25 October 2016

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Dear Mr Pattas

Request to replace Framework and Approach paper

The purpose of this letter is to request that the AER replace the current Framework and Approach (F&A) paper to apply to Ausgrid's 2019-24 regulatory period, and to advise the AER of the value of dual function assets as at 30 June 2016[1]. In preparing this letter, we have undertaken workshops to seek the views of our stakeholders on potential changes to the F&A paper, and have sought to reflect those views in our submission. Under the National Electricity Rules (Rules), the current F&A paper for our 2014-19 determination continues to apply to the 2019-24 determination unless the AER replaces or amends the paper. The Rules[2] enable us to request an amended or replacement F&A paper. There are three key reasons why we consider the F&A should be replaced.

- The current F&A paper addressed particular issues relevant to the 2014-19 period that are no longer relevant, such as specific arrangements for the 2014-15 transitional year.[3]
- The AER's final decision for the 2014-19 period departed from the current F&A paper in a number of respects such as the application of incentive schemes. For this reason, we consider the paper needs to be amended or replaced to clarify the AER's positions.
- The current F&A paper does not reflect recent changes to the NER concerning demand management incentive schemes. A replacement F&A paper would allow the AER to consider the application of new schemes required by the Rules.

Ausgrid has conducted three workshops with stakeholders to seek views on our customer engagement approach and the F&A paper. We were interested in stakeholder feedback on the AER's current positions in the F&A paper, and whether there was a need to make any changes. Following consultation with stakeholders, we consider the focus of the AER's engagement on the F&A paper could cover the following matters:

- **Classification of services** – We broadly support the AER's service classifications in the current F&A. We would like to discuss potential changes to the definition of some metering and connection ancillary network services. In particular, we consider the Power of Choice reforms for metering contestability

[1] As required by clause 6.25(a) of the Rules.
[2] Clause 6.8.1(c)(1) of the Rules.
[3] The current F&A paper was made under the transitional Rules (Division 2 of Chapter 11 of the NER) and addresses particular issues relevant to Ausgrid's transitional regulatory period (2014-15) and subsequent regulatory period (2015-19). A replacement F&A paper would clarify the AER's proposed approach to future distribution determinations, particularly in respect of the 2019-24 period.

will result in new regulated services. Further, we would like to amend some of the current definitions for connection services to more accurately reflect the service we provide.

- **Control mechanisms** – We support the continuation of a revenue cap for standard control services and a price cap for alternative control services. We consider the formula for standard services requires amendment to exclude the adjustment for the 2014-15 transitional year and to allow adjustments to account for the Demand Management Innovation Allowance of the prior regulatory period. Further, we suggest amending the formula for alternative control services to include a mechanism to recover approved pass through amounts.

- **Incentives** – Our stakeholders expressed a strong interest in providing incentives for demand management (DM). We would like to work with the AER in developing a new DM Incentive Scheme that provides a share of the upstream benefits from DM investment. Some of our stakeholders also wanted the AER to consider whether there should be an increase in the DM Innovation Allowance. We also consider that minor modifications could be made to the design of the Capital Expenditure Sharing Scheme and Service Target Performance Incentive Scheme. Ausgrid has not been able to form a firm view on the application of the Efficiency Benefit Sharing Scheme for the next regulatory control period. This is due to uncertainty regarding the outcome of the judicial review process and the AER's approach to the remake of Ausgrid's 2015-19 determination (if required). We would like to discuss this issue further with the AER and stakeholders.

In addition, stakeholders raised a number of issues that we agree should be subject to consultation over the medium to longer term including:

- Improved reporting on the type of efficiencies and service improvements we undertake in response to incentives, and how these initiatives benefit customers.
- The appropriate performance metrics for the customer service component of the STPIS, including developing a new measure based on customer satisfaction or customer engagement.
- Identification of more specific incentives for each distributor that are negotiated with customers.
- Opportunities to explore different forms of control, particularly as prices become more cost reflective.

