

Pricing Issues Consultation Group meeting 6 March 2003

Implementing the weighted average price cap and assessing price changes

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Quick-Reference Glossary

Code	National Electricity Code
CRNP	Cost Reflective Network Pricing
DG	Distributed Generation
DNSP	Distribution Network Service Provider
DUOS	Distribution Use of System
EG	Embedded Generation
Esc Vic	Essential Services Commission Victoria
PPM	Pricing Principles & Methodologies Document (June 2002)
TNSP	Transmission Network Service Provider
TUOS	Transmission Use of System
WAPC	Weighted Average Price Cap

IMPLEMENTING THE WEIGHTED AVERAGE PRICE CAP AND ASSESSING PRICE CHANGES

The Tribunal has established¹ that the new regulatory arrangements for the regulatory period commencing on 1 July 2004 will include a weighted average price cap for the distribution component of network tariffs, a pass through of transmission charges and price caps for miscellaneous charges and monopoly fees. The purpose of this note is to highlight issues associated with implementing the weighted average price cap that the Tribunal will need to consider in its 2004 electricity network review.

In general, the Secretariat is recommending similar positions to those included in its current determination. For some issues associated with implementing the weighted average price cap the Secretariat has referred to the Office of the Regulator General (now the Essential Services Commission of Victoria (ESC Vic)) *Electricity Distribution Price Determination 2001-05*. However, stakeholders should note that the Tribunal has not considered any of the Secretariat's initial propositions or recommendations. Before taking recommendations to the Tribunal, the Secretariat will consult with stakeholders.

1.1 The weighted average price cap – background information

1.1.1 Price control formula

The weighted average price cap limits how average DUOS tariffs can move from one year to the next. To weight the movement in average prices, tariff components are multiplied by a quantity. The same volume data is used to weight both the future year (numerator) and current year (denominator) prices.

The weighted average price cap control will be represented by the following formula:²

$$\frac{\sum_{i=1}^n \sum_{j=1}^m p_{ij}^{t+1} * q_{ij}^{t-1}}{\sum_{i=1}^n \sum_{j=1}^m p_{ij}^t * q_{ij}^{t-1}} \leq (1 + CPI_t - X_{t+1}) \quad i=1, \dots, n \text{ and } j=1, \dots, m.$$

where the DNSP has n tariffs, which each have up to m components, and:

p_{ij}^t is the price currently being charged for component j of tariff i

p_{ij}^{t+1} is the proposed price for component j of tariff i in the coming year

q_{ij}^{t-1} is the quantity of component j of tariff i that was sold in the previous year

X_{t+1} is the real change in average prices from year t to year $t+1$ of the regulatory period.

CPI_t is the Consumer Price Index for year t .

¹ IPART, *Notice Under Clause 6.10.3 of the National Electricity Code – Economic Regulatory Arrangements*, June 2002

² This formula may be augmented to include other factors, as discussed below.

The DNSPs will set prices to satisfy the above basic equation. They can change some prices by more than others, and even move some prices up and others down, as long as they satisfy the above equation (and comply with any limits on individual price movements). A simple example is provided below.

CPI	3.0%
X	2.0%

1 + CPI - X 1.01

Prices 2003

	Fixed \$(pa)	Peak (\$/kWh)	Off-Peak (\$/kWh)
Residential	56	9.1	0.6
Commercial	550	4.0	1.3



Quantities 2001

	Customers (Number)	Peak (kWh)	Off-Peak (kWh)
Residential	20000	1000000	400000
Commercial	7000	800000	500000

Prices 2002

	Fixed \$(pa)	Peak (\$/kWh)	Off-Peak (\$/kWh)
Residential	55	9.0	0.6
Commercial	548	4.0	1.2



Quantities 2001

	Customers (Number)	Peak (kWh)	Off-Peak (kWh)
Residential	20000	1000000	400000
Commercial	7000	800000	500000

Total \$(2003)	
Residential	\$ 10,423,000.00
Commercial	\$ 7,722,400.00
	\$ 18,145,400.00

=

Total \$(2003)	
Residential	\$ 10,335,000.00
Commercial	\$ 7,632,500.00
	\$ 17,967,500.00

= 1.00990 = 1.01

The actual revenue earned by the DNSP in that year would be determined by actual quantities sold, and would be equal to;

$$\sum_{i=1}^n \sum_{j=1}^m p_{ij}^{t+1} * q_{ij}^{t+1}$$

A weighted average price cap differs from the current revenue cap form of regulation in that DNSPs are not restricted in the amount of revenue they can earn. As long as the DNSP's prices comply with the price control formula and any other limits on prices the Tribunal may impose, additional (reduced) sales will earn DNSPs additional (reduced) revenue. Unlike the unders and overs account mechanism under the current system, the Tribunal will not require DNSPs to return any revenue in excess (shortfall) of the notional revenue requirement to customers through lower (higher) prices in subsequent years.

