

3 July 2015

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Dear Sebastian,

Preliminary Decisions QLD/SA Electricity Distribution Determinations 2015-20

This submission responds to the AER's Preliminary Decisions for the QLD and SA Electricity Distribution Network Service Providers (DNSPs) published in April 2015. AusNet Services welcomes the opportunity to make a submission on these regulatory decisions. This submission focuses on AER's approach to setting the Rate of Return.

The new National Electricity and National Gas Rules adopted in 2012 were intended to constitute a significant reform to the prior Rate of Return arrangements which, for the electricity sector, involved moving away from the tightly prescribed use of:

- The SL-CAPM model for establishing the allowed rate of return for equity; and
- The "on the day" method of determining the allowed rate of return for debt.

Under these Rules, the AER is required to consider all the available inputs when setting the allowed rates of return for equity and debt. The Rules continue to provide that gamma is a market valuation of the imputation credits that would be distributed by a benchmark firm.

AusNet Services submits that:

- The AER continues to approach the task of establishing an allowed rate of return on equity in a way that will not deliver a rate of return that is commensurate with the efficient costs of a benchmark firm nor accords with the requirements of the Rules.
- Although the central concept of introducing a trailing average for debt is sound, there are some issues that need to be addressed in the way this would be implemented. These issues include the appropriate transition to the new approach and assessing whether the new 10 year BVAL curve is fit for purpose.
- For gamma, the AER's "conceptual approach" is not consistent with the Rules.

AusNet Services has previously made detailed submissions to the AER on these matters and considers that a preferable way to set the rate of return is that which is set out in its Distribution Revenue Proposal for the 2016-20 regulatory period. Please contact Charlotte Coster on 03 9695 6309 if you have any questions on this submission.

Sincerely,



Anh Mai, Manager Economic Regulation
AusNet Services