AUSTRALIAN ENERGY REGULATOR

Draft distribution determination for Aurora Energy Pty Ltd
2012-13 to 2016-17
Pre-determination conference

Minute

Location:	Hotel Grand Chancellor 1 Davey St, Hobart
Date:	9.00 am, 13 December 2011
Forum chair:	Andrew Reeves
Attendees:	See Appendix 1

1. Introduction

Warwick Anderson opened the forum, noting:

- the AER published its draft determination for Aurora on 30 November 2011, and the consultation period for the draft determination has commenced
- comments and questions raised in the pre-determination conference will be taken into account by the AER in making its final determination
- Aurora's revised proposal is due on 16 January 2012 and submissions are due on 20 February 2012.

2. Presentation by Andrew Reeves

Andrew Reeves gave an overview of the AER's draft determination. The overview covered key points including the AER's processes and methodologies, allowed capital and operating expenditures, the cost of capital and incentive arrangements.

A copy of the AER's presentation is available on the AER's website at:

http://www.aer.gov.au/content/index.phtml?itemId=718201

3. Questions

Nathan Donnelly (EUAA) asked what the relationship between X factors and side constraints was and how that impacted on revenues. **Andrew Reeves** explained that the National Electricity Rules (Rules) set a limit on the rate of change of prices for customer classes within the regulatory control period. However, this constraint does not apply between regulatory control periods and DNSPs may adjust average prices, but also rebalance the charges to customers. DNSPs have discretion in defining customer classes and there could be significant differentials for customers within a class by changing the balance of fixed and variable charges. **Andrew Reeves** stated that distribution pricing is an under developed part of the Rules and the AER is considering how it could be improved.

Roman Domanksi (EUAA) welcomed the AER's draft determination and low price impacts. He further acknowledged the effort the AER has made in making this draft determination and hopes that there is not a radical change between the draft and final determinations. **Roman Domanksi** then commented that the AER had chosen a gamma of 0.25 on the basis of the Australian Competition Tribunal

(Tribunal) decision, and that this position is different to previous AER determinations. He asked **Andrew Reeves** if he could explain the reasons the Tribunal came to a different view from the AER and whether it is fair for consumers, given that it has an impact on prices. He noted the significant impact of the Tribunal revisions to the final determinations for Queensland and South Australia electricity DNSPs.

Andrew Reeves responded that it would not be appropriate for him to comment on the Tribunal's decision and that the AER must accept the tribunal's decision. **Andrew Reeves** noted that a gamma value of 0.65 is set for Transmission, but TNSPs would be interested in seeing a value of 0.25 for their determinations as well. He also commented that the gamma is a difficult theoretical concept and there are is divergence of views on its value. The AER continues to examine this area and is refining its approach as more information and analysis becomes available. However, it may be something the AEMC ought to review as well.

Andrew Reeves also stated that the nominal risk free rate (influenced by financial markets) created a significant difference between Aurora Energy's proposal and the AER's draft determination. A change in the financial markets between the draft and final determinations could affect the nominal risk free rate, and could significantly affect the AER's final determination.

Roman Domanksi asked **Andrew Reeves** to explain the reason for the demand management incentive allowance (DMIA) in more detail. **Andrew Reeves** responded that the DMIA counteracts a disincentive for DNSPs to be innovative in managing demand. There is an imbalance in incentive schemes because the efficiency benefit sharing scheme (EBSS) encourages DNSPs to minimise operating expenditure (opex), but innovation requires DNSPs to spend opex with an inherent risk of failure. The DMIA recognises the public good that can come from innovation and therefore allows DNSPs to explore innovative opportunities without being penalised under the EBSS. He noted that some DNSPs are spending more than the AER's allowance on demand management.

Andrew Reeves further explained that the AEMC has suggested the AER look at the imbalance in its incentive schemes and ensure symmetry of incentives to allow for more demand management opportunities. He noted that greater opportunities for demand management should also come with better technology (such as smart grids and communications systems).

Roman Domanksi asked why a DNSP's proposed 20 day averaging period for the cost of capital is kept confidential. **Andrew Reeves** responded that it gives DNSPs the ability to manage the regulatory risk of refinancing without financiers knowing when the DNSP will refinance, which could be detrimental to the DNSP. The confidentiality of the averaging period does not adversely affect anyone.

Nathan Donnelly asked if the AER's draft determination had allowed Aurora to recover reliability improvement capital expenditure (capex), and why there was an expenditure classification issue. **Sam Sutton** (AER) responded that it was the Office of the Tasmanian Economic Regulator who had allowed reliability improvement expenditure (in the current regulatory period). The AER had found that after examining Aurora's work category codes, some proposed expenditure, although classified as reliability and quality maintenance, seemed to be for reliability improvements. The AER did not allow any capex specifically for reliability improvements as such expenditure is not consistent with the Rules. However, the AER did allow some replacement expenditure that may result in incidental improvements in reliability.

Roman Domanksi asked **Andrew Reeves** to clarify the reduction in connections capex of $35 million from the previous period, as it seemed that the AER's allowance is similar to Aurora's previous period connections capex allowance. **Andrew Reeves** clarified that the AER's draft determination allowance is a $35 million reduction from the current regulatory period, not the previous period.

Nathan Donnelly asked if the proposed revenue from irrigation connections capex in the next period driven by the Tasmanian government policy to promote investment in irrigation technologies. **Andrew Reeves** directed the question to Aurora. **John Sayers** (Aurora) confirmed that this was the case. **Sam Sutton** clarified that the AER has accepted Aurora's capex proposal for irrigation connections.

Roman Domanski asked whether, in the event that there is a restructure of the Tasmanian electricity supply industry, any efficiency gains associated with a restructure would be passed onto consumers. **Andrew Reeves** responded that he thought it would be possible for the AER to look at the net costs of a regulatory change event pass through.

4. Conference close

Andrew Reeves and **Warwick Anderson** thanked the attendees for participating and closed the conference at approximately 10.30 am.

Appendix 1: Attendees

Organisation	Attendees
Australian Energy Regulator	Andrew Reeves Warwick Anderson Mark McLeish Andrew Ley Sam Sutton
Aurora Energy	Andre Botha Andrew Knowles Anton Voss Chantal Hopwood Darren Smith Fiona Calvert Geoff Willis Jacqui Suffolk Janelle O'Reilly John Sayers Kim Rosinski Leigh Mayne Peter Davis Richard Wilson Rick Inglis Robert Kingsley Ted Bradshaw
Department of Infrastructure, Energy and Resources	Marcus McKay Tim Astley
Energy Users Association of Australia	Nathan Donnelly Roman Domanksi
Goanna Consulting	Marc White
Hydro Tasmania	David Bowker
Office of the Tasmanian Economic Regulator	Glenn Bounds
Powercor Australia	Annalisa Cattanach
TasCOSS	Kath McLean
Transend Networks	Bess Clark Michael Seddon Michael Sward Pamela Watts