1.1.2 Calculating the X factor

The Tribunal will use the control equation to determine how prices should move. In the absence of other factors in the control equation, the X factor determines the real rate of change in *average prices* (through the CPI-X constraint). The X factor will be used to calibrate weighted average price changes that deliver revenue requirements, which are established using cost building blocks (net of regulated revenue from other sources such as monopoly fees and miscellaneous charges).

The Tribunal indicated in its *Notice Under Clause 6.10.3 of the National Electricity Code – Economic Regulatory Arrangements* that it will undertake a building block approach to determine the revenue requirement and that it may supplement that analysis with some benchmarking analysis. The building block revenue requirement is determined as the sum of estimated efficient operating and maintenance costs, depreciation (return of capital) and a risk adjusted return on capital.

For more information on calculating the X factors, refer to the Tribunal's *A Users Guide to the Financial Model for the 2004 Electricity Network Pricing Review*, November 2002.

1.2 Implementing the weighted average price cap

1.2.1 Writing prices into the determination

The Secretariat prefers an approach where the 2003/04 prices are written into the determination.

Because of the operation of the weighted average price cap, the Tribunal will write (TUOS and DUOS) prices into its determination. The Secretariat's preferred position is to write the 2003/04 prices into the determination because these prices:

- will be known in time for inclusion in the determination
- are the bases of modelling the X factors.

The DNSPs will set the 2003/04 prices in accordance with the December 1999 determination – *Regulation of New South Wales Electricity Distribution Networks – Determination and Rules under the National Electricity Code*, which applies for the period 2000-2004. If these prices are written into the determination for the period commencing 1 July 2004, then the DNSPs will need to satisfy the price control

equation and comply with any limits on price movements established through this review in setting their 2004/05 prices.

Regardless of whether the 2003/04 or 2004/05 prices are written into the determination, the Tribunal will need to address the question of whether the transition to the next regulatory period requires a one-off adjustment to prices (assuming that this is raised by stakeholders as an issue). For example, the revenue requirements (derived from the building blocks) for the period commencing 2004 might be higher than the revenue requirements in the current regulatory period and that higher prices might be required in order to recover the revenue requirement. Such an adjustment could be accommodated by:

- writing the 2003/04 prices in the determination and either;
 - applying different limits on price movements for the first year than subsequent years; or
 - adopting a smooth transition to prices by applying the same limit on price movements for the first year and subsequent years
- writing the 2004/05 prices in the determination. However, this would require the DNSPs to set their prices in late 2004 for a 1 July 2005 implementation. This would require the DNSPs to finalise their prices prior to the final determination being made.

The Tribunal has not yet considered the level of the limits on price movements for the regulatory period commencing on 1 July 2004. Neither has it considered whether or not there needs to be a step price change or relaxation of the side constraints in the first year of the regulatory period. This discussion has been included here to demonstrate that the 2003/04 prices can be written into the determination and that the issue of price changes can be dealt with separately.

1.2.2 Assigning tariffs to customers

The Secretariat's initial proposition is to adopt the ESC Vic approach to assigning and re-assigning customers to tariffs during the regulatory period.

At the beginning of the regulatory period, each customer will need to be 'assigned' to a network tariff. Under ESC Vic arrangements, the customer is assigned to the tariff they were charged for at the end of the previous regulatory period.

For new customers during the regulatory period, the DNSP must determine which tariff applies. Under the ESC Vic arrangements, the DNSP does this by taking into account:

- the load and connection characteristics of the customer and;
- by treating distribution customers in similar situations in a similar manner.

