

30 August 2021

Sebastian Roberts
General Manager – Expenditure
Australian Energy Regulator

Sent via email

AER standardisation model for SCS capital expenditure – Issues Paper

Dear Mr. Roberts,

Energy Networks Australia appreciates the opportunity to make a submission to the Australian Energy Regulator's (AER) consultation on the development of a standardised Standard Control Service (SCS) capital expenditure (capex) model to use in future electricity distribution determinations.¹

Energy Networks Australia (ENA) is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA supports the development of a standardised SCS capex model, which should streamline the population of the post-tax revenue model (PTRM) and increase regulatory certainty through a consistent treatment of capex data across determinations. We do, however, propose amendments to the preliminary model that are required before finalisation and use in electricity distribution determinations.

Model inputs

While we welcome the implementation of a standardised model, we believe that the standardised model should not necessarily predetermine input decisions that should instead be subject to the standalone regulatory reset process. The Issues Paper notes that the preliminary standardised SCS capex model allows for labour cost escalations but does not include contract services or materials escalation. While we acknowledge that this may be consistent with recent AER distribution determinations, the model should be sufficiently flexible to allow for different approaches to be adopted.

Our suggestion is that the preliminary model should instead be updated to allow for the option of contract services and materials escalation to be addressed by the AER in individual distribution determinations rather than be predetermined through this separate model development process.

ENA supports the AER's preliminary model approach to allow for DNSP input of a capitalised overheads forecast. However, ENA recommends that the AER also allow for flexibility in the application of the capitalised overheads proportionality factor (which is currently set in the model) by updating the model to allow for this to be a model input to be proposed by businesses.

¹ Australian Energy Regulator, *Issues paper: AER standardised model for Standard Control Services capital expenditure*, August 2021.

Regulatory Information Notices and model efficiency

We welcome the AER's foreshadowed review of Regulatory Information Notices (RIN), which should seek to balance the data reporting benefits with reporting burden. We support minimising costs to customers of duplicative or redundant information collection processes that do not materially inform regulatory decision-making or other functions.

We would appreciate understanding further the AER's proposed approach to model updates post its finalisation to reflect associated regulatory updates, for example updates to the AER's RINs.

In addition, we welcome the AER undertaking a further review of the model to ensure that it meets best practice before finalisation, including reviewing the transparency of internal calculations for users, and the size of the model to ensure stability.

If you wish to discuss any of the matters raised in this letter further, please contact Lucy Moon, Head of Regulation, on [REDACTED]

Yours sincerely,

Garth Crawford
General Manager, Economic Regulation