

04.01.00 – Compliance with Control Mechanisms



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1 Introduction

1.1 Overview

The Australian Energy Regulator's (AER) distribution determination for the next regulatory control period 2015-20 will impose controls over Ergon Energy's various regulated services. These controls (control mechanisms) can be in the form of:

- controls over prices
- controls on the revenue derived from the service, or
- both.¹

The AER decided on the form of control mechanisms in its Framework and Approach Paper.² Additionally, the formulae that gives effect to the control mechanisms has been determined in the Framework and Approach Paper, unless the AER considers that unforeseen circumstances justify departing from the formulae set out in that paper.³

The AER decided to apply the following forms of control in the next regulatory control period:⁴

- for Standard Control Services the AER decided to apply controls on the revenue derived from these services
- for services classified as Alternative Control Services the AER decided to apply caps on the prices of individual services.

Sections 2.3.9 and 2.4.6 of the Framework and Approach Paper set out the formulae that the AER wishes to apply for Standard Control and Alternative Control Services, respectively.

This document (and supporting model) sets out how we have applied the formulae contained in the Framework and Approach Paper in preparing our Regulatory Proposal and how we expect these controls will operate over our revenue and prices during the next regulatory control period.

It also sets out our proposed approach on various matters underpinning application of the formulae, and how we consider these comply with the NER and Framework and Approach Paper.

Finally, we note as part of the Reset Regulatory Information Notice (Reset RIN) the AER requested Ergon Energy provide the following information:⁵

For the proposed forecast revenues that Ergon Energy estimates to recover from providing direct control services over the forthcoming regulatory control period provide:

- (a) formulaic expressions for the basis of control mechanisms for Standard Control Services and for Alternative Control services; and
- (b) a detailed explanation and justification for each component that makes up the formulaic expression.

¹ National Electricity Rules (NER), clause 6.2.5(a).

² NER, clause 6.12.3(c).

³ NER, clause 6.12.3(c1).

⁴ AER Framework and Approach Paper, p52

⁵ Reset RIN, Schedule 1, paragraph 3.

Also demonstrate:

- (a) how Ergon Energy considers the control mechanisms are compliant with the Framework and Approach Paper; and
- (b) for Standard Control Services, how Ergon Energy considers the control mechanisms are also compliant with clause 6.2.6 and Part C of Chapter 6 of the NER.

To the extent that this information is not already included in the AER’s Framework and Approach Paper or AER models (such as the Post Tax Revenue Model (PTRM)), we outline additional information here.

1.2 Allocation of services to controls

The following table summarises the revenue and pricing controls proposed for the regulatory control period 2015-20⁶.

Table 1: Summary of revenue and pricing controls

Classification	AER’s form of control	Compliance with the control mechanism
<p>Standard Control Services including:</p> <ul style="list-style-type: none"> • Network Services • Pre-Connection Services related to: <ul style="list-style-type: none"> ○ general connection enquiries • Connection Services related to: <ul style="list-style-type: none"> ○ small customer connections • Post Connection Services related to: <ul style="list-style-type: none"> ○ operating and maintaining connection assets • Type 7 metering services. 	<p>Revenue cap</p>	<p>The AER has effectively applied three formulas for revenue cap controls in its Framework and Approach Paper:</p> <ul style="list-style-type: none"> • a revenue cap formula which the AER states is determined by the PTRM and the outworking of Part C of Chapter 6 of the NER (formula 1) • a formula for Total Allowed Revenue which the AER states takes into account other adjustments outside the Annual Revenue Requirement (ARR) determined by the PTRM (formula 2) • a formula which the AER has decided is the expression which Ergon Energy will use to demonstrate compliance with formula (1) and (2) in its initial and annual Pricing Proposals. <p>Compliance with these formulae will essentially be demonstrated through the AER’s models for calculating revenue requirements and through the detailed Pricing Proposals Ergon Energy will submit to the AER each year. Further information on how Ergon Energy has applied the AER’s formulae and considers compliance can be demonstrated is outlined in Section 3 and Appendix 1 of this document.</p>

⁶ Refer to our supporting document 02.01.01 – Classification Proposal for details of how our services are classified.

Classification	AER's form of control	Compliance with the control mechanism
<p>Alternative Control Services related to:⁷</p> <ul style="list-style-type: none"> • Pre-connection Services for: <ul style="list-style-type: none"> ○ application fees for basic or standard connections, and real estate development connections ○ protection and power quality assessment prior to connection • Connection Services associated with a temporary connection • Post Connection Services associated with <ul style="list-style-type: none"> ○ supply abolishment during business hours ○ de-energisation and re-energisation during business hours • Accreditation of alternative providers – real estate developments • Prevented access. 	<p>Caps on the prices of individual services (provided on a fixed fee basis)</p>	<p>The AER's Framework and Approach Paper includes a formula which we will apply to fixed fee services.</p> <p>Our fixed fee charges are explained in:</p> <ul style="list-style-type: none"> • Chapter 5 of our Regulatory Proposal (Controls on revenues and prices for Alternative Control Services) • 05.05.01 – <i>Inputs and Assumptions for Alternative Control Services</i> • our model outlined in 05.06.02 – <i>Fixed Fee Services Model</i>. <p>These documents contain specific detail around the inputs and assumptions we have applied in developing prices for fixed fee services.</p> <p>Compliance with the price caps will be demonstrated through annual Pricing Proposal processes. Further information on how Ergon Energy considers compliance can be demonstrated is outlined in Section 4 and Appendix 2 of this document.</p>
<p>Alternative Control Services related to:</p> <ul style="list-style-type: none"> • Type 5 and 6 metering installation, provision, maintenance, reading and data services ('Default Metering Services') • Provision, construction and maintenance of public lighting (including emerging public lighting technology). 	<p>Caps on the prices of individual services</p>	<p>We have assumed the formula determined in the Framework and Approach Paper⁸ for services where a price cap applies will be the formula applied to Default Metering Services and Public Lighting Services.</p> <p>Ergon Energy will use a limited building block approach to determine charges for Public Lighting Services classified as alternative control. This means we determine a revenue allowance using approaches consistent with Part C of the NER as well as calculations set out in the AER's PTRM. Where appropriate we have also sought to apply similar approaches to forecasting, such as the use of base step trend modelling for operating expenditure forecasts.</p> <p>The limited building block approach is used to determine allowable revenues for each of these services, which is then converted into unit charges that are subject to a price cap.</p> <p>We are proposing a similar approach for the control mechanism applying to Default Metering Services.</p> <p>Our charges for Public Lighting Services and Default Metering Services are explained in:</p> <ul style="list-style-type: none"> • Chapter 5 of our Regulatory Proposal (<i>Controls on revenues and prices for Alternative Control Services</i>) • 05.01.01 – <i>Public Lighting Services Summary</i> • 05.02.03 – <i>Public Lighting Services PTRM</i> • 05.03.01 – <i>Default Metering Services Summary</i> • 05.04.09 – <i>Default Metering Pricing Model</i>. <p>Once the Default Metering Services and Public Lighting Services arrangements are approved by the AER,</p>

⁷ Refer to table 16 of 02.02.01 – *Classification Proposal* for further detail.

