause 6.12.1(3)(ii); and
 - (5) use each such amount (and its components) in place of the forecast of required operating or capital expenditure that is included in the current *revenue proposal* for the purposes of calculating the amount or value that it has refused to approve in its final decision.
- (c) If the *AER*'s final decision is to refuse to approve the proposed *negotiating framework* referred to in clause 6.12.1(8), the *AER*

must include in its final decision an amended *negotiating framework* which is:

- (1) determined on the basis of the current proposed *negotiating framework*; and
- (2) amended from that basis only to the extent necessary to enable it to be approved in accordance with the *Rules*.

6.11.3 Notice of final decision

The *AER* must as soon as practicable, but not later than 2 months before the commencement of the relevant *regulatory control period*, publish:

- (1) notice of the making of the final decision; and
- (2) the final decision, including the reasons required to be included in it.

6.11.4 Making of distribution determination

The *AER* must, as soon as practicable after making its final decision, make the *distribution determination* to which the final decision relates.

6.12 Requirements relating to draft and final decisions

6.12.1 Contents of decisions

A draft decision under rule 6.10 or a final decision under rule 6.11 is a decision by the *AER*:

- (1) on the classification of the services to be provided by the *Distribution Network Service Provider* during the course of the *regulatory control period*;
- (2) on the *Distribution Network Service Provider's* current *revenue proposal* in which the *AER* either approves or refuses to approve:
 - (i) the *annual revenue requirement* for the provider for each *regulatory year* of the *regulatory control period*;
 - (ii) the values that are to be attributed to the *performance incentive scheme parameters* for the *service target performance incentive scheme* that is to apply to the provider in respect of the *regulatory control period*;

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- (iii) the values that are to be attributed to the *efficiency benefit sharing scheme parameters* for the *efficiency benefit sharing scheme* that is to apply to the provider in respect of the *regulatory control period*; and
- (iv) the commencement and length of the *regulatory control period* that has been proposed by the provider,

as set out in the *revenue proposal*, setting out the reasons for the decision;

- (3) 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 *revenue 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 *revenue 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) 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 *revenue 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 *revenue 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) in which the *AER* sets out the amounts, values or inputs that it has used;
- (6) on the control mechanism for *standard control services* (including the X factor) that is to apply to the *Distribution Network Service Provider* for the *regulatory control period* (which may be a control mechanism as proposed by the provider, some variant of it, or a control mechanism substituted by the *AER*);
- (7) on the control mechanism for *alternative control services* that is to apply to the *Distribution Network Service Provider* for the *regulatory control period* (which may be a control mechanism as proposed by the provider, some variant of it, or a control mechanism substituted by the *AER*);
- (8) on the additional *pass through events* that are to apply for the *regulatory control period*;
- (9) 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*);
- (10) in which the *AER* specifies the *Negotiated Distribution Service Criteria* for the *Distribution Network Service Provider*, setting out the reasons for the decision;
- (11) in which the *AER* approves, with or without modification, the provider's *pricing proposal*.

6.12.2 Reasons for decisions

The reasons given by the *AER* for a draft decision under rule 6.10 or a final decision under rule 6.11 must set out the basis and rationale of the decision, including:

- (1) details of the qualitative and quantitative methods applied in any calculations and formulae made or used by the *AER* for the purposes of its decision;

- (2) the values adopted by the *AER* for each of the input variables in any calculations and formulae, including:
 - (i) whether those values have been taken or derived from the provider's current *revenue proposal*; and
 - (ii) if not, the rationale for the adoption of those values;
- (3) details of any assumptions made by the *AER* in undertaking any material qualitative and quantitative analyses for the purposes of the decision; and
- (4) reasons for the making of any decisions, the giving or withholding of any approvals, and the exercise of any discretions, as referred to in Part C of this Chapter 6, for the purposes of the decision.

6.13 Revocation and substitution of distribution determination for wrong information or error

- (a) The *AER* may revoke a *distribution determination* during a *regulatory control period* if it appears to the *AER* that:
 - (1) the determination is affected by:
 - (i) a clerical mistake or an accidental slip or omission; or
 - (ii) a miscalculation or misdescription; or
 - (iii) a defect in form; or
 - (iv) a deficiency resulting from the provision of false or materially misleading information to the *AER*; and
 - (2) the error or deficiency is material.
- (b) If the *AER* revokes a *distribution determination* under paragraph (a), the *AER* must make a new *distribution determination* in substitution for the revoked determination to apply for the remainder of the *regulatory control period* for which the revoked determination was to apply.
- (c) If the *AER* revokes a *distribution determination* under paragraph (a), the substituted determination must only vary from the revoked determination to the extent necessary to correct the relevant error or deficiency.

- (d) The *AER* may only revoke and substitute a *distribution determination* under this rule 6.13, if it has first consulted with the relevant *Distribution Network Service Provider* and such other persons as it considers appropriate.

6.14 Miscellaneous

- (a) The *AER* may, but is not required to, consider any submission made pursuant to an invitation for submissions after the time for making the submission has expired.
- (b) Nothing in this Part E is to be construed as precluding the *AER* from *publishing* any issues, consultation and discussion papers, or holding any conferences and information sessions, that the *AER* considers appropriate.
- (c) Subject to paragraph (d), as soon as practicable after the *AER* receives a submission in response to an invitation referred to in clause 6.9.3(a)(2) or 6.10.2(a)(4) (whether or not the submission was made before the time for making it has expired), the *AER* must *publish* that submission.
- (d) The *AER* must not *publish* a submission referred to in paragraph (c) to the extent it contains information which has been clearly identified as confidential by the person making the submission.
- (e) The *AER* may give such weight to *confidential information* identified in accordance with paragraph (d) in a submission as it considers appropriate, having regard to the fact that such information has not been made publicly available.
- (f) Paragraph (d) does not apply to the extent that any other provision of the *Law* or the *Rules* permits or requires such information to be publicly released by the *AER*.

Part G - Cost Allocation

6.15 Cost allocation

6.15.1 Duty to comply with Cost Allocation Method

A *Distribution Network Service Provider* must comply with the *Cost Allocation Method* that has been approved in respect of that provider from time to time by the *AER* under this rule 6.15.

