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30 July 2019

Mr Sebastian Roberts
General Manager – Transmission and Gas
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Sebastian,

AusNet Services Transmission Revenue Determination 2023-27
Framework and Approach Initiation

AusNet Services' current regulatory control period ends on 31 March 2022. Clause 6A.10.1A(c)(1) of the National Electricity Rules (NER) allows TNSPs to request an amended or replacement Framework and Approach (F&A) paper in respect of a matter where an existing F&A paper would otherwise apply. AusNet Services would like to request that the Australian Energy Regulator (AER) develop a replacement F&A to apply to the transmission determination process for the forthcoming regulatory control period commencing 1 April 2022. This letter sets out AusNet Services' preliminary views on the matters requiring AER consideration prior to the development of the F&A paper.

Service Target Performance Incentive Scheme

The transmission Service Target Performance Incentive Scheme (STPIS) was last reviewed in 2015, following a period of stakeholder consultation. The outcome of that review was a revised version of the scheme (v5), which was applied to AusNet Services for the current regulatory control period.

While we remain supportive of the transmission STPIS to provide incentives to efficiently improve the reliability of TNSPs to the benefit of customers, we are seeking to clarify whether the AER intends to consult on the current version of the scheme. This consultation could inform whether a review of the scheme is warranted to ensure it remains fit for purpose, prior to its application at the next round of transmission determinations.

Expenditure Incentive Schemes

We support the application of the current versions of the Capital Expenditure Sharing Scheme and Efficiency Benefit Sharing Scheme (published in November 2013) to AusNet Services at the forthcoming transmission determination.

Small-scale Incentive Scheme

While the AER is yet to develop a small-scale incentive scheme, we would request that it indicate in its F&A position paper whether it is considering developing one for application at the forthcoming transmission determination.

We note that the introduction of a customer satisfaction incentive scheme is currently being explored through AusNet Services' electricity distribution review, with the AER publishing an Issues Paper on 22 July. It is possible that engagement with our Transmission Customer

Advisory Panel indicates the need for a small-scale incentive scheme. If this occurs, we would seek to work with the AER to manage the development of such a scheme within the review timelines.

Demand Management Incentive Scheme and Innovation Allowance

The AEMC is currently considering a proposal from Energy Networks Australia to introduce a Demand Management Incentive Scheme and Demand Management Innovation Allowance to apply to transmission networks. These schemes would provide incentive payments to transmission networks to undertake efficient expenditure on non-network options, and funding for research and development on demand management projects. Both schemes currently apply to distribution networks.

We support the ENA's proposal and consider that the rule change would promote innovation in non-network solutions, ultimately benefiting transmission customers through lower transmission and total system costs. The ENA proposal provides the AER with discretion whether to apply the DMIS/DMIA to individual TNSPs. If introduced, we consider both schemes should be applied to AusNet Services at the forthcoming transmission determination.

Depreciation

The AER must indicate whether depreciation for establishing the regulatory asset base as at the commencement of the forthcoming regulatory control period is to be based on actual or forecast capital expenditure. We consider the AER's current approach of applying forecast depreciation, consistent with the CESS Guideline when the CESS mechanism is in place, should apply in establishing the regulatory asset base for the 2027-32 regulatory period. As noted above, we consider the CESS should apply during the 2023-27 period.

Regulatory Period Length

AusNet Services is currently considering the length of the regulatory period it will propose for the next period. The current timeframes for the electricity distribution and transmission regulatory determination processes overlap considerably. As AusNet Services uses the same resources for both regulatory processes, concurrently engaging in the preparation and review processes for two networks requires additional resources. This is sub-optimal from an efficiency perspective and may impose higher costs on customers.

This resourcing challenge is intensified by the Victorian Government's stated intention to change the electricity distribution regulatory year from a calendar year to an Australian financial year, and delay the commencement of the electricity distribution price review (EDPR) by six months. Any additional costs incurred to achieve appropriate resourcing for the two reviews are ultimately borne by our customers.

To address this issue, we are considering several options for the transmission revenue review, including proposing a regulatory period length of greater than five years, which would return to a more staggered regulatory determination pattern with the electricity distribution network. While a longer regulatory period will not address the resourcing constraint for the upcoming transmission determination process, it would resolve it at future reviews. A longer regulatory period will have implications for the notional sharing ratios that result from the AER's service standard and expenditure incentive schemes, which will need to be considered.

Alternatively, deferring the commencement of the forthcoming transmission determination by a period of 12-15 months would achieve a more staggered regulatory determination pattern more immediately. However, we note that the AER's obligations under the NER may preclude this option.

In addition to enabling a more efficient use of resources, both of these options have the potential benefit of aligning transmission determinations for TNSPs in Victoria, South Australia and New South Wales. Specifically, a 15 month deferral or a regulatory period of 6.25 years would offer the following benefits:

- A more coordinated process for investment approval for projects that cover multiple jurisdictions (e.g. interconnectors). Improved intra-regional planning is particularly important as the Integrated System Plan comes into effect; and
- Facilitating more meaningful peer to peer comparisons in future regulatory determinations.

While the NER provide that the length of a regulatory control period is a matter dealt with in a determination in response to a proposal, we believe it is informative to raise this issue early in the process. We would welcome further engagement with the AER on this topic before the publication of its F&A position paper.

Please do not hesitate to contact Rob Ball, Senior Economist on 03 9695 6281 if you have any questions in relation to these matters.

Sincerely,

Tom Hallam
General Manager – Regulation and Network Strategy
AusNet Services