28 October 2016

Mr Warwick Anderson
General Manager
Networks (Finance and Reporting)
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Anderson

Request for the AER to make, or make an amended or replacement, framework and approach paper

I write regarding the framework and approach process under the National Electricity Rules (**Rules**) for ActewAGL Distribution's forthcoming regulatory control period 1 July 2019 to 30 June 2024 (**Forthcoming Period**).

This letter sets out, in particular, ActewAGL Distribution's request for the AER to make a, or make an amended or replacement, framework and approach paper (**F&A Paper**) to apply in respect of the electricity distribution determination for ActewAGL Distribution for the Forthcoming Period.

Background

Under the transitional Rules applicable to the making of the Australian Capital Territory (**ACT**) distribution determination for the subsequent regulatory control period, being 1 July 2015 to 30 June 2019 (**Current Period**), the AER was required to make the F&A Paper to apply in respect of that distribution determination in two stages (clause 11.56.4(l) of the Rules).

Accordingly, the AER published, on 25 March 2013, a stage 1 F&A Paper (**Stage 1 F&A Paper**), setting out (among other things) its decisions on the form(s) of the control mechanisms , and its likely approach to the classification of ActewAGL Distribution's services and the formulae that give effect to the control mechanisms determined by the AER. The AER subsequently published its stage 2 F&A Paper (**Stage 2 F&A Paper**), setting out (among other things) how it proposed to apply a range of incentive schemes and other guidelines to ActewAGL Distribution, on 31 January 2014.

In so doing, the AER was permitted to, and did, specify a number of matters in relation to the distribution determination for ActewAGL Distribution for the transitional regulatory control period, being 1 July 2014 to 30 June 2015 (**Transitional Period**) in each of the Stage 1 F&A Paper and the Stage 2 F&A Paper (clauses 11.56.3(h) and 11.56.4(l) of the Rules).

Rules relevant to F&A process for the Forthcoming Period

Clause 6.8.1(a) requires the AER to make and publish an F&A Paper that applies in respect of a distribution determination for a matter listed in sub clause 6.8.1(b) if:

- there is no F&A Paper that applies in respect of that distribution determination for that matter; or
- there is an F&A Paper that would apply in respect of that distribution determination for that matter but the AER has published a notice under sub clause 6.8.1(c)(3) stating that it will make an amended or replacement F&A Paper with respect to that matter.

Under clause 6.8.1(c)(1) of the Rules, no later than 32 months before the end of the regulatory control period preceding that for which the distribution determination is to be made, the affected Distribution Network Service Provider (**DNSP**) may request the AER to make an amended F&A Paper in respect of any matter listed in sub clause 6.8.1(b) of the Rules. If the DNSP makes such a request, the AER must, no later than 30 months before the end of the regulatory control period that precedes that for which the distribution determination is to be made, make and publish a notice that states that it will make an amended or replacement F&A Paper in respect of the matters specified in the DNSP's request (clause 6.8.1(c)(3)(i) of the Rules).

ActewAGL Distribution's request

ActewAGL Distribution requests the AER to make an amended or replacement F&A Paper to apply to the electricity distribution determination for ActewAGL Distribution for the Forthcoming Period in respect of each of the matters listed (with reasons for making the request) in the accompanying schedule. We look forward to appropriate consultation on these matters before the AER's F&A Paper is published.

Should you have any queries regarding this matter, please contact Mr Chris Bell, Manager Electricity Networks Price Review, on 02 6248 3132 or by email to chris.bell@actewagl.com.au.

Yours sincerely

Stephen Devlin
General Manager Energy Networks

Schedule: Matters for which ActewAGL Distribution requests an amended or replacement F&A Paper

Matter listed in clause 6.8.1(b)	*Reasons for request*
The form of the control mechanism applying to direct control services that are standard control services	The Stage 1 F&A Paper sets out the AER's decision that the form of control to apply to ActewAGL Distribution's standard control distribution services during the Transitional and Current Periods is to be a revenue yield cap (an average revenue cap). ActewAGL Distribution considers that the form of regulation for direct control services should be appropriate to the circumstances of the network service provider. Whether the form of regulation applying in the Current Period to ActewAGL Distribution's standard control services should continue to be an average revenue cap into the Forthcoming Period needs to be considered in the overall context of the changing business environment for electricity distribution and the potential volatility of electricity consumption forecasts. ActewAGL Distribution seeks amendment or replacement of the form of control mechanism to ensure it retains a fair opportunity to recover its determined revenue requirement over the Forthcoming Period in order to be able to provide services in the long term interests of customers.
The formulae to give effect to the control mechanism for direct control services that are standard control services	The Stage 1 F&A Paper sets out the AER's proposed formulae to give effect to the average revenue cap form of control for standard control services for ActewAGL Distribution for the Transitional and Current Periods. If the form of control for standard control services were to change for the Forthcoming Period, the formulae used to give effect to the form of control would also need to be revisited. The formulae used currently vary, for example, according to circumstances in the particular jurisdiction across National Electricity Market jurisdictions, even where the same form of control is applied. ActewAGL Distribution seeks to ensure that appropriate formulae are applied to give effect to its control mechanism.
The classification of distribution services	The Stage 1 F&A Paper sets out the AER's proposed approach to service classification for ActewAGL Distribution for the Transitional and Current Periods. The classification of a distribution service determines how ActewAGL Distribution can set prices and recover the costs of the service. It is possible that changes could be required to service classifications for direct control services as the result of Rule changes and the commencement of metering competition for small customers in December 2017. Some such changes were included in the distribution determination for ActewAGL Distribution for the Current Period made by the AER in April 2015. ActewAGL Distribution seeks to ensure that service classifications

