


15 March 2013

Mark/Carriv


Mr Chris Pattas
General Manager
Network Operations and Development
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001



Dear Mr Pattas

Energex response to AER's Expenditure forecast assessment guidelines for electricity distribution and transmission - Issues Paper

Energex Limited (Energex) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Better Regulation Issues Paper on the Expenditure forecast assessment guidelines for electricity distribution and transmission (the issues paper). Energex supports the development of a guideline that promotes a clear and robust assessment process which provides more certainty on how the AER will assess the expenditure forecasts submitted as part of future regulatory proposals.

The Energy Networks Association (ENA) will be making a submission on behalf of its members. As a member of the ENA, Energex supports the ENA's submission and is pleased to provide some additional high level comments.

Benchmarking

Energex recognises that benchmarking can provide the AER with a useful high level comparison of Distribution Network Service Providers (DNSP) however Energex does not support the use of benchmarking as a deterministic tool to set expenditure.

Energex is concerned that benchmarking cannot fully account for the inherent and inherited cost drivers unique to each DNSP and in particular the use of the Regulatory Asset Base (RAB) as a primary input to efficient measurements and indicators may result in perverse outcomes.

Expenditure Drivers and Categories

Energex agrees the expenditure drivers identified in the issues paper cover the major network expenditures, however, clear definitions will be required to ensure consistent application across DNSPs.

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The expenditure categories and network segments proposed by the AER for the demarcation of costs assume a level of detail that Energex does not currently capture. The additional costs incurred to capture this information need to be taken into account when assessing the benefit to customers of reporting costs at this level of disaggregation.

Regulatory Information Notice (RIN)

Energex notes that extensive data is already collected by the AER through the annual Regulatory Information Notice (RIN) process. The introduction of the RIN and more recently the Distribution Annual Planning Report (DAPR) has increased the amount of data collection and reporting costs. Ideally, annual benchmarking reports and new expenditure assessment tools should leverage off this existing framework and minimise duplication in order to optimise the costs of regulation.

Expenditure Assessment Tools

Energex supports the use of high level assessment tools as a first pass approach, however opposes the use of deterministic models as a substitute for the capex and opex programs developed in detail by the businesses.

The augex and repex models are useful high level tools which can provide the AER with an indication of areas of concern regarding proposed capex forecasts. However, it should be recognised that these models are simplistic in nature and cannot replace engineering assessment.

Furthermore, Energex has concerns regarding the confidence limits within which these tools can determine a single average forecast and would prefer to see the outputs from Augex and Repex represented as a range of values which reflect the uncertainty of using such high level probabilistic forecasting tools.

Cost Allocation and Capitalisation Policy

Energex does not support the mandating of a specific cost allocation method. The allocation of costs is an individual businesses decision and is determined upon a combination of:

- The basis on which a DNSP believes it actually incurs costs (both direct and indirect expenditure);
- The type and level of services offered by the DNSP; and
- How the services have been classified (e.g. SCS, ACS or unregulated).

Whilst a mandated cost allocation approach may mitigate some of the variances between benchmarking outcomes for DNSPs it will not address the fundamental issue of both inherent and inherited difference in cost drivers between DNSPs.

Timing and Transitional Issues

Energex notes the timelines associated with the development of the guidelines and seeks further consultation regarding the application of the expenditure forecasting techniques in the upcoming regulatory review process for Queensland and South Australia.

Should you have any enquires regarding this submission please contact Nicola Roscoe, Revenue Strategy Manager – Network on (07) 3664 5891.

Yours sincerely



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