Ausgrid notes the AER's request for a very short letter on the F&A paper at this stage in the process and understands that the AER's intent is to seek further details on Ausgrid's proposed amendments as part of the consultation process. However, in order to meet the NER requirements relating to a request for a replacement F&A paper and to convey initial views from stakeholders on the F&A approach, we have provided the attached submission. The submission expands on the reasons why Ausgrid is asking for a replacement F&A and sets out the matters that Ausgrid considers require amending. The submission also advises the AER of the value ascribed to dual function asset as at 1 July 2016.

We look forward to further discussions with the AER on our request to replace the F&A paper. To discuss this submission, please contact Son Vu on (02) 9269 4360 or by email on svu@ausgrid.com.au in the first instance.

Yours Sincerely

JOE PIZZINGA
Chief Financial Officer

Request to replace Framework and Approach paper Ausgrid

October 2016

1 Why Ausgrid is asking for a replacement F&A paper

Ausgrid requests the AER to replace the current Framework and Approach paper. The primary reasons are that the current F&A paper addressed matters relating to the 2014-15 transitional year that are no longer relevant; that the F&A paper needs to accommodate changes to the Rules on new demand management incentive schemes; and that the AER's final decision for 2014-19 departed from the AER's proposed approach in the F&A paper.

The AER is required to make and publish a Framework and Approach paper (F&A paper) under clause 6.8.1(a) of the National Electricity Rules (NER or Rules). The F&A paper must address a number of matters, listed in clause 6.8.1 (b)(1) and (2) of the NER, that are to apply in respect of a distribution determination, although both the AER and a DNSP may depart from the F&A paper for some matters.

The AER's current F&A paper will continue to apply to Ausgrid's forthcoming distribution determination unless the AER publishes a notice under NER clause 6.8.1(c)(3) that it will make an amended or replacement F&A paper. The Rules set out a process and timeline for how the AER makes a decision on whether it will amend or replace the F&A paper in relation to any matter.

Under NER clause 6.8.1(c)(1), a DNSP may request the AER make an amended or replacement F&A paper in respect of any relevant matter. The request must specify the Distribution Network Service Provider's reasons for making that request.

In accordance with clause 6.8.1(c)(1), Ausgrid requests that the AER replace the current F&A papers[4] to apply to our forthcoming distribution determination for the regulatory control period 2019-24. In the sections below we set out the reasons why we seek replacement. If the AER considers that replacement is not required, our secondary position is that the current Framework and Approach papers be amended to reflect the issues and positions raised in this request.

Ausgrid considers a replacement Framework and Approach paper is necessary for three reasons:

- The AER's current Framework and Approach paper addressed matters that were specific to the transitional Rules relating to Ausgrid's 2014-15 and 2015-19 regulatory control periods. We consider a replacement is necessary to clarify whether the AER's proposed decisions and approaches will apply to the regulatory years of the forthcoming distribution determination.

- The Australian Energy Market Commission (AEMC) recently made a Rule change on demand management incentives that varies a matter that the AER must include in a F&A paper; that is, the application of any demand management incentive scheme or demand management innovation allowance mechanism. Accordingly, we consider that the F&A paper should be replaced to enable the AER to give effect to the new Rules on demand management incentives.

- The AER's final decision on Ausgrid's distribution determination for the regulatory control period 2015−19 (from here on termed "AER final decision") substantively departed from the AER's proposed approach in its F&A paper. Ausgrid considers that a replacement F&A paper is necessary to clarify the approach that the AER intends to apply to Ausgrid's forthcoming determination.

These reasons are expanded on below.

[4] There are 'two' current Framework and Approach papers, Stage 1 published March 2013 and Stage 2 published January 2014. The two staged approach was required to facilitate transitional arrangements under new Rules published in 2012.