Matter listed in clause 6.8.1(b)	*Reasons for request*
	continue to reflect the services offered and an efficient and effective means to recover relevant costs in the Forthcoming Period.
The application to the DNSP of any Service Target Performance Incentive Scheme (**STPIS**)	The Stage 2 F&A Paper proposes to apply the s-factor component of the existing STPIS to ActewAGL Distribution in the Current Period (but not the Transitional Period), and sets out the AER's proposed approach to applying that s-factor component in the Current Period including in particular the revenue at risk and parameters to apply, and the manner in which performance targets are to be set. ActewAGL Distribution supports in principle the application of an STPIS. We do not propose changes to the existing scheme but seek consultation on the specific parameters of the STPIS to apply to ActewAGL Distribution during the regulatory review process. We also seek consultation on other elements of the STPIS such as the manner of calculation of performance targets and the revenue at risk.
The application to the DNSP of any Efficiency Benefit Sharing Scheme (**EBSS**)	The Stage 2 F&A Paper proposes that the existing EBSS (published in November 2013) apply to ActewAGL Distribution in the Current Period (and the pre-existing EBSS for the NSW/ACT DNSPs published in February 2008 apply to ActewAGL Distribution for the Transitional Period). ActewAGL Distribution supports in principle the application of an EBSS. We note, however, that (as was acknowledged by the AER in making the distribution determination for the Current Period in April 2015) a consistent and effective implementation of the EBSS depends on the application of a revealed cost approach to forecasting operating expenditure requirements. In the context of AER's intention to review the current Expenditure Forecast Assessment Guideline,[1] ActewAGL Distribution would welcome an opportunity to clarify the AER's intentions on the application of revealed cost approach versus other methodologies before arriving at a position on the application to ActewAGL Distribution of the EBSS during the Forthcoming Period.
The application to the DNSP of any Capital Efficiency Sharing Scheme (**CESS**)	The Stage 2 F&A Paper proposes that the CESS as set out in the AER's existing capital expenditure incentives guideline apply to ActewAGL Distribution (without modification) in the Current Period. ActewAGL Distribution supports in principle the application of a CESS. We are, however, concerned that the application to ActewAGL Distribution of some aspects of the current scheme, particularly the inclusion in the scheme of capital expenditure for customer initiated works, is not appropriate. The customer initiated works expenditure class forms a significant part of ActewAGL Distribution's capital expenditure and is subject to significant market

[1] AER (2016), *Statement of intent 2016-17*, p6

Matter listed in clause 6.8.1(b)	*Reasons for request*
	driven variations outside our control. We would welcome an opportunity to consult on the specific parameters of the scheme that are to apply to ActewAGL Distribution for the Forthcoming Period as part of the regulatory review process.
The application to the DNSP of any Demand Management and Embedded Generation Connection Incentive Scheme (**DMEGCIS**)	The Stage 2 F&A Paper provides for the existing demand management incentive scheme (**DMIS**) (Part A only) to apply to ActewAGL Distribution for the Transitional and Current Periods. ActewAGL Distribution supports in principle the application of a DMEGCIS. We note, however, that AER is in the process of developing a new scheme as a result of the recent Rule changes in relation to demand management incentives (the *National Electricity Amendment (Demand Management Incentive Scheme) Rule 2015*). The making of new scheme will necessitate amendment or replacement of this aspect of the Stage 2 F&A Paper in that that Paper provides for the application to ActewAGL Distribution of the existing DMIS (Part A only), whereas a new and different scheme will be potentially applicable to ActewAGL Distribution for the Forthcoming Period. The scheduled date for publication of the new scheme is December 2016 and we will be able to review our position on the application of the scheme to ActewAGL Distribution for the Forthcoming Period after the scheme is published.
The application of the Expenditure Forecast Assessment Guideline	The Stage 2 F&A Paper provides for the existing Expenditure Forecast Assessment Guideline (published in November 2013) to apply to ActewAGL Distribution for the Transitional and Current Periods. The AER has, however, foreshadowed amendments to the Expenditure Forecast Assessment Guideline.[2] If the new Guideline is published prior to the making or amendment of the F&A Paper in respect of the distribution determination for ActewAGL Distribution for the Forthcoming Period, this will necessitate the amendment or replacement of the Stage 2 F&A Paper in respect of this matter. If the new Guideline is not published prior to the making or amendment of the new F&A Paper then, given issues in relation to the way this Guideline was applied in the last regulatory determination process, we seek consultation on changes to the F&A Paper to address concerns with the application of the existing Guideline in the Forthcoming Period.

[2] Ibid