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2009 Price Controls Review for ADWEC

Second Consultation Paper

CR/E02/034

26 March 2009

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Foreword

1. In November 2008, the Bureau published the First Consultation Paper to commence a review of the price controls for six electricity, water and wastewater companies operating in the Emirate of Abu Dhabi; namely, AADC, ADDC, ADSSC, ADWEC, RASCO and TRANSCO. The present price controls for these companies are due to expire on 31 December 2009. New price controls (to be termed the “fourth price controls” or “PC4”) are therefore required for 2010 onwards.
2. In view of the issues and uncertainties specific to ADWEC’s business and workload, the First Consultation Paper expressed our intention to subject ADWEC to a different control cycle and structure than the other price-controlled companies and to publish separate documents on the price control review for ADWEC.
3. The Bureau received a supportive response from ADWEC to the above approach. This Second Consultation Paper therefore sets out our current thinking on the new price control framework for ADWEC. Under the proposed new framework, the price controls will be set for five years. However, at the end of each year, the price-controlled procurement cost for ADWEC for the next year can be re-determined or adjusted for pre-specified criteria.
4. We are due to publish Draft Proposals for ADWEC’s new price controls in June 2009 and Final Proposals in September 2009. Written responses to the issues raised in this paper should be sent by **7 May 2009** to:

Mark Clifton
Director of Economic Regulation
Regulation and Supervision Bureau
PO Box 32800, Abu Dhabi
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Email: mpclifton@rsb.gov.ae

5. The Bureau proposes to make responses to the consultation exercise publicly available.

NICK CARTER

DIRECTOR GENERAL

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1. Introduction and background

Background

- 1.1 The water and electricity sector in the Emirate of Abu Dhabi is characterised by the single-buyer structure whereby ADWEC purchases water and electricity from a number of production companies, both inside and outside the Emirate of Abu Dhabi, under the terms of long-term Power and Water Purchase Agreements (PWPAs). This water and electricity is then sold by ADWEC to AADC and ADDC at Bulk Supply Tariffs (BSTs) (referred to as the “**Licensed Activities**”) and to certain utilities outside the Emirate (referred to as the “**Unlicensed Activities**”). ADWEC also procures natural gas for the production companies.
- 1.2 Like other monopoly companies (AADC, ADDC, ADSSC, RASCO and TRANSCO) in the sector, ADWEC is subject to the CPI-X price controls set by the Bureau. These price controls have been reset after 3 or 4 years:
- (a) The first price controls (PC1) set in 1999 ran for four years (1999-2002);
 - (b) The second price controls (PC2) applied for three years (2003-2005); and
 - (c) The third price controls (PC3) were set in 2005 for four years (2006-2009).
- 1.3 The current or third price controls for ADWEC and the other monopoly companies in the sector are due to expire at end 2009 and require new price controls to be in place to take effect from 1 January 2010. The Bureau therefore published its First Consultation Paper in November 2008 to commence the process to set the new price controls (referred to as the “PC4” controls). Since then, the Bureau has also published a Second Consultation Paper on PC4 for the network companies.
- 1.4 In contrast to other monopoly companies in the sector, ADWEC has a negligible capital base. However, it manages a number of long-term PWPAs with production plants both inside and outside the Emirate of Abu Dhabi. ADWEC handles an annual turnover of about AED 7 billion (in 2008) for its Licensed Activities, which is more than half of the total turnover of the sector. It undertakes two further important work streams each year; namely, preparation of the Bulk Supply Tariff (BST) and Seven-Year Statement (7YS), which have significant implications for the entire sector.
- 1.5 Further, ADWEC deals with the trading of electricity and water with other Emirates in the UAE (with a turnover of about AED 1.5 billion in 2008) and the GCC countries.

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1.6 ADWEC's licence defines two separate businesses (water and electricity) for its Licensed Activities. Each year, it produces audited Separate Business Accounts (SBAs) allocating costs and incomes in accordance with the Bureau's guidelines and audited Price Control Returns (PCRs) showing compliance against the price controls.