⁸ Page 67.

Classification	AER's form of control	Compliance with the control mechanism
		<p>Ergon Energy's annual Pricing Proposal will provide further detail on the prices that will be subject to AER approval, consistent with the AER's distribution determination.</p> <p>Further detail on how Ergon Energy considers compliance with the control mechanism can be demonstrated is set out in Section 4 and Appendix 2 of this document.</p>
Other Alternative Control Services ⁹	Caps on the prices of individual services (provided on a quoted basis)	<p>The AER's Framework and Approach Paper outlines the formula that will apply for Ergon Energy's quoted services. Our quoted service charges are explained in <i>05.05.01 – Inputs and Assumptions for Alternative Control Services</i> and our model <i>05.06.03 – Quoted Prices Services Model</i>. These documents contain specific detail around the inputs and application of the control mechanism for quoted services.</p> <p>Once these quoted price arrangements are approved by the AER, Ergon Energy's annual Pricing Proposal will provide further detail on indicative quoted service prices and will be subject to AER approval, consistent with the AER's distribution determination.</p> <p>Further information on how Ergon Energy considers compliance with the control mechanism can be demonstrated is set out in Section 4 and Appendix 2 of this document.</p>

⁹ For a complete listing, refer to table 16 of *02.01.01 – Classification Proposal*.

2 Compliance with Control Mechanism for Standard Control Services

2.1 AER formula

As noted in section 1, the AER has effectively applied three formulas for revenue cap controls in the Framework and Approach Paper:

2.1.1 Formula to apply to Annual Revenue Requirement

We note that the AER has applied the following formula that gives effect to the revenue cap:

$$(1) AR_t = AR_{t-1} \times (1 + \Delta CPI_t) \times (1 - X_t)$$

Where:

AR_t is the allowed revenue for regulatory year t. For the first year of the regulatory control period 2015-20, this amount will be equal to the smoothed revenue requirement for 2015-16 set out in the PTRM approved by the AER. The subsequent years' allowed revenue is determined by adjusting the previous year's allowed revenue for Consumer Price Index (CPI) and the X-factor

ΔCPI_t is the annual percentage change in the Australian Bureau of Statistics (ABS) CPI All Groups, Weighted Average of Eight Capital Cities from December in year t-2 to December in year t-1

X_t is the X-factor for each year of the next regulatory control period as determined in the PTRM.

The AER states that this formula represents the outputs of the AER's PTRM. Therefore, compliance with this component of the formula is demonstrated through the preparation of a model in accordance with the AER's PTRM and Part C of Chapter 6 of the NER. Chapter 3 of our Regulatory Proposal and our supporting document *03.01.01 – Building Block Components* provide further information on how we have prepared our proposed revenue requirement in accordance with the AER's PTRM and Part C of Chapter 6 of the NER.

2.1.2 Formula to apply to Total Allowed Revenue

The AER has determined that the following formula be applied to Total Allowed Revenue (including adjustments):

$$(2) TR_t = AR_t + I_t + B_t + C_t$$

Where:

AR_t is the allowed revenue for regulatory year t. For the first year of the regulatory control period 2015-20, this amount will be equal to the smoothed revenue requirement for 2015-16 set out in the PTRM approved by the AER. The subsequent years' allowed revenue is determined by adjusting the previous year's allowed revenue for CPI and the X-factor

TR_t is the total revenue allowable in year t

I_t is the sum of incentive scheme adjustments in year t

B_t is the sum of annual adjustment factors in year t. Likely to incorporate but not limited to adjustments for the overs and unders account

C_t is the sum of adjustments likely to incorporate but not limited to pass through events and feed-in tariff payments that are not made under jurisdictional schemes.

2.1.3 Expression which demonstrates compliance with the first two formulae

The AER's Framework and Approach Paper identifies the following expression that it has determined distributors will use to demonstrate compliance with formula 1 and 2 above.

$$TR_t = \sum_{i=1}^n \sum_{j=1}^m p_{ij}^t q_{ij}^t \quad i = 1, \dots, n \text{ and } j = 1, \dots, m \text{ and } t = 1, \dots, 5$$

TR_t is the total revenue allowable in year t

p_{ij}^t is the price of component i of tariff j in year t

q_{ij}^t is the forecast quantity of component i of tariff j in year t.

2.2 Applying the above formula to the AER's control mechanism

The AER's proposed control mechanism formula for Standard Control Services has been expressed quite broadly in the Framework and Approach Paper and contains limited detail on calculations underpinning each of the formula components. We do note, however, that the formula is often an outworking of a more detailed model, and the detail of the controls are perhaps better expressed within the model itself.

Ergon Energy's supporting attachments *03.01.04 – Post Tax Revenue Model* and *04.01.05- Standard Control Services Control Mechanism Model* contain the methodology and calculations used to produce the forecast revenues and indicative prices for Standard Control Services in the forthcoming regulatory control period. We have considered the AER's Framework and Approach paper when preparing these models and have used the outputs for the purpose of satisfying our obligation to produce indicative prices for the next regulatory control period under the NER¹⁰ and the Reset RIN.¹¹

We also consider our calculation of annual revenue adjustments within the Total Allowed Revenue formula is compliant with the requirements of clause 6.2.6 and Part C of Chapter 6 of the NER. This is because, where possible, we have calculated these amounts in accordance with:

- formulaic expressions provided by the AER under relevant incentive schemes (e.g. Service Target Performance Incentive Scheme (STPIS) and Demand Management Incentive Scheme (DMIS))
- formulaic expressions applied in Pricing Proposals in the current regulatory control period (which currently comply with NER requirements).

¹⁰ NER, clause 6.8.2(c)(4).

¹¹ Reset RIN, Schedule 2, template 7.6 and template 7.7.

2.2.1 Assumptions used in applying the Total Allowed Revenue formula

Appendix A provides an explanation of each variable in the Total Allowed Revenue formula, including a reconciliation of the variables in this formula with the control mechanism arrangements in the current regulatory control period.