6.15.2 Cost Allocation Principles

The following principles constitute the *Cost Allocation Principles*:

- (1) the detailed principles and policies used by a *Distribution Network Service Provider* to allocate costs between different categories of *distribution services* must be described in sufficient detail to enable the *AER* to replicate reported outcomes through the application of those principles and policies;
- (2) the allocation of costs must be determined according to the substance of a transaction or event rather than its legal form;
- (3) only the following costs may be allocated to a particular category of *distribution services*:
 - (i) costs which are directly attributable to the provision of those services; and
 - (ii) costs which are not directly attributable to the provision of those services but which are incurred in providing those services, in which case such costs must be allocated to the provision of those services using an appropriate allocator which should:
 - (A) except to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be causation based; and
 - (B) to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be an allocator that accords with a well accepted *Cost Allocation Method*;
- (4) any *Cost Allocation Method* which is used, the reasons for using that method and the numeric quantity (if any) of the chosen allocator must be clearly described;
- (5) the same cost must not be allocated more than once;
- (6) the principles, policies and approach used to allocate costs must be consistent with the *Distribution Ring-Fencing Guidelines*;

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- (7) costs which have been allocated to a particular service cannot be reallocated to another service during the course of a *regulatory control period*.

Note. The Cost Allocation Guidelines are required by clause 6.15.3 to give effect to and be consistent with, the Cost Allocation Principles.

6.15.3 Cost Allocation Guidelines

- (a) The *AER* must, in accordance with the *distribution consultation procedures*, make guidelines (the *Cost Allocation Guidelines*) relating to the preparation by a *Distribution Network Service Provider* of its *Cost Allocation Method*.
- (b) The *Cost Allocation Guidelines*:
- (1) must give effect to and be consistent with the *Cost Allocation Principles*; and
 - (2) may be amended by the *AER* from time to time in accordance with the *distribution consultation procedures*.
- (c) Without limiting the generality of paragraph (b), the *Cost Allocation Guidelines* may specify:
- (1) the format of a *Cost Allocation Method*;
 - (2) the detailed information that is to be included in a *Cost Allocation Method*;
 - (3) the categories of *distribution services* which are to be separately addressed in a *Cost Allocation Method*, such categories being determined by reference to the nature of those services, the persons to whom those services are provided or such other factors as the *AER* considers appropriate; and
 - (4) the allocation methods which are acceptable and the supporting information that is to be included in relation to such methodologies in a *Cost Allocation Method*.
- (d) The *AER* may, from time to time and in accordance with the *distribution consultation procedures*, amend or replace the *Cost Allocation Guidelines*.
- (e) The *AER* must, in accordance with the *distribution consultation procedures*, develop and *publish* the first *Cost Allocation Guidelines* within 6 months after the commencement of these *Rules*

and there must be *Cost Allocation Guidelines* available at all times after that date.

6.15.4 Cost Allocation Method

- (a) Each *Distribution Network Service Provider* must submit to the *AER* for its approval a document setting out its proposed *Cost Allocation Method*:
 - (1) within 12 months after the commencement of these *Rules*;
or
 - (2) in the case of an entity that becomes a *Distribution Network Service Provider* more than 6 months after the commencement of these *Rules*, within 6 months of being required to do so by the *AER*.
- (b) The *Cost Allocation Method* proposed by a *Distribution Network Service Provider* must give effect to and be consistent with the *Cost Allocation Guidelines*.
- (c) The *AER* may approve or refuse to approve a *Cost Allocation Method* submitted under paragraph (a).
- (d) The *AER* must notify the relevant *Distribution Network Service Provider* of its decision to approve or refuse to approve the *Cost Allocation Method* submitted to it under paragraph (a) within 6 months of its submission, failing which the *AER* will be taken to have approved it.
- (e) As part of giving any approval referred to in paragraph (c), the *AER* may, after consulting with the relevant *Distribution Network Service Provider*, amend the *Cost Allocation Method* submitted to it, in which case the *Cost Allocation Method* as so amended will be taken to be approved by the *AER*.
- (f) A *Distribution Network Service Provider* may amend its *Cost Allocation Method* from time to time but the amendment only comes into effect:
 - (1) 6 months after the submission of the amendment, together with detailed reasons for the amendment, to the *AER* (unless the *AER* approves that amendment earlier, in which case it will come into effect when that earlier approval is given); and
 - (2) subject to such changes to the *Cost Allocation Method* (including the proposed amendment) as the *AER* notifies to

the *Distribution Network Service Provider* within that period, being changes that the *AER* reasonably considers are necessary or desirable as a result of that amendment.

- (g) A *Distribution Network Service Provider* must amend its *Cost Allocation Method* where the amendment is required by the *AER* to take into account any change to the *Cost Allocation Guidelines*, but the amendment only comes into effect:
 - (1) on the date that the *AER* approves that amendment, or 3 months after the submission of the amendment, whichever is the earlier; and
 - (2) subject to such changes to the *Cost Allocation Method* (including the proposed amendment) as the *AER* notifies to the *Distribution Network Service Provider* within that period, being changes that the *AER* reasonably considers are necessary or desirable as a result of that amendment.
- (h) A *Distribution Network Service Provider* must maintain a current copy of its *Cost Allocation Method* on its website.