Current price controls

1.7 The current price controls are in the form of revenue caps, defining Maximum Allowed Revenue (MAR) for ADWEC's Licensed Activities, for each year of the price control duration as follows:

$$\text{MAR} = \text{PWPA costs} + \text{Fuel costs} + A + Q - K$$

where:

- (a) **PWPA and fuel costs** are the costs which are pass-through on an actual basis subject to ADWEC's economic purchasing obligation.
- (b) **'A'** is the price-controlled procurement cost in UAE Dirhams (or AED) allowing ADWEC to recover its staff and other operating costs relating to the Licensed Activities. **'A'** is set by the Bureau for the first year of the control period and is then automatically adjusted each year according to the following formula for (i) the UAE Consumer Price Index (CPI) inflation for the previous year and (ii) an **'X'** factor (zero to date) set by the Bureau:

$$A_t = A_{t-1} \times (1 + (\text{CPI}_t - X) / 100)$$

- (c) **'Q'** is the revenue adjustment for performance during a year under the Performance Incentive Scheme (PIS), discussed in Section 3 of this paper.
- (d) **'K'** is the correction factor adjusting any over- or under-recovery of revenue in the preceding year.

1.8 Presently, there are separate price controls for the water and electricity businesses of ADWEC's Licensed Activities.

1.9 While Unlicensed Activities require the Bureau's prior consent (as per ADWEC's licence), these activities are not subject to any price controls by the Bureau and are financially ring-fenced to avoid any cross subsidy from licensed activities.

1.10 The following table summarises the price-controlled procurement costs for the recent years:

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Table 1.1: ADWEC's price-controlled procurement cost 'A'

| AED millions (nominal prices) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| UAE CPI (base 2000 = 100) | 109.10 | 114.60 | 121.70 | 133.00 | 147.80 | 164.25 | |
| UAE CPI Inflation | 3.12% | 5.04% | 6.20% | 9.29% | 11.13% | 11.13% | |
| Electricity procurement cost | | | | 11.80 | 12.90 | 14.33 | 15.93 |
| Water procurement cost | | | | 7.56 | 8.26 | 9.18 | 10.20 |
| Total procurement cost | 10.72 | 11.05 | 11.61 | 19.36 | 21.16 | 23.51 | 26.13 |

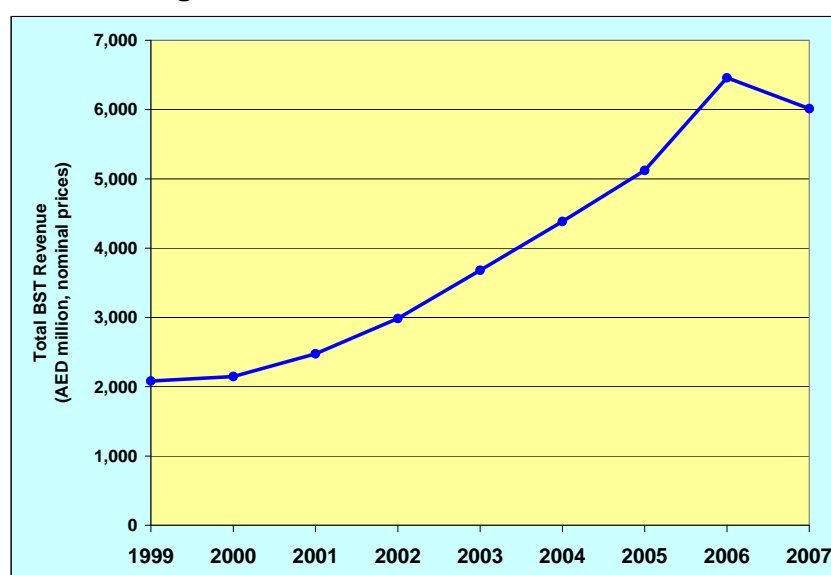
Source: Company's audited PCRs. Actual UAE CPI data for 2003-2007 from Ministry of Economy.

Notes: 2008 UAE CPI is as assumed by the Bureau.

ADWEC's financial performance

1.11 In line with the increase in electricity and water demand and production capacity in the sector, ADWEC's revenue (in nominal prices) from the sale of electricity and water to the distribution companies has increased from about AED 2.1 billion in 1999 to about AED 6 billion in 2007 i.e., an average rate of 14.2% per annum (see **Figure 1.1** below).

Figure 1.1: ADWEC's total BST revenue



1.12 As the existing price controls allow only a nominal profit element in the procurement cost, the average annual profit from its Licensed Activities from 1999 to 2007 was slightly less than AED 2 million per annum.

