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Dear Chris

Response to AER Issues Paper – Victorian electricity distribution pricing review, 2016-20

The AER published an Issues Paper for the Victorian electricity distribution pricing review (Issues Paper) on 10 June 2015 and requested submissions on the distribution regulatory proposals.

As AusNet Services has previously advised the AER, there were a number of data errors in the Issues Paper in relation to AusNet Services' distribution network performance and proposal. The AER published an addendum in relation to errors regarding differences among the Victorian Distribution businesses' WACC proposals.

To provide stakeholders to the review a clear picture in relation to other errors, this submission sets out the correct information in relation to AusNet Services' network and proposal.

Current period capital expenditure

On page 19, the AER's Issues Paper states that AusNet Services is one of four businesses that will "significantly over spend" its capex allowance in the current period. This statement is supported by Figure 4.1 which shows AusNet Services' actual capex against the AER allowance. The data in the chart provide an incorrect impression of the level of AusNet Services' actual expenditure against the regulatory allowance. AusNet Services forecasts that its current period capex will be broadly in line with allowance over the five years.

It is our understanding that a number of factors explain the gap between actual capex and the AER's capex allowance as reported in the AER issues paper. The two major causes are explained below:

1. Inconsistent treatment of VBRC pass-through;

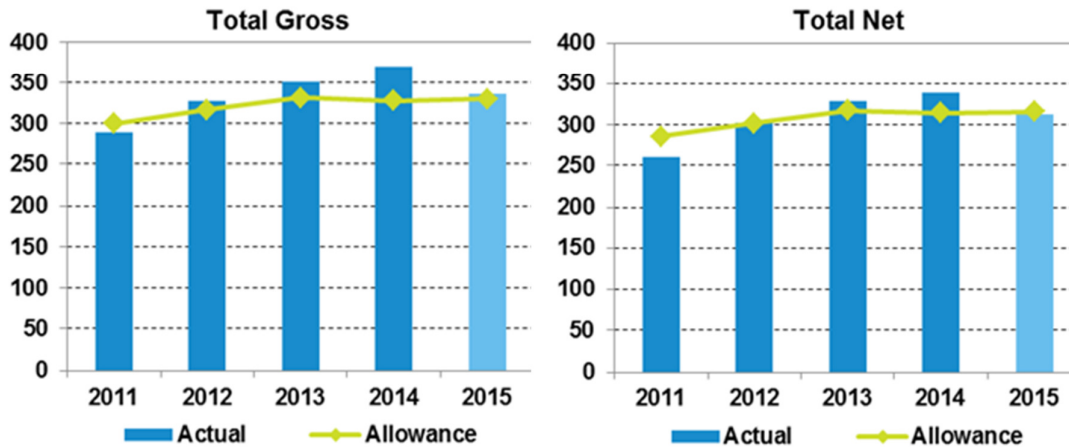
In 2012, the AER approved a pass through application for AusNet Services in relation to costs associated with the implementation of Victorian Bushfire Royal Commission (VBRC) recommendations, including capex of around \$100 million¹.

¹ <http://www.aer.gov.au/node/17294>

AusNet Services believes that the AER's issues paper (including Figure 4.1) is comparing actual costs which *include* VBRC capex, with a regulatory benchmark that *excludes* the VBRC capex.

The impact of the VBRC pass through is discussed in AusNet Services' proposal (section 7.2.3), and illustrated in the following charts.

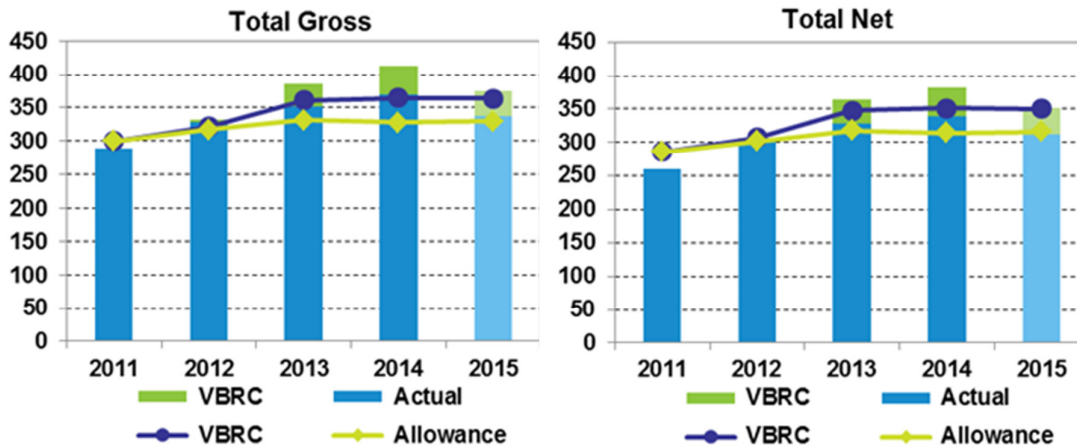
Figure 7.3: Total Capex Gross and Net, excluding VBRC and PRF (\$m, nominal)



Source: AusNet Services

Note: Figures for 2015 are estimates

Figure 7.4: Total Capex Gross and Net with VBRC Pass-through (\$m, nominal)



Source: AusNet Services

Note: Figures for 2015 are estimates.

2. *Inconsistent comparison of Net and Gross capex;*

AusNet Services believes that the AER's issues paper (including Figure 4.1) may be comparing actual gross capex with a regulatory allowance that is for net capex (i.e. the AER allowance excludes customer contributions).

Price impacts

The AER has reported price impacts based on data reported by the five distribution networks in the EDPR RIN (p.6). As noted in AusNet Services' regulatory proposal, the price data calculated using the AER's indicative bill model does not reflect the actual expected impact on annual customer charges, as it assumes forecast electricity consumption patterns that are inconsistent with the proposed prices.²

AusNet Services' forecasts of the average price impact for different customer groups are included in Chapter 20 of our proposal. Including metering charges, residential network customer bills are proposed to fall by 10.4% in 2016, before remaining largely flat until 2020.

Should you have any questions regarding this letter, please contact Katie Yates, Principal Economist on (03) 9695 6622.

Sincerely,



Tom Hallam
Manager Regulation and Network Strategy
AusNet Services

² AusNet Services, Electricity Distribution Price Review 2016-20, 30 April 2015, p.448