If an existing customer's load or connection characteristics have changed, making its assigned tariff inappropriate, the DNSP may reassign the customer to a different tariff. It is proposed that in these situations, the DNSP must:

- inform the customer prior to reassigning and, if required by the customer, provide a statement setting out the new tariff, and
- provide the Regulator with details of the new tariff (if requested).

If the customer disagrees with its tariff then it can request the Regulator to reassign it.

The process for assigning customers to new tariffs (as opposed to new customers for existing tariffs), is addressed in section 1.3.2.

1.2.3 DUOS/TUOS split

The Secretariat's initial proposal is that the split of 2003/04 network tariffs into DUOS and TUOS components be submitted with the final prices for 2003/04.

Network tariffs levied by the DNSPs comprise two elements—DUOS charges and TUOS charges. DUOS tariffs will be regulated through the weighted average price cap, while the DNSPs will be allowed to recover the actual transmission charges they pay to the transmission network service providers (net of transmission settlements residue payments) through TUOS tariffs. This means they need to separate network tariffs into DUOS and TUOS tariffs.

In August 2002, the DNSPs submitted a joint draft TUOS Allocation Methodology outlining their proposed principles for separating TUOS and DUOS charges. These include that:

- total TUOS allocated to network tariffs should align with total estimated TUOS for a DNSP
- TUOS charges should be allocated to network tariffs in a way that reflects the cost drivers present in transmission pricing
- DNSP site-specific cost reflective network pricing (CRNP) customers should have TUOS charges allocated in a way that preserves the location and time signals of transmission pricing as per clause 6.10.2(b)(4) of the Code
- DNSP network tariffs for smaller customer classes should have TUOS charges allocated on an average basis, as locational signals cannot be preserved.

The DNSPs also outlined a range of key challenges in relation to the allocation of TUOS charges. These include:³

- the difficulty in equitably allocating the general and common service fixed charge as a fixed network access charge. This charge accounts for

³ Joint Submission by Integral Energy, EnergyAustralia, Country Energy and Australian Inland on TUOS Allocation Methodology, 29 August 2002, pp 2-3.

approximately 70 per cent of TUOS (on average) and is apportioned based on total energy

- the significant variation in the proportion of usage and fixed charges between locations
- the availability of appropriate metering data. Residential and small business customers do not have time-of-use and demand metering, so assumptions will need to be made based on standard or sample profiles
- factoring in diversity of demand
- passing through locational price signals when the end price is applied to many customers within the network. Locational signals can be preserved for large site-specific or CRNP customers and inter-distributor transfers. However, locational signals are not preserved for network prices applying to smaller customer classes. This is because there are large numbers of customers within the same class spread across the network and being fed from all bulk supply points. As such, the DNSPs propose that TUOS charges for these customer classes be allocated on an averaged basis.

The Secretariat proposes that the split of 2003/04 network tariffs into DUOS and TUOS components be submitted with the final prices of 2003/04. Under this proposal, the Pricing Issues Consultation Group could assist in establishing the principles for the initial split of network tariffs into DUOS and TUOS components.

1.3 Arrangements for assessing tariff changes under new regulatory arrangements

The consultation group should consider the arrangements for introducing and assessing price changes. Where practical, the Secretariat proposes to maintain the approaches in the current Pricing Principles & Methodologies document (PPM), although several changes need to be made to introduce the new economic regulatory arrangements. In addition, the group should consider the information disclosure requirements to the public, and to the Regulator.

Background

Currently the PPM specifies that:

1. the DNSPs must submit annual pricing proposals to the Tribunal 60 days prior to the effective date
2. pricing changes occur once a year on 1 July (or on a date otherwise approved by the Tribunal)
3. the Tribunal will assess pricing proposals against the following criteria:
 - compliance with the revenue cap (from 2004 - compliance with the weighted average price cap control formula)

- compliance with price-constraints based on the historical quantity and level of demand
 - publication of a complying price and service report – meeting certain information disclosure requirements (see below)
4. If the pricing proposals do not meet the criteria in 3), then the Tribunal must notify the DNSP within 30 days and request that alternative prices be submitted
 5. If alternative prices are not provided, the default arrangement allows the Tribunal to specify a percentage by which prices must change. The DNSP may submit a revised pricing proposal.

New tariffs may only be introduced with the annual pricing proposal submission.

Proposals for regulatory period commencing 1 July 2004

1.3.1 Once a year price changes

The Secretariat's initial proposition is to continue with once-a-year changes.

