

29 October 2021

Dr Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Via email to: [REDACTED]

Cc: AERresets2024-29@aer.gov.au

Dear Dr Kris Funston

Request to amend or replace a framework and approach paper

Evoenergy owns and operates the electricity distribution network in the Australian Capital Territory (ACT). The current regulatory control period for our ACT distribution network ends on 30 June 2024. The National Electricity Rules (Rules) provide that, no later than 32 months before the end of the current regulatory period (in this case, by 31 October 2021), Evoenergy may request the Australian Energy Regulator (AER) to amend or replace Framework and Approach (F&A) papers in effect on relevant matters listed in the Rules to set out the AER's proposed approach (together with its reasons for the proposed approach), in the forthcoming distribution determination.

As part of the F&A process, a distributor, such as Evoenergy, whose distribution network includes assets that perform both distribution and transmission functions must also advise the AER of the value of these *Dual Function Assets*. Based on this information, the AER will determine whether the cost of the transmission services these assets provide will be recovered under the transmission network pricing framework in the Rules.

An attachment to this letter identifies, with reasons, the matters for which Evoenergy requests an amended or replacement F&A paper and the required information on our Dual Function Assets.

We note that separate reviews with relevance to F&A matters are expected that are likely to overlap the F&A process. For instance, the AER has foreshadowed a review of the operation of regulatory incentive schemes which we understand would address the efficacy and operation of incentive schemes at an industry-wide level. We consider that the findings of these reviews would, where relevant, apply to the AER's final decision on the Evoenergy distribution determination with outstanding issues addressed in our regulatory proposal of January 2023.

We look forward to continuing constructive engagement with the AER and other stakeholders during the F&A process.

Any queries on this matter should be addressed to Chris Bell, Economic Regulatory Manager, at

[REDACTED]

Yours sincerely

[REDACTED]

Peter Billing
General Manager Evoenergy

Attachment

Attachment

Matters under Rules clause 6.8.1(b) for which Evoenergy requests an amended or replacement F&A paper for the 2024–29 regulatory period ¹

Matters listed in clause 6.8.1(b)(1) of the Rules for which a framework and approach paper must set out the AER's decision (together with reasons for the decision), for the purposes of the forthcoming distribution determination	
(i) the form (or forms) of the control mechanisms	Evoenergy does not require the AER to make an amended or replacement F&A paper in respect of the form (or forms) of the control mechanisms. We consider that the current forms of control (a revenue cap for standard control services and price caps on individual alternative control services) remain fit for purpose.
(ii) as to whether or not Part J of Chapter 6A is to be applied to determine the pricing of <i>transmission standard control services</i> provided by any <i>dual function assets</i> owned, controlled or operated by [Evoenergy]	Parts of Evoenergy's 132kV network continue to meet the definition of a dual function asset in clause 6.24.2 of the Rules. The value ascribed to the relevant dual function assets in Evoenergy's RAB, determined according to clause 6.25(a) of the Rules at 1 July 2021, was \$173.1 million, representing nearly 18 per cent of the total RAB. Evoenergy submits that the value of its dual function assets comprises such a material proportion of its RAB that pricing in respect of those services should be regulated under Part J of Chapter 6A through the application of Rule 6.26. Evoenergy seeks to continue the current application of Part J of Chapter 6A of the Rules to determining the pricing of transmission standard control services provided by dual function assets it owns, controls, and operates.
Matters listed in clause 6.8.1(b)(2) of the Rules for which a framework and approach paper must set out the AER's proposed approach (together with its reasons for the proposed approach), in the forthcoming distribution determination	
(i) the classification of <i>distribution services</i> under [Chapter 6 of the Rules]	Evoenergy requests the AER to make an amended or replacement framework and approach paper on the classification of distribution services. The reasons for making the request are to: <ul style="list-style-type: none"> add basic and additional export services as direct control/standard control services in accordance with the Australian Energy Market Commission's (AEMC's) Rule change final decision of 12 August 2021 on allowing distribution network service providers (DNSPs) to charge for exports to the network.

¹ For completeness, we have also included in the table matters for which an amended or replacement F&A paper is not required.