In addition, the supporting attachment *04.01.05 – Standard Control Services Control Mechanism Model* provides further detail of the mechanics of the variables as they apply to the Total Allowed Revenue calculation. We have summarised the variables in the formula below.

Allowed revenue – AR_t

As the Framework and Approach Paper suggests, this variable is the allowed revenue calculated in accordance with the PTRM and updated annually for CPI and the X factor. Consistent with our understanding of the AER's arrangements for the new NER requirements for the return on capital, adjustments associated with the trailing average cost of debt will be made in the X_t component of the AR_t formula. Our Regulatory Proposal adopts a PTRM provided by the AER which incorporates a mechanism to allow for adjustment of annual allowed revenues to take into account the trailing average.

Incentive scheme arrangements – I_t

Based on the current and proposed incentive scheme arrangements, I_t is likely to incorporate adjustments relating to:

- STPIS. This includes rewards or penalties associated with our performance under the scheme in 2013-14 and 2014-15, which we expect will result in adjustments in 2015-16 and 2016-17, respectively. It also encompasses rewards or penalties relating to our performance under the scheme in the first three years of the next regulatory control period, which generally will result in adjustments two years after the respective performance year.
- DMIS. Under the current DMIS,¹² the AER will calculate a total carryover amount to account for any amount of allowance unspent or not approved over the current regulatory control period and the time value of money accrued/lost as a result of the expenditure profile selected by Ergon Energy. The final carryover amount will be deducted from/added to allowed revenue in 2016-17.

Annual unders and overs adjustments – B_t

B_t will encompass annual under and over adjustments approved to be passed through in prices in the relevant regulatory year. Effectively two items will need to be recovered here.

- amounts relating to the clearing of Distribution Use of System (DUOS) under or over-recoveries for 2013-14, 2014-15 and the first three years of the next regulatory control period (which will result in adjustments to revenues and prices in 2015-16 to 2019-20).
- under or over recoveries relating to capital contributions and shared asset revenue from 2013-14 and 2014-15 (transitional arrangement which will result in annual adjustments to revenues and prices in 2015-16 and 2016-17 only).

¹² AER (2008), *Demand Management Incentive Scheme, Energex, Ergon Energy and ETSA Utilities 2010-15*, October 2008, p8.

Other Adjustments - C_t

C_t is expressed quite broadly in the formula for total revenue and is likely to be used for a number of other adjustments required throughout the period. We consider that it should include adjustments associated with:

- feed-in tariff cost pass through amounts relating to 2013-14 and 2014-15
- amounts relating to the occurrence of any of the prescribed and nominated cost pass through events¹³
- other one-off revenue adjustments approved by the AER. This would be used in limited circumstances, and only to the extent that such adjustments are unable to be accounted for within other parameters of the revenue cap formula. For example, in the current regulatory control period Ergon Energy made a number of revenue adjustments to give effect to the Queensland Government's direction to under-collect revenue associated with the 2011 Electricity Network Capital Program Review (ENCAP)¹⁴. In the next regulatory control period, this adjustment could (if required) encompass any other true-up adjustments which may be necessary between the AER's Preliminary Determination (April 2015) and Substitute Determination (October 2015).

2.3 Other Matters relevant to control mechanism for Standard Control Services

2.3.1 Unders and overs account

Under a revenue cap, our revenues are adjusted annually to clear any under or over recovery of actual revenue collected through DUOS charges. This 'unders and overs' rebalancing process is undertaken as part of annual pricing to ensure we recover no more and no less than the Total Allowed Revenue by the AER for any given year.

Under these arrangements there is generally a two year lag between the year in which the DUOS under or over recovery occurs and the year in which adjustments are made to prices to 'clear' the under or over recovery. For example, for prices set in 2015-16, the adjustment will generally relate to actual under or over recoveries in the 2013-14 regulatory year.

The AER's Framework and Approach Paper makes the following statement in regards to over or under recovery of revenues:

"The revenue cap requires that revenue in year t should be no greater than the sum of each price in year t multiplied by each quantity in year t . However, prices must be set in advance and we do not know at the relevant time what the quantities will be. Therefore, a forecast must be used. The difference between forecast and actual revenues will be added to the unders and

¹³ Refer to Section 4.4 of our Regulatory Proposal and supporting attachment 04.01.03 – *Proposed pass through events* for further information.

¹⁴ Refer to 'Other adjustments' included within 2010-15 Revenue Cap calculations in the *SCS Control Mechanism Model*.

overs account when it becomes known. We will decide on the forecasts of quantities as part of our annual compliance check taking into account the distributors' proposals.”¹⁵

Approach to current period under-recoveries

Under section 4.6 of the 2010-15 Final Distribution Determination, the ARR for any given regulatory year is:

- the Maximum Allowed Revenue (MAR), plus
- any under/over adjustment required to ‘clear’ any under or over recovery in actual DUOS revenue from the most recently completed regulatory year (subject to tolerance limits).

To minimise price volatility between regulatory years, tolerance limits apply to the clearing of DUOS under and over recoveries. When tolerance limits are triggered, the under or over recovery is required to be spread over multiple regulatory years, instead of clearing the entire under or over recovery in setting prices for the forthcoming year.

Section 4.4.2 of the AER’s Final Distribution Determination sets out the tolerance limit arrangements that apply in the current regulatory control period. If the DUOS under or over recovery compared to the MAR for year *t* is:

- less than 2 per cent, the DUOS under or over recovery will be cleared within one regulatory year
- between 2 per cent and 5 per cent, the DUOS under or over recovery can be spread over two regulatory years
- greater than 5 per cent, Ergon Energy must submit a plan to the AER detailing how we propose to clear the balance of the DUOS unders and overs account.

Due to the unprecedented level of uncertainty in predicting energy consumption in the current regulatory control period, under recoveries were large and as a result tolerance limits were applied regularly. In our 2012–13 Pricing Proposal, Ergon Energy proposed that a longer term plan and framework be introduced from the 2012–13 regulatory year to clear any actual DUOS under or over recoveries associated with the 2010–15 regulatory period. This was in response to the 5 per cent tolerance limit being exceeded for the 2010–11 regulatory year and our forecast that the same would occur in the 2011–12 regulatory year.

The DUOS under-recovery plan agreed with the AER allowed Ergon Energy to:

- progressively clear the balance of the DUOS unders and overs account in setting prices during the regulatory control period 2010-15
- clear any residual balance left in the DUOS unders and overs account as at 30 June 2015, through a carry-over adjustment in the PTRM used to calculate Ergon Energy’s revenue allowances for the next regulatory control period (2015-20).

