



Ref: JC:

4 April 2016

Mr Chris Pattas
General Manager – Network Investment and Pricing
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3000

Dear Mr Pattas

Request for an extension in relation to a pass through event application for the Expanding Competition in Metering and Related Services Rule Change November 2015

Essential Energy is writing to you to seek an extension of the fixed time limit in the National Electricity Rules (NER) for submission of a statement regarding the occurrence of a positive or negative change pass through event.

The Australian Energy Market Commission (AEMC) published the Expanding Competition in Metering and Related Services Rule (the Rule) on 26 November 2015, however it does not take substantive effect until 1 December 2017. The Rule will likely affect the costs of type 5-6 metering services provided by Essential Energy that were previously determined by the Australian Energy Regulator (AER) for the 2015-19 regulatory control period. Consequently in implementing the Rule, Essential Energy needs to consider the pass through event framework under the NER.

A very high level and preliminary assessment of the impact of the Rule indicates that this Rule may fall within the scope of a service standard event or a regulatory change event. Under the definition of the 'service standard event' it may be open to interpretation that this definition would require Essential Energy to submit a written statement within 90 business days of 26 November 2015, the date that the Rule was published.

It is noted that a critical requirement of the pass through event framework is that the cost impacts resulting from the relevant event must be material. This requirement entails a quantification of the cost impacts of the relevant events and an assessment of whether these costs are material.

The cost impacts of the Rule can be categorised broadly as:

- Additional maintenance and capital expenditure for IT systems and processes to implement the Rule, which need to be in place before full metering competition takes place; and
- Potential reductions in capital expenditure required to provide type 5-6 Metering Services at least for the period from 1 December 2017 (when the Rule takes effect) to 30 June 2019 when the AER's current distribution determination ends. Retailers are likely to be planning roll outs earlier than December 2017, but the timing and quantities are highly uncertain.

These changes in expenditure are expected to be incurred before and after 1 December 2017 when the Rule takes effect. As these costs have not been accounted for in the AER's distribution determination for the 2015-19 regulatory control period with respect to type 5-6 metering services, the pass through event provisions must be considered to assess whether these cost impacts need to be recovered or returned to customers for the period 1 December 2017 to 30 June 2019.

At this stage it is not possible for Essential Energy to quantify these cost impacts with any degree of certainty to enable a proper assessment of whether a positive or negative change pass through event has occurred. This is because the implementation of the Rule (and therefore the associated cost

impacts) is dependent on the resolution of a number of issues, guidelines and processes from various bodies that are necessary to give effect to the Rule.

Essential Energy believes that a prudent way forward would be for the AER to consider extending the time limit for Essential Energy to submit a statement, under clauses 6.6.1(c) or 6.6.1(f) of the NER, to 90 business days after 1 December 2017 when the Rule takes substantive effect. The AER has this discretion under clause 6.6.1(k) of the NER if the AER is satisfied that the difficulty of assessing or quantifying the effect of the relevant pass through event justifies the extension.

Extending the time limit to 90 business days after 1 December 2017 would allow Essential Energy to be in a firmer position to understand the cost impacts of the Rule, and form a proper view on whether a positive or negative change pass through event has occurred. It will also avoid the need for potential continued time extensions.

It is noted that the AER has previously exercised its discretion under this provision of the NER to:

- extend the time limit by 6 months for Ausgrid to consider the impact of the sale of Ausgrid's (then EnergyAustralia) retail arm (retail separation pass through event); and
- extend the time limit by 45 business days for Ausgrid to make an application in respect of the Solar Bonus Scheme.

Consistent with the AER's previous decisions, the granting of an extension would have no implications for the AER's assessment of the merits of a pass through event application (if one is submitted or required to be submitted by Essential Energy) or on any obligation to submit a pass through event application.

We would appreciate written confirmation of the extension as specified above as soon as reasonably practicable, noting 90 business days from 26 November 2015 is 8 April 2016 by our calculations.

Essential Energy would welcome the opportunity to discuss the issues raised above. Please contact Natalie Lindsay if you require any further information. Natalie can be contacted on 02 6589 8419 or via email Natalie.lindsay@essentialenergy.com.au.

Yours sincerely



Patrick Harsas
Chief Financial Officer