Part H – Distribution consultation procedures

6.16 Distribution consultation procedures

- (a) This rule 6.16 applies wherever the *AER* is required to comply with the *distribution consultation procedures*. For the avoidance of doubt, the *distribution consultation procedures* are separate from, and (where they are required to be complied with) apply to the exclusion of, the *Rules* consultation procedures under rule 8.9.
- (b) If the *AER* is required to comply with the *distribution consultation procedures* in making, developing or amending any guidelines, models or schemes, or in reviewing any values or methods, it must *publish*:
 - (1) the proposed guideline, model, scheme, amendment or revised value or method;
 - (2) an explanatory statement that sets out the provision of the *Rules* under or for the purposes of which the guideline, model, scheme or amendment is proposed to be made or developed or the value or method is required to be reviewed, and the reasons for the proposed guideline, model, scheme, amendment or revised value or method; and

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- (3) an invitation for written submissions on the proposed guideline, model, scheme, amendment or revised value or method.
- (c) The invitation must allow no less than 30 *business days* for the making of submissions, and the *AER* is not required to consider any submission made pursuant to that invitation after this time period has expired.
- (d) The *AER* may *publish* such issues, consultation and discussion papers, and hold such conferences and information sessions, in relation to the proposed guideline, model, scheme, amendment or revised value or method as it considers appropriate.
- (e) Within 80 *business days* of *publishing* the documents referred to in paragraph (b), the *AER* must *publish*:
 - (1) its final decision on the guideline, model, scheme, amendment, value or method that sets out:
 - (i) the guideline, model, scheme, amendment or revised value or method (if any);
 - (ii) the provision of the *Rules* under which or for the purposes of which the guideline, model, scheme or amendment is being made or developed or the value or method is being reviewed; and
 - (iii) the reasons for the guideline, model, scheme, amendment value or method; and
 - (2) notice of the making of the final decision on the guideline, model, scheme, amendment, value or method.
- (f) Subject to paragraph (c), the *AER* must, in making its final decision referred to in paragraph (e)(1), consider any submissions made pursuant to the invitation for submissions referred to in paragraph (b)(3), and the reasons referred to in paragraph (e)(1)(iii) must include:
 - (1) a summary of each issue raised in those submissions that the *AER* reasonably considers to be material; and
 - (2) the *AER*'s response to each such issue.

Part I - Ring-Fencing Arrangements for Distribution Network Service Providers

6.17 Distribution Ring-Fencing Guidelines

6.17.1 Compliance with Distribution Ring-Fencing Guidelines

All *Distribution Network Service Providers* must comply with the *Distribution Ring-Fencing Guidelines* prepared in accordance with clause 6.17.2.

6.17.2 Development of Distribution Ring-Fencing Guidelines

- (a) Guidelines must be developed by the *AER* for the accounting and functional separation of the provision of *direct control services* by *Distribution Network Service Providers* from the provision of other services by *Distribution Network Service Providers* (the '*Distribution Ring-Fencing Guidelines*').
- (b) The *Distribution Ring-Fencing Guidelines* may include, but are not limited to:
 - (1) provisions defining the need for and extent of:
 - (i) legal separation of the entity through which a *Distribution Network Service Provider* provides *network services* from any other entity through which it conducts business;
 - (ii) the establishment and maintenance of consolidated and separate accounts for *standard control services*, *alternative control services* and other services provided by the *Distribution Network Service Provider*;
 - (iii) allocation of costs between *standard control services*, *alternative control services* and other services provided by the *Distribution Network Service Provider*;
 - (iv) limitations on the flow of information between the *Distribution Network Service Provider* and any other person; and
 - (v) limitations on the flow of information where there is the potential for a competitive disadvantage between those parts of the *Distribution Network Service Provider's* business which provide *direct control*

services and parts of the provider's business which provide any other services; and

- (2) *provisions allowing the AER to add to or to waive a Distribution Network Service Provider's obligations under the Distribution Ring-Fencing Guidelines.*
- (c) *In developing the Distribution Ring-Fencing Guidelines the AER must consider, without limitation, the need, so far as practicable, for consistency between the Distribution Ring-Fencing Guidelines and the Transmission Ring-Fencing Guidelines*
- (d) *In developing or amending the Distribution Ring-Fencing Guidelines, the AER must consult with participating jurisdictions, Registered Participants, NEMMCO and other interested parties, and such consultation must be otherwise in accordance with the distribution consultation procedures.*

Part J – Distribution Pricing Rules

6.18.1 Application of this Part

This Part applies to tariffs and *tariff classes* related to *direct control services*.

6.18.2 Definitions

In this Part:

charging parameters of a tariff means the constituent elements of the tariff.

tariff class means customers for one or more *direct control services* who constitute a tariff class under an *approved pricing proposal*.

6.18.3 Pricing proposals

- (a) *A Distribution Network Service Provider must:*
 - (1) *submit to the AER, as part of its regulatory proposal, a pricing proposal (the "initial pricing proposal") for the first regulatory year of the regulatory control period; and*
 - (2) *submit to the AER, at least 2 months before the commencement of the second and each subsequent regulatory year of the regulatory control period, a further pricing proposal (an "annual pricing proposal") for the relevant regulatory year.*

- (b) A *pricing proposal* must:
- (1) set out the *tariff classes* that are to apply for the relevant *regulatory year*; and
 - (2) set out the proposed tariffs for each *tariff class*; and
 - (3) set out, for each proposed tariff, the *charging parameters* and the elements of service to which each *charging parameter* relates; and
 - (4) set out, for each *tariff class* related to *standard control services*, the expected weighted average revenue for the relevant *regulatory year* and also for the current *regulatory year*; and
 - (5) if the tariff is liable to variation or adjustment during the course of the *regulatory year* – set out the nature of variation or adjustment and the pass through or other event on which it would be based; and

Note:

Variation or adjustment is possible in accordance with rules 6.6 and 6.13.

- (6) demonstrate compliance with the *Rules* and any applicable *distribution determination*; and
 - (7) describe the nature and extent of change from the previous *regulatory year* and demonstrate that the changes comply with the *Rules* and any applicable *distribution determination*.
- (c) The *AER* may only approve a *pricing proposal* if the *AER* is satisfied that:
- (1) the proposal complies with the *Rules* and any applicable *distribution determination*; and
 - (2) all forecasts associated with the proposal are reasonable.

6.18.4 Tariff classes

- (a) A *pricing proposal* must define the *tariff classes* into which customers for *direct control services* are divided.
- (b) Each customer for *direct control services* must be a member of 1 or more *tariff classes*.
- (c) Separate *tariff classes* must be constituted for customers to whom *standard control services* are supplied and customers to whom *alternative control services* are supplied (but a customer for both *standard control*

services and alternative control services may be a member of 2 or more tariff classes).

- (d) A *tariff class* must be constituted with regard to:
- (1) the need to group customers together on an economically efficient basis; and
 - (2) the need to avoid unnecessary transaction costs.