Clarifying that the paper applies to Ausgrid's 2019-24 distribution determination

The current F&A paper was developed by the AER in accordance with Division 2 of Chapter 11 of the NER.[5] The purpose was to apply transitional Rules provisions resulting from the AEMC's 2012 Rule Change on Economic Regulation of Network Service Providers. Under these provisions, the AER was required to modify the application of clause 6.8.1(b) of the NER such that it could address issues specific to Ausgrid's transitional regulatory control period (2014-15) and the subsequent regulatory control period (2015-19).

As such, the provisions governing the AER's current F&A paper were directed at issues particular to Ausgrid's 2014-15 and 2015-19 regulatory control periods. Consequently the current F&A paper does not address its ongoing application to Ausgrid's forthcoming distribution determinations.

We consider that the time-specific nature of the AER's decisions and positions may lead to confusion in terms of ongoing application to Ausgrid's forthcoming regulatory determination. This is particularly the case where the AER has applied different approaches in its Final Decisions for the 2014-15 transitional year compared to the remainder of the regulatory period. As such we consider that a replacement of the Framework and Approach paper is necessary to clarify that the AER's decisions or proposed approach to apply to the forthcoming distribution determination.

Reflecting the new demand management incentives

In late 2015 the AEMC made a new Rule to help balance the incentives on distribution businesses to make efficient decisions in relation to network expenditure, including demand management. Under the new Rule, the AEMC created separate provisions in the NER for a demand management incentive scheme (DMIS) and a demand management innovation allowance mechanism (DMIA). As part of the amendments, the AEMC required the AER to develop and publish the DMIS and DMIA by 1 December 2016.

As part of the rule change, clause 6.8.1(b)(2)(vi) of the NER has been amended to clarify that the F&A paper must set out the AER's proposed approach on how the DMIS and DMIA mechanism will apply. This clearly requires a substantial amendment to the current F&A paper, which was made under the old Rules.

Clarifying whether the AER's final decision supersedes the current Framework and Approach paper

The AER's final decision for NSW DNSPs set out constituent decisions on each of the matters raised in the F&A paper. In many cases, the AER's final decision either departed from its positions in the F&A paper, or provided additional clarifications. For example:

- For classification, the AER changed its definitions of services by amending the classification table set out in its Framework and Approach paper.
- For control mechanisms, the AER amended and clarified the formulae to apply to standard control and alternative control services.
- For incentives, the AER amended its approach such that the Efficiency Benefit Sharing Scheme did not apply.

While the NER permits the AER to depart from its positions set out in the F&A paper, it means the current F&A paper does not reflect the AER's final position on the relevant matters. It is appropriate to replace the F&A paper to clarify where the AER's final decision supersedes the proposed positions in the current paper.

[5] Division 2 of Chapter 11 required the AER to apply "transitional Chapter 6" of the Rules, which was defined as the "current Chapter 6" (which was the version of Chapter 6 that was in force immediately at the commencement of the 2012 Rule change on Economic Regulation of Network Service Providers) except for the omission of particular clauses, and the addition of other provisions contained in Division 2.

2 Ausgrid’s proposed amendment

When replacing the current F&A paper, we propose amending the following matters in the current version:

- Classification of services
- Form of control
- Incentive schemes, including the Service Target Performance Incentive Scheme, the Efficiency Benefit Sharing Scheme, the Capital Expenditure Sharing Scheme, the Demand Management Incentive Scheme and Innovation Allowance, and the Small Scale Incentive Scheme.

Ausgrid has also provided comments on the application of the Expenditure Assessment Guidelines, the use of forecast depreciation and dual function assets.

Ausgrid has conducted two stakeholder workshops on the F&A paper, together with a consultation session on the framework for engaging with stakeholders for our 2019-24 proposal. Ausgrid’s views on the appropriate approach to apply for the 2019-24 distribution determination have been informed by these engagement sessions. The following organisations were represented: Electricity and Water Ombudsman NSW; Energy Consumers Australia; NSW Ethnic Communities Council; NSW Council of Social Services; Public Interest Advocacy Centre; and Total Environment Centre. Representatives from the AER also attended some of these workshops.

