



3 February 2011

Mr Chris Pattas  
General Manager, Network Regulation South  
Australian Energy Regulator  
Level 35, 360 Elizabeth Street  
MELBOURNE VIC 3000

Email: [cpattas@aer.gov.au](mailto:cpattas@ aer.gov.au)

Dear Mr Pattas

### **PROPOSED SECURITY FEE SCHEME**

I refer to the Draft Decision – *CitiPower's and Powercor's Proposed Security Fee Scheme (Draft Decision)* released on 21 December 2010. CitiPower and Powercor Australia (**Businesses**) offer the following comments for your consideration in this matter.

#### ***Responses to considerations and consultation***

The Australian Energy Regulator (**AER**) seeks stakeholder comments specifically on:

- the Draft Decision to approve the Businesses proposed security fee interest rate at the 90 day bank bill rate less a 0.25 per cent administrative charge;
- indicative view that the Businesses proposed risk factors would be fair and reasonable;
- indicative view that it may not be fair and reasonable to new customers that above estimated incremental revenue in any year, will not offset below estimated incremental revenue in another year (which results in a part of the security fee being retained); and
- indicative views on the other terms and conditions of the proposed security fee scheme, namely that requiring one third of the net present value of the estimated incremental revenue as a security fee would fairly and reasonably balance the risks to new and existing customers.

With respect to items 1, 2 and 4 detailed above, the Businesses concur with the AER's Draft Decision. With respect to item 3, the Businesses note the following:

The Businesses have developed their proposed Security Fee Scheme to strike a fair and reasonable balance between existing and new customers whilst maintaining a policy that is practically and administratively functional. This administrative and practical functionality is a key driver for the proposed process for retaining or repaying the security fee over the five year period, namely, by repaying or retaining one fifth of the total per annum with no retrospective adjustments.

#### **REGISTERED OFFICE**

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The AER has detailed its indicative view whereby over-recoveries of incremental revenue in future years (vis a vis that forecast at connection) may be retrospectively offset against earlier years where incremental revenue is under-recovered. This in turn would allow the customer to recover some/all of a security fee previously retained by the Businesses. Whilst not stated in the Draft Decision, it is assumed that under such an approach the converse may also be possible, namely a year of over-recovery of incremental revenue (and consequent return to the customer of a portion of the security fee) followed by a number of years of under-recovery (for example in the event of insolvency or downsizing) may result in the customer being required to return a portion of the refunded security fee back to the Businesses.

As can be seen from this discussion, the introduction of under and over recoveries and retrospective adjustments adds a significant level of complexity (and cost) to the administration of the Security Fee Scheme and will necessitate the tracking across the five year term of the present value of actual incremental revenue versus that forecast. Furthermore, given the possibility (and associated practical difficulty) of funds being 'clawed back' from customers, such a Security Fee Scheme may necessitate the retention of all security fees until year five whence an accurate calculation and true up for the entire period could be made. It is the Businesses' opinion that fee 'claw back' or the prolonged retention of security fees would not be in the customer's best interests, would be more difficult for customers to understand and may give rise to an increased level of customer complaints.

Additionally, an approach of retrospective adjustment is inconsistent with the overall design of Security Fee Scheme, including the proposed administrative charge of 0.25 per cent and other assumptions which limit the impact on the customer (for example the 5 year Security Fee holding period). Consequently any such modification to allow for retrospective adjustments would necessitate the alteration of other elements of the Security Fee Scheme.

It is noted that, as detailed in the Businesses submission of 26 July 2010, that in instances where there are subsequent incremental revenues received above the estimated amount, it is also probable that there have been or will be additional costs incurred due to higher than anticipated system loads. This is particularly the case given the size of customers to whom Security Fee arrangements apply. These additional incremental costs would partially offset the greater than anticipated incremental revenues.

In conclusion, the Businesses maintain their position that they do not believe it is appropriate or necessary to adjust for retrospective outcomes in the annual review of a security fee, given that when considered in its entirety, its security fee proposal is fair and reasonable evidenced by:

- limiting application of the scheme to customers who's incremental revenue is greater than \$750,000;
- limiting application of the scheme to high risk customers as assessed by location, industry and customer diversity; and
- limiting the security fee collected to one third (33 per cent) of the net present value of incremental revenue and limiting the holding of the security fee to a five year period.

If you require further information, please do not hesitate to contact Wendy Cotton on telephone (03) 9683 4288 or email [wcotton@powercor.com.au](mailto:wcotton@powercor.com.au)

In addition the proposed method is administratively simpler.

Yours sincerely

A handwritten signature in blue ink that reads "Brent Cleeve". The signature is written in a cursive style with a large initial 'B' and a long, sweeping underline.

**Brent Cleeve**  
**MANAGER REGULATION**