1.13 As shown in **Table 1.2** below, ADWEC's actual procurement cost (in nominal prices) increased from about AED 9 million in 2003 to over AED 25 million in 2007 i.e., an increase at an average rate of about 29% per annum:

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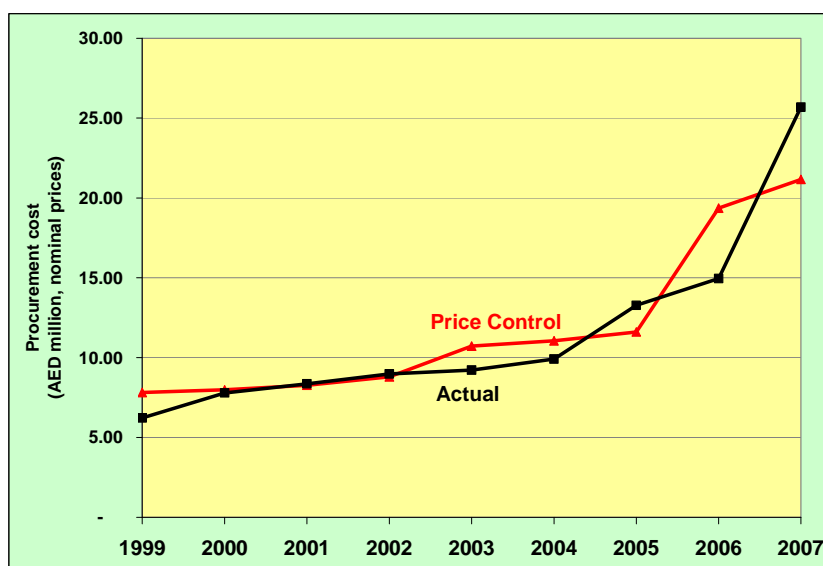
Table 1.2: ADWEC's actual procurement costs (water and electricity combined)

| AED millions (nominal prices) | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------------------------|-------------|-------------|--------------|--------------|--------------|
| Staff costs | 6.87 | 6.54 | 7.25 | 7.97 | 11.63 |
| Administrative and other expenses | 2.20 | 3.22 | 5.90 | 6.86 | 14.01 |
| Depreciation | 0.14 | 0.16 | 0.12 | 0.13 | 0.04 |
| Total | 9.22 | 9.91 | 13.28 | 14.95 | 25.69 |

Source: Company's audited SBAs.

- 1.14 Recently, each of (a) staff costs and (b) administrative and other expenses contributed equally to ADWEC's actual procurement cost, with depreciation accounting for a very small proportion.
- 1.15 **Figure 1.2** below shows ADWEC's performance on actual procurement cost (water and electricity combined) against the price-controlled procurement cost (i.e., notified value 'A') since 1999:

Figure 1.2: ADWEC's performance on procurement cost against price controls



- 1.16 The above chart shows that ADWEC has been managing its actual costs quite successfully against the procurement cost allowed under its price controls.

Framework for price control calculations

- 1.17 Currently, the price controls for ADWEC (and the network companies) are set for a period of 3 to 4 years. At each price control review, the notified value of the price-controlled procurement cost "A" for each of ADWEC's water and electricity businesses is determined for the first year of the control period. This notified value "A" is then automatically adjusted each year for actual UAE CPI inflation.

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- 1.18 The price-controlled procurement cost for each of ADWEC's water and electricity businesses is set to recover reasonable, efficient costs incurred by ADWEC in relation to the Licensed Activities. These costs include operating as well as capital costs such as depreciation. However, the majority of ADWEC's costs relate to the staff salaries and allowances.
- 1.19 Further, the price-controlled procurement cost also includes a nominal profit margin on ADWEC's BST turnover forecast over the control period. At the 2005 price control review, a profit margin of 0.021% was used based on the 5% cost of capital (real, post-tax) estimated for the sector companies.
- 1.20 To determine the price-controlled procurement cost for ADWEC, the Bureau uses a net present value (NPV) approach. Under this approach, the procurement cost required to finance reasonable, efficient operating costs of ADWEC's Licensed Activities (excluding PWPA and fuel costs), along with the allowed profits discussed above, is levelised over the control period to determine a single figure (in real prices) for each of water and electricity businesses.
- 1.21 All calculations are carried out in real terms (i.e., excluding the effect of inflation). For the purpose of these calculations, pass-through costs and K and Q terms are excluded. However, once the notified value 'A' is determined for a control period, incentive rates for Q terms are calculated for the control period.