As noted in our Regulatory Proposal, Ergon Energy’s approved 2014-15 Pricing Proposal highlighted a residual balance of \$53.57 million (nominal) remaining in our DUOS unders and overs account as at 30 June 2015. Consistent with the approved 2014-15 Pricing Proposal,

¹⁵ AER (2014), *Framework and approach for Energex and Ergon Energy, Regulatory control period commencing 1 July 2015*, April 2014, p63.

Ergon Energy has included a proposed carry-over adjustment in the PTRM to clear this residual balance.

The following table outlines the under and over recovery balances in the current period and our forecast of the carry forward adjustment. The basis and amount of the carry forward adjustment is further explained in *03.01.02 – Other Revenue Adjustments*.

Table 2: Summary of DUOS unders and overs recovery balances in current period

	Actual (nominal, \$million)					Forecast (real \$2014-15) Next Period
	2010–11	2011–12	2012–13	2013–14	2014–15	
Proposed DUOS under/over adjustment for year t (% of MAR)			1.50%	2.00%	5.00%	
Opening balance on DUOS unders and overs account in year t ¹⁶	\$0.00	\$0.00	\$0.00	(\$63.48)	(\$99.88)	(\$57.10) ¹⁷
Plus other DUOS under/over adjustments approved by the regulator	\$0.00	\$0.00	\$0.00	(\$0.01)	\$0.00	
Plus DUOS under/over recovery from regulatory year t-2	(\$6.00)	(\$0.30)	(\$78.90)	(\$59.59)	(\$41.23)	
Less DUOS unders/overs to be passed through in year t	\$6.00	\$0.30	\$21.04	\$32.05	\$87.54	
Closing balance on DUOS unders and overs account in year t	\$0.00	\$0.00	(\$57.86)	(\$91.03)	(\$53.57)	

Future tolerance limits

Ergon Energy proposes to apply a principles-based approach in the next regulatory control period which seeks to balance:

- the need to reduce the amount of under or over recoveries over time
- minimising volatility for prices in the short or longer term so as not to exacerbate future under or over recoveries.

We propose that:

- Ergon Energy should be able to include our approach for the clearance of under or over recoveries in our annual Pricing Proposal for approval by the AER
- where the amount of under or over recoveries exceeds the tolerance limit of 5 per cent of Total Allowed Revenue, Ergon Energy will provide justification of the approach with the principles outlined above.

Such an approach could allow for flexibility if future over or under recoveries can be reasonably foreseen. For example, if a future pass through event is likely to increase prices and the risk of under recovery, Ergon Energy may propose to over recover in preceding years in order to manage price volatility.

¹⁶ Represents the closing balance from year t-1 indexed for one year WACC to year t.

¹⁷ Represents Ergon Energy's current forecast of the carry-forward adjustment required in the PTRM to zero the balance of the DUOS unders and overs account at the start of the next regulatory control period.

Finally, we propose that the AER should allow clearance of under or over balances to span regulatory control periods (where appropriate). Detail on the proposed mechanism to allow clearance of such under or over recoveries (e.g. carry over adjustment in PTRM or adjustment in annual pricing) should be set out by the DNSP in its annual Pricing Proposal.

Application of unders and overs account in 2015-20

Ergon Energy notes that proposed changes the AER has made to the revenue cap formula has consequential impacts on the content and calculations applied in the current DUOS unders and overs account compliance table (as set out in Appendix D of the 2010-15 Distribution Determination).

For the purposes of producing forecast revenues and indicative prices for the Regulatory Proposal, Ergon Energy has had to make a number of assumptions around the form and content of the DUOS unders and overs account in the next regulatory control period.

Appendix 1 and *04.01.05- Standard Control Services Control Mechanism Model* provide further detail around the assumption and calculations Ergon Energy has applied in the DUOS unders and overs account in order to account for under or over recoveries and calculate forecast annual DUOS under or over adjustments within the control mechanism for Standard Control Services.

Ergon Energy also notes the NER¹⁸ requires the AER to make a decision on how Ergon Energy is to report to the AER on the recovery of designated pricing proposal charges (Transmission Use of System (TUOS) charges) and jurisdictional scheme amounts, and how adjustments are to be made to prices to account for any under or over recoveries.

Appendix E of the 2010-15 Distribution Determination sets out the current arrangements for the TUOS unders and overs account. Ergon Energy is not currently operating under the jurisdictional scheme provisions in the NER and subsequently does not have an agreed reporting and pricing mechanism to account for any applicable under/over recoveries.

Ergon Energy does not anticipate any major changes are necessary to the current approach and structure of the TUOS unders and overs account. However, we consider necessary amendments may be needed to calculations to account for a varying Weighted Average Cost of Capital (WACC) (as a result of new trailing average portfolio approach for calculating the cost of debt).

Further explanation of our proposed reporting and recovery of designated pricing proposal charges (TUOS charges) and jurisdictional scheme amounts for the next regulatory control period is set out in supporting attachments *04.01.01 – Designated Pricing Proposal Charges* and *04.01.02 – Jurisdictional Schemes*.

2.3.2 Side Constraints

Clause 6.18.6(b) of the NER requires the expected weighted average revenue to be raised from a Standard Control Services tariff class to not exceed the corresponding expected weighted average revenue from the preceding year by more than a permissible percentage (side constraint).

In section 4.5.2 of the 2010-15 Final Distribution Determination, the AER provided further guidance on the application of side constraints, and required Ergon Energy to demonstrate that proposed DUOS prices met the following side constraint formula in current regulatory control period:

¹⁸ NER, clauses 6.12.1(19) and 6.12.1(20).

$$\frac{\sum_{j=1}^m d_t^j \times q_t^j}{\sum_{j=1}^m d_{t-1}^j \times q_t^j} \leq (1 + \Delta CPI_t) \times (1 - X_t) \times (1 + 2\%) \pm S_t \pm C_t \pm transitional_t \pm passthrough_t \pm unders \& overs_t$$

where each tariff class 'j' has up to 'm' components, and where:

d_t^j is the proposed price for component 'j' of the tariff class for year t

d_{t-1}^j is the price charged by the Distribution Network Service Provider (DNSP) for component 'j' of the tariff class in year t-1

q_t^j is the forecast quantity of component 'j' of the tariff class in year t

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from March in regulatory year t-2 to March in regulatory year t-1

X_t is the X factor for each year of the regulatory control period. If $X > 0$, then X will be set equal to zero for the purposes of the side constraint formula

S_t is the STPIS factor to be applied in regulatory year t

C_t is the annual adjustment factor for the difference between forecast and actual capital contributions in year t-2

$transitional_t$ is a transitional factor for matters such as unders and overs in tax paid during the current regulatory control period and unders and overs adjustments related to shared assets used for purposes other than Standard Control Services

$passthrough_t$ is an annual adjustment factor that reflects the pass through amounts approved by the AER with respect to regulatory year t

$unders \& overs_t$ is an annual adjustment factor related to the balance of the DUOS unders and overs account with respect to regulatory year t.