Currently the PPM facilitates price changes once-a-year, on 1 July (although there are some provisions to have a price change on a date other than 1 July with the Tribunal's agreement). The ESC Vic provide for price changes more often than once-a-year.

The Secretariat considers that once-a-year price changes occurring on 1 July reduces regulatory complexity and maintains consistency with the current regulatory period. Further, all interested stakeholders are provided with certainty in relation to the date of price changes.

1.3.2 Arrangements for introducing new tariffs

The Secretariat initial proposition is to adopt the ESC Vic's arrangements for introducing new tariffs.

The ability to introduce new tariffs is an important aspect of network development. The Tribunal has noted that it's concerned to ensure that the weighted average price cap does not impede the process of tariff reform.⁴

Where an existing tariff continues to be offered, the rate at which customers switch to the new or modified tariff is often uncertain and can lead to difficulties in estimating the revenue impacts for the DNSP.⁵ There may be a concern that, when combined with the lagged quantity weights used in the weighted average price cap, this could result in a level of revenue risk that would create a disincentive for the DNSPs to pursue tariff reform.

⁴ *Regulatory Arrangements for the NSW Distribution Network Service Providers from 1 July 2004 – Issues Paper, November 2002.*

⁵ The tariffs that DNSPs apply to customers are total network tariffs. The possible revenue effects being discussed are transmitted through the distribution component of network tariffs.

The tariff basket formula that the Tribunal will adopt uses known information on past quantities sold, current tariffs, and proposed tariffs. However, where new tariffs or tariff parameters are introduced, there is no data relating to previous quantities sold. The ESC Vic applied the following mechanism for introducing new tariffs:

- the DNSPs submit estimates of quantities for new tariffs and the tariffs they replace, which are then reviewed for 'reasonableness' by the Regulator.
- the DNSPs nominate a parent tariff category associated with the new tariff being introduced, which applies to those customers who are expected to migrate to the new tariff category.
- the value for the current price of the new tariff is set equal to the current parent tariff. A 'reasonable estimate' of the relevant quantities that would have been sold under the new tariff in the previous year is submitted as if the proposed new tariffs had been offered in that year. A 'reasonable estimate' is also to be submitted for the quantities that would have been sold under the existing parent tariff in the previous year if the proposed new tariffs had also been offered in that year. The later estimate is used in applying the tariff basket to the parent tariff.
- if the Regulator cannot verify the estimates provided by the DNSP as being reasonable, notification will be given, and revisions will be required, or additional evidence must be submitted to address the Regulator's concerns.
- each new tariff is also required to comply with the limits of price movements in addition to the overall CPI-X tariff basket constraint.
- when a new charging component (rather than category) is introduced, data on previous quantities sold and existing prices is also not available for the new parameter. These tariffs are incorporated into the tariff basket control in the same way as for other new tariffs. Hence DNSPs need to submit a 'reasonable estimate' of the relevant quantities that would have been sold under the tariff with the new charging parameter in previous year had it been offered, and an estimate of the quantity of the parent tariff that would have been sold in the previous year if the new tariff had also been available (if the parent tariff continues to be offered). Evidence to support estimates must be provided for the Regulator to verify. Notification of any deficiencies will be provided.
- previous year weights are used (by requiring the use of estimates of the quantities they expect would have been sold (under both the new and the existing tariffs) if the proposed tariff had been offered in the previous year) This reduces any incentives for strategic behaviour on behalf of the DNSPs, such as raising prices fastest on those tariff components where quantities are growing at the fastest rate.
- estimates are required for two years following the introduction of a new tariff or a new charging parameter, after which time actual data relating to past quantities will be available and the new tariff can be incorporated into the tariff basket as per old tariffs.

1.3.3 Congestion pricing/negative prices

The Secretariat proposes to work with the consultation group to explore how congestion pricing can be incorporated into the regulatory framework.

The Tribunal's recent inquiry into demand management⁶ highlighted the importance of efficient tariffs. The inquiry drew particular attention to the role that demand-based charges can play in managing network congestion and avoiding (or at least deferring) augmentation costs, and recommended that greater consideration should be given to the use of tariffs that signal congestion costs.