Timetable for the 2009 price controls review

- 1.22 The First Consultation Paper in November 2008 set out the timetable for the review process that the Bureau intends to undertake to set the PC4 controls for ADWEC and the network companies.
- 1.23 **Table 1.2** below sets out the timetable for the remainder of the review for ADWEC. This timetable allows a six-week period for ADWEC to respond to the Bureau's consultation papers:

Table 1.3: Timetable for 2009 Price Controls Review

| Approximate Date | Task |
|-------------------|----------------------------------------------------|
| 26 March 2009 | Bureau published this Second Consultation Paper |
| 7 May 2009 | ADWEC to respond to Second Consultation Paper |
| 15 June 2009 | Bureau to publish <i>Draft Proposals</i> |
| 30 June 2009 | ADWEC to submit Audited Separate Business Accounts |
| 30 July 2009 | ADWEC to respond to Draft Proposals |
| 15 September 2009 | Bureau to publish <i>Final Proposals</i> |

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Structure of this document

1.24 The remainder of this document is structured as follows:

- (a) **Section 2** discusses the form of the new controls including their type, structure, scope, duration and future review process;
- (b) **Section 3** considers possible changes to the design of the existing PIS scheme for the new controls.

1.25 The paper does not discuss the level of costs to be recovered in the controls in detail. This will be considered further once the structure of controls is developed following the consideration of the responses to this paper.

2. Form of controls

Introduction

- 2.1 This Section 2 sets out the considerations given in the First Consultation Paper for the restructuring of ADWEC's price controls and the Bureau's current thinking on the development of the new structure of these price controls.
- 2.2 The Bureau has recently (19 March) published a Second Consultation Paper on PC4 controls for the network companies. This paper is referred to, where appropriate, and is available on the Bureau's website (www.rsb.gov.ae).

First Consultation Paper

- 2.3 The First Consultation Paper described ADWEC's procurement business as different in nature to that of the network companies. ADWEC does not have the financial capability to manage uncertainties and risks such as those arising due to:
- (a) a small capital base;
 - (b) large cash flows with production and distribution companies;
 - (c) potential contractual issues relating to 'change in law' and liquidated damages payable by or to the production companies;
 - (d) responsibility for forecasting, planning and procurement of production capacities having significant impact on the rest of the sector;
 - (e) major changes in workload and staff requirements from time to time relative to the size of its business; and
 - (f) trading with other Emirates or countries.
- 2.4 The paper therefore considered it to be appropriate for ADWEC to have a more flexible control period than the network companies. This may require the Bureau to set price controls for ADWEC for a set period and review them from time to time (even annually) if the circumstances warrant.
- 2.5 For example, the price controls for ADWEC may be adjusted (through additional cost allowance in price-controlled procurement costs) each year if ADWEC requires additional staff or consultancy costs to fulfil its statutory obligations, subject to the Bureau's approval. Conversely, ADWEC's failure to prepare, for example, the BST

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charges leaflet or seven-year planning statement in a satisfactory form or timely manner as required by its licence, may be reflected in a downward adjustment to its price-controlled procurement costs.

- 2.6 The paper suggested that the main structure of the MAR formula for ADWEC may remain the same as at present (see Section 1). However, the notified value “A” can be adjusted on an annual basis to reflect ADWEC’s performance or requirements – rather than CPI adjustment only as at present.
- 2.7 The paper therefore expressed the Bureau’s thinking to restructure the price controls for ADWEC so as to make them more flexible to cater for uncertainties in, and performance of, its obligations.

Development of a new framework

- 2.8 In view of the above, the Bureau is considering the introduction of a new framework for ADWEC’s price controls, which retains the current structure and periodic review of the price controls, but allows annual adjustment of the price-controlled procurement costs in certain circumstances. The retained features of the existing framework and the proposed annual adjustments are both discussed below in detail.

