

Submission to the Essential Services Commission

Re: Electricity Distribution Price Review 2006 – 2010 Draft Decision

Price Control Arrangements



**UNITED ENERGY
Distribution**

United Energy Distribution

422 Warrigal Road

Moorabbin Vic 3189

Phone: (03) 9265 7936

Contact: Andrew Schille

August 2005

TABLE OF CONTENTS

1	INTRODUCTION.....	2
2	TARIFF STRATEGY REPORTS.....	3
3	PRICE CONTROL FORMULAE.....	4
	3.1 CPI.....	4
	3.2 S-factor.....	4
	3.3 Licence Factor.....	4
4	OTHER ISSUES.....	6
	4.1 Pass Through Events.....	6
	4.2 Consultation	6
	4.3 Starting Prices.....	6
5	CONCLUDING COMMENTS	7



Price Control Arrangements

1 Introduction

This submission sets out the United Energy Distribution (UED) response to the Essential Services Commission (Commission) Draft Decision on the Price Control Arrangement. Specifically Chapter 12 of the Draft Decision. The submission is structured as follows:-

- section 2 provides some comments on UED's proposed Tariff Strategy Report;
- section 3 includes brief comments on the price control formulae;
- section 4 provides some comments on other issues raised in the Commission's Draft Decision; and
- section 5 provides concluding comments.



Price Control Arrangements

2 Tariff Strategy Reports

The Commission has stated that “Distributors are required to submit a 5 year Tariff Strategy Report based on this Draft Decision for the 2006 – 2010 regulatory period by 19 August 2005”¹.

UED is in the process of preparing a tariff strategy report that is consistent with the principles outlined in the Commission’s Draft Decision. The company however will be submitting this report prior to the Commission’s release of the Final Decision, rather than the 19 August 2005. At this stage of the process UED has been preparing its response to the Commission’s Draft Decision and devoted its resources to that task.

It is worth noting that UED is not proposing to introduce any new tariffs for 2006.

Further details will be provided in UED’s Tariff Strategy and Annual Tariff reports.

¹ Essential Service Commission Draft Decision, page 375.



Price Control Arrangements

3 Price Control Formulae

Price control formulae are a complex part of the current pricing arrangement. Rather than commenting on the formula's themselves UED provides comments on those aspects raised in the Draft Decision;

- CPI (Consumer Price Index);
- S_t (S-factor); and
- L_t (Licence factor)

3.1 CPI

Due to the timing of the revised annual tariff submission, a one-off change is required to the calculations of CPI. The approach proposed by the Commission has subsequently been discussed by the Pricing Issues Consultation Group chaired by the Commission.

The Commission's proposed approach is too complex and not a practical outcome. As an alternative UED suggests an approach that adopts a nine month actual CPI and grosses up to a full year applying the following formula:

$$\text{Proposed CPI} = (\text{CPI Index June 05/CPI Index Sept 2004})^{(4/3)-1}$$

UED proposes that this adjustment occur for the approval for the 2006 tariffs.

3.2 S-factor

UED believes there is a serious error in the price control formula relating to the calculation of S-factor. This arises due to the possible relative performance of UED's service levels, the changing of the rates and the Commissions proposed transitional arrangements.

Specific details are contained in UED's response to S-factor.

3.3 Licence Factor

The Commission notes:

"The Commission intends to maintain consistency with the method adopted in the Gas Access Arrangement (modified to minimise under and over recoveries) rather than adopting TXU's proposed method".²

UED has reviewed the application of this formula under the Gas Access Arrangements and agrees with the intent of its introduction for electricity.

² Essential Service Commission Draft Decision, Page 386.



Price Control Arrangements

UED agrees with the implementation method utilised in the Gas review rather than the method proposed in the Draft Decision and for the purposes of consistency proposes that the Commission adopt the same mechanism.

Price Control Arrangements

4 Other Issues

4.1 Pass Through Events

The Commission states on page 400 of the Draft Decision:

“In light of these costs, which largely fall outside the distributors’ control, the Commission will allow distributors to apply for a pass through for the costs arising from a ‘declared’ ROLR event, where these are material”.

UED agrees with the approach adopted by the Commission in the Draft Decision. This minimises the risks on the business for events outside the control of UED. UED however does not agree that this mechanism be limited to a “material” event, especially when this is not a defined term. UED would propose materiality be set for each individual event in total rather than the effect it has on each individual business.

4.2 Consultation

The introduction of interval metering is a significant program mandated by the Commission. The Commission states on page 398:

“In terms of the composition of the group, over coming months the Commission will be scoping a project that will address, amount other things, how the working group will be established and who will be involved.

UED maintains its concerns over the potential resources that all stakeholders will be expected to devote to this group and the costs and benefits that will be derived from it. UED, as always, is committed to ensuring that the business will be appropriately represented.

4.3 Starting Prices

The Commission has provided UED with an excel spreadsheet that calculates the necessary adjustments to the company’s prices. On review of that spreadsheet UED has discovered an error made by the Commission in relation to some of the company’s 2005 tariffs.

Some tariffs have been incorrectly calculated thereby making the proposed $P_{(o)}$ adjustment contained in the Draft Decision incorrect. The Commission has provided UED with correspondence dated 28 July 2005 that confirms UED’s calculations

The Commission is required to make the appropriate changes to those tariffs for the final determination.



Price Control Arrangements

5 Concluding Comments

In conclusion UED:

- intends to provide a 5 year tariff strategy to the Commission;
- agrees with the Commission's proposal to make the liquidation of a retailer a pass through event; and
- requests the Commission correct their error in relation to some of the company's 2005 tariffs in the final determination.