



## Total factor productivity

### Draft Rule Determination 29 September 2011

The AEMC has considered the Rule change proposal submitted by the Victorian Minister for Energy and Resources to implement a total factor productivity methodology for electricity distribution network regulation. The Commission has decided not to make a draft Rule in response to the Rule change request.

#### **AEMC Draft proposes to Make No Rule**

This rule change proposal titled Total Factor Productivity for Distribution Network Regulation was submitted to the AEMC in July 2008. Its consideration has been pending the outcome of the AEMC Review into the Use of Total Factor Productivity for the Determination of Prices and Revenues. This review's final report was published on 7 July 2011.

The review concluded that the necessary conditions for applying a TFP methodology are not present at the current time. In particular, a sufficiently robust and consistent data-set to support TFP does not exist. This underlying data is critical to the success of a TFP methodology and is also needed to determine if other pre-conditions for a TFP methodology have been met.

The Commission considers that a more appropriate way to approach the introduction of a TFP methodology would be as proposed in the Final Report in the Review, that is, by starting with the gathering of data.

#### **Call for submissions on the draft rule determination**

Submissions on this draft Rule determination are to be provided by 10 November 2011.

#### **Proposal in context**

On the 23 June 2008, the Victorian Minister for Energy and Resources submitted a rule change request to amend the National Electricity Rules to allow the use of a TFP methodology as an alternative economic regulation methodology to be applied by the Australian Energy Regulator (AER) in approving, or amending, determinations for electricity distribution service providers. A TFP methodology tracks industry-wide productivity and sets a revenue allowance for a business based on how it performs in comparison to a measured productivity trend.

On 24 July 2008, the Commission published a notice under section 95 of the National Electricity Law (NEL) advising of its intention to commence the rule making process and the first round of consultation in respect of the rule change request.

The Commission received eleven submissions on the rule change request as part of the first round of consultation. Submissions suggested, among other things, that it would be preferable for the subject matter of the rule change request to be dealt with as part of a review rather than a rule change

As a result, on 21 November 2008 the Commission initiated the review described above. Following the initiation of the review, the timing for publication of the draft rule determination was extended under section 107 of the NEL on three occasions, on the final occasion to 1 October 2011.

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