6.18.5 Pricing principles

- (a) For each *tariff class*, the revenue expected to be recovered should lie on or between:
- (1) an upper bound representing the stand alone cost of serving the customers who belong to that class; and
 - (2) a lower bound representing the avoidable cost of not serving those customers.
- (b) A tariff, and if it consists of 2 or more *charging parameters*, each *charging parameter* for a *tariff class*:
- (1) must take into account the long run marginal cost for the service or, in the case of a *charging parameter*, for the element of the service to which the *charging parameter* relates; and
 - (2) must be determined having regard to:
 - (i) transaction costs associated with the tariff or each *charging parameter*; and
 - (ii) whether customers of the relevant *tariff class* are able or likely to respond to price signals.
- (c) If, however, as a result of the operation of paragraph (b), the *Distribution Network Service Provider* may not recover the expected revenue, the provider must adjust its tariffs so as to ensure recovery of expected revenue with minimum distortion to efficient patterns of consumption.

6.18.6 Side constraints on tariffs for standard control services

- (a) This clause applies only to *tariff classes* related to the provision of *standard control services*.
- (b) The expected weighted average revenue to be raised from a *tariff class* for a particular *regulatory year* of a *regulatory control period* must not exceed

the corresponding expected weighted average revenue for the preceding *regulatory year* by more than the permissible percentage.

- (c) This clause does not, however, prevent:
- (1) the recovery of revenue to accommodate a variation to the *distribution determination*; or
- Note:
- Variation is possible in accordance with rules 6.6 and 6.13.
- (2) the recovery of revenue to accommodate pass through of charges for *Transmission Use of System* services to customers; or
 - (3) price differentials resulting from the installation of remotely read interval metering or of other similar metering technology.
- (d) For paragraph (b), the permissible percentage is the CPI-X limitation on increase in *Distribution Network Service Provider's annual revenue requirement* between the two *regulatory years* plus 2%.

6.18.7 Approval of pricing proposal

- (a) If the *AER* determines that a *pricing proposal* does not conform with the requirements of this Part, the *Distribution Network Service Provider* must, within 28 days after receiving notice of the determination, re-submit the proposal with the amendments necessary to correct the deficiencies identified in the determination and (unless the *AER* permits further amendment) no further amendment.
- (b) If the service provider fails to comply with paragraph (a), or the resubmitted proposal fails to correct the deficiencies in the former proposal, the *AER* may itself amend the proposal to bring it into conformity with the requirements of this Part.
- (c) An approved *pricing proposal* takes effect:
 - (1) in the case of an initial *pricing proposal* – at the commencement of the first *regulatory year* of the *regulatory control period* for which the *distribution determination* is made; and
 - (2) in the case of an annual *pricing proposal* – at the commencement of the *regulatory year* to which the proposal relates.

6.18.8 Publication of information about tariffs and tariff classes

- (a) A *Distribution Network Service Provider* must maintain on its website:
- (1) a statement of the provider's *tariff classes* and the tariffs applicable to each class; and
 - (2) for each tariff – the *charging parameters* and the elements of the service to which each *charging parameter* relates.
- (b) The information for a particular *regulatory year* must, if practicable, be posted on the website 1 month before the commencement of the relevant *regulatory year* and, if that is not practicable, as soon as practicable thereafter.

6.19. Data Required for Distribution Service Pricing

6.19.1 Forecast use of networks by Distribution Customers and Embedded Generators

Any information required by *Distribution Network Service Providers* must be provided by *Service Applicants* as part of the connection and access requirements set out in Chapter 5.

6.19.2 Confidentiality of distribution network pricing information

Subject to the Law and the *Rules*, all information used by *Distribution Network Service Providers* for the purposes of *distribution service pricing* is *confidential information* and must be treated in accordance with clause 8.6.

Part K – Billing, Settlements and Prudential Requirements

6.20 Billing and Settlements Process

This clause describes the manner in which *Distribution Customers* and *Embedded Generators* are billed by *Distribution Network Service Providers* for *distribution services* and how payments for *distribution services* are settled.

6.20.1 Billing for distribution services

- (a) A *Distribution Network Service Provider* must bill *Distribution Network Users* for *distribution service* as follows:
- (1) *Embedded Generators*:
 - (i) by applying the *entry charge* as a fixed annual charge to each *Embedded Generator*; and

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- (ii) by applying the Generator *distribution use of system price* to the *Embedded Generator's* nominated capacity.

(2) *Distribution Customers:*

The charges to *Distribution Customers* must be determined according to use of the *distribution network* as determined in accordance with a *metrology procedure* or, in the absence of a *metrology procedure* allowing such a determination to be made, by meter or by agreement between the *Distribution Customer* and the *Distribution Network Service Provider* by applying one or more of the following measures:

- (i) demand-based prices to the *Distribution Customer's* metered or agreed half-hourly demand;
 - (ii) energy-based prices to the *Distribution Customer's* metered or agreed energy;
 - (iii) the *Distribution Customer* charge determined under this clause as a fixed periodic charge to each *Distribution Customer*; and
 - (iv) a fixed periodic charge, a prepayment or other charge determined by agreement with the *Distribution Customer*.
- (b) Subject to paragraph (c), where a *Distribution Customer* (other than a *Market Customer*) incurs *distribution service charges*, the *Distribution Network Service Provider* must bill the *Market Customer* from whom the *Distribution Customer* purchases electricity directly or indirectly for such *distribution services* in accordance with paragraph (a)(2).
- (c) If a *Distribution Customer* and the *Market Customer* from whom it purchases electricity agree, the *Distribution Network Service Provider* may bill the *Distribution Customer* directly for *distribution services* used by that *Distribution Customer* in accordance with paragraph (a)(2).
- (d) *Distribution Network Service Providers* must:
- (1) calculate *transmission service charges* and *distribution service charges* for all *connection points* in their *distribution network*;
 - (2) pay to *Transmission Network Service Providers* the *transmission service charges* incurred in respect of use of a transmission network at each *connection point* on the relevant transmission network.