1.3.4 Assessment of pricing proposals by the Regulator

The Secretariat's initial proposal is to retain the current PPM requirements for compliance of pricing proposals, that is, each pricing proposal must demonstrate compliance with the form of regulation and DNSPs must disclose information to the public regarding the setting of prices and fulfilment of the pricing principles.

The Regulator requires information from the DNSPs during the regulatory period:

- to assess price changes. This is the information requirement that is addressed in this section
- to monitor the performance of the businesses under the determination. This is done through the regulatory accounts and the price and service reports
- to monitor compliance with the determination. This can be done through the information required to assess price changes, the price and services reports, and through the regulatory accounts.

The information currently submitted to the Regulator (IPART) is summarised in Attachment 1.

In order for the Tribunal to assess price changes, the DNSPs will need to demonstrate compliance with the form of regulation. For the regulatory period commencing 1 July 2004, this will require demonstration to the Tribunal that:

- the proposed DUOS prices meet the weighted average price cap (WAPC) control formula
- the proposed TUOS prices satisfy the requirements of the pass through mechanism
- miscellaneous charges and monopoly fees are levied in accordance with the determination
- any limits on price movements (total network tariffs and/or DUOS tariffs) satisfy the price-constraints.

⁶ IPART, *Inquiry into the Role of Demand Management and Other Options in the Provision of Energy Services -Final Report*, Review Report Number Rev02-2, October 2002.

Under the current regime, the DNSPs have responsibility for their pricing structure. In order to allow the DNSPs this flexibility however, the Regulator needs to have confidence that the cost allocation methodologies and the future pricing strategies will lead to efficient prices and will achieve the overall objectives in the determination. This includes meeting service levels. The provision of current and forecast information in this regard plays an important role in monitoring the performance of the DNSPs whilst enabling them to retain the flexibility and responsibility for the pricing structure.

It is a compliance requirement of the current PPM that DNSPs disclose specified information to the public. This has two main objectives:

- to demonstrate that the pricing principles are being achieved, and
- to inform customers about the structure and level of the prices, and service received.

The type of information that should be disclosed, and its format is discussed in section 1.3.5.

1.3.5 Information disclosure requirements

The Secretariat is seeking stakeholders' views on:

- *whether the current disclosure requirements are inadequate or too onerous*
- *the usefulness of the DNSPs price and service reports and the Tribunal's consolidated price and service report and what changes should be made.*

As part of the current regulatory framework, DNSPs must publish a complying price and services report for the public. Many of the pricing principles which underpin the current PPM are qualified via information disclosure in the price and service reports. This information is also used by the Regulator in order to monitor the DNSPs performance.

The provision of information to the public should be undertaken in the interests of transparency. Public disclosure enables comparisons by customers and regulatory authorities of prices, costs and other elements of performance – whereby regulated companies come under pressure to compare their performance and make improvements where possible. It provides a basis for sound decision making by customers who are making investment decisions based on service quality and cost.

Effective information disclosure should:

- inform customers about what constitutes a reasonable price, given the costs and other aspects of supply such as service performance;
- make customers aware of how their charges are constructed and what potential price and service changes could be expected in the future – and how their use of the product contributes to changes (i.e. demand management)

- facilitate negotiations between the DNSP and its customers by providing improved information on underlying costs and in some cases enabling price comparisons
- discourage cross-subsidies between customer classes
- make transparent anti-competitive behaviour
- disclose constraints on the network to allow proponents of non-network solutions to identify areas requiring capacity and develop alternate proposals (this can be done by reference to other documents eg those required under the NSW Demand Management Code of Practice).

The Tribunal issues annual guidelines and an information template that specifies the information that the price and service report must contain, including:

- general operating statistics such as customer numbers, load growth and demand forecasts
- typical bills & average price calculations
- revenue by customer type and compliance with the form of regulation (currently AARR and over and unders account)
- comparisons with the forecasts included in the 1999 determination for operating and capital expenditure, cost allocations & partial productivity measures
- asset management & development plans
- pricing strategies
- a demonstration that the pricing principles in the PPM are satisfied.

The detail is specified in the PPM (outlined in Attachment 2 of this paper). The individual price and service reports can be found on the DNSPs' websites. The Secretariat recognises that the DNSPs current price and services reports are large documents that require substantial resources to prepare, and may be too detailed for customers to easily use, hence suggestions for a more user-friendly document are welcome.