The AER's Framework and Approach Paper did not cover matters of detail to be addressed in annual Pricing Proposals (such as the side constraint formula). However, Ergon Energy expects changes the AER has made to the revenue cap formula will have consequential impact on the side constraint formula.

Ergon Energy notes under clause 6.18.6(d) of the NER the following recovery of revenue is to be disregarded in deciding whether the permissible percentage (side constraint) has been exceeded in a particular regulatory year:

- a variation to the distribution determination as a result of cost pass through under clause 6.6 of NER
- a revocation and substitution of distribution determination for wrong information or error under clause 6.13 of NER
- pass through of designated pricing proposal charges
- pass through of jurisdictional scheme amounts for approved jurisdictional schemes
- any increase in the ARR as a result of changes to the allowed rate of return (effected through application of the control mechanism formula specified in the distribution determination).

We also note that the effect of the current side constraint formula (as specified above) requires Ergon Energy to disregard the following additional revenue recoveries in our side constraint calculations in the current regulatory control period:

- rewards (penalties) under the STPIS
- under or over recoveries associated with capital contributions and shared assets
- under or over recoveries associated with clearing the DUOS unders and overs account.

The AER also decided in the 2010-15 Final Distribution Determination that side constraints do not apply for the first year of a regulatory control period.¹⁹

Ergon Energy considers the operation of side constraints will need to be further considered by the AER as part of the 2015-20 Distribution Determination, and in advance of our initial Pricing Proposal submission.

For the purposes of producing forecast revenues and indicative prices for the Regulatory Proposal and Reset RIN, Ergon Energy has assumed that all side constraints will be met.

¹⁹ AER (2010), *Final decision, Queensland distribution determination 2010-11 to 2014-15*, May 2010, Section 4.4.5.

3 Compliance with Control Mechanism for Alternative Control Services

3.1 AER formula

The AER has decided through the Framework and Approach Paper that it will impose caps on the prices we can charge for individual Alternative Control Services. However, the AER has indicated it will not confirm the basis of the control mechanism until the Distribution Determination. This means the AER is still to decide whether our prices for Public Lighting Services, Default Metering Services and other Alternative Control Services are to be set using a building block approach or another method.

As noted in Chapter 5 of our Regulatory Proposal, Ergon Energy has proposed:

- a formula based approach for other Alternative Control Services which result in either a fixed fee or quoted price.
- a limited building block approach for Public Lighting Services and Default Metering Services, which result in allowable revenues and charges for each Public Lighting and Default Metering Service.

3.1.1 Expression which demonstrates compliance with price caps

We note that the AER's Framework and Approach Paper sets out the following generic expression (herein described as formula 4) that distributors are to use in demonstrating compliance with the price caps applied to individual Alternative Control Services (other than those charged on a quoted basis):

Formula (4)

$$p_i^t = p_i^{t-1} (1 + \Delta CPI_t)(1 - X_i^t) + A_i^t$$

Where:

p_i^{t-1} is the cap on the price of service i in year t-1

p_i^t is the price of service i in year t

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from December in year t-2 to December in year t-1. For example, for the 2015-16 year, t-2 is December 2013 and t-1 is December 2014 and in the 2016-17 year, t-2 is December 2014 and t-1 is December 2015 and so on.

X_i^t is the X-factor for service i in year t

A_i^t is an adjustment factor for service i in year t. Likely to include, but not limited to adjustments for residual charges when customers choose to replace assets before the end of their economic life.

For Alternative Control Services charged on a quoted basis, the AER has indicated it will adopt a cost build-up approach to cap the price customers will pay. Prices will be established using the following formula (formula 5):

Formula (5)

$$Price = Labour + Contractor Services + Materials + Capital Allowance$$

Where:

Labour (including on costs and overheads) – consists of all labour costs directly incurred in the provision of the service which may include but is not limited to labour on costs, fleet on costs and overheads. The labour cost for each service is dependent on the skill level and experience of the employee/s, time of day/week in which the service is undertaken, travel time, number of hours, number of site visits and crew size required to perform the service.

Contractor services (including overheads) – reflects all costs associated with the use of external labour in the provision of the service, including overheads and any direct costs incurred as part of performing the service. The contracted services charge applies the rates under existing contractual arrangements. Direct costs incurred as part of performing the service, for example permits for road closures or footpath access, are passed on to the customer.

Materials (including overheads) – reflects the cost of materials directly incurred in the provision of the service, material storage and logistics on costs and overheads.

Capital allowance – represents a return on and return of capital for non-system assets (for example vehicles,²⁰ IT and tools) used in the provision of the service.

3.2 Applying the above formula to the AER's control mechanism

The AER's Framework and Approach Paper provides limited guidance on the intended application of the generic formula (formula 4) proposed to give effect to price caps for services classified as Alternative Control Services (other than quoted services). Ergon Energy also notes that the AER has not explicitly addressed whether formula 4 or formula 5 is intended to apply to Alternative Control Services provided on a fixed fee basis. In the current regulatory control period, fixed fee services are regulated on a similar basis to quoted services (i.e. formula based, cost build up approach).

Ergon Energy considers that formula 4 should apply to prices established under a limited building block approach for the following Alternative Control Services:

- Public Lighting Services
- Default Metering Services.

For services priced on a fixed fee basis, Ergon Energy proposes to:

- apply formula 5 to establish initial prices (p_i^t) in 2015-16
- apply formula 4 to give effect to a cap on prices from year two onwards of the regulatory control period (2016-17 to 2019-20).

Consistent with the Framework and Approach paper, Ergon Energy proposes to apply formula 5 to Alternative Control Services priced on a quoted price basis.

²⁰ Note, fleet on-costs are included in the labour component. Ergon Energy has included depreciation in the fleet on-cost.

As Ergon Energy has adopted the price control formulas proposed by the AER without modification, Ergon Energy considers the control mechanism we have applied to Default Metering Services, Public Lighting Services, fixed fee and quoted services are compliant with the Framework and Approach Paper.

