

24 August 2012

Mr Warwick Anderson
General Manager Network Regulation Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Anderson

Response to AER's preliminary positions paper for the ACT framework and approach

ActewAGL Distribution (ActewAGL) welcomes the opportunity to respond with the accompanying submission to the AER's *Preliminary positions, Framework and approach paper*, ActewAGL for the regulatory period commencing 1 July 2014.

The National Electricity Rules (NER) require the AER, in classifying services, to act on the basis that there should be no departure from a previous classification unless a different classification is clearly more appropriate. ActewAGL believes that the AER's preliminary position on the classification of services, particularly in relation to the proposed classification of connection services, does not fulfil this criterion for reasons outlined in our submission.

ActewAGL does not agree with the AER's proposal to change the control mechanism for standard control services from the current average revenue cap to a revenue cap. Revenue caps have some significant shortcomings, particularly in relation to two factors that the AER considers important—price stability and incentives for efficient pricing. ActewAGL disagrees with the AER's view that these weaknesses are more than offset by some relative strengths of revenue caps. We also consider that the AER's assessment of the current average revenue cap is unbalanced, focusing on theoretical weaknesses but not taking account of actual outcomes and the impacts of other elements of the regulatory framework that shape pricing and investment incentives. The submission includes further discussion of these outcomes.

Should the AER have concerns about aspects of ActewAGL's proposals, we seek a meeting as soon as possible to discuss significant issues arising from the AER's positions. Contact should be made with Mr Chris Bell, Manager Regulatory Affairs on (02) 6248 3180.

Yours sincerely



Stephen Devlin
General Manager Asset Management