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DETERMINATION OF

NETWORK ACCESS PRICING IN THE SECOND REGULATORY CONTROL PERIOD: 2004-05 TO 2008-09

In accordance with Clause 66(3) of the Network Access Code ("the Code"), the Commission has made the following determination regarding the prices to be charged for access to prescribed electricity networks operated by the Power and Water Corporation with respect to the five-year period commencing 1 July 2004.¹

Escalation arrangements

During the second regulatory control period, the Power and Water Corporation must annually develop tariff schedules that conform with the following constraint on weighted average tariffs (denoted as P):

$$P_{t} \leq \left[P_{t-1} * \left(\frac{CPI_{t-1}}{CPI_{t-2}} \right) * \left(1 - (X_{1} + X_{2}) \right) \right] \qquad \dots (1)$$

where:

the t-based subscripts denote a particular financial year, with t denoting the forthcoming year, t-1 the current year and t-2 the previous year;

and:

CPI = a 100 based index, being the all capital cities headline CPI index published by the Australian Bureau of Statistics ("ABS");

 $X_1 = 1\%$, being the factor determined by the Commission to reflect the difference between annual movements in consumer prices on average and in electricity network access prices on average in Australia; and

 $X_2 = 44\%$, being the factor determined by the Commission to reflect the difference between annual movements in electricity network access prices applied on average by comparable best practice Power and Water Corporations in other jurisdictions in Australia and by the Power and Water Corporation in the Northern Territory.

In applying equation (1), the CPI_{t-1} term is to be measured by reference to the most recently published four quarter average index at the time. The CPI_{t-2} term in equation (1) involves the published four quarter index value in the corresponding period in the previous year.

Measuring the weighted average tariff index

The Power and Water Corporation is to calculate the index representing the weighted average of individual network access tariffs for each forthcoming year "t", as follows:

$$P_{t} = P_{t-1} * \left[\sum_{i=1...n} [p^{i_{t}} * q^{i_{t-2}}] / \sum_{i=1...n} [p^{i_{t-1}} * q^{i_{t-2}}] \right]$$
(2)

where:

¹ The resultant access prices are wholesale prices. Under Government policy, such access prices are only passed through to consumers of electricity who have qualified as contestable customers and then only in accordance with negotiated contractual arrangements.

 P_{t-1} = the index value, set a year earlier, of the weighted average of individual network access tariffs approved for the current year;

 $p^i\,$ = the proposed or approved price (or price component) for an individual network access tariff item as the case may be; and

 $q^{\rm i}\,$ = the quantity weight associated with the price (or price component) for the individual network access tariff item;

and:

the "i" superscript denotes an individual network access tariff item, or a component of an individual network access tariff item where a multi-part tariff is involved; and

the " Σ " symbol denotes the summation of all relevant values across all individual network access tariff items, or components of such items.

Base period adjustment

Where the forthcoming year is 2005-06 or any subsequent year of the second regulatory control period, P_{t-1} in equations (1) and (2) are the index value, set a year earlier, of the weighted average of individual network access tariffs approved for the current year, calculated as follows:

$$P_{t-1} = P_{t-2} * \left[\sum_{i=1...n} [p^{i_{t-1}} * q^{i_{t-3}}] / \sum_{i=1...n} [p^{i_{t-2}} * q^{i_{t-3}}] \right] \dots (3)$$

Where the forthcoming year is 2004-05, however, a *revised* weighted average of network access tariffs for the current year (2003-04 in that case) ($P_{n_{03-04}}$) must be calculated as follows:

$$P_{03-04} = P_{03-04} * (1 + Z) \qquad \dots (4)$$

where:

 $P_{0304} = 98.5$, being the weighted average of approved individual network access tariffs applying in 2003-04 (based on the first regulatory control period revenue cap) expressed in index number form and as calculated by the Commission as follows:

$$= 100 * \left[\sum_{i=1...n} [p^{i_{0102}} * q^{i_{0001}}] / \sum_{i=1...n} [p^{i_{0001}} * q^{i_{0001}}] \right] \\ * \left[\sum_{i=1...n} [p^{i_{0203}} * q^{i_{0001}}] / \sum_{i=1...n} [p^{i_{0102}} * q^{i_{0001}}] \right] \\ * \left[\sum_{i=1...n} [p^{i_{0304}} * q^{i_{0102}}] / \sum_{i=1...n} [p^{i_{0203}} * q^{i_{0102}}] \right] \dots (5)$$

where:

 p^i = the price components of the approved network access tariffs in the year indicated by the subscript (which, for the 2000-01 year, includes an allowance for the DKTL tariff);

 $q^{i}\mbox{=}$ the quantity weight associated with each price component in the year indicated by the subscript; and

the four-digit numeric subscripts refer to the applicable financial year, namely 0001 to 2000-01, 0102 to 2001-02, 0203 to 2002-03, and 0304 to 2003-04; and

Z = 4.4%, being the factor determined by the Commission to indicate the extent to which the weighted average of network access tariffs applying in the first regulatory control period requires adjustment in order to form an appropriate basis for network access tariffs in the second regulatory control period.

Asset valuation off-ramp

Where the forthcoming year is 2005-06, the equivalent of a Z factor adjustment to a current year's weighted average tariff may be incorporated when applying equation (3) if, prior to

31 March 2005, the Commission is satisfied that the valuation of the initial asset base at 30 June 2000 and/or the asset amounts rolled-forward during the first regulatory control period underlying the determined value of the Z factor involved a "material error", where a material error is one that involves an error in the Z factor that is at least equivalent to one year's allowed price increase (i.e., CPI-X₁-X₂).

If a material error is established, that error is to be automatically corrected depending on the size of the required correction, but without any retrospectivity.

If the correction of a material error involves an adjustment equal or less in value than the determined Z factor value of 4.4%, an additional Z-like adjustment is to be applied to the weighted average of approved tariffs in 2004-05 when determining the regulatory constraint to apply to weighted average tariffs in 2005-06.

If the correction of a material error involves an adjustment greater in value than the determined Z factor value of 4.4%, the additional Z-like adjustment to be applied to the weighted average of approved tariffs in 2004-05 when determining the regulatory constraint to apply to weighted average tariffs in 2005-06 is to be limited to 4.4% and the remainder of the correction is to be phased in equally over the remaining four years of the second regulatory control period via necessary Z-like adjustments.

Individual network access tariffs

Finally, the Commission will approve the annual schedule of individual network access tariffs submitted by the Power and Water Corporation each year within the second regulatory control period, unless:

- the weighted average of tariffs included in the schedule, expressed in index number form, does not comply with the constraint in equation (1); or
- in conjunction with the submission of the schedule of annual network access tariffs for approval, the Power and Water Corporation fails to submit to the Commission a statement of reasons for any modifications proposed to the structure of network access tariffs that is consistent with the approved Pricing Principles Statement and capable of publication (with the Commission intervening only if it considers the proposed change in structure to be inconsistent with the approved Pricing Principles Statement); or
- the resultant impact on the weighted average tariff *for each individual end-use customer* does not comply with a CPI+S side constraint, where S:
 - in relation to 2004-05 and 2005-06: at Power and Water's option, is either **Z+5%** in 2004-05 and **5%** in 2005-06 or **Z** in 2004-05 and **10%** in 2005-06; and
 - in relation to each of the three years after 2005-06: is **5%**.

except where a material error is established under the asset valuation off-ramp, in which case the S factor applying during the second regulatory control period will be subject to review by the Commission to reflect the associated Z-like adjustment.

Alan Tregilgas Utilities Commissioner (for the Utilities Commission) 2 March 2004