

11 June 2014

Chris Pattas
General Manager, Networks
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

By email: AERInquiry@aer.gov.au

Dear Mr Pattas

ActewAGL: Vegetation management costs for the 2012–13 regulatory year

The Major Energy Users (MEU) notes that the AER draft decision regarding the application by ActewAGL for a pass through of additional vegetation clearance costs does not allow the proposed pass through. The MEU agrees with the arguments provided by the AER in refusing the pass through.

The MEU also notes that the AER had previously allowed a pass through for SA Power Networks (SAPN) increased costs for additional vegetation clearance that had resulted from the same drought breaking rainfall that ActewAGL claims as the reason for its pass through of increased costs.

In addition to the valid reasons the AER has for rejecting the ActewAGL application, the MEU is extremely concerned about the precedent that such pass throughs create. Specifically, allowing a positive pass through which results from such variable inputs such as weather results in an overall disadvantage for consumers because when the reverse applies (eg when drought reduces the amount of vegetation clearance requirement) the networks are unlikely to seek a negative pass through reflecting the lesser amount of clearance work; the network would retain the saving and then gain an EBSS based bonus as well.

The MEU considers that the AER erred in the case of the SAPN pass through application because it effectively examined the application in isolation of what had occurred in earlier years where SAPN actual opex was considerably less than the allowed opex implying, amongst other things, that SAPN might have benefitted from a lower cost for vegetation management than had been allowed due to the effects of

the drought. The savings that SAPN might have accrued because of the lower costs were retained by SAPN rather than it offering a negative pass through.

The MEU concern can be exemplified as follows. Analysis of the SAPN actual opex provided in its economic benchmarking data shows that SAPN opex has consistently under-run the opex allowances provided by the AER in the 2010 review. In fact, the SAPN opex allowance did not need to be increased to provide for its additional vegetation clearance as, even with the additional costs SAPN incurred for vegetation clearance due to the breaking of the drought, SAPN actual opex would still have under-run the 2010 opex allowance. Providing the additional opex allowance has increased the opex savings SAPN will accrue and increase the EBSS reward SAPN will get.

The MEU is also concerned that, as the AER has determined in its guidelines for regulatory resets, it will use the latest full year costs as the basis for setting future opex. This means that it could accept vegetation management costs based on a wet year (or years) and, should there be a drought subsequent to the regulatory decision resulting in a lower cost for vegetation management, then the network should be expected to seek a negative pass through due to its lower costs. The MEU has little confidence that such would occur.

It is apparent that allowing pass throughs based on variable weather events are biased such that the networks can gain a benefit when the weather event causes costs to increase but consumers will not benefit with a cost decrease when the reverse occurs.

On a risk assessment basis, pass throughs for variable weather events provides a reduction of risk to the networks and an increased risk to consumers without any compensating benefit for accepting the risk.

The MEU supports the AER draft decision on ActewAGL application for a pass through but highlights that there are considerable consumer concerns about the use of pass throughs for addressing variable weather events such as rainfall exceeding the average.

Should you wish to have further information on this issue please contact the undersigned at (03) 5962 3225 or via davidheadberry@bigpond.com

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Headberry', with a stylized flourish at the end.

David Headberry
Public Officer