The Tribunal releases a consolidated price and service report annually. The report is intended to be a summary of the DNSPs' price and service reports, and provides a comparison of financial and service performance and the impact of prices on customers. Attachment 4 sets out the contents of the Tribunal's consolidated price and services report. The full report is available on the IPART website - www.ipart.nsw.gov.au under Reports - Electricity.

Alternate Proposal

The Secretariat would like to canvass a different model for information disclosure requirements, as set out below:

- a) *Have each DNSP publish a once-off report at the beginning of the regulatory period outlining their medium term pricing strategy, cost allocation process, upcoming*

network constraints, capital expenditure forecasts and expected service levels. Satisfaction of the pricing principles should be demonstrated.

The medium term pricing strategy and cost allocation methodologies should remain fairly static during the regulatory period. This information is currently repeated in detail, with little change each year in the annual price and service reports, which the Secretariat believes contributes to the lengthy nature of the reports.

The proposed once-off report should be a forward looking document that outlines how the pricing strategy supports the proposed expenditure programs and expected service levels. Changes to the strategy or cost allocation methodology during the regulatory period would be detailed in a report accompanying the annual price changes.

- b) *Accompany the annual pricing proposals to the Regulator (IPART) with a report to be made public with the new prices on, or prior to, the implementation date (currently 1 July).*

The purpose of this report would be to provide customers with timely information that demonstrates the impact the new prices are likely to have on their bills and the change in average prices. It should be accompanied by an explanation of how these prices fit in with the outlined medium term pricing strategy, and provides an opportunity for DNSPs to explain any changes in the strategy, expenditure program or cost allocation methodologies. It should also outline the service levels expected to be achieved during the year. The Secretariat proposes that this document be substantially shorter than the current price and services reports.

- c) *IPART produce a public report on DNSPs' historical performance, including financial, operational, service quality, and asset management data for the financial year, and forecasts of capital expenditure.*

Currently each DNSP must produce a price and service report and submit regulatory account information separately to IPART. IPART uses this information to produce a comparative report on the four DNSPs, however, as the price and service reports are not provided to the Tribunal until 30 November, the comparative report by IPART is not very timely and the forecast information can be out-of-date.

In order for IPART to produce a more timely report and reduce the burden on the DNSPs, it would need to obtain information that is available publicly or submitted to it via the regulatory accounts due on 30 October. Ideally, IPART would use information in the proposed public pricing report to be released with the new prices, the regulatory accounts, and the network management reports produced for the Ministry of Energy & Utilities.

1.3.6 Notification of pricing proposals

The Secretariat is seeking comment on whether the regulatory arrangements should include a requirement that prices be published prior to their implementation and, if so, how many days notice for the public (and the retailers) would be sufficient? Consideration needs to be given to the lead-time required by the DNSPs for submitting proposals for compliance.

With full retail competition, retailers need to know the network tariffs for its customers and large customers may want to know in advance of changes to their network tariffs. This issue needs to be considered in the context of the Tribunal's price approval process.

Currently DNSPs are required to notify IPART of the proposed tariff changes 60 days in advance (currently 1 May). IPART has 30 days to assess the proposal and provide any notices of non-compliance to the DNSP.

Where the initial proposal is compliant, the DNSPs then have 30 days to implement the prices by 1 July. Where the proposal is not compliant, the DNSPs have 30 days to submit an alternate pricing proposal and get the Tribunal's approval. If this timeframe is not met, the default arrangement occurs (see section 1.3.7).

Currently, the DNSPs propose new network prices with an estimate of the amount that they will pay for transmission as transmission prices are not usually published until 15 May. The 2004 framework however, includes a correction mechanism on the pass-through of transmission charges, hence prices can be set based on estimated transmission charges.

As network prices are an input to retail prices, standard retailers require the final network prices for in order to submit their regulated retail pricing proposals to the Tribunal for approval. Currently, the standard retailers must submit price proposals 30 days prior to implementation (currently 1 June). The current arrangements for regulated prices for default customers expire on 30 June 2004.

Given that IPART requires 30 days to assess the proposals, and that standard retailers require prices at least 30 days prior to implementation (on the assumption that regulation of standard retail tariffs continues), the Secretariat is seeking feedback on whether it is feasible for DNSPs to submit prices to the regulator 90 days in advance, with public release occurring when the proposal is assessed as compliant (this could be up to 60 days in advance).