The sections below set out our view on the amendments the AER could consider when replacing the current F&A paper. In each section we have sought to describe stakeholder feedback, and how this has influenced our view.

a. Classification of services

Service classification is important as it determines the extent of regulation to apply to Ausgrid’s services. The AER classify our services into standard control, alternative control, negotiated and unclassified and therefore unregulated. The AER’s position on service classification in the current F&A was superseded by the AER’s final decision for the 2014-19 regulatory period. The departures included:

- Type 5 and 6 metering services were classified into three distinct categories that were not articulated in the F&A paper.
- Minor changes were made to the structure of the classifications table, including changes to the services description and clarification that augmentation can also be provided for network services; and
- Clarifications were made to the classification of services that include load control.

Our initial step was to seek feedback from stakeholders on whether there was the need to make changes to the current F&A paper.

At a high level, stakeholders did not express any strong views on potential changes to the classification of services for the F&A paper for the 2019-24 distribution determination. However, there was some discussion about the future of grid based energy storage and its potential classification, including questioning the potential market distortion from its large scale use. We agree that the classification of services such as battery storage is an important issue to be considered by regulators, however it may be more relevant to have those discussions as part of the recently submitted COAG Energy Council rule change request on the contestable provision of services.

Our view is that the AER's current classification of services is broadly appropriate. In our discussions with stakeholders, we suggested two areas where the F&A may need to be amended. Firstly, we noted that the F&A paper was superseded by the AER's final decisions for the 2014-19 determination. As explained to our stakeholders, our view is that the current F&A should be updated to reflect the AER's final determination.

Secondly, we raised with stakeholders the need to consider minor amendments to some of the definitions of alternative control services in the AER's final decision. There are 2 major reasons for changing some of the definitions.

- The recent Power of Choice reforms include a new metering contestability framework. The new framework is likely to lead to new regulated ancillary (one-off) services that are not captured in the current F&A paper and remove a number that are no longer relevant. A key example is when Ausgrid is required to dispatch a service crew to rectify an outage caused by the installation of a smart meter by a contestable metering provider. In this case, we consider the person responsible for the installation should pay a fee to recover our costs of providing such a service. We consider this will provide the right incentives to minimise disruption to our customers when installing smart meters.

- Based on our experience in the current regulatory period, we have found that some of our metering and connection services are not defined in a way which aligns to the service we provide. We consider that some minor definition changes will mean customers pay the efficient cost of the service.

We would like to discuss our proposed changes to service definitions with the AER and stakeholders as part of the F&A consultation process.

b. Control mechanism

Control mechanisms provide the basis of how the AER regulates standard control and alternative control services. The Rules provides for a number of different forms of control mechanism; of which are revenue cap and price cap.

Standard control services

In its final decision, the AER affirmed the approach in its F&A paper to apply a revenue cap form of control to Ausgrid's standard controls services. A revenue cap sets total revenue allowed for each year of the regulatory period. Distributors must then recover revenue equal to or less than the total revenue. Another alternative is a price cap form of control. In simple terms, customers pay the same price no matter if there is a difference in energy sales.

Stakeholders did not see an immediate need to change the form of control from a revenue cap to a price cap for standard control services for the 2019-24 regulatory period. However, they noted that with increasing emphasis on cost reflectivity, it may be appropriate to consider the application of a price cap in future regulatory periods.

Drawing on stakeholder feedback, we consider the AER should continue to apply a revenue cap for the 2019-24 regulatory period. Given our medium term outlook is for stable to modest growth in overall energy consumption, it is likely that pricing outcomes for customers will be similar under a price cap and revenue cap. In this context, we consider a revenue cap remains appropriate as we transition towards cost reflective network tariffs. We agree with our stakeholders that the form of control should be reviewed in the medium to longer term.