3.2.1 Assumptions used in applying the price cap controls

The following section summarises our interpretation of the price cap formula (formula 4), and how we expect the control will operate over applicable Alternative Control Services prices during the next regulatory control period. Appendix 2 provides more detailed explanation on how we consider compliance with the price caps can be demonstrated through the annual Pricing Proposal process.

Ergon Energy has assumed the price caps will operate in the following way for our fixed fee, Public Lighting Services and Default Metering Services:

- the initial price (or base price) will be set for each service in the first year of the regulatory control period
- from year two onwards of the regulatory control period, services will be subject to the price caps using the controls provided in formula 4
- formula 4 allows prices to be annually adjusted for:
 - inflation (CPI)
 - real cost escalation (X-factor)
 - other adjustments allowed to be passed through in capped prices (Adjustment factor).

The result of the above essentially limits the annual movement in prices to an annual adjustment or escalation. This is primarily driven by changes in CPI and other changes to underlying cost drivers for different services (X-factor).

Ergon Energy will then need to demonstrate in our annual Pricing Proposals that prices for each fixed fee service, Public Lighting Services and Default Metering Services do not breach the price caps (or maximum prices) calculated through application of the AER's proposed control mechanism formula (formula 4).

A worked example of Ergon Energy's proposed price caps for Alternative Control Services (including X-factors and Adjustment factors) is set out in Appendix 3.

Appendix 1: Current and proposed treatment of revenue cap formula components

Formula Component	Current Treatment	Proposed Treatment for 2015-20	Assumptions in Regulatory Proposal	How compliance can be demonstrated during 2015-20
Allowed Revenue AR_t	<p>First year of regulatory control period equal to the smoothed revenue requirement set out in the AER-approved PTRM.</p> <p>Subsequent year's allowed revenue determined by adjusting the previous year's allowed revenue for :</p> <ul style="list-style-type: none"> CPI (based on the actual annual percentage change in CPI from March in year t-2 to March in year t-1) X factor (set out in the AER-approved PTRM). 	<p>Same as current period. However, the CPI and X factors from year two onwards will be updated annually for:</p> <ul style="list-style-type: none"> actual percentage change in CPI from December in year t-2 to December in year t-1 trailing average cost of debt. 	<p>Forecast revenues based on:</p> <ul style="list-style-type: none"> Ergon Energy's proposed X factors and smoothed revenue requirements as provided in our Standard Control Services PTRM (03.01.04 – Post Tax Revenue Model) estimate of expected percentage change in inflation (2.57% in each regulatory year) constant nominal WACC of 8.02% for all regulatory years of the regulatory control period. 	<p>Annual Pricing Proposal will need to show:</p> <ul style="list-style-type: none"> forecast CPI has been substituted for actual December CPI result. WACC and X factors have been updated for cost of debt using the AER-approved PTRM from year two onwards of the regulatory control period.
Incentive scheme adjustments I_t (STPIS)	<p>Updated annually for rewards (penalties) using S factor approved by the AER and revenue adjustment calculation included in Pricing Proposal.</p>	<p>Same as current period. However, Ergon Energy notes that the S factors approved to apply to revenues for 2015-16 and 2016-17 will need to incorporate adjustments for any step change in revenue (or prices) from one regulatory control period to the next, consistent with the STPIS Guideline.</p> <p>The AER may also wish to consider how they intend to deal with any true-up of any STPIS revenue increment / decrements already passed through to customers in annual pricing, as a result of changes to total five year allowable revenues (i.e. between the Preliminary and Substitute Determinations).</p>	<p>Forecast revenue based on:</p> <ul style="list-style-type: none"> 2% S factor for 2015-16 (presumes AER will also cap S factor to 2% in accounting for any step change in revenues between regulatory control periods) no STPIS revenue adjustments from year two onwards of the regulatory control period (as it relates to STPIS performance in 2014-15 to 2017-18 years which is yet to be determined). 	<p>S factor to be approved through annual reporting processes. Method of applying S factor and calculating revenue adjustment to be confirmed by the AER in Distribution Determination.</p> <p>The annual Pricing Proposal will need to show:</p> <ul style="list-style-type: none"> revenue increment / decrement has been calculated in accordance with approved S factor and calculations set out in the AER decision.
Incentive	Not applicable	Final carryover amount to be	Forecast revenue presumes:	The AER to approve the final value of

Formula Component	Current Treatment	Proposed Treatment for 2015-20	Assumptions in Regulatory Proposal	How compliance can be demonstrated during 2015-20
Scheme adjustments I_t (DMIS)		calculated and applied to revenues in 2016-17 in accordance with the DMIS applying to Ergon Energy in the current regulatory control period.	<ul style="list-style-type: none"> AER will allow and approve Ergon Energy's actual 2013-14 Demand Management Innovation Allowance (DMIA) expenditure forecast 2014-15 DMIA expenditure will be spent by Ergon Energy and approved by the AER. 	DMIA carry over adjustment as part of the 2016-17 Pricing Proposal.
Annual under and over adjustments B_t (DUOS unders/overs)	<p>Actual under or over-recovery of DUOS revenues (compared to revenue cap) calculated through the DUOS unders and overs account. As there is a two year lag between the year which the under or over recovery occurs and the year in which the adjustment is made to prices (to account for the under or over recovery) the amount is indexed by the nominal rate of return (WACC) for two years.</p> <p>To minimise pricing volatility, clearing of DUOS unders and overs account (i.e. to bring the balance to zero) is subject to tolerance limits set by the AER.</p>	<p>Continuation of current approach. However, the nominal WACC used in indexation calculations should be consistent with the varying WACC values approved throughout the regulatory control period (i.e. after annual updates for trailing average cost of debt).</p> <p>Ergon Energy has proposed some modifications to the current tolerance limit arrangements and to the format of the current DUOS unders and overs account. Further explanation of these proposed changes are set out in Section 2.3.1.</p>	<p>Forecast revenue presumes:</p> <ul style="list-style-type: none"> residual DUOS under-recoveries remaining in unders and over account as at 30 June 2015 will be cleared as carry-over adjustment in PTRM (refer to supporting document <i>03.01.02 - Other Revenue Adjustments</i>) the AER will allow the entire 2013-14 DUOS under-recovery to be cleared in setting prices in 2015-16 no DUOS under or over adjustments for year two onwards of the regulatory control period (i.e. as this relates to actual under or over recoveries for 2014-15 to 2017-18 years). <p>In transitioning between regulatory control periods, Ergon Energy has applied the same indexation approach that was used in the DUOS unders and overs account when transitioning between the 2005-10 and 2010-15 periods.</p>	<p>The AER to confirm appropriate basis of indexation and format of the DUOS unders and overs account as part of Distribution Determination.</p> <p>The annual Pricing Proposal will need to show:</p> <ul style="list-style-type: none"> actual DUOS revenues applied in under and over calculations consistent with amounts reported (and audited) through annual reporting processes DUOS unders and overs account completed in accordance with the AER's distribution determination. proposed under or over adjustment for regulatory year consistent with the tolerance limit arrangements set out in the AER's distribution determination.
Annual under and over	Under current transitional arrangements, Ergon Energy adds the value of forecast capital	From 1 July 2015, the value of actual capital contribution and shared assets will be excluded from our RAB.	<p>Forecast revenues based on:</p> <ul style="list-style-type: none"> actual under/over recovery in capital contribution and shared 	<p>The annual Pricing Proposal will need to show:</p> <ul style="list-style-type: none"> actual capital contribution and