Retention of current features

- 2.9 Under the new framework, the Bureau intends to retain the following elements of the current framework for ADWEC’s price controls, given their desirable features and their consistency over time and among sector companies:
- (a) Current MAR formula structure;
 - (b) Current pass-through treatment of PWPA and fuel costs;
 - (c) Current separation of controls between water and electricity businesses;
 - (d) Current scope of controls (i.e., covering only the Licensed Activities);
 - (e) Current PIS, with necessary changes discussed in Section 3;
 - (f) Current scope of price-controlled procurement costs to cover staff costs, depreciation, administrative expenses, and a nominal profit element;
 - (g) Current periodic review to reset the price-controlled procurement costs for a control period (3 to 5 years); and
 - (h) Current automatic annual CPI-X indexation of such costs.

Annual adjustment of price-controlled procurement costs

2.10 Under the existing framework, the price-controlled procurement cost once set for a control period (3-5 years) is adjusted annually for CPI-X only. Our current thinking is that under the new framework, at the end of each year during the new control period (commencing from 2010), the price-controlled procurement costs for the following year can be re-determined or adjusted for three main reasons:

- (a) Deviation from actual procurement costs;
- (b) New workload or obligations approved by the Bureau; and
- (c) Performance on important obligations.

2.11 These adjustments would apply only on a forward-looking basis rather than retrospectively to the previous year. Further, these adjustments will be considered and applied separately for ADWEC's water and electricity businesses and relate only to its Licensed Activities.

2.12 The Bureau's approach is to develop pre-specified criteria for each of these adjustments to reduce regulatory risks for ADWEC and is explained below:

Annual adjustment for deviation from actual procurement costs

2.13 This adjustment will apply only if ADWEC's actual audited procurement costs for a year are higher or lower than its price-controlled procurement cost for that year by more than 10%. In such an event, the price-controlled procurement cost *applicable otherwise* for the following year will be adjusted upward or downward by 10%. The price controlled procurement cost applicable otherwise would mean the price-controlled procurement cost as adjusted by CPI-X indexation but before other annual adjustments.

2.14 This adjustment mechanism will have a number of advantages:

- (a) It will reduce cost increase risks for ADWEC (which has a small capital base) arising from factors outside of its control.
- (b) It will provide incentives for ADWEC to reduce its procurement costs by allowing it to retain any cost reduction up to 10% of its price-controlled procurement costs.
- (c) However, it will still limit the increase in the price-controlled procurement costs up to 10% a year.

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2.15 For this annual adjustment, the actual audited procurement cost will comprise the following expenses from audited income statement for the water or electricity business (as the case may be) of the Licensed Activities:

- (a) Staff costs;
- (b) Depreciation; and
- (c) Administrative and other expenses.

Annual adjustment for new workload or obligations

2.16 This upward adjustment will apply if ADWEC can demonstrate satisfactorily the need for a significant increase in its procurement costs for a year due to new obligations.

Annual adjustment for performance on important obligations

2.17 Currently, timely submissions of the BST and 7YS are PIS Category B indicators for ADWEC (see Section 3). This means that ADWEC's performance on these indicators over a control period could result in a positive or negative financial adjustment to its price-controlled procurement costs at the future price control review.

2.18 We are now proposing a potential annual adjustment to the price-controlled procurement costs for ADWEC's performance on the timely and complete submission and approval of BST and 7YS each year. If the BST or 7YS is not approved by the Bureau by a pre-specified target date, the price-controlled procurement cost for each of ADWEC's water and electricity businesses for the following year will be adjusted downward by, say, 5% in each case.

2.19 This annual adjustment mechanism will provide stronger incentives for ADWEC to perform satisfactorily on these two important licence obligations than the present Category B indicator-related financial adjustment at the next price control review. As the price-controlled procurement costs are set to fund the performance of these obligations, it seems only reasonable that a failure to perform on them should take away some of the allotted funds.

2.20 Given the above, we have set the following target dates for the Bureau's approval of these statements:

- (a) 17 December of each year for the following year's BST, in accordance with the requirements of Law No.(2) of 1998 (Article 38) and Condition 12 of ADWEC's licence; and

- (b) 30 April of each year for the current year's 7YS, in line with the recent discussions between the Bureau and sector companies (including ADWEC) and in line with the target dates being proposed for the network companies for the PC4 period (refer to the Second Consultation Paper on PC4 for network companies).

