



Victorian electricity distribution businesses — Framework and approach

Information sheet

Who is the AER?

The Australian Energy Regulator (AER) is responsible for the economic regulation of electricity transmission and distribution services in Australia's national electricity market. We are an independent statutory authority, funded by the Australian Government. Our power and functions are set out in the National Electricity Law and the National Electricity Rules (NER).

What is a Framework and approach?

The framework and approach (F&A) is the first step in the process to determine efficient prices for electricity distribution services. The F&A determines, amongst other things, which services we will regulate and the broad nature of the regulatory arrangements. This includes an assessment of services and whether we need to directly control the prices set for those services. The F&A also facilitates early consultation with consumers and other stakeholders and assists electricity distribution businesses prepare expenditure proposals.

Which electricity businesses does this process affect?

We are taking steps to determine if a new F&A is required for CitiPower, Powercor, SP AusNet, Jemena and United Energy (Victorian DNSPs). These distribution businesses design, construct, operate and maintain distribution networks for Victorian electricity consumers. Their next regulatory control period commences on 1 January 2016.

Why is a Framework and approach important?

The F&A is important because it provides an opportunity for interested parties to have a say in which services we should regulate and how much control we have over determining the prices for distribution services. The F&A also sets out information around incentive schemes that will apply to the distribution businesses to encourage efficient investment and performance. The sorts of issues we might consider in a F&A include:

- Allowing for the possibility of increased competition in the provision of some services traditionally provided only by the distribution business. This might happen if, for example, we were satisfied there were no significant barriers to competitive provision of a particular service. In this event, we may decide not to regulate that service, leaving prices to be set by the market.
- A key issue is whether we should regulate the business by capping the maximum revenue they can earn in the period, or by capping the maximum price for their services, or by applying different mechanisms depending on the nature of the services they provide.

- Determining the provision of some services on a fee for service basis or perhaps as a service for which there is minimal oversight by us. For example, we may determine that a distribution business may bundle the costs for a particular service into a generic electricity supply service (standard control service). Alternatively, we may decide that charging for a service on a user-pays basis is more appropriate (alternative control service). Finally, we may allow consumers and distribution businesses negotiate the price of a service (negotiated distribution service) and only intervene if the parties cannot reach an agreement.
- Setting out whether incentive schemes will apply, for example, to service quality, improvements in network reliability or capital and operating expenditure. The purpose of incentive schemes is to encourage distribution businesses to manage their business in a safe, reliable manner that serves the long term interests of consumers. The schemes provide distribution businesses with incentives to only incur efficient costs in meeting their service quality targets. Distribution businesses may incur a financial penalty if they fail to meet set targets.

What are the next steps?

We are calling for submissions on whether we need to amend or replace the current F&A documents for Victoria. **Submissions close on 18 April 2014.** We will then publish our decision on whether to amend or replace the current F&A documents. Following this we will consult on what amendments should be made to the F&A applying to the Victorian DNSPs. If a new F&A is required for Victoria, we will publish it by 31 October 2014.