Formula Component	Current Treatment	Proposed Treatment for 2015-20	Assumptions in Regulatory Proposal	How compliance can be demonstrated during 2015-20
adjustments B_t (Transitional capital contribution & shared asset unders or overs)	<p>contributions and shared assets into our RAB. To offset these additions in revenue calculations, the AER makes reductions of equal value to our allowed revenue allowances in building block calculations.</p> <p>A further adjustment is undertaken in annual pricing to account for the under or over recovery of actual capital contributions and shared asset revenue (compared to forecasts factored into initial building block calculations).</p> <p>Similar to DUOS under or over recoveries, the capital contribution and shared asset under or over recoveries are indexed by the nominal rate of return for two years.</p> <p>Tolerance limits do not apply to clearing of capital contribution and shared asset under/over recoveries.</p>	<p>However, as the forecast value of 2013-14 and 2014-15 contributions are still included in our RAB, and there has been no adjustment to revenues to account for the difference between actual and forecast capital contribution and shared asset revenues, it is necessary to continue the annual under/overs process for the first two years of the regulatory control period.</p> <p>No capital contribution and shared asset under/over adjustments will be necessary beyond the 2016-17 regulatory year.</p>	<p>asset revenue for 2013-14 year</p> <ul style="list-style-type: none"> estimated under or over recovery in capital contribution and shared asset revenue for 2014-15 year. 	<p>shared asset revenues applied in under and over calculations consistent with amounts reported (and audited) through annual reporting processes</p> <ul style="list-style-type: none"> under/over adjustments applied to revenues (and prices) calculated in accordance with any relevant requirements set out in the AER's distribution determination.
Pass throughs and other adjustments C_t	<p>Upon application by the DNSP, the AER determines (and approves) the amount of revenue which can be passed through to customers as a result of a prescribed, general or specified pass through event set out in the Distribution Determination.</p>	<p>Continuation of current approach. However, we note there will be no general pass through events in the next period. Instead, the AER will approve additional pass through events nominated by the DNSP. These are in addition to the prescribed pass through events set out in the NER.²¹</p> <p>The AER may wish to consider using this formula component for any true-up adjustments which may be</p>	<p>Forecasts revenues based on:</p> <ul style="list-style-type: none"> estimated cost pass through amounts associated with the recovery of feed-in-tariff payments made in 2013-14 and 2014-15. 	<p>The cost pass through amounts to be approved through annual reporting processes.</p> <p>The annual Pricing Proposal will need to show:</p> <ul style="list-style-type: none"> revenue increment / decrement has been calculated in accordance with the amount set out in the AER decision. <p>The AER to confirm as part of its Distribution Determination.</p>

²¹ NER, clause 6.6.1.

Formula Component	Current Treatment	Proposed Treatment for 2015-20	Assumptions in Regulatory Proposal	How compliance can be demonstrated during 2015-20
		<p>necessary between the AER's Preliminary and Substitute Determination where adjustments are unable to be accounted for within other parameters of the revenue cap formula.</p>		<p>The method of applying any true-up adjustment as a result of changes between Preliminary and Substitute Determination to be confirmed by the AER through the distribution determination process.</p>

Appendix 2: Demonstration of compliance with price caps in 2015-20

Alternative Control Service	Formula to give effect to price cap	How compliance can be demonstrated during 2015-20
<ul style="list-style-type: none"> Public Lighting Services Default Metering Services 	Formula (4)	<p>The annual Pricing Proposal will need to show:</p> <ul style="list-style-type: none"> basis and methodology that allowable revenues are converted to charges for each Public Lighting Service and Default Metering Service proposed initial price for first year of the regulatory control period 2015-20 (based on limited building block approach and allowable revenues generated by AER-approved PTRM) proposed X-factors for years two to five of regulatory control period. The X-factor will reflect the proposed real underlying change in overall price between year t-1 and year t (before taking into account annual change in inflation, and the annual adjustment factor). For Public Lighting Services and Default Metering Services this will be based on annual charges developed using a limited building block approach. proposed annual adjustment factors allowed to be passed through in capped prices. Ergon Energy anticipates this will include any annual adjustments to allowable revenues (and resulting price caps) within period. This may be used for number of pre-defined events and items outlined in the AER's decision (such as adjustments for residual charges for assets replaced before end of useful life, intra-period updates to WACC). This parameter may also be used (if required) to reflect adjustments to capped prices between the AER's Preliminary Determination (April 2015) and Substitute Determination (October 2015) actual and estimated inflation rates to be applied in price cap control mechanism formula indicative (capped) prices for remaining years of the regulatory control period 2015-20 <p>Once Public Lighting Services and Default Metering Services charges are approved by the AER, they will be set out in Ergon Energy's approved annual Pricing Proposal and Price List for Alternative Control Services published on our website.²²</p>
<ul style="list-style-type: none"> Quoted price services 	Formula (5)	<p>The annual Pricing Proposal will set out:</p> <ul style="list-style-type: none"> schedule of rates to be used in the derivation of prices using cost build up approach, including: <ul style="list-style-type: none"> base labour rates, labour on costs and real cost escalators base fleet on cost rates and real cost escalators material on costs and real cost escalators contractor (other costs) real cost escalators

²² <http://www.ergon.com.au/networktariffs>.

