



Total factor productivity

Final rule determination 22 December 2011

The Commission has not made a rule that proposed to introduce total factor productivity as an alternative methodology for distribution network pricing and revenue determinations by the Australian Energy Regulator. The Commission considers that the relevant market conditions for its effective implementation are not yet in place.

Rule change request

The Victorian Minister for Energy and Resources submitted a rule change request in 2008 to implement a methodology for the setting of electricity distribution network pricing and revenue, called 'total factor productivity'. Currently, the regulator uses a methodology called the 'building block approach'. Total factor productivity would be an alternative to this.

Consideration of the proposal was delayed pending the outcome of a broader review undertaken by the AEMC into the use of total factor productivity for both the gas and electricity network sectors.

Commission's assessment approach and final determination

In assessing the rule change request the Commission considered, first, whether the total factor productivity methodology proposed by the proponent could, at a conceptual level, meet the assessment criteria and second, if so, whether the relevant conditions are present for TFP to be applied.

Following this assessment, the Commission decided not to make a rule in response to the rule change request because it took the view that the relevant conditions for applying a total factor productivity methodology are not present at the current time. In particular, the Commission was concerned that a sufficiently robust and consistent data-set to support total factor productivity, which is critical to its implementation, does not yet exist on a nationwide basis.

Proposal in context

On 24 July 2008, the Commission published a notice under section 95 of the National Electricity Law 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, amongst 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.

On 21 November 2008 the Commission initiated a review of total factor productivity. As a result of this, the timing for publication of the draft rule determination was extended under section 107 of the National Electricity Law on three occasions, extending the date of the final decision to 22 December 2011.

The draft determination was published on 29 September 2011.

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