2.21 ADWEC can agree with the Bureau a timetable to be followed for the submission of the draft BST leaflet and draft 7YS statement, for our review and comments on such drafts, and submission of the final draft leaflet/statement addressing such comments.

Timing of annual adjustments

2.22 The annual adjustments to the price-controlled procurement costs for a year should be finalised as soon as the relevant information becomes available to enable ADWEC to plan accordingly. However, since actual audited procurement costs for the previous year will only be known when the audited SBAs are available (which under the new proposed PIS Category A indicator will be due by 30 April of the following year – see Section 3), the adjustment for deviation from actual audited costs cannot be finalised until, say, 31 May of the current year (for which the adjusted price-controlled procurement costs need to be determined).

2.23 The table below shows an appropriate timetable for these adjustments:

Table 2.1: Proposed timetable for annual adjustments

| Annual adjustment to procurement cost for year 't+1' | Finalisation by |
|-------------------------------------------------------------|-----------------------------|
| Annual adjustment for deviation from actual audited costs | 31 May of year 't+1' |
| Annual adjustment for new obligations or workloads | 31 March of year 't+1' |
| Annual adjustment for performance on BST | 31 December of year 't' |
| Annual adjustment for performance on 7YS | 31 May of year 't' |
| Total annual adjustment | 31 May of year 't+1' |

Notes: BST = Bulk Supply Tariff; 7YS = Seven Year Statement

Duration of control

2.24 In theory, the new framework for ADWEC's price controls can apply indefinitely. However, the Bureau believes that a periodic review of the price controls, as at present, is required to improve the framework based on the experience over a period and to reset the price-controlled procurement costs based on the latest information or efficient benchmarks. This would allow the Bureau and ADWEC to address any uncertainties faced by ADWEC and to incorporate adjustments which may become permanent and would better therefore be reflected in the framework rather than be addressed through annual adjustments in future.

- 2.25 In view of the above, the Bureau's current thinking is to set the new price controls for 5 years commencing from 1 January 2010 (i.e., from 2010 to 2014). The next price control review for ADWEC will therefore be undertaken in 2014 to set the price controls for 2015 onwards.
- 2.26 Currently, as stated in the Second Consultation Paper on PC4 for the network companies, the Bureau is considering a 4-year control duration (2010-2013) for the network companies with the next review for them due in 2013.
- 2.27 The above suggestion for ADWEC's price control period (2010-2014) would therefore subject ADWEC to a different price control cycle than the network companies, thereby allowing greater focus on the issues specific to ADWEC's businesses.

Consistency with regulation of network companies

- 2.28 While this price control review for ADWEC is being undertaken separately to that for the network companies to adequately address the issues specific to ADWEC, we intend to apply a consistent approach to the common issues faced by ADWEC and the network companies.
- 2.29 This approach is reflected in the discussions and considerations in this paper and the Second Consultation Paper on PC4 for network companies. For example:
- (a) All the companies will remain subject to CPI-X regulation through revenue caps, and to the PIS.
 - (b) The annual adjustment mechanism proposed for ADWEC is similar to the Price Control Re-Opening Mechanism (PCROM) being considered for the network companies to allow re-opening of the price controls between the price control reviews. However, in contrast to the annual mechanism for ADWEC, the PCROM for network companies is not an automatic annual mechanism.
 - (c) Similar to the annual automatic incentive for ADWEC's 7YS submission (as explained above), the timeliness of network companies' performance on their respective Five-Year Planning Statements is being introduced as a new PIS Category A indicator with annual automatic incentives.
 - (d) The Bureau's suggestions on target dates and bonuses for PIS Category A indicators for ADWEC (discussed in Section 3) are the same as those proposed for the network companies.

3. Performance Incentive Scheme

Introduction

3.1 As for the network companies, the current Performance Incentive Scheme (PIS) for both water and electricity businesses of ADWEC has two types of performance indicators:

- (a) Category A indicators (listed below) with precise definitions, targets and incentive rates, and an automatic annual revenue adjustment for performance via a term “Q” in the MAR formulae, subject to an overall cap at 4% of price-controlled procurement cost “A” each year; and
- (b) Category B indicators, less precisely defined but subject to a possible financial adjustment at the following review for exceptionally good or poor performance, subject to an overall cap at 2% of price-controlled procurement cost “A” each year.