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(e) Charges for *distribution services* based on metered kW, kWh, kVA, or kVAh for:

- (1) *Embedded Generators* that are *Market Generators*;
- (2) *Market Customer*; and
- (3) *Second-Tier Customers*;

must be calculated by the *Distribution Network Service Provider* from:

- (1) *settlements ready data* obtained from *NEMMCO's metering database*, for those *Embedded Generators*, *Market Customers* and *Second-Tier Customers* with *connection points* that have a type 1, 2, 3 or 4 *metering installation*; and
- (2) *energy data*, in accordance with a *metrology procedure* that allows the *Distribution Network Service Provider* to use *energy data* for this purpose, or otherwise *settlements ready data* obtained from *NEMMCO's metering database*, for those *Embedded Generators*, *Market Customers* and *Second-Tier Customers* with *connection points* that have a type 5, 6 or 7 *metering installation*.

(f) Charges for *distribution services* based on metered kW, kWh, kVA or kVAh for:

- (1) *Embedded Generators* that are not *Market Generators*;
- (2) *Non-Registered Customers*; and
- (3) *franchise customers*,

must be calculated by the *Distribution Network Service Provider* using data that is consistent with the *metering data* used by the relevant *Local Retailer* in determining *energy settlements*.

(g) The *Distribution Network Service Provider* may bill the relevant *Local Retailer* for *distribution services* used by *Non-Registered Customers* and *franchise customers*.

(h) Where the billing for a *Distribution Customer* for a particular *financial year* is based on quantities which are undefined until after the commencement of the *financial year*, charges must be estimated from the previous year's billing quantities with a reconciliation to be made when the actual billing quantities are known.

(i) Where the previous year's billing quantities are unavailable or no longer suitable, nominated quantities may be used as agreed between the parties.

6.20.2 Minimum information to be provided in *distribution network service bills*

The following is the minimum information that must be provided with a bill for a *network coupling point* issued by a *Distribution Network Service Provider* directly to a Registered Participant:

- (a) the *network coupling point* identifier;
- (b) the dates on which the billing period starts and ends;
- (c) the identifier of the *distribution service* price from which the *network coupling point* charges are calculated; and
- (d) measured quantities, billed quantities, prices and amounts charged for each component of the total *distribution service* account.

6.20.3 Settlement between Distribution Network Service Providers

The billing and settlement process specified in this clause must be applied to all *Distribution Customers* including other *Distribution Network Service Providers*.

6.20.4 Obligation to pay

A *Distribution Network User* must pay *distribution service charges* properly charged to it and billed in accordance with this clause by the due date specified in the bill.

6.21 Distribution Network Service Provider Prudential Requirements

This clause sets out the arrangements by which *Distribution Network Service Providers* may minimise financial risks associated with investment in *network assets* and provides for adoption of cost-reflective payment options in conjunction with the use of average distribution prices. The clause also prevents *Distribution Network Service Providers* from receiving income twice for the same assets through prudential requirements and *distribution service* prices.

6.21.1 Prudential requirements for distribution network service

- (a) A *Distribution Network Service Provider* may require an *Embedded Generator* or *Distribution Customer* that requires a new connection or a modification in service for an existing connection to establish prudential requirements for *connection service* and/or *distribution use of system service*.
- (b) Prudential requirements for *connection service* and/or *distribution use of system service* are a matter for negotiation between the *Distribution*

Network Service Provider and the Embedded Generator or Distribution Customer and the terms agreed must be set out in the connection agreement between the Distribution Network Service Provider and the Embedded Generator or Distribution Customer.

- (c) The *connection agreement* may include one or more of the following provisions:
- (1) the conditions under which and the time frame within which other *Distribution Network Users* who use that part of the *distribution network* contribute to refunding all or part of the payments;
 - (2) the conditions under which financial arrangements may be terminated; and
 - (3) the conditions applying in the event of default by the *Distribution Customer* or *Embedded Generator*.
- (d) The prudential requirements may incorporate, but are not limited to, one or more of the following arrangements:
- (1) financial capital contributions;
 - (2) non-cash contributions;
 - (3) *distribution service* charge prepayments;
 - (4) guaranteed minimum *distribution service charges* for an agreed period;
 - (5) guaranteed minimum *distribution service* quantities for an agreed period; and
 - (6) provision for financial guarantees for *distribution service charges*.

Part L – Prepayments and capital contributions

6.22.1 Capital contributions, prepayments and financial guarantees

Despite any other provision in this Chapter, in relation to capital contributions, prepayments and financial guarantees:

- (a) the *Distribution Network Service Provider* is not entitled to recover, under a mechanism for the economic regulation of *direct control services*, any component representing asset related costs for assets provided by *Distribution Network Users*;
- (b) the *Distribution Network Service Provider* may receive a capital contribution, prepayment and/or financial guarantee up to the provider's

future revenue related to the provision of *direct control services* for any new assets installed as part of a new connection or modification to an existing connection, including any augmentation to the *distribution network*;

- (c) where assets have been the subject of a contribution or prepayment, the *Distribution Network Service Provider* must amend the provider's revenue related to the provision of *direct control services*.

6.22.2 Treatment of past prepayments and capital contributions

- (a) Payments made by *Distribution Customers* and *Embedded Generators* for *distribution service* prior to 13 December 1998 must be made in accordance with any contractual arrangements with the relevant *Distribution Network Service Providers* applicable at that time.
- (b) Where contractual arrangements referred to in clause 6.22.2(a) are not in place, past *distribution service* prepayments or capital contributions may be incorporated in the capital structure of the *Distribution Network Service Provider's* business.
- (c) The *AER* may intervene in and resolve any dispute under this clause which cannot be resolved between the relevant *Distribution Network Service Provider* and *Distribution Customer* or *Embedded Generator*.

Part M – Dispute resolution

6.23.1 Dispute Resolution by the AER

A dispute between a *Distribution Network Service Provider* and a *Service Applicant* as to the *terms and conditions of access* to a *direct control service* or to a *negotiated distribution service* is an access dispute for the purposes of the NEL.