Alternative Control Service	Formula to give effect to price cap	How compliance can be demonstrated during 2015-20
		<ul style="list-style-type: none"> ○ capital allowance rates ○ overhead rates (calculated in accordance with approved CAM) ○ actual and estimated annual inflation rates <ul style="list-style-type: none"> • examples of possible quoted price service prices (to demonstrate application of control mechanism formula). <p>Ergon Energy will not be able to charge customers any more than the (maximum) prices calculated through use of the AER approved schedule of rates and approved quoted price services formula.</p>
<ul style="list-style-type: none"> • Fixed fee services 	Formula (4)	<p>The annual Pricing Proposal will set out:</p> <ul style="list-style-type: none"> • proposed initial price for the first year of regulatory control period 2015-20 for each service (to be calculated using formula based approach and same schedule of rates applied for quoted services) • proposed X-factors for years two to five of the regulatory control period 2015-20. The X-factor will reflect the proposed real underlying change in overall price between year t-1 and year t (before taking into account annual change in inflation, and the annual adjustment factor (if applicable)). For fixed fee services this will be calculated using the fixed fee input assumptions and the quoted service schedule of rates and pricing formula • proposed annual adjustment factors allowed to be passed through in capped prices. Ergon Energy does not anticipate any adjustment factors will generally be applicable for fixed fee services. However, such an adjustment may be used (if required) to adjust capped prices between the AER's Preliminary Determination (April 2015) and Substitute Determination (October 2015) • actual and estimated inflation rates to be applied in price cap control mechanism formula • indicative (capped) prices for remaining years of the regulatory control period 2015-20. <p>Once fixed fee charges (and price caps) are approved by the AER, they will be set out in Ergon Energy's approved annual Pricing Proposal and Price List for Alternative Control Services published on our website.</p>

Appendix 3: Worked Examples – Application of price cap control mechanism for Alternative Control Services (other than quoted price services)

Service Grouping	Service	Proposed price and price cap for service	2015-16	2016-17	2017-18	2018-19	2019-20
Default Metering Services	Primary	Proposed price (nominal) \$/unit	85.31	83.56	81.87	80.23	78.66
		<u>Parameters applied in price cap calculations</u>					
		CPI	2.57%	2.57%	2.57%	2.57%	2.57%
		X-factor (X) ²³	n/a	4.5%	4.5%	4.5%	4.4%
		Adjustment factor (A)	0.0	0.0	0.0	0.0	0.0
		<u>Demonstration of compliance with price cap formula</u>					
		Price Cap ($P_t = P_{t-1} (1+CPI) (1-X) + A$)	85.31	83.56	81.87	80.23	78.66
		Difference between proposed price and price cap	0	0	0	0	0
	Controlled load ²⁴	Proposed price (nominal) \$/unit	25.46	25.00	24.53	24.06	23.56
		<u>Parameters applied in price cap calculations</u>					
		CPI	2.57%	2.57%	2.57%	2.57%	2.57%
		X-factor (X)	n/a	4.3%	4.3%	4.4%	4.5%
		Adjustment factor (A)	0.0	0.0	0.0	0.0	0.0
		<u>Demonstration of compliance with price cap formula</u>					
Price Cap ($P_t = P_{t-1} (1+CPI)(1-X)+A$)	25.46	25.00	24.53	24.06	23.56		
Difference between proposed price and price cap	0	0	0	0	0		
Annual % change in proposed price		-1.8%	-1.9%	-1.9%	-2.1%		
Public Lighting Services	EO&O - Major	Proposed price (nominal) \$/day/light	1.1355	1.1715	1.2086	1.2469	1.2864
		<u>Parameters applied in price cap calculations</u>					
		CPI	2.57%	2.57%	2.57%	2.57%	2.57%
		X-factor (X)	n/a	-0.6%	-0.6%	-0.6%	-0.6%
		Adjustment factor (A)	0.0	0.0	0.0	0.0	0.0
		<u>Demonstration of compliance with price cap formula</u>					
		Price Cap ($P_t = P_{t-1} (1+CPI) (1-X) + A$)	1.14	1.17	1.21	1.25	1.29
		Difference between proposed price and price cap	0	0	0	0	0
Annual % change in proposed price		3.2%	3.2%	3.2%	3.2%		

²³ Negative X-factor implies real increase in price, positive X-factor implies real decrease in price

²⁴ Reflects supplementary (incremental) cost on the primary charge

Service Grouping	Service	Proposed price and price cap for service	2015-16	2016-17	2017-18	2018-19	2019-20	
	G&EO - Major	Proposed price (nominal)						
			\$/day/light	0.4604	0.4750	0.4900	0.5055	0.5215
		<u>Parameters applied in price cap calculations</u>						
		CPI		2.57%	2.57%	2.57%	2.57%	2.57%
		X-factor (X)		n/a	-0.6%	-0.6%	-0.6%	-0.6%
		Adjustment factor (A)		0.0	0.0	0.0	0.0	0.0
		<u>Demonstration of compliance with price cap formula</u>						
		Price Cap (Pt = Pt-1 (1+CPI)(1-X)+A)		0.4604	0.4750	0.4900	0.5055	0.5215
Difference between proposed price and price cap			0	0	0	0	0	
Annual % change in proposed price				3.2%	3.2%	3.2%	3.2%	
Fixed fee services	De-energisation during business hours - urban/short rural feeders	Proposed price (nominal)						
			\$/service	101.76	106.78	114.89	121.66	127.05
		<u>Parameters applied in price cap calculations</u>						
		CPI		2.57%	2.57%	2.57%	2.57%	2.57%
		X-factor (X)		n/a	-2.3%	-4.9%	-3.2%	-1.8%
		Adjustment factor (A)		0.0	0.0	0.0	0.0	0.0
		<u>Demonstration of compliance with price cap formula</u>						
		Price Cap (Pt = Pt-1 (1+CPI) (1-X) +A)		101.76	106.78	114.89	121.66	127.05
Difference between proposed price and price cap			0	0	0	0	0	
Annual % change in proposed price				4.9%	7.6%	5.9%	4.4%	
	Supply abolishment - urban/short rural feeders	Proposed price (nominal)						
			\$/service	364.31	382.60	411.95	436.57	456.22
		<u>Parameters applied in price cap calculations</u>						
		CPI		2.57%	2.57%	2.57%	2.57%	2.57%
		X-factor (X)		n/a	-2.4%	-5.0%	-3.3%	-1.9%
		Adjustment factor (A)		0.0	0.0	0.0	0.0	0.0
		<u>Demonstration of compliance with price cap formula</u>						
		Price Cap (Pt = Pt-1 (1+CPI)(1-X)+A)		364.31	382.60	411.95	436.57	456.22
Difference between proposed price and price cap			0	0	0	0	0	
Annual % change in proposed price				5.0%	7.7%	6.0%	4.5%	