While Ausgrid supports the revenue cap approach, we consider some clarifications and modifications to the control mechanism formulae are required. Ausgrid requests that the current F&A paper be amended to reflect the AER's final decision for the 2014-19 determination. We also request that the control formula be amended:

- To remove the adjustment factor for the 2014-15 transitional year as this is no longer relevant.
- To include a factor to cater for the 'true up' of unspent or unapproved demand management innovation allowance (DMIA) in the subsequent regulatory control period. We understand that this is the intended approach of the AER for the 2014-19 period but the current control mechanism formulae does not reflect such intent.
- To include a factor to cater for any actual under/over recovery of revenue collected as calculated in accordance with the AER's reporting of the under/over revenue account.

Alternative control services

In its final decision, the AER affirmed the approach in its F&A paper to apply a 'cap on individual prices' form of control to Ausgrid's alternative controls services, including its ancillary network services, public lighting services and type 5-6 metering services.

Stakeholders did not raise any concerns with the price cap approach to alternative control services. We agree with our stakeholders that the AER's current controls on alternative control services (public lighting services, type 5-6 metering services and ancillary network services) are appropriate.

Our only concern is that that the formula for alternative control services does not currently permit the recovery of approved pass through amounts. This is because the AER's final decision of April 2015 was silent on whether it accepted Ausgrid's proposed approach for the application of pass through events to alternative control services. Ausgrid considers the formulae for the ACS control mechanisms should include a mechanism to adjust prices to reflect any approved positive or negative pass through amount. This is consistent with the Rules relating to pass through events, which apply to direct control services (i.e. standard control services and alternative control services).[6]

c. Service Target Performance Incentive Scheme

The Service Target Performance Incentive Scheme (STPIS) provides a financial incentive for DNSPs to maintain and improve its reliability and customer service performance over time consistent with the cost to provide service reliability to customers that they value.

The AER maintained its overall approach to the STPIS between its F&A paper and its final decision. However, the AER amended and clarified several of its positions, such as the capped proportion of revenue at risk and the method for setting Ausgrid's performance targets for reliability of supply.

In our engagement sessions, stakeholders recognised the need for incentives that retain reliability performance and customer standards. We agree with our stakeholders that there should be incentives to maintain performance, and for this reason we support the continued application of the STPIS.

Stakeholders also considered that the telephone response time metric is not a meaningful indicator of performance. Stakeholders noted that customers value information about when supply will be restored, communicated via a variety of media. They also indicated that a better measure of customer service was the level of customer satisfaction. Based on this feedback, we will work with our stakeholders in exploring better measures of customer service to apply to STPIS schemes in the medium to long term, including potential incentives around the level and quality of customer and stakeholder engagement.

[6] Refer to Chapter 10 of the NER – definitions of *negative change event*, *positive change event*, *regulatory change event*, *tax change event*, *service standard event* and *retailer insolvency event* all refer to *direct control services*.

In our discussions with stakeholders, we also suggested some amendments to how the scheme will apply to our 2019-24 period. We would like to discuss the following changes to the design of the scheme for further discussion with the AER:

- We note that the current F&A does not apply the scheme to the transitional year of our current regulatory determination. For clarity, we suggest that the AER make clear that the STPIS will apply to each year of the 2019-24 period.
- For clarity, we would like to align the F&A paper to the AER's final decision, including the AER's decision to use AEMO's 2014 Value of Customer Reliability estimates instead of those used in the current version of the STPIS.
- Set performance targets based on the average of reliability performance over the last 5 years, consistent with the AER's STPIS guidelines. This contrasts with the AER's method in the 2014-19 final decision which set our target based on the improved underlying trend in reliability performance over 5 years. We consider that averaging performance over 5 years can smooth volatility in historical performance as a result of weather events.
- Amend the definition for telephone answering to extend the timeframe covered by a major event day. This is because there is likely to be an overflow of calls in the days immediately following a major event day. The AER's current STPIS guidelines contemplate such an exclusion for telephone answering.