6.23.2 Dispute about access to direct control services

- (a) In determining an access dispute about *terms and conditions of access* to a *direct control service*, the *AER* must apply:
 - (1) in relation to price, the *Distribution Network Service Provider's* *approved pricing proposal*; and
 - (2) in relation to other terms and conditions, Chapters 4, 5, this Chapter 6 and Chapter 7 of the *Rules*; and
 - (3) in relation to all *terms and conditions of access* (including price) the decisions of *NEMMCO* or the *AER* where those decisions relate

to those terms and conditions and are made under Chapters 4, 5, this Chapter 6 and Chapter 7 of the *Rules*.

- (b) In determining an access dispute about *terms and conditions of access* to a *negotiated distribution service*, the *AER* must apply:
- (1) in relation to price (including access charges), the *Negotiated Distribution Service Criteria* that are applicable to the dispute in accordance with the relevant *distribution determination*; and
 - (2) in relation to other terms and conditions, the *Negotiated Distribution Service Criteria* that are applicable to the dispute and Chapters 4, 5, this Chapter 6 and Chapter 7 of the *Rules*; and
 - (3) in relation to all *terms and conditions of access* (including price) the decisions of *NEMMCO* or the *AER* where those decisions relate to those terms and conditions and are made under Chapters 4, 5, this Chapter 6 and Chapter 7 of the *Rules*;

and must have regard:

- (4) to the relevant *negotiating framework* prepared by the *Distribution Network Service Provider* and approved by the *AER*.
- (c) In determining an access dispute about the *terms and conditions of access* to a *negotiated distribution service*, the *AER* may:
- (1) have regard to other matters the *AER* considers relevant; and
 - (2) hear evidence or receive submissions from *NEMMCO* and *Distribution Network Users* notified and consulted under the *Distribution Network Service Provider's negotiating framework*.
- (d) In determining an access dispute about the *terms and conditions of access* to a *direct control service*, the *AER* may:
- (1) have regard to other matters the *AER* considers relevant; and
 - (2) hear evidence or receive submissions from *NEMMCO* about power system security and from *Distribution Network Users* who may be adversely affected.

6.23.3 Termination of access dispute without access determination

- (a) If the *AER* considers that an access dispute could be effectively resolved by some means other than an access determination, the *AER* may give the parties to the dispute notice of the alternative means of resolving the dispute.

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Example:

The *AER* might give such a notice if of the opinion that a particular dispute could be dealt with more efficiently, and with less expense, by a jurisdictional ombudsman.

- (b) The giving of such a notice is a specified dispute termination circumstance for the purposes of section 127(3) of the NEL.

Note:

It follows that the *AER* may exercise its power to terminate the dispute without making an access determination (See section 127(1)(d) of the NEL).

Schedule 6.1 - Contents of Revenue Proposals

S6.1.1 Information and matters relating to capital expenditure

A *revenue proposal* must contain at least the following information and matters relating to capital expenditure:

- (1) a forecast of the required capital expenditure that complies with the requirements of clause 6.5.7 of the *Rules* and identifies the forecast capital expenditure by reference to well accepted categories such as:
 - (i) asset class (eg. *distribution lines, substations* etc); or
 - (ii) category driver (eg. *regulatory obligation, replacement, reliability, net market benefit, business support* etc),and identifies, in respect of proposed material assets:
 - (iii) the location of the proposed asset;
 - (iv) the anticipated or known cost of the proposed asset;
and
 - (v) the categories of *distribution services* which are to be provided by the proposed asset;
- (2) the method used for developing the capital expenditure forecast;
- (3) the forecasts of load growth relied upon to derive the capital expenditure forecasts and the method used for developing those forecasts of load growth;
- (4) the key assumptions that underlie the capital expenditure forecast;

- (5) a certification of the reasonableness of the key assumptions by the directors of the *Distribution Network Service Provider*;
- (6) capital expenditure for each of the first three *regulatory years* of the current *regulatory control period*, and the expected capital expenditure for each of the last two *regulatory years* of that *regulatory control period*, categorised in the same way as for the capital expenditure forecast; and
- (7) an explanation of any significant variations in the forecast capital expenditure from historical capital expenditure.

S6.1.2 Information and matters relating to operating expenditure

A revenue proposal must contain at least the following information and matters relating to operating expenditure:

- (1) a forecast of the required operating expenditure that complies with the requirements of clause 6.5.6 of the *Rules* and identifies the forecast operating expenditure by reference to well accepted categories such as:
 - (i) particular programs; or
 - (ii) types of operating expenditure (eg. maintenance, payroll, materials etc),and identifies in respect of each such category:
 - (iii) to what extent that forecast expenditure is on costs that are fixed and to what extent it is on costs that are variable; and
 - (iv) the categories of *distribution services* to which that forecast expenditure relates;
- (2) the method used for developing the operating expenditure forecast;
- (3) the forecasts of key variables relied upon to derive the operating expenditure forecast and the method used for developing those forecasts of key variables;
- (4) the method used for determining the cost associated with planned maintenance programs designed to improve the performance of the relevant *distribution system* for the

- purposes of any *service target performance incentive scheme* that is to apply to the *Distribution Network Service Provider* in respect of the relevant *regulatory control period*;
- (5) the key assumptions that underlie the operating expenditure forecast;
 - (6) a certification of the reasonableness of the key assumptions by the directors of the *Distribution Network Service Provider*;
 - (7) operating expenditure for each of the first three *regulatory years* of the current *regulatory control period*, and the expected operating expenditure for each of the last two *regulatory years* of that *regulatory control period*, categorised in the same way as for the operating expenditure forecast; and
 - (8) an explanation of any significant variations in the forecast operating expenditure from historical operating expenditure.

