

The Australian Energy Regulator



**NSW electricity distributors
2019–24 reset**

**Stakeholder meeting: AER
preliminary framework and
approach**

11 April 2017

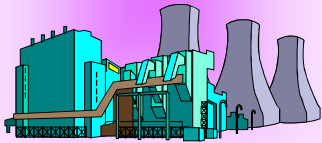
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Agenda

- The AER and the Consumer Challenge Panel (CCP)
- Regulatory framework incl. Framework and approach (F&A)
- NSW preliminary F&A
- Reset timeline
- Service classification guideline

The AER's role in NSW energy

Wholesale gas & electricity markets

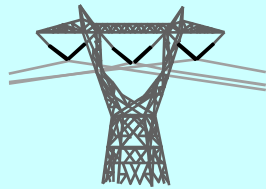


We monitor wholesale markets and enforce rules

Prices in the NEM are set by the market subject to the NER

AER monitors market outcomes and behaviour

Transmission networks & pipelines



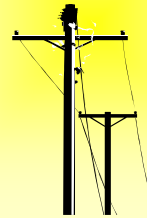
We regulate revenues of transmission businesses

Charges set by AER

Transmission loss factors method set by AEMO

Regulatory investments tests – AER assesses compliance

Distribution Networks for gas/electricity



We regulate revenues of distribution businesses

Distribution prices and structures – AER approves annually subject to determination and NER

Reliability standards – set by NSW Govt.

Incentive schemes – defined in NER and set by AER at reset

Rate of return – NER and AER guideline – set at reset for 5 years

Retail & other distribution



We will regulate non-price retail activities

National Energy Customer Framework - AER

Retail price approach – NSW Govt.

Regulatory framework (1)

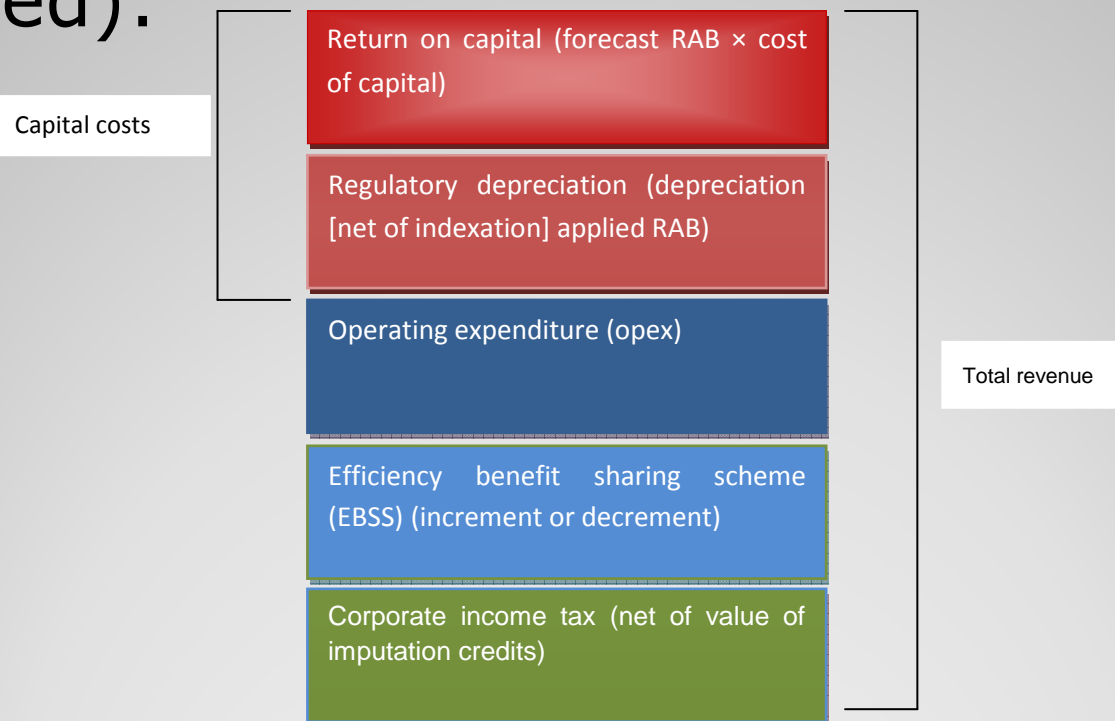
- Decisions must contribute to achievement of the NEO – efficient investment in, & efficient operation & use of, electricity services for the long term interests of consumers.

