

28 January 2011

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Submitted via email

Dear Mr Anderson

AER Network Service Provider Performance Reporting Consultation

Thank you for the opportunity to comment on the objectives and priorities of the electricity Network Service Provider (NSP) performance reports.

AEMO performs multiple transmission related roles in the National Electricity Market (NEM). These include planning, connecting and procuring shared transmission services in Victoria, producing planning documents such as the electricity Statement of Opportunities and National Transmission Network Development Plan and engaging in developments that help to define the role of transmission in the NEM via the National Transmission Planning function.

Like the AER, AEMO must have regard to the National Electricity Objective (NEO) when performing these functions. AEMO considers that the long term interests of customers are best served by efficient investment in and utilisation of the networks. We believe that this can be achieved through transparent information provision to the market via our planning documents and the AER's reporting provisions. We use the AER's performance reports to assist and inform all of our transmission related activities.

In this submission, we outline areas where reports may be improved to better meet the objectives outlined by the AER and thereby provide greater value for stakeholders. Given our interactions are predominantly at the transmission level, specific comments raised are targeted to Transmission Network Service Provider (TNSP) information provisions. However, we recognise that some of the comments are applicable to the Distribution Network Service Provider (DNSP) reporting requirements.

AEMO performs the role of a Transmission Network Service Provider in Victoria. Because of our unique governance arrangements, AEMO is not part of the AER's NSP performance reporting. We do, however, support transparency in our operations and will review the outcomes of the AER's process with a view to making our performance reporting consistent with the AER's where that would be appropriate.

1. Principles of the reporting regime

AEMO agrees with the general principles outlined in the AER's discussion paper in the context of the wider regulatory framework. These reports are key enablers for stakeholders to assess compliance with regulatory determinations and compare the performances of NSPs. This is of particular importance given the ex-ante nature of the regulatory reset process.

AEMO would also like to see a stronger future focus on the reports being used to inform revenue reset processes and regulatory framework reviews in the future and suggests a objective be developed which reflect this.

2. Capital Expenditure

AEMO analysis of TNSP expenditure, based on data reported by the AER, shows that capital expenditure is the largest driver of transmission related costs to consumers, making up approximately 30% to 50% of maximum allowable revenue (MAR)¹ for any one year.

The AER notes there are three broad types of capital expenditure, each with their own unique drivers. As outlined in the AER's most recent TNSP Electricity Performance Report for 2008-09, these are replacement or renewal of aging assets; upgrading network to cope with increased load; and legal, environmental and statutory reasons. At present the Performance reports provide analysis of differences between actual and forecast capital expenditure, however, they do not analysis the drivers underpinning the expenditure or the categories of capital expenditure. AEMO believes that future performance reports must provide a detailed breakdown of capital expenditure against each of the categories identified by the AER linking them to the drivers of expenditure over the previous regulatory periods. This will enable customers to understand where the MAR is being spent and enable them to provide more informed submissions into future revenue resets.

3. Improvements to the regulatory framework

Under the ex-ante framework there is a disconnect between the projects that inform the forecast MAR and the items comprising a TNSP's actual expenditure during the regulatory period. AEMO supports the incentive properties of a forward looking regime which provide investor certainty, however it believes that it can also limit the amount of information that consumers have access to. AEMO therefore considers that there is scope within these reports to provide both revised forward and backward looking information that will lead to improvements in the regulatory framework.

We have identified some suggested information that will promote transparency and accountability:

- Detailed backward analysis of expenditure and the drivers for expenditure as discussed previously.
- Information on Regulation Investment Tests for Transmission (RIT-T). These tests support the revenue reset process by requiring current cost benefit analysis on a project by project rather than forecasts. Given the disconnect present in a ex-ante framework, performance reports provide an opportunity for the AER draw out the link between such cost benefit tests and the revenue rest process. AEMO suggests information be supplied, as part of the reports, on which projects have been subjected to the RIT-T during the year and the actual expenditure for previous RIT-T assessments.
- Links between capital and operational expenditure. There are strong links and tradeoffs between an NSPs capital and operational expenditure decisions. The reporting needs to reflect how much operational expenditure has been spent on providing network services and how much supports the business. Of that spent on network services it should also detail whether it has been allocated to items such as network support payments or refurbishment expenditure.

¹ Data collated from TNSP Revenue Determinations. The additional components of MAR in the building block approach are operating expenditure (approximately 20%), return on existing (rather than new) capital, tax and service standards performance schemes.

- A forward looking analysis of what has been approved in regulatory determinations and where that money is expected to be spent. This information would allow for investors and other interested parties to better plan for network developments. It would also promote accountability since it would enable greater exposure of NSPs plans. Further, it may also result in greater participation by stakeholders in the regulatory determination processes and RIT-T's going forward.
- Greater links between the services being delivered and the expenditure.. This would require a greater focus on reporting of the services that are being delivered by NSPs in addition to reporting on existing incentives schemes, operating standards and service standard levels.
- Reporting on negotiated services. More services are now being provided to customers as negotiated services. While the negotiated service regime is different to the prescribed service regime, the potential impacts on the grid and the provisions that enable negotiated services to be converted to prescribed services makes this information relevant to network customers.

4. Improving Performance

One of the AER's objectives of the performance reporting is to deliver performance improvements by enabling less efficient NSPs to adopt the practices of more efficient NSPs.

While AEMO agrees with the objective of improving performance, we do not consider that simply reporting figures will encourage NSPs to more efficiently invest in their networks. The efficiency of the NSPs in comparison to one another may be established but this alone does not create any incentives, other than through potential reputational implications, since the businesses are each monopolies.

AEMO considers that improvements in performance will be achieved when (and once) these statistics are used to inform future revenue determinations. As such, we agree with the objective of using the performance reporting to establish benchmark expenditure and investment levels and inform future determinations. AEMO supports a much stronger linkage between these performance reports and regulatory determinations.

5. Use of data by third parties

The AER recognises in its discussion paper that the statistics in these reports may be used by stakeholders to conduct independent analyse of NSPs performances. This makes it essential that the statistics are robust and traceable. AEMO suggests that all historic information and data be made available on the AER's website in an easily accessible format.

Please contact Louis Tirpcou on (03) 9609 8415 should you wish to discuss further.

Yours sincerely

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