We would also like to discuss with the AER and stakeholders the appropriate proportion of revenue at risk under the STPIS. This is currently set at maximum penalty or reward of 2.5%. While Ausgrid does not have a firm view at this stage, we consider that the current range of 2.5% and 5% (as currently applied in Victoria) is appropriate.

d. Efficiency Benefit Sharing Scheme

The Efficiency Benefit Sharing Scheme (EBSS) aims to provide a continuous incentive for DNSPs to pursue efficiency improvements in opex and to share efficiency gains with customers.

The AER's final decision substantively departed from the F&A paper by deciding not to subject any expenditure to the EBSS in the 2015-19 regulatory control period. The AER considered that Ausgrid would already bear any costs in transitioning to efficient levels of opex so there did not appear to be a strong reason to provide additional incentives to become more efficient.

Stakeholders did not express a strong view specifically on the EBSS, although they provided commentary on incentive schemes more generally. In particular, stakeholders considered that the incentive schemes lacked transparency in their application. Further, stakeholders wanted a better understanding of the efficiency programs that we undertake in response to the incentives.

Given that the AER's final decision departed from the current F&A paper, Ausgrid consider that the replacement F&A paper should provide clarity on the AER's intended approach on applying the EBSS to Ausgrid's forthcoming regulatory determination. However, Ausgrid does not have a firm view at this stage on whether the EBSS should apply in the 2019-24 regulatory period. Our view is likely to be influenced by the AER's future approach to assessing proposed operating expenditure forecasts, which may be subject to the outcomes of the current AER's judicial review application.

Our stakeholders expressed the view that there may be some merit in exploring the development of specific incentives for each individual DNSP, in consultation with stakeholders, although it may not be possible to apply these to the 2019-24 regulatory period.

e. Capital Expenditure Sharing Scheme

The Capital Efficiency Sharing Scheme (CESS) aims to provide a continuous incentive for DNSPs to pursue efficiency improvements in opex and to share efficiency gains with customers.

In its final decision, the AER maintained the approach in its F&A paper to apply the CESS in the last 4 years of the 2014-19 regulatory control period.

Stakeholders did not raise any particular issues with the application of the CESS. Some stakeholders noted that it was important that distributors be provided with strong incentives to minimise the value of the regulatory asset base.

Based on these views, Ausgrid supports the application of the CESS. However, we consider the AER's F&A paper should be amended to clarify that the current CESS will apply to each year of the 2019-24 determination.

In terms of the design of the scheme, we sought stakeholder feedback on whether it is appropriate for the CESS reward to exclude projects that are deferred from one period to the next. Our view was that the scheme should encourage deferral of capital where opportunities arise, and that generally customers receive lower prices when this occurs. We also had concerns that the AER's determination does not specify the projects for which we receive funding. The AER may wish to consider a mechanism to determine the projects which have been deferred as a result of the AER using a substitute amount.

We would like to discuss this issue in greater detail with the AER and stakeholders as part of the consultations process.

f. Demand management

The DMIS and DMIA help balance the incentives on distribution businesses to make efficient decisions in relation to network expenditure.

In its final decision, the AER determined to apply a Demand Management Innovation Scheme (DMIS) which included an innovation allowance (DMIA) of $1 million ($2014-15) per annum in the 2014-19 regulatory control period. The AER determined not to apply a broader demand management scheme that we included in our 2014-19 regulatory proposal.

In 2015, the AEMC significantly amended the Rules that apply to the AER's application of demand management incentives. The AER now has an obligation to develop a separate DM incentive scheme (DMIS), together with a separate scheme for the DM Innovation Allowance (DMIA). The AER must develop and publish the first version of the mechanism by 1 December 2016.

There was significant interest from stakeholders on the design of the new DMIS. A number of stakeholders noted the need for incentives to promote demand management. In particular, some stakeholders considered the scheme to be a key element in reducing the future costs of DNSPs.