1.3.7 Default arrangements for non-compliant price proposals

The Secretariat's initial proposition is to continue with the current default arrangements whereby if the pricing proposals are not compliant by the implementation date, the Tribunal may advise the DNSPs of a percentage amount by which the DNSP must adjust its tariffs, until a compliant pricing proposal by the DNSP takes effect.

If pricing proposals are submitted to the Regulator (IPART) with sufficient notice, this default arrangement should only be enacted in exceptional circumstances. Currently, the percentage amount by which the DNSP must adjust its prices is determined by the Tribunal, having regard to:

- the extent of the DNSP's non-compliance with pricing proposal compliance criteria (as established under the PPM)
- if applicable, the reasons why the DNSP did not provide additional information to the Tribunal as requested
- projected revenue levels and the annual aggregate revenue requirement for the DNSP (for the next regulatory period this will relate to new form of regulation)
- the effect upon the DNSP's future pricing strategies, and
- other factors the Tribunal may consider relevant.

Attachment 1 Information currently provided to IPART

Currently DNSPs are required to provide the following information to IPART:

1. Annual Pricing Proposals information template for proposed network tariffs.

This template (designed by the Tribunal and submitted including required information by the DNSP) demonstrates that the forecast revenue from the proposed prices complies with the regulatory cap and limits on price movements. It is submitted to IPART on 1 May, 60 days prior to the introduction of tariff changes.

2. Regulatory Accounts

The regulatory accounts provide an audited statement of the financial performance of the DNSP. They are due on 30 October each year. The information required to be submitted is:

- Auditor's/ directors statement
- Profit and Loss Accounts, Balance Sheets and cost allocations for retail, network, unregulated and consolidated businesses
- Detailed operating and capital expenditure for network and retail
- Non financial data (eg customer numbers) for network and retail
- Demand and revenue per tariff
- Detailed list of assets & depreciation
- Form of regulation compliance information eg. for current period this is AARR revenue data and the over and unders account.

3. Price and Service Report

The DNSPs are required to publicly release a price and service report on 30 November each year. The detailed requirements for this report are outlined in the Pricing Principles & Methodologies and reproduced in Attachment 2 of this paper.

IPART publishes an annual consolidated price and service report using the information contained in the individual DNSP price and service reports and the Ministry of Energy & Utilities Network Management Report. The format of this report is illustrated in Attachment 4 of this paper.

Attachment 2 Information Disclosure required in the DNSP Price and Service Report (as specified in the PPM)

1. A DNSP's Price and Service Report will provide information on customer class price levels and structures, service standards, underlying costs, price derivation methods and rationale and medium term price and service strategies in order to allow:
 - (a) current and potential users to understand the basis for prices and to take account of prices and service standards in their consumption, investment and location decisions
 - (b) interested parties to better assess the range of economic opportunities for meeting user requirements, including through services associated with embedded generation, demand management and other options that may reduce users' costs and lead to more efficient outcomes.
2. A DNSP's Price and Service Report will clearly document, describe and explain:
 - (a) the level and structure of prices
 - (b) the standard of service provided
 - (c) the methodology used to derive prices and their cost basis, and
 - (d) medium term directions for prices and standards of service.
3. DNSPs are required to address the following broad questions in their Price and Service Reports.
 - (a) **Are the prices subsidy free?** The test for this is whether the prices for individual customers are between the stand-alone and incremental costs of supply. DNSPs must demonstrate that prices lie within this range and explain how they determine the range.
 - (b) **Do prices have regard to an acceptable cost of supply model?** The cost modelling referred to in the development of the Proposed Prices should be disclosed. This should include an explanation of the basis for the allocation of TUoS charges to distribution network prices.
 - (c) **Do prices reflect the future need for augmentation of the network?** Prices may be expected to be higher in locations where the system is closer to capacity. DNSPs should report on the significance of locational congestion and related capex requirements across their network. DNSPs should explain their decision to use or avoid locational price signals in the context of the congestion costs they face.
 - (d) **Does the structure of prices reflect marginal economic costs?** DNSPs should explain the extent to which prices signal marginal costs and the basis for their decisions on the weights applied to the fixed and variable price components.

