

17 August 2012

Mr Warwick Anderson
General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Anderson

AUSGRID, ENDEAVOUR ENERGY AND ESSENTIAL ENERGY JOINT RESPONSE TO THE AER'S FRAMEWORK AND APPROACH PAPER

Ausgrid, Endeavour Energy and Essential Energy, the NSW Distribution Network Service Providers (NSW DNSPs), are pleased to provide the attached joint submission in response to the Australian Energy Regulator's (AER's) *Preliminary Positions - Framework and Approach Paper* (the F&A paper) released on 25 June 2012 for the regulatory control period commencing in NSW on 1 July 2014.

The attached joint submission provides detailed responses to the matters raised in the AER's F&A paper. In summary, each of the NSW DNSPs:

- Supports the AER's preliminary position that network services (excluding non-reimbursed emergency recoverable works) should be classified as direct control services and, in turn, as standard control services;
- Supports the AER's preliminary position not to classify emergency recoverable works on the basis that the associated costs may be recovered under common law principles. To the extent that such costs cannot be recovered under common law principles, emergency recoverable works costs should be recovered as part of standard control services;
- Supports the AER's intention to establish a service classification for all services relating to a new or altered connection to the distribution system to be called 'Connection Services';
- Does not support the AER's preliminary position to change the current classification of metering types 5-7 services from standard control services to alternative control services;
- Supports the continuation of the current approach to pricing public lighting services comprising one set of prices for existing assets and a second set of prices for new assets and, as such, does not support the AER's proposal to create three sets of time-specific prices (and potentially more) for the same public lighting component. Each of the NSW DNSPs also supports the concept of technologies not covered by the final distribution determination to be subject to an agreed framework or methodology to allow the pricing and introduction of new lighting technologies, subject to the ongoing classification of these prices becoming alternative control services;
- Supports the continuation of the Weighted Average Price Cap (WAPC) in New South Wales, rather than the move to a revenue cap from 1 July 2014 as proposed by the AER. Should the AER not agree to retain the WAPC, the NSW DNSPs support the adoption of a "hybrid" form of control (as canvassed in the attached response) as the preferred alternative;

- Supports the implementation of the AER's Service Target Performance Incentive Scheme (STPIS); however, we consider that a threshold of +/- 2.5 per cent of revenue at risk is appropriate to manage risks both for customers and the network businesses during the Scheme's establishment. We note that the setting of STPIS targets may need to be reviewed pending the outcome of the AEMC's review of NSW reliability standards;
- Supports the application of the national Efficiency Benefit Sharing Scheme (EBSS) for the 2014 to 2019 regulatory period. To preserve the intent of the Scheme and to avoid duplication of incentive benefits or penalties, it is appropriate to ensure that all costs attributable to pass through events are excluded from the calculation of EBSS outcomes; and
- Does not support the AER's proposals to restrict the level of funding under the Demand Management Innovation Allowance (DMIA) component of the Demand Management and Embedded Generation Connection Incentive Scheme (DMEGCIS) to current levels or to discontinue the operation of the D-factor scheme from the commencement of the next regulatory period. We note that the AER's determinations should enable the incorporation of the findings of the AEMC's "Power of Choice" Review (when available).

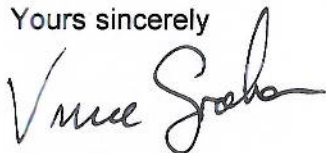
As indicated above (and as detailed in the attached response), a key area of judgement for the 2014-19 NSW distribution determinations is the form of control to be applied to standard control distribution services in NSW. The NSW DNSPs fundamentally support the continuation of the WAPC on the basis that customers do not bear volume risk or face potentially unacceptable price instability that could otherwise result from the operation of the "unders and overs" account inherent in a revenue cap.

It is noted that the retention of a WAPC will place challenges on the network companies to pursue efficiency initiatives to mitigate the impact of volume movements, particularly in a climate where customers, network businesses and governments are working together to reduce greenhouse gas emissions, curb peak demand growth and place downward pressure on electricity prices for the betterment of the community and the wider economy.

~~The NSW DNSPs are responding by targeting average distribution network prices as close as possible to the rate of inflation for each of the next six years (including the five years starting on 1 July 2014) and are concerned that a move by the AER to adopt a revenue cap may jeopardise our ability to achieve this outcome by the requirement to adjust prices mechanistically to resolve any "unders and overs" account balances.~~

If you would like to discuss these comments further, please contact our Joint AER Determination Project Manager, Mr Mike Martinson, on (02) 9853 4375 or via email at michael.martinson@endeavourenergy.com.au.

Yours sincerely



Vince Graham

Interim Chief Executive Officer

Ausgrid, Endeavour Energy and Essential Energy

Attachment:

1. *NSW DNSPs' Response to the AER's Preliminary Framework and Approach Paper for the Regulatory Control Period Commencing 1 July 2014*