3.2 **Table 3.1** below lists the current Category A indicators for ADWEC along with the performance targets and incentive rates:

Table 3.1: Current Category A Indicators for ADWEC

| | Category A indicator | Performance target | Incentive Rate |
|--------------------|----------------------------------|--------------------|----------------------|
| Electricity | Timeliness of Audited SBA | 30 June | 20,000 AED/month |
| | Timeliness of Audited PCR | 31 March | 20,000 AED/month |
| | Timeliness of AIS | 30 September | 60,000 AED/month |
| | Accuracy of Peak Demand Forecast | +/-100 MW | 1,000 AED/MW error |
| Water | Timeliness of Audited SBA | 30 June | 13,000 AED/month |
| | Timeliness of Audited PCR | 31 March | 13,000 AED/month |
| | Timeliness of AIS | 30 September | 39,000 AED/month |
| | Accuracy of Peak Demand Forecast | +/-20 MIGD | 4,000 AED/MIGD error |

Notes: SBAs = Separate Business Accounts; PCR = Price Control Return; AIS = Annual Information Submission

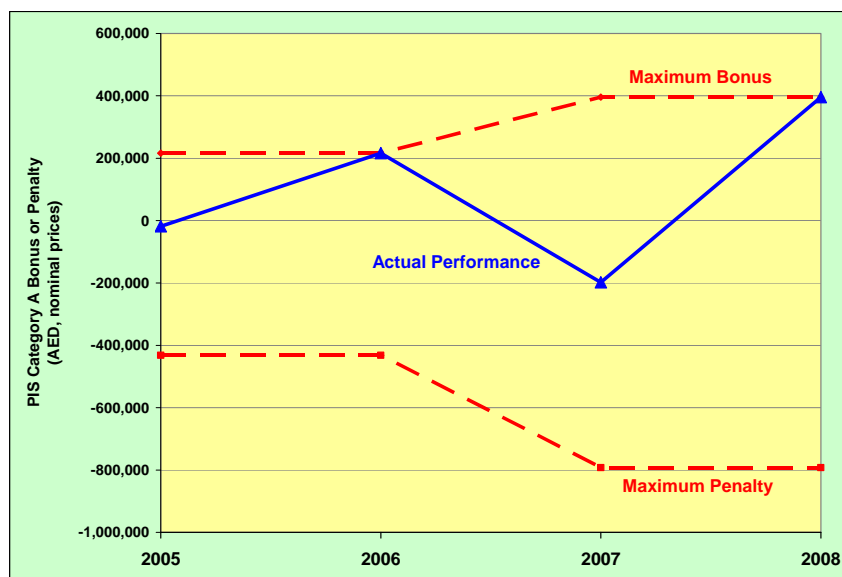
Notes: The incentive rates were set at the same levels for SBAs, PCRs and AIS at the 2005 price controls review. The Bureau and ADWEC have however subsequently agreed to triple the incentive rates for AIS submissions to reflect the cost associated with their preparation and audit.

3.3 **Figure 3.1** below shows ADWEC’s performance on PIS Category A indicators in terms of total bonuses and penalties it has received since the introduction of the PIS. Overall, ADWEC has earned more bonuses than penalties and is expected to continue performing well on the existing indicators in the years to come.

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Figure 3.1: ADWEC’s performance on PIS Category A indicators



3.4 **Table 3.2** below lists the current Category B indicators for ADWEC:

Table 3.2: Current Category B Indicators for ADWEC

| Category B Indicator |
|------------------------------------------|
| Generation Security Standard |
| Desalination Security Standard |
| Interim profit & loss account timeliness |
| Seven-Year Planning Statement timeliness |
| BST timeliness |

3.5 Given the positive results that the PIS has achieved in terms of improving sector companies’ performance on the targeted measures, we are currently minded to retain the PIS for all monopoly companies. However, we are considering a number of changes to the current PIS for ADWEC, each of which is discussed below. Some of these changes are necessary in view of the new framework being considered for ADWEC’s price controls discussed in Section 2. Other changes are in line with those being proposed for the network companies for their PC4 controls.

