20 September 2013

Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
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energex
positive energy

Dear Mr Pattas

Energex response to AER's Draft Capital Expenditure Incentive Guideline and proposed Efficiency Benefit Sharing Scheme for Electricity Distributors

Energex Limited (Energex) welcomes the opportunity to provide comments on the AER's draft Capital Expenditure Incentive Guidelines and proposed Efficiency Benefit Sharing Scheme (EBSS). Energex acknowledges that the AER has taken on board some of the industry's concerns and that the positions reflected in the draft guidelines address these in part. In particular, Energex supports the AER's articulated intention to apply a symmetrical Capital Expenditure Sharing Scheme (CESS), in the event a CESS is to apply, and to largely retain the existing EBSS.

While the National Electricity Rules (NER) do not require a CESS to apply, it is Energex's understanding that the AER intend to apply the CESS on a wholesale basis. In terms of the application of the CESS, the draft Capital Expenditure Incentive Guideline merely replicates the NER requirements and provides no further certainty. In principle, a Network Service Provider (NSP) may nominate not to apply a CESS. In Energex's view, a NSP may have grounds to propose the CESS not apply, based on historical capital expenditure performance and forecast future performance, including identified capex efficiencies.

Energex maintains that NSPs should have the ability to nominate categories for exclusion on an individual basis, prior to the commencement of the period under the CESS and the EBSS. Both draft Capital Expenditure Incentive and EBSS Guidelines allow for the approved allowance to be adjusted for approved passthroughs, capex reopeners and/or contingent projects. Energex highlights that there may be legitimate and reasonable circumstances where a NSP has borne incremental costs associated with an uncontrollable event, but does not formally seek a passthrough or which would qualify for a cost passthrough but for the AER's materiality threshold.

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As you would be aware, Energex incurred significant incremental costs associated with the 2011 South East Queensland flood event, but did not submit a passthrough application. More recently, Energex has incurred large incremental costs associated with ex-tropical cyclone Oswald, which did not meet the materiality threshold. The materiality threshold may be more of an issue for larger NSPs. Large NSPs that are subject to multiple events may potentially be inappropriately penalised as the guidelines currently stand. Energex believes that the guidelines should allow for adjustments to allowances for uncontrollable costs, which would qualify for a passthrough if the NSP applied or where a passthrough would be permitted but for the materiality threshold.

While Energex is supportive that the current EBSS will be largely retained, Energex recognises that the sharing of efficiency gains/losses between NSPs and customers may be considerably different from the notional 30/70 sharing stipulated under the Australian Energy Regulator's current EBSS (June 2008). The extent to which the revealed costs in the base year are adjusted, in establishing the forecast operating expenditure in the next regulatory period, will impact the sharing ratio. Energex highlights that this provides a level of uncertainty as to both the incentives that apply and the sharing of efficiency gains/losses, noting that under the NER the EBSS must provide for a fair sharing.

The Energy Networks Association (ENA) will be making a submission on behalf of its members. As a member of the ENA, Energex generally supports the ENA's submission. If you have any questions about this request, please contact Ms Leigh Henderson, Network Regulatory Economist on 07 3664 4118.

Yours sincerely

Neil G. Andersen

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