Ausgrid intends to be an active participant in the AER's consultation on demand management incentive guidelines. In this context, we note that the DMIS we proposed for our 2014-19 regulatory proposal received stakeholder support at that time. This scheme proposed that network businesses are provided with 50% share of upstream benefits from undertaking demand management. This includes the deferred capital costs to generation and transmission from undertaking investment on our section of the electricity chain.

In our view, the design elements of such a scheme are simple, transparent and justifiable. In our recent engagement sessions, some stakeholders considered that the design elements could be considered by the

AER for the new DMIS Guideline. We would like to work with the AER and stakeholders on developing the scheme as part of consultation on the F&A paper.

Ausgrid would also like to discuss with the AER and stakeholders whether the DMIA should be increased from the current amount of $1 million per annum. For the current regulatory period, Ausgrid has used its allowance to date, but there could be a greater funding requirement for pricing pilots or trials. Some stakeholders noted that there may be a case to increase the level of incentives, while others did not provide a view.

g. Small scale incentive scheme

The AER is able to develop incentive schemes outside of those already provided in the Rules. These are intended to be small scale pilot or test incentive schemes that allow for regulatory innovation.

The AER did not apply the small scale incentive scheme during the 2014-19 regulatory control period.

Stakeholders considered that DNSPs tend to have a focus on capex, opex and performance. While incentive schemes may operate to create efficiencies in these areas, other aspects of the business, such as management, may not receive sufficient consideration as an area for improvement. Combined with this, stakeholders considered that, in the long run, it would be good to see specific incentives developed for individual DNSPs with measures that are potentially more focused on specific customer needs.

Our view is that the small scale incentive scheme may provide an appropriate mechanism to incentivise other elements of our operations. In particular, the growing amount of distributed energy resources and more smart meters provide opportunities to develop innovative trials and pilots that will lead to better services and more efficient operations. We would like to work with the AER and stakeholders on developing specific incentives to apply to Ausgrid in the medium term, and consider that the AER’s consultation on the F&A may help start this conversation.

h. Other issues

Applying the Expenditure Assessment Guidelines

As part of the F&A process, the AER is required to indicate how it intends to apply its Expenditure Assessment Guidelines to Ausgrid’s distribution determination. Ausgrid notes that the way in which the AER assessed opex for the 2015-19 determination – specifically the use of benchmarking – is currently subject to judicial review. For this reason Ausgrid has not formed a view on the application of the Expenditure Assessment Guidelines at this stage.

Forecast depreciation

To date, the AER has used forecast depreciation in determining the opening RAB on the basis that it provides for a balanced incentive framework. This is a well-established position, and one that Ausgrid agrees with. For this reason Ausgrid does not recommend departing from this approach for the 2019-24 regulatory period.

3 Dual function assets

The NER requires Ausgrid to inform the AER of the value of its dual function assets (DFA) as at 1 July 2016 by the end of October 2016. This is for the AER to assess how material the value of DFA is as a proportion of total RAB values of standard control services. Based on this materiality, the AER then decides whether the revenue attributed to DFA are to be recovered under the pricing rules in Chapter 6 (distribution) or Chapter 6A (transmission) of the NER.

Some of Ausgrid high voltage assets are dual function assets as per the definitions in Chapter 10 and clause 6.24.2(a) of the Rules. Also some of these high voltage assets are transmission exit assets. Ausgrid has calculated the value of DFA as at 1 July 2016 is $2,020 million (nominal). The equivalent value for distribution $12,656 million (nominal), resulting in the DFA value to be 14 per cent of the total RAB. Given the materiality of this value Ausgrid expects the AER to decide that the revenue associated with DFA will be priced under Part J of Chapter 6A, as it has been previously.

Ausgrid proposes that the current decision to recover DFA revenue under Part J of Chapter 6A continues for the 2019-24 period so that large customers assigned to an individually calculated site-specific tariff receive price signals that are more reflective of the economic costs of transmission network service provision.