Regulatory framework (2)

- Key aspects of NER:
 - Regulatory asset base – not re-valued
 - Rate of return – benchmark efficient firm
 - Capex and opex objectives – efficient, meet demand, obligations
 - Depreciation
 - Tax allowance
 - Incentive schemes

Regulatory framework (3)

- The building blocks (how prices are derived):

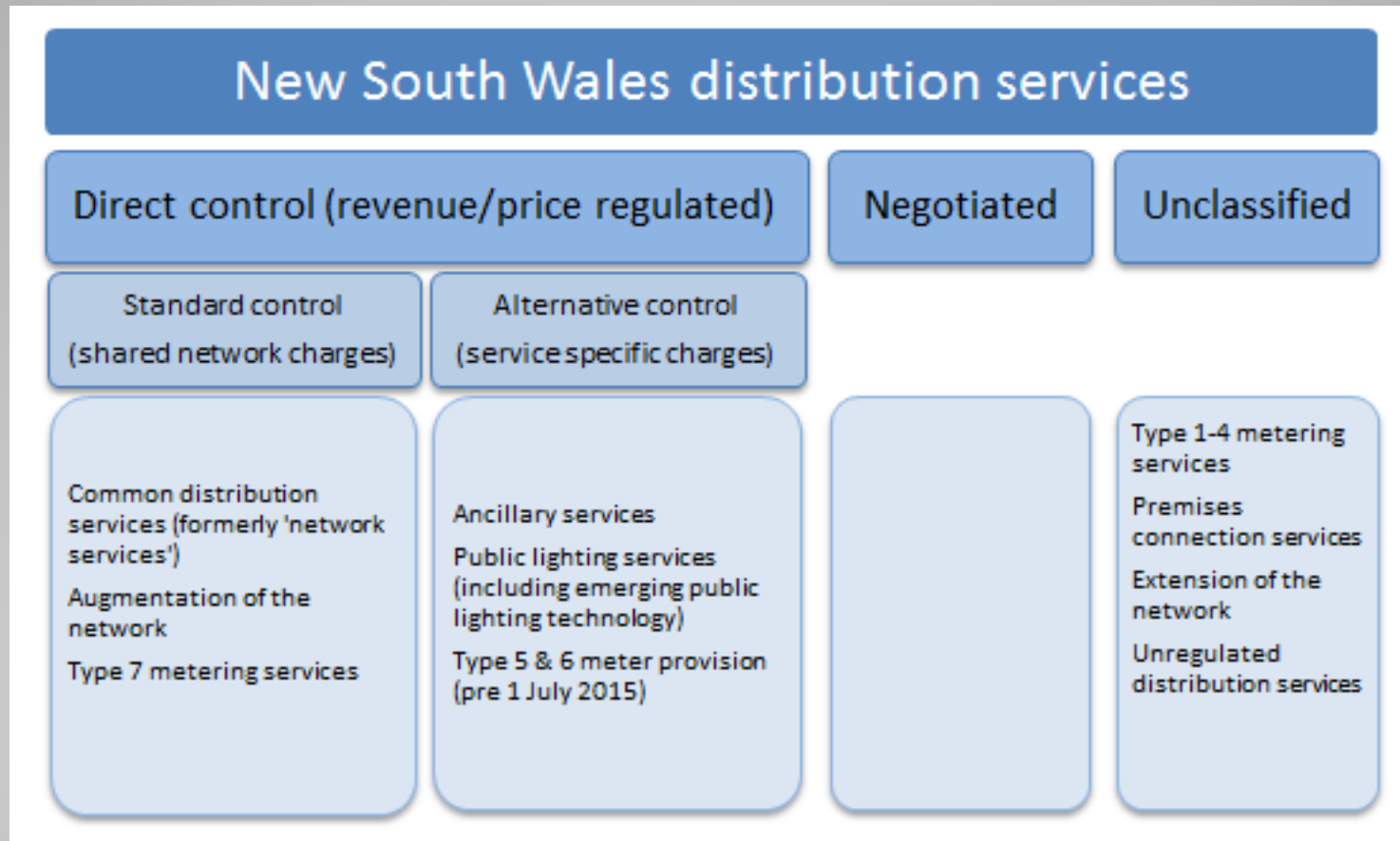


Framework and approach

- 1st step in 2 year reset process
- F&A determines:
 - Service classification (limited discretion and sets ring-fencing obligations)
 - Form of control mechanism (binding)
 - Control mechanism (limited discretion)
 - Application of incentive schemes (flexible)
 - Approach to depreciation (flexible)
 - Application of expenditure forecasting guideline (flexible)
 - Dual function assets (binding)

NSW preliminary F&A

- Service classification – what service we will regulate



Service classification

- Only proposed changes from 2014-19 are:
 - Metering coordinator, metering provider and metering data provider roles – unregulated distribution services from 1 December 2017.
 - Unregulated distribution services – for businesses to review their revenue streams to propose list of services. Impacts on ring-fencing obligations.
 - Emergency recoverable works from unregulated to standard control.