- (e) **Are the prices consistent with allowed revenues?** DNSPs should report the level of their overs and unders account and explain the means by which they intend to maintain consistency between prices and allowed revenues.
 - (f) **What is the impact of the DNSP's price strategies on price stability in the short term?** The impact of price changes introduced for the current year on representative user profiles (to be provided by the Tribunal) should be described and the reasons for the changes explained.
 - (g) **What is the impact of the DNSP's price strategies on price stability in the medium term?** The DNSP's medium term price strategies and the expected impact on price outcomes for customer classes should be described. DNSPs should indicate whether the strategies are likely to create material adjustment costs for some users and if so the management options available to users and transitional measures that the DNSP may adopt.
 - (h) **What level of service performance is provided for the prices charged?** DNSPs should report and explain the level of reliability and quality of service they provide to localities across their service areas. Variations in service levels should be explained and expected medium term trends described.
4. In responding to the requirements of paragraphs 2 and 3, the information disclosed must include, but is not limited to:
- (a) cost information provided in a form consistent with the Tribunal's pro forma information template
 - (b) the basis for allocating shared costs
 - (c) an explanation and quantification of the methodology used to calculate current prices from the costs identified under (a)
 - (d) unders and overs account balance, tolerance margin and action plan
 - (e) forecast demand and load factors used in calculating current prices
 - (f) a summary of asset management and development plans and their relationship to prices
 - (g) data on performance measured against key service standard indicators; and
 - (h) an outline of future strategies for pricing and standards of service.

Attachment 3 Information disclosure in other jurisdictions

Disclosure	Victoria	Queensland	South Australia	New Zealand
Public reporting documents	<p>Annual Tariff Report required by each DNSP by 1 March detailing the existing tariffs, new tariffs, principles behind the charges and a breakdown of fixed and variable charges, for the current calendar year.</p> <p>Regulator publishes an annual Comparative Report - comparing DNSP past performance on service quality and financial data</p>	<p>Pricing Principles Statement required by each DNSP at the beginning of the reg period, incorporating:</p> <ul style="list-style-type: none"> Proposed price calc method Anticipated price changes or framework Tariffs for different user groups Method for capital cons equivalent 	<p>Regulator provides annual performance document (financial year) on the electricity businesses as a whole – transmission, distribution and retail. Focuses on service reliability and financial performance.</p>	<p>Electricity information disclosure hand book</p> <ul style="list-style-type: none"> disclosure of audited financial statements, financial and efficiency performance disclosure of asset management plans
Annual Pricing proposals	<p>Distributors submit proposed tariff schedules to the Regulator demonstrating compliance with the Determination and price controls , including historical and forecast revenue and quantity per tariff</p>	<p>Annual proposed distribution tariff schedule submitted to regulator outlining maximum tariffs to be charged, and must demonstrate compliance with the submitted Principles Statement and revenue cap, including:</p> <ul style="list-style-type: none"> Relationship between price structure and forecast capital expenditure growth and demand levels Quality of service Demonstrate that the tariffs do not involve cross subsidies Demonstrate that the structure of the prices is consistent with economic pricing principles 	<p>Tariffs approved under the Electricity Pricing Order (1999).</p>	
Regulatory Accounting requirements	<p>Regulatory Accounting Guideline 3 (44 pgs)</p> <p>Separately submit the actual weighted average of distribution charges and associated revenue earned in the financial year, and monthly details of electricity distributed.</p>	<p>Regulatory Accounting & Information Guidelines (30 pg) which enables monitoring of financial forecasts against actuals, regulates pricing, ensures correct cost allocations.</p>	<p>Regulatory Information Requirements Industry Guideline 1 (annual) – guidelines (153 pages) – covering operational and financial information.</p>	<p>Electricity Information Disclosure Handbook</p> <p>Business Accounting and Allocation Methodology for preparing annual statements</p>

Attachment 4 Content of the Tribunal's consolidated price and services report

1. General Operating Background
 - area of operations
 - consumption and growth factors
2. Pricing Framework
 - Annual Aggregate Revenue Requirement
 - unders and overs account
 - pricing strategies and cost allocation
3. Prices
 - average network prices
 - network component of customers bills
4. Standards of Service
 - rural and urban DNSPs
 - network reliability
 - technical or service quality
 - customer service
5. Financial performance of DNSPs
 - revenue and profitability
 - network costs
 - tax and dividends
 - network capital expenditure