

20 September 2013

Mr Chris Pattas
General Manager – Network Operations and Development
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Pattas

Response to AER draft capital expenditure incentives guidelines and proposed Efficiency Benefit Sharing Scheme

ActewAGL Distribution welcomes the opportunity to provide this submission in response to the AER's draft capital expenditure incentives guidelines,¹ proposed Efficiency Benefit Sharing Scheme (EBSS)² and associated explanatory statements. ActewAGL Distribution is a member of the Energy Networks Association (ENA) and supports the ENA's submission on the schemes.

ActewAGL Distribution supports the intent of having such incentive mechanisms as a means of encouraging NSPs to reveal efficient costs. Incentive schemes should continue to develop as the primary tool for securing efficient outcomes under the regulatory framework.

ActewAGL Distribution maintains strongly that a blanket ruling by the AER against the exclusion of uncontrollable costs under the EBSS and Capital Expenditure Sharing Scheme (CESS) provides an unwarranted penalty for events over which Network Service Providers (NSPs) have no control. ActewAGL Distribution considers that it is reasonable for NSPs to have the opportunity to propose uncontrollable events that might occur during a regulatory period for acceptance by the AER.

The ENA in its submission discusses circumstances where costs for events that would qualify as cost pass throughs should be excluded from the incentive schemes. ActewAGL Distribution considers that events that would qualify except for the materiality threshold should be included in this category since it is possible for such events in total to involve a significant cost over the regulatory period.

ActewAGL Distribution also strongly supports the ENA's views and recommendation for the AER to extend the two-stage approach to assessing the efficiency of related party margins foreshadowed in its draft expenditure forecast assessment guidelines to its ex post assessment under the capex incentive guidelines of whether such costs should be allowed in the regulated asset base.

If you would like to discuss any aspect of this submission, please contact Chris Bell, Manager Regulatory Affairs on (02) 6248 3180.

Yours sincerely



David Graham
Director Regulatory Affairs and Pricing

¹ AER 2013, *Better Regulation, Draft Capital Expenditure Incentive Guidelines*, August

² AER 2013, *Electricity Network Service Providers, Proposed Efficiency Benefit Sharing Scheme*, August