Form of control

- No change to current approach:
 - Standard control services – revenue cap
 - Alternative control services – price cap.

Incentive schemes

- Intend to apply:
 - Service target performance incentive scheme (STPIS)
 - Efficiency benefit sharing scheme (EBSS)
 - Capital expenditure share scheme (CESS)
 - Demand management incentive scheme (DMIS)
- DMIS & STPIS review – complete late 2017
- New schemes expected to be applied to NSW businesses

Depreciation, benchmarking, DFA

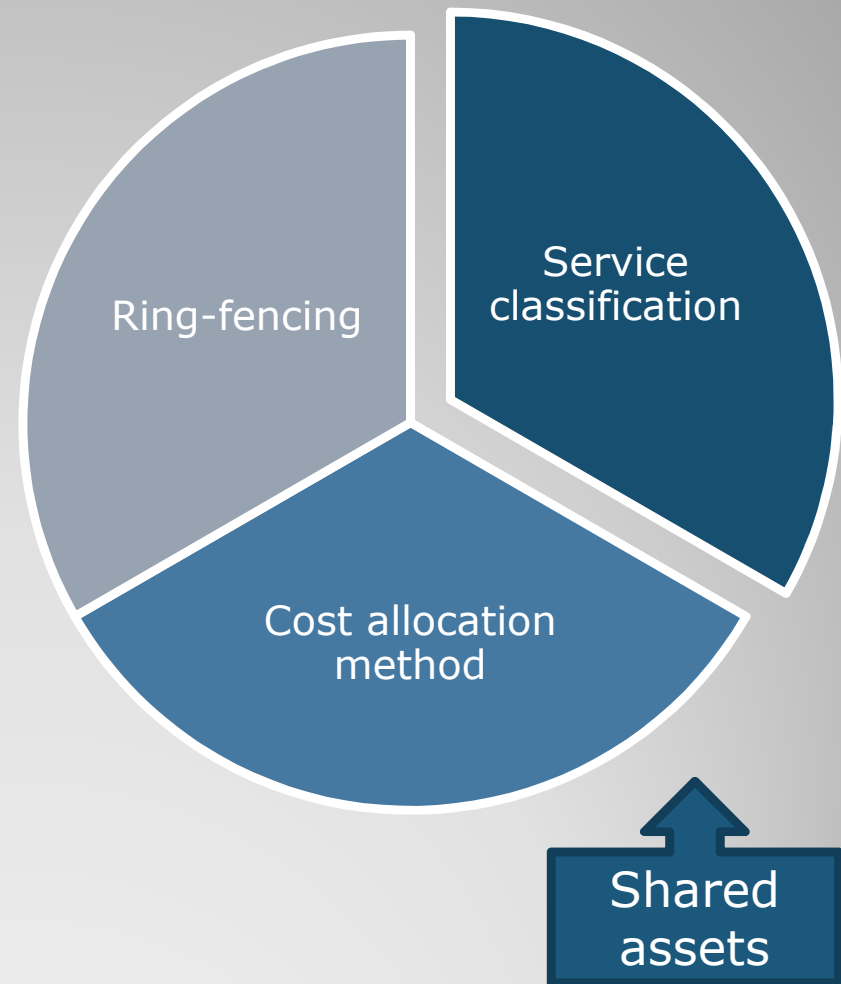
- Intend to apply:
 - Forecast depreciation (combined with CESS provides incentive to pursue capex savings).
 - Forecast expenditure guideline - apply the assessment/analytical tools set out in the guideline and any other appropriate tools for assessing expenditure forecasts
 - Ausgrid's dual function assets (DFA) – apply transmission pricing
 - Endeavour Energy's DFAs – apply distribution pricing
 - Essential Energy does not have any DFAs.

NSW reset timeline

Step	Date
Submissions close – preliminary F&A	21 April 2017
AER to publish final F&A for NSW distributors	July 2017
NSW distributors submit regulatory proposals to AER	January 2018
AER publishes Issues paper and holds public forum	Feb/March 2018
Submissions on regulatory proposal close	May 2018
AER to publish draft decisions	September 2018
NSW distributors to submit revised regulatory proposals to AER	December 2018
Submissions on revised regulatory proposals and draft decision close	January 2019
AER to publish final distribution determinations for 2019-24	April 2019

Service classification guideline

- Guideline development will commence once AEMC contestability rule change complete (late 2017)
- Guideline completed in early 2018 – will likely apply to NSW businesses



Questions

- Questions?
- Contact the AER at:
 - ausgrid2019@aer.gov.au
 - endeavourenergy2019@aer.gov.au or
 - essentialenergy2019@aer.gov.au