

27 February 2015

Mr Chris Pattas
General Manager – Network Investment and Pricing
Australian Energy Regulator
Level 35, The Tower
360 Elizabeth Street
Melbourne VIC 3000

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

via email: AERInquiry@aer.gov.au

Dear Chris,

Response to the AER's Framework and Approach Preliminary Positions Paper

AusNet Services is pleased to respond to the AER's Preliminary Positions Paper on the Framework and Approach (F&A) for the regulatory control period beginning on 1 April 2017.

The AER's preliminary positions set out a practical and sensible framework for the upcoming review. These include the discussion of the two additional issues raised for consideration by AusNet Services as part of the F&A stage, namely:

- Regulatory period length; and
- Ex post capital expenditure review of the 2014-15 regulatory year.

While AusNet Services recognises that no firm decision can be made on these topics as part of the F&A stage of the review. However, raising these as part of the F&A stage has provided stakeholders with an early opportunity to input views on these matters. AusNet Services will consider these views during the revenue proposal development.

Please find attached detailed responses to the F&A positions. Please do not hesitate to contact Charlotte Coster on (03) 9695 6309 if you have any questions about this submission.

Sincerely,



John Howarth
Manager, Regulation and Network Strategy
AusNet Services

Attachment – Response to F&A Preliminary Positions

1 Regulatory Period Length

AusNet Services agrees that there are a number of different considerations associated with setting the length of the regulatory period that must be taken into account. These include the strength of the expenditure efficiency incentive schemes, the regulatory burden associated with different review frequencies for both the AER and AusNet Services, and the policy discussion around alignment of regulatory periods for transmission networks as recommended by the AEMC in the Transmission Frameworks Review¹.

Recognising that the AER is not able to make a binding decision on the length of the regulatory control period as part of the F&A process, AusNet Services will consider stakeholder views on this issue received in response to this consultation, as well as through its own stakeholder engagement program before submitting a formal proposal on the length of the regulatory period in its revenue proposal.

2 Service Target Performance Incentive Scheme (STPIS)

Version 4 of the STPIS has applied to AusNet Services since 1 April 2014. This version of the scheme was substantially different from the previous versions that applied to AusNet Services. In particular, it contained large changes to the Service Component measures and also introduced a new parameter, the Network Capability Component. The latest version (4.1) of the STPIS is very similar to the currently applicable version. AusNet Services supports the application of version 4.1 of the STPIS in its regulatory period beginning 1 April 2017.

The AER states that it will review the STPIS in 2015, and, if a new version is formed, this will be applied to AusNet Services. A key issue this review should address is how performance targets should be set given the change in the Value of Customer Reliability (VCR). It may not be appropriate to use historic reliability performance data to set performance targets given the change in the VCR implies that a decline in reliability may be efficient.

It is possible that a new version of the STPIS may require additional information that is not readily available to be included in the revenue proposal. This could include historic performance data that meets the requirements of any new parameters and/or modifications to the Network Capability Incentive Parameter Action Plan (NCIPAP) that is currently being developed with input from AEMO. As this information may take some time to produce, AusNet Services requests that the STPIS review is finalised at least three months before we submit our revenue proposal.

3 Efficiency Benefit Sharing Scheme (EBSS) and Capital Expenditure Sharing Scheme (CESS)

AusNet Services supports the application of the EBSS (version 2) and the CESS (version 1) in the next regulatory period.

AusNet Services remains of the view that there should not be a stand-alone review of capex efficiency for 2014-15; instead, this year should be reviewed as part of the ex post review period beginning 2015-16. Transmission capital expenditure programs are often managed over a number of years due to the nature and the size of the projects, and therefore the assessment of expenditure in a single year may not be representative of the way in which the overall works program is being delivered. For this reason the ex post review provisions in the NER specify that ex post reviews will be carried out based on aggregate expenditure over multiple years.

¹ AEMC, *Final Report – Transmission Frameworks Review*, 11 April 2013

While we strongly support the policy position set out above, at this time AusNet Services does not expect to materially overspend its capex allowance in the 2014-15 regulatory year. Therefore, in practice the timing of the ex post review of this year is unlikely to have a material impact on outcomes.

4 Expenditure Forecast Assessment Guideline

AusNet Services supports the application of the Expenditure Forecast Assessment Guideline for the next regulatory period.

AusNet Services supports the use of benchmarking to form a high level comparative view of efficiency where relevant. Given the relative maturity of the use of benchmarking transmission networks in Australia, we would welcome further engagement with the AER on the development of benchmarking models and methodologies.

5 Depreciation

AusNet Services supports the application of forecast depreciation to establish the opening RAB for the regulatory period beginning 1 April 2017. We consider that the use of forecast depreciation is most consistent with the workings of the CESS. The use of actual depreciation would introduce distortions into the scheme.