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Dear Sebastian,

Ausgrid welcomes the opportunity to comment on the Australian Energy Regulator's (AER) Draft Decision for the Review of incentive schemes for networks.

The Energy Networks Australia (ENA) submission, supported by Ausgrid, provides more detail from an industry perspective. This short submission outlines the key issues from Ausgrid's perspective. Our main concern is the draft decision to apply the tiered incentive rate asymmetrically.

While we maintain our view that the capital expenditure sharing scheme (CESS) should remain unchanged based on the evidence available, we acknowledge that the bright-line tiered test is the best option of those provided in terms of simplicity and certainty. However, we do have some concern about the asymmetrical application of the test.

We note the reasons provided explaining why the AER has decided to apply test asymmetrically, however we do not agree that the risk of over forecasting capex being higher than under forecasting has been evidenced during the consultation. Information asymmetry between the AER, consumers and the network businesses does not of itself create a higher or lower risk of over or under forecasting. Further, genuine forecasting error is equally likely to occur above or below the efficient requirement.

The AER has previously concluded that a symmetric CESS in combination with the possibility of ex-post review and adjustment for deferrals best ensures capex consistent with the capital expenditure incentive objective.¹ It has also previously concluded that if there is evidence that their capex forecasts have been too conservative, the AER should take that into account when setting forecasts.² Applying an asymmetric incentive was not considered an appropriate way to address conservatism in forecasts or information asymmetry, and it is not clear what has changed since that time to prompt such a significant change in principle.

¹ AER, Better Regulation – Explanatory Statement: Capital Expenditure Incentive Guideline for Electricity Network Service Providers, November 2013, p 23.

² AER, Better Regulation – Explanatory Statement: Capital Expenditure Incentive Guideline for Electricity Network Service Providers, November 2013, Page 27.

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We therefore consider the bright-line tiered test option should be applied symmetrically. Ex-post review and deferral adjustments provide additional safeguards to consumers, and are complementary to a symmetric CESS.

If you have any questions regarding this submission, please contact [REDACTED]
[REDACTED] or [REDACTED]

Regards,

[REDACTED]

Rob Amphlett Lewis
Chief Customer Officer