



Your ref:
Our ref:

30 October 2015

Michelle Groves
Chief Executive Officer
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Lodged via email: michelle.groves@aer.gov.au

Dear Michelle

re: Framework and Approach – ElectraNet 2018-2023 Regulatory Determination

On 29 November 2013, the Australian Energy Market Commission published changes to the Rules governing network regulation. As part of the changes the AER is required under the new framework to set out its proposed approach to the regulatory arrangements that will apply during each revenue determination process, in the form of a framework and approach paper.

The purpose of this letter is to provide initial input to the AER's framework and approach paper in relation to ElectraNet's upcoming revenue determination for the regulatory period of 1 July 2018 to 30 June 2023. The Rules require the AER to publish its framework and approach paper for this purpose by 31 July 2016.

The following comments address each element of the framework and approach paper in turn, and outline the basis on which each of the guidelines and requirements is expected to apply.

Service Target Performance Incentive Scheme (STPIS)

The STPIS provides a financial incentive to maintain and improve network performance based on a number of separate components. It is expected that the new version of the STPIS (version 5) as recently published by the AER will be applied to ElectraNet. At this stage, ElectraNet does not propose any variations to the STPIS version 5.

Operating Expenditure Efficiency Benefit Sharing Scheme (EBSS)

The EBSS aims to provide an incentive for ongoing efficiency improvements in operating expenditure. It is expected that version 2 of the EBSS currently in force will be applied to ElectraNet. At this stage, ElectraNet does not propose any variations to the EBSS version 2.

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Capital Expenditure Sharing Scheme (CESS)

The CESS aims to provide incentive for efficiency improvements in capital expenditure and also provides for ex post reviews of any over-spends of the capital expenditure allowance. It is expected that version 1 of the CESS currently in force will be applied to ElectraNet.

Given the timing of a revenue determination process, the Rules provide for the ex post review to consider capital expenditure undertaken in the first three years of the prevailing regulatory control period and the final two years of the preceding period. If not for the transitional arrangements that apply, this would otherwise correspond to the five year period of 2011-12 to 2015-16 in the case of ElectraNet.

However, given that this provision of the Rules and corresponding CESS guideline took effect in November 2013, to avoid retrospective application, the review may only be applied to the financial years following this in the case of ElectraNet, namely the two years of 2014-15 and 2015-16. This is consistent with the approach taken in the recent framework and approach papers published in respect of Powerlink and AusNet Services.

On this basis, ElectraNet would query the value of an ex post review confined to this limited period. Nevertheless, should the AER determine that an ex post review should be applied in these circumstances, any observed outcomes should be treated with caution and limited reliance should reasonably be placed upon these results in isolation.

Small Scale Incentive Scheme

The Rules allow for the AER to develop a small scale incentive scheme applicable to TNSPs. This allows the AER to test innovative approaches to incentives to encourage further improvements in the delivery of network services for the long term benefit of electricity consumers, in a manner that complements the existing incentive arrangements in place.

ElectraNet notes that the AER has not chosen to develop such an incentive scheme to date, and therefore no such scheme would presently apply for the purposes of ElectraNet's forthcoming regulatory control period.

However, should the AER determine such a scheme to apply, ElectraNet would be pleased to discuss the potential merits and basis of such a scheme in the long term interests of consumers.

Expenditure Forecast Assessment Guideline

The Expenditure Forecast Assessment Guideline establishes the basis on which the AER will assess capital and operating expenditure forecasts, including associated information requirements. It is expected that the Guideline as currently in force will apply to ElectraNet.

At this stage, ElectraNet does not propose any variations to the application of the Expenditure Forecast Assessment Guideline.

Basis of Depreciation

The Rules provide for the AER to determine whether the depreciation applied in establishing the updated Regulatory Asset Base at the end of a regulatory control period should be based on forecast or actual capital expenditure.

The AER's approach has generally been to apply forecast depreciation for this purpose, unless circumstances warrant departing from this approach. At this stage, ElectraNet is not seeking to depart from this approach for the next regulatory control period.

ElectraNet appreciates the opportunity to provide the above input for the purpose of initiating the AER's framework and approach process for the forthcoming revenue determination for 2018-2023.

ElectraNet would be pleased to discuss any aspects further, and looks forward to the opportunity to respond to any issues raised in the development and consultation on the proposed framework and approach, or new information which may arise.

If you have any queries or require additional information, please do not hesitate to contact Andrew Gniel on (08) 8404 7219 to discuss any aspect of this letter.

Yours sincerely



Simon Appleby
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