Mr Chris Pattas
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Network Operations and Development
Australian Energy Regulator
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Melbourne VIC 3001

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Email: chris.pattas@aer.gov.au

Dear Chris

RE: FRAMEWORK AND APPROACH PAPER

CitiPower Pty and Powercor Australia Limited (**the Businesses**) request the amendment or replacement of the Australian Energy Regulator's (**AER's**) *Framework and approach paper for Victorian electricity distribution regulation* dated May 2009 (**2009 F&A**) that applies for the current regulatory control period that commenced on 1 January 2011. This request is made in accordance with clause 6.8.1(c)(1) of the National Electricity Rules (**NER**), as amended by clause 11.60.3(c).

The position of the Businesses relating to the new F&A to apply for the 2016 to 2020 distribution determination is set out below.

1. Classification of services

Network services to be standard control services

The Businesses seek the continuation of the classification of all existing standard control services as standard control services.

Legacy metering services to be standard control services

The Businesses seek metering services to become classified as standard control services. Currently, metering services are regulated under the *Advanced Metering Infrastructure Order in Council* (**OIC**). The cost recovery arrangements under the OIC will sunset in December 2015. Consequently, Advanced Metering Infrastructure (**AMI**) services will then become regulated for the first time under the NER in the 2016-2020 regulatory control period.

As these services are previously unclassified, classification must be determined in accordance with clauses 6.2.1(d)(2) and 6.2.2(d)(2) of the NER. These clauses require that 'if there has been no previous classification – the classification should be consistent with the previously applicable regulatory approach'. The previous applicable regulatory approach to legacy AMI services can be characterised as:

- a mandated distributor-led roll-out of AMI services, which by definition ensured exclusive provision of these services; and
- provision for full recovery of actual costs incurred (subject to meeting the cost efficiency requirements contained within the OIC).

Based on the service classification criteria set out in clauses 6.2.1(c) and 6.2.2(c) of the NER, the legacy AMI services is consistent with a standard control service classification.

Metering services supplied after the expiration of the derogation

The Businesses are not seeking a standard control service classification for new ‘non-mandated’ contestable small customer metering services. These are services requested after the expiration of the derogation.

After the expiration of the derogation, the market for small customer metering services will be open to effective competition. Based on the service classification criteria, the contestable small customer metering services should be unclassified.

Connection services

It is unclear at this stage whether Guideline 14 or the National Energy Customer Framework rules will apply in the next regulatory control period. Any changes to the connections framework may result in significant changes to the customer contributions methodology and potentially may trigger a service classification review.

Existing public lighting, fee-based and quoted services to be alternative control services

The Businesses seek the continuation of the alternative control services classification of:

- operation, maintenance, replacement and repair of public lighting assets; and
- existing fee-based services and quoted services.

In order to better reflect the costs of the existing alternative control services the Businesses intend to propose a number of new alternative control services.

New, alteration and relocation of public lighting to be negotiated services

The Businesses seek the continuation of the negotiated service classification of:

- new public lighting services; and
- the alteration and relocation of existing public lighting assets.

2. Form of control mechanism

Revenue cap for standard control services

For services classified as standard control, the Businesses seek a change from the weighted average price cap (**WAPC**) that applies under the 2009 F&A to a revenue cap for the forthcoming regulatory period.

The Businesses note the AER has applied revenue caps to standard control services for Distribution Network Service Providers (**DNSPs**) in New South Wales, Queensland and the Australian Capital Territory, and for consistency of regulatory arrangements for similar services across jurisdictions, the Businesses seek a revenue cap.

In addition, the Businesses note there are strong incentives under a revenue cap to encourage more efficient use of the network, as noted in the AER's Stage 1 F&A paper for New South Wales.[1]

Revenue cap for legacy metering services and exit fee

Consistent with the arrangements for other standard control services, the Businesses seek a revenue cap with an exit fee for legacy metering services. A key feature of the OIC for legacy AMI services is the ability of a DNSP to recover its investment incurred in providing the mandated AMI services. It is essential that this feature of the OIC regulatory arrangements be retained, recognising the Businesses were directed through the relevant statues to make such investments. It is the Businesses view that consistency with the principle of allowing its investments in this mandated program is best facilitated through a revenue cap.

Further, it is critical that any customer choosing an alternate meter service, following the introduction of metering contestability, be required to meet its fair share of the investment made in AMI services. This is best facilitated through an exit fee based on the remaining value of the meter, and a share of remaining common costs such as IT and communications.

Individual controls for alternative control services

For services classified as alternative control services, the Businesses seek the continuation of caps on prices.

3. Service Target Performance Incentive Scheme

The Businesses support the continued application of a service target performance incentive scheme (**STPIS**). That said, the Businesses consider that enhancements to the STPIS could be made, such as the inclusion of planned outages.

The AER has indicated that it will review the STPIS for DNSPs following the completion of its Better Regulation program.[2] The Businesses may provide further comment on the structure of the STPIS through that process.

4. Efficiency Benefit Sharing Scheme

The Businesses support the continued application of the Efficiency Benefit Sharing Scheme (**EBSS**).

5. Capital Efficiency Sharing Scheme

The Businesses support the introduction and application of a symmetrical Capital Expenditure Sharing Scheme (**CESS**).

6. Demand Management and embedded generation connection incentive scheme

The Businesses support the continued application of the existing incentive schemes relating to demand management.

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1 AER, *Stage 1 Framework and Approach – NSW electricity distribution network service providers,* page 48.

2 AER, *Submission on AEMC consultation paper – review of national frameworks for transmission and distribution reliability*, page 6.

7. Depreciation

The Businesses support the use of forecast depreciation in determining the opening value of the Regulatory Asset Base, at the commencement of the following regulatory control period, if the CESS is in place.

The Businesses would be pleased to discuss any aspect of this letter with the AER. Please contact me on 03 9683 4082 or rtirpcou@powercor.com.au.

Regards

Renate Tirpcou
MANAGER REGULATION