



# **NETWORK (VARIATION) PRICE DETERMINATION**

## **VARIATION DETERMINATION AND STATEMENT OF REASONS**

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April 2015

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## **Inquiries**

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## CHAPTER 1

### Network (Variation) Price Determination

#### 1.1 Statement of reasons

- (a) In April 2015, the *Commission* became aware of an error in the Side constraint formula set out in the Formula Schedule of the *2014 Network Price Determination*.
- (b) The revenue control formula sets the basis for the average increase in prices across all customers.
- (c) The side constraint formula limits the extent to which the price for an individual customer or class of customers can vary around the average established by the overall revenue control.
- (d) Accordingly, any adjustments in the revenue control formula should also be reflected in the side constraint formula.
- (e) In Schedule 4 of the *2014 Network Price Determination*, the Revenue Control Formula included a parameter for the unders and overs adjustment to revenue in a regulatory year. This parameter was omitted from the Side Constraints Formula.
- (f) The Commission has decided that this omission should be corrected by means of a variation to the *2014 Network Price Determination*. The Power and Water Corporation has been consulted and has agreed with that decision and variation.

#### 1.2 Authority

- (a) This Network (Variation) Price Determination is made by the Commission pursuant to its powers under section 22(9) of the Utilities Commission Act and all other powers enabling.

#### 1.3 Commencement

- (a) This Network (Variation) Price Determination has effect on 30 April 2015 and will be taken to vary the *2014 Network Price Determination* on and from that date.

#### 1.4 Definitions and interpretation

- (a) 2014 Network Price Determination means the Network Price Determination relating to the supply of regulated network access services during the 2014-19 regulatory control period published by the *Commission* on 24 April 2014.
- (b) Words and phrases printed in italics like *this* will have the same meaning given in Schedule 1 of the *2014 Network Price Determination*.

- (c) This Network (Variation) Price Determination must be interpreted according to the interpretation principles set out in Schedule 1 of the *2014 Network Price Determination*.

## 1.5 Variation to the 2014 Network Price Determination – Side constraints formula

- (a) Schedule 4 of the 2014 Network Price Determination is varied as follows:  
 (i) Delete section 4.2 and replace with the following section 4.2:

### 4.2 Side constraints formula

$$\frac{\sum_{j=1}^m p_t^j \times q_{t-2}^j}{\sum_{j=1}^m p_{t-1}^j \times q_{t-2}^j} \leq (1 + CPI_t) \times (1 - X_t) \times (1 + Y_t) \times (1 \pm \text{Passthrough}_t) \pm \left(\frac{\Delta R_t}{R_{t-2}}\right)$$

where:

$CPI_t$	is the annual percentage change in <i>CPI</i> in <i>regulatory year t-2</i> to March in <i>regulatory year t-1</i>
$X_t$	is the allowed real change in revenue from <i>regulatory year t-1</i> to year <i>t</i> of the <i>2014 – 19 regulatory control period</i> as determined by the <i>Commission</i>
$Y_t$	is the <i>side constraint</i> on revenue recovered from a <i>tariff class</i> or <i>retail customer class</i> from <i>regulatory year t-1</i> to <i>regulatory year t</i> of the <i>2014 – 19 regulatory control period</i> as determined by the <i>Commission</i>
<i>Pass through</i>	is any <i>pass through amount</i> in <i>regulatory year t</i> determined by the <i>Commission</i> , expressed as a percentage of the <i>annual revenue requirement</i>
$\Delta R_t$	is the overs and unders adjustment to revenue in <i>regulatory year t</i>
$R_{t-2}$	is the actual revenue in <i>regulatory year t-2</i>
$m$	is the number of tariff components
$p_t^j$	is the proposed price for component <i>j</i> of the <i>tariff class</i> in <i>regulatory year t</i>
$p_{t-1}^j$	is the price charged for component <i>j</i> of the <i>tariff class</i> in <i>regulatory year t-1</i>
$q_{t-2}^j$	is the actual volume of component <i>j</i> of the <i>tariff class</i> in <i>regulatory year t-2</i>