

# National Electricity Rules

Transitional arrangements  
for ACT/NSW distribution  
determinations

**Melbourne**  
**11 May 2007**

# Why transitional arrangements?

- ACT and NSW distribution determinations expire on 30 June 2009
- AER, regulated businesses and consumers require certainty about the regulatory framework that will apply from 1 July 2009 and the procedure for making the next determination
- This presentation outlines one approach

# How?

- Preference is for transitional arrangements to be included in Chapter 11 of the Rules
- Transitional provisions to be developed by jurisdictions in consultation with AER, jurisdictional regulators, regulated businesses and interested stakeholders
- Exposure draft at same time as NEL goes into SA Parliament

# Form of regulation

- **Retain current classification of services**
- NSW prescribed distribution services will be regulated by weighted average price cap derived from building block
- ACT prescribed distribution services will be regulated by average price cap

# Building block approach

- **Return on Investment**

- Regulatory asset base

- ❑ Opening balance per last determination

- ❑ 2004-09 capital expenditure rolled into RAB under the same criteria that the jurisdictional regulator would have applied

- ❑ 2009-14 capital expenditure allowed based on the new distribution rule

- Weighted average cost of capital

- ❑ Formula defined in Rules

- ❑ WACC parameter values same as transmission

# Building block approach

- **Return of Investment**

- Opening RAB for 2009 will include regulatory depreciation for 2004-09
- Regulatory depreciation within 2009-14 regulatory control period
- Actual depreciation for the roll-forward of RAB at the 2014 reset

# Building block approach

- **Operating expenditure**
  - Same test as the new distribution rules (i.e. same test as the transmission rules)

# Building block approach

- **Corporate income tax**
  - Post tax revenue model
  - Income tax expense is a building block component
  - Tax depreciation may be different from depreciation used for return of investment

# Building block approach

- **Incentives**

- **Efficiency benefit scheme**

- ❑ May also apply to capital expenditure

- ❑ AER will decide if there is carry forward into next regulatory period

- **Service target performance incentive scheme**

- ❑ AER to design scheme based on service standards set by jurisdiction

- **Demand Management scheme**

- ❑ Recovery of demand management costs in 2009-10 and 2010-11

# Building block approach

- **Cost pass throughs**

- Pass through events defined in Rules
- AER to pass through any Demand Management Levy that is imposed on NSW DNSP after the determination
- pass-through if the AER's ring-fencing guidelines require a DNSP to incur costs in 2009-14

# Distribution Pricing

- Pricing methodology will have to comply with pricing principles
- DNSP to demonstrate compliance using audited volumes from 2 years prior (i.e. 2007-08 volumes for 2009-10 prices)
- Annual pricing proposals
- Same side constraints as distribution rules

# Guidelines

- **Ring fencing**

- Apply existing ring-fencing guidelines until a national framework is developed in the non-economic and retail legislative package

- **Cost allocation**

- Apply the IPART Accounting Code of Separation for the 2009-14 period for NSW DNSPs
- Report costs to AER annually in line with AER's Cost Allocation Guidelines

# Guidelines

- **Capital Contributions**

- No change to capital contributions in this legislative package
- Apply ICRC and IPART guidelines for 2009-14
- Pass through if there are changes to capital contribution arrangements

# Information gathering

- AER is not currently empowered to gather information from distributors
- Practical issue that AER must quickly gather knowledge of DNSPs' operations in order to prepare for the next determination
- A formal arrangement is desirable until legislation is passed