	<ul style="list-style-type: none"> make changes to as far as possible align Evoenergy’s distribution services descriptions and classifications set by the AER’s 2019 Evoenergy distribution determination to the baseline schema set out in the AER’s Electricity Distribution Service Classification Guideline. <p>Evoenergy is investigating a proposed change in service classification for recovery of operating costs associated with Evoenergy legacy Type 5 and 6 meters given decreasing economies of scale.</p> <p>On 16 September 2021, the AEMC released a directions paper <i>Review of the regulatory framework for metering services</i> which includes discussion on proposals to accelerate the roll out of smart metering and depreciation of legacy meters. We consider that this process may resolve the issue in time for Evoenergy’s 2024–29 distribution determination.</p>
(ii) the formulae to give effect to the control mechanisms referred to in subparagraph (1)(i)	<p>Evoenergy requests the AER to make an amended F&A paper on the formula to give effect to the control mechanism for standard control services with regard to the operation of the side constraints on tariffs for standard control services under clause 6.18.6 of the Rules.</p> <p>Evoenergy considers the operation of the side constraint should be adjusted to make clear the correct interpretation of the formula.</p> <p>The AER has indicated that it will soon conduct a separate, more general review of the operation of the side constraint. Evoenergy requests that the F&A paper on this matter accommodate any relevant findings from this review or, alternatively, that they be considered a “material change in circumstances” for the purposes of deviating from the F&A decision on this matter under clause 6.12.3(c1) of the Rules.</p>
Regulatory incentive schemes – clauses 6.8.1(b)(2)(iii) – (iv)	<p>Evoenergy seeks to have each of the four incentive schemes in the Rules that apply to Evoenergy in the current 2019–24 regulatory period continue to apply for the 2024–29 regulatory period. Evoenergy will continue to engage with stakeholders on introducing a <i>Customer Service Incentive Scheme (CSIS)</i> as a Small-Scale Incentive Scheme (SSIS).</p>
(iii) the application to [Evoenergy] of any <i>Service Target Performance Incentive Scheme (STPIS)</i>	<p>Evoenergy requests the AER to make an amended or replacement F&A paper on the application to Evoenergy of the STPIS.</p> <p>The reason for making the request is to consider further exclusions from the scheme for the impact of emergency events outside of the DNSP’s control, variability caused by classification of feeders based on load density and the introduction of metrics for</p>

	momentary outages and energy export performance.
(iv) the application to [Evoenergy] of any <i>Efficiency Benefit Sharing Scheme (EBSS)</i>	Evoenergy does not require the AER to make an amended or replacement F&A paper in respect of the application of the EBSS as it currently applies. We expect that matters of general concern, such as erosion of the sharing ratio of benefits/penalties between distributors and customers, will form part of the broader AER review of incentive schemes.
(v) the application to [Evoenergy] of any <i>Capital Expenditure Sharing Scheme (CESS)</i>	Evoenergy does not require the AER to make an amended or replacement F&A paper in respect of the CESS as it currently applies. However, we continue to believe that customer initiated capital expenditure should be excluded from the operation of the scheme since it is outside of Evoenergy's control.
(vi) the application to [Evoenergy] of any <i>Demand Management Incentive Scheme (DMIS) or Demand Management Innovation Allowance (DMIA) mechanism</i>	Evoenergy does not require the AER to make an amended or replacement F&A paper in respect of the DMIS and DMIA mechanism as they currently apply. We expect that matters of general concern, such as potential issues include cost versus benefit of applying schemes and high thresholds for participation, will form part of the broader AER review of incentive schemes.
(vii) the application to [Evoenergy] of any <i>Small-Scale Incentive Scheme</i>	As there is no F&A paper that currently applies to the SSIS for Evoenergy. We believe that the AER is obliged to publish an F&A paper on this matter under clause 6.8.1(a)(1) of the Rules.
(viii) the application to [Evoenergy] of the <i>Expenditure Forecast Assessment (EFA) Guidelines</i>	Evoenergy does not require the AER to make an amended or replacement F&A paper in respect of the application to Evoenergy of the AER's EFA Guidelines.
(ix) whether depreciation for establishing the regulatory asset base for the relevant <i>distribution system</i> as at the commencement of the following <i>regulatory control period</i> is to be based on actual or forecast capital expenditure (capex) in accordance with clause S6.2.2B	Evoenergy does not require the AER to make an amended or replacement F&A paper in respect of whether depreciation in the opening RAB in the 2029 regulatory period is to be based on forecast or actual capex.