S6.1.3 Additional information and matters

A *revenue proposal* must contain at least the following additional information and matters:

- (1) an identification and explanation of any significant interactions between the forecast capital expenditure and forecast operating expenditure programs;
- (2) a proposed division of the *distribution services* provided or to be provided by the *Distribution Network Service Provider* into separate categories specifying which are *direct control services* (and of these which are *standard control services* and which *alternative control services*), which are *negotiated network services* and which fall into none of the foregoing categories;
- (3) a proposal as to the nature of the control mechanism to apply to services classified as *standard control services* and the nature of the control mechanism for services classified as *alternative control services*;
- (4) a proposed pass through clause with a proposal as to the events that should be defined as pass through events;

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- (5) the values that the *Distribution Network Service Provider* proposes are to be attributed to the *performance incentive scheme parameters* for the purposes of the application to the provider of the *service target performance incentive scheme* that applies in respect of the relevant *regulatory control period*, and an explanation of how the values proposed to be attributed to those parameters comply with any requirements relating to them set out in that scheme;
- (6) the values that the provider proposes are to be attributed to the *efficiency benefit sharing scheme parameters* for the purposes of the application to the provider of the *efficiency benefit sharing scheme* that applies in respect of the relevant *regulatory control period*, and an explanation of how the values proposed to be attributed to those parameters comply with any relevant requirements set out in that scheme;
- (7) the provider's calculation of revenues or prices for the purposes of the control mechanism proposed by the provider together with:
 - (i) details of all amounts, values and inputs (including X factors) relevant to the calculation; and
 - (ii) an explanation of the calculation and the amounts, values and inputs involved in the calculation; and
 - (iii) a demonstration that the calculation and the amounts, values and inputs on which it is based comply with relevant requirements of the Law and the *Rules*;
- (8) the provider's calculation of the regulatory asset base for the relevant *distribution system* for each *regulatory year* of the relevant *regulatory control period* using the *roll forward model* referred to in clause 6.5.1 of the *Rules*, together with:
 - (i) details of all amounts, values and other inputs used by the provider for that purpose;
 - (ii) a demonstration that any such amounts, values and other inputs comply with the relevant requirements of Part C of Chapter 6 of the *Rules*; and
 - (iii) an explanation of the calculation of the regulatory asset base for each *regulatory year* of the relevant *regulatory control period* and of the amounts, values and inputs referred to in subparagraph (i);

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- (9) the commencement and length of the period nominated by the *Distribution Network Service Provider* for the purposes of clause 6.5.2(c)(2) of the *Rules*;
- (10) the *post-tax revenue model* completed to show its application to the *Distribution Network Service Provider* and the completed *roll-forward model*;
- (11) the depreciation schedules nominated by the *Distribution Network Service Provider* for the purposes of clause 6.5.3 of the *Rules*, which categorise the relevant assets for these purposes by reference to well accepted categories such as:
 - (i) asset class (eg *distribution lines* and *substations*); or
 - (ii) category driver (eg *regulatory obligation*, *replacement*, *reliability*, *net market benefit*, and *business support*),and also by location, together with:
 - (iii) details of all amounts, values and other inputs used by the provider to compile those depreciation schedules;
 - (iv) a demonstration that those depreciation schedules conform with the requirements set out in clause 6.5.3(b) of the *Rules*; and
 - (v) an explanation of the calculation of the amounts, values and inputs referred to in subparagraph (iii);
- (12) the commencement and length of the *regulatory control period* proposed by the *Distribution Network Service Provider*;
- (13) any other information required by a regulatory information instrument.

Schedule 6.2 - Regulatory Asset Base

S6.2.1 Establishment of opening regulatory asset base for a *regulatory control period*

(a) **Application of this clause**

This clause S6.2.1:

- (1) applies to the establishment of the value of the regulatory asset base for a *distribution system* as at the beginning of a *regulatory control period* on the roll forward of the regulatory asset base to that *regulatory control period* from the previous *regulatory control period*; and
- (2) also applies to the establishment of the value of the regulatory asset base for a *distribution system* as at the beginning of a *regulatory control period* where the *distribution system* was not immediately before that time the subject of a *revenue determination*.

(b) **Roll forward model to comply with this clause**

The values to be used for completing the *roll forward model* must be established in accordance with clauses S6.2.1, S6.2.2 and S6.2.3.

(c) **Distribution systems of specific providers**

- (1) In the case of a *distribution system* owned, controlled or operated by one of the following *Distribution Network Service Providers* as at the commencement of this Schedule, the value of the regulatory asset base for that *distribution system* as at the beginning of that first *regulatory year* must be determined by rolling forward the regulatory asset base for that *distribution system*, as set out in the table below, in accordance with this schedule:

Jurisdiction	<i>Distribution Network Service Provider</i>	Regulatory Asset Base (\$m)
Australian Capital Territory	ActewAGL	510.54 (as at 1 July 2004)
New South Wales	County Energy	2,440 (as at 1 July 2004)
	Energy Australia	4,116 (as at 1 July 2004)

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Jurisdiction	<i>Distribution Network Service Provider</i>	Regulatory Asset Base (\$m)
	Integral Energy	2,283 (as at 1 July 2004)
Queensland	Energex	4,308.1 (as at 1 July 2005)
	Ergon	4,198.2 (as at 1 July 2005)
South Australia	ETSA Utilities	2,446 (as at 1 2005 in December 2004 \$s)
Tasmania	Aurora Energy	The amount determined by OTTER as the regulatory asset base to apply from 1 January 2008
Victoria	AGL Electricity	578.4 (as at 1 January 2006)
	Citipower	990.9 (as at 1 January 2006)
	Powercor	1,626.5 (as at 1 January 2006)
	SP AusNet	1,307.2 (as at 1 January 2006)
	United Energy	1,220.3 (as at 1 January 2006)

- (2) The values in the table above are to be adjusted for the difference between:
- (i) any estimated capital expenditure that is included in those values for any part of a previous *regulatory control period*; and
 - (ii) the actual capital expenditure for that part of the previous *regulatory control period*.

This adjustment must also remove any benefit or penalty associated with any difference between the estimated and actual capital expenditure.

(d) **Other distribution systems**

- (1) This paragraph (d) applies to a *distribution system* not referred to in paragraphs (c) when *standard control services* that are provided by means of, or in connection with, that system are to be regulated under a *revenue determination*.
- (2) The value of the regulatory asset base for that *distribution system* as at the beginning of the first *regulatory year* of the first *regulatory control period* for the relevant *Distribution Network Service Provider* is the prudent and efficient value of the assets that are used by the provider to provide those *standard control services* (but only to the extent that they are used to provide such services), as determined by the *AER*. In determining this value, the *AER* must have regard to the matters referred to in clause S6.2.2.
- (3) The value of the regulatory asset base for that *distribution system* as at the beginning of the first *regulatory year* of any subsequent *regulatory control period* must be determined by rolling forward the value of the regulatory asset base for that *distribution system* as at the beginning of the first *regulatory year* of the first *regulatory control period* in accordance with this schedule.