Changes to Category A timeliness indicators

PIS bonuses for timeliness indicators

3.6 The submissions of audited PCRs, audited SBAs and the AIS are requirements of the companies’ licences irrespective of the PIS. They were first introduced as the PIS indicators at the 2002 price controls review in view of the unavailability of audited accounts and PCRs for any year since 1999. This introduction has served its purpose, as the companies have put in place the required systems and now submit these statements on a regular basis.

- 3.7 The First Consultation Paper therefore raised the issue of whether the bonuses should continue to be available simply for meeting a licence requirement. The paper suggested that the PIS bonuses for one or more of the timeliness indicators should be removed so that only a penalty for delayed submission should apply.
- 3.8 In view of the responses received from the network companies, the Bureau considers that the Category A indicator for AIS timeliness is a relatively new addition to the PIS (introduced at the last price control review) and hence can be continued with bonuses for sometime to incentivise further improvement in the required systems. In contrast, the audited PCRs and SBAs have been licence requirement since 1999 and the relevant Category A indicators were introduced at the 2002 price control review.
- 3.9 In view of the above, the Bureau believes that PIS bonuses for Category A timeliness indicators for audited SBAs and audited PCRs should be removed, but retained for the AIS, for ADWEC (as well as the network companies).

Table 3.3: PIS bonuses for Category A timeliness indicators

| Category A indicator | Current arrangement | First Consultation Paper | Bureau's current thinking |
|------------------------|----------------------|--------------------------|---------------------------|
| Audited SBA timeliness | Both bonus / penalty | Only penalty | Only penalty |
| Audited PCR timeliness | Both bonus / penalty | Only penalty | Only penalty |
| AIS timeliness | Both bonus / penalty | Only penalty | Both bonus / penalty |

Notes: SBAs = Separate Business Accounts; PCR = Price Control Return; AIS = Annual Information Submission

PIS target dates for timeliness indicators

- 3.10 At present, audited PCRs, audited SBAs and the AIS are required to be submitted by 31 March, 30 June and 30 September of each year, respectively. The First Consultation Paper proposed changing the target dates of both PCRs and SBAs to a common date (30 April). This was in view of similar contents and similar work requirements of the two submissions, and to avoid differences between them due to different preparation dates. Having a common target date would also help address distribution companies' concern about the effect of delays in ADWEC finalising the BST exceptional charges for the prior year on the ability of other companies to meet the March deadline for the PCRs. This new target date (30 April) would also be consistent with the audited accounts requirements of the UAE Commercial Companies Law No.(8) of 1984 for the companies. The paper also proposed that the target date for the AIS be changed to 31 October, to address the licensees' concerns that the present submission date (30 September) falls too close to the main holiday period.
- 3.11 The respondents to the First Consultation Paper were generally supportive of the indicated changes to the PIS target dates. The Bureau is therefore currently minded

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to revise the PIS target dates for timeliness indicators as follows for ADWEC (as well as for the network companies):

Table 3.4: PIS target dates for Category A timeliness indicators

| Category A indicator | Current target dates | First Consultation Paper | Bureau's current thinking |
|------------------------|----------------------|--------------------------|---------------------------|
| Audited SBA timeliness | 30 June | 30 April | 30 April |
| Audited PCR timeliness | 31 March | 30 April | 30 April |
| AIS timeliness | 30 September | 31 October | 31 October |

Notes: SBAs = Separate Business Accounts; PCR = Price Control Return; AIS = Annual Information Submission

Changes to Category B timeliness indicators

3.12 For ADWEC, timeliness of BST and 7YS submissions are currently Category B indicators. Under the new framework for ADWEC's price controls discussed in Section 2, each of these two submissions would be incentivised through annual adjustments to ADWEC's price-controlled procurement costs for the next year. The Bureau therefore considers it appropriate to remove these two submissions from the PIS Category B.

Changes to Incentive Rates

3.13 The current incentive rates for Category A indicators (listed in **Table 3.1** above) were set at the 2005 price control review in proportion to the price-controlled procurement costs determined at that review. The Bureau's consultation papers published at the time explain the Bureau's methodology on the calculation of these incentive rates.

3.14 At this review, the Bureau intends to use the same methodology to update the incentive rates for Category A indicators in proportion to the price-controlled procurement costs determined at this review. The Bureau will also consider increasing the incentive rates otherwise calculated for AIS timeliness indicator to reflect the associated costs (in line with the current arrangement).

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