(e) **Method of adjustment of value of regulatory asset base**

Except as otherwise provided in paragraph (c) or (d), the value of the regulatory asset base for a *distribution system* as at the beginning of the first *regulatory year* of a *regulatory control period* must be calculated by adjusting the value (the '**previous value**') of the regulatory asset base for that *distribution system* as at the beginning of the first *regulatory year* of the immediately preceding *regulatory control period* (the '**previous control period**') as follows:

- (1) The previous value of the regulatory asset base must be increased by the amount of all capital expenditure incurred during the previous control period.
- (2) The previous value of the regulatory asset base must be increased by the amount of the estimated capital expenditure approved by the *AER* for any part of the previous control period for which actual capital expenditure is not available.

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- (3) The previous value of the regulatory asset base must be adjusted for the difference between:
- (i) the estimated capital expenditure for any part of a previous *regulatory control period* where that estimated capital expenditure has been included in that value; and
 - (ii) the actual capital expenditure for that part of the previous *regulatory control period*.

This adjustment must also remove any benefit or penalty associated with any difference between the estimated and actual capital expenditure.

- (4) The previous value of the regulatory asset base must only be increased by actual or estimated capital expenditure to the extent that all such capital expenditure is properly allocated to the provision of *standard control services* in accordance with the *Cost Allocation Method* for the relevant *Distribution Network Service Provider*.
- (5) The previous value of the regulatory asset base must be reduced by the amount of actual depreciation of the regulatory asset base during the previous control period, calculated in accordance with the rates and methods allowed in the *distribution determination* (if any) for that period.
- (6) The previous value of the regulatory asset base must be reduced by the disposal value of any asset where that asset has been disposed of during the previous control period.
- (7) The previous value of the regulatory asset base must be reduced by the value of an asset where the asset was previously used to provide *standard control services* but is not to be used for that purpose for the relevant *regulatory control period*.
- (8) Without prejudice to the application of any other provision of this paragraph (e), the previous value of the regulatory asset base may be increased by the inclusion of:
- (i) past capital expenditure that has not been included in that value because that capital expenditure was incurred in connection with the provision of services that are not *standard control services*, and in these circumstances, such capital expenditure must only be included to the extent the asset in respect of which

that capital expenditure was incurred is subsequently used for the provision of *standard control services*; and

- (ii) past capital expenditure that has not been included in that value, but only to the extent that such past capital expenditure:
 - (A) relates to an asset that is used for the provision of *standard control services*;
 - (B) is considered by the *AER* to be reasonably required in order to achieve one or more of the *capital expenditure objectives*;
 - (C) is properly allocated to *standard control services* in accordance with the principles and policies set out in the *Cost Allocation Method* for the relevant *Distribution Network Service Provider*; and
 - (D) has not otherwise been recovered.
- (f) An increase or reduction in the value of the regulatory asset base under subparagraph (7) or (8) of paragraph (e) is to be based on the *deprival value* of the relevant asset .

S6.2.2 Prudency and efficiency of capital expenditure

In determining the prudency or efficiency of capital expenditure under clause S6.2.1(d)(2), the *AER* must have regard to:

- (1) the need to provide a reasonable opportunity for the relevant *Distribution Network Service Provider* to recover the efficient costs of complying with all applicable *regulatory obligations* associated with the provision of *standard control services*;
- (2) the need to provide effective incentives to the provider to promote economic efficiency in the provision of *standard control services*;
- (3) whether the relevant project in respect of which capital expenditure was made was evaluated against, and satisfied, the *regulatory test*;
- (4) whether the provider undertook the capital expenditure in a manner consistent with good business practice and so as to

practicably achieve the lowest sustainable cost of delivering the *standard control services* to be provided as a consequence of that capital expenditure;

- (5) the desirability of minimising investment uncertainty for the provider; and
- (6) the need to provide incentives to the provider to avoid undertaking inefficient capital expenditure.

In determining the prudence or efficiency of capital expenditure the *AER* must only take into account information and analysis that the provider could reasonably be expected to have considered or undertaken at the time that it undertook the relevant capital expenditure.

S6.2.4 Roll forward of regulatory asset base within the same regulatory control period

(a) **Application of this clause**

This clause applies to the establishment of the value of the regulatory asset base for a *distribution system* as at the beginning of one *regulatory year* in a *regulatory control period* on the roll forward of the regulatory asset base to that *regulatory year* from the immediately preceding *regulatory year* (if any) in that *regulatory control period*.

(b) **Roll forward model to comply with this clause**

The *roll forward model* referred to in clause 6.5.1 of the *Rules* must provide for that value to be established in accordance with the requirements of this clause.

(c) **Method of adjustment of value of regulatory asset base**

The value of the regulatory asset base for a *distribution system* as at the beginning of the second or a subsequent year ('the **later year**') in a *regulatory control period* must be calculated by adjusting the value ('the **previous value**') of the regulatory asset base for that *distribution system* as at the beginning of the immediately preceding *regulatory year* ('the **previous year**') in that *regulatory control period* as follows:

- (1) The previous value of the regulatory asset base must be increased by the amount of forecast capital expenditure accepted or substituted by the *AER* for the previous year in accordance with clause 6.5.7(c) or clauses 6.11.2(b)(4) and (5) (as the case may be).

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- (2) The previous value of the regulatory asset base must be reduced by the amount of depreciation included in the *Distribution Network Service Provider's annual revenue requirement* for the previous year.
 - (3) The previous value of the regulatory asset base must be reduced by the disposal value of any asset included in that value where the asset is forecast to be disposed of during the previous year.
 - (4) The previous value of the regulatory asset base must be increased by an amount necessary to maintain the real value of the regulatory asset base as at the beginning of the later year by adjusting that value for inflation.
- (d) **Allowance for working capital**

If the *AER* determines that it is appropriate to do so, it may include an allowance for working capital in the regulatory asset base for a *distribution system* which is rolled forward in accordance with this clause.