

19 July 2013

Mr Adam Petersen  
Director  
Australian Energy Regulator

By Email: SAElectricity2015@aer.gov.au

Dear Adam

**New Framework and Approach Paper for 2015-2020 Regulatory Control Period**

This submission is in response to the notice issued by the Australian Energy Regulator (AER<sup>1</sup>) under clause 6.8.1(c)(2) of the National Electricity Rules (*Rules*) inviting submissions as to whether it is necessary or desirable to amend or replace the current Framework and Approach papers applicable to Energex, Ergon Energy and SA Power Networks.

SA Power Networks confines its comments to the South Australian Framework and Approach paper (F&A).

The current F&A applicable to SA Power Networks<sup>2</sup> was published by the AER in November 2008 (2008 F&A) and sets out, in relation to SA Power Networks 2010-2015 distribution determination:

- the forms of control mechanisms;
- the AER's approach to:
  - the classification of *distribution services*;
  - the application of a *service target performance incentive scheme*;
  - the application of an *efficiency benefit sharing incentive scheme*;
  - the application of a *demand management incentive scheme*; and
- the AER's approach to transitioning from a pre-tax to post-tax regulation methodology.

Since the 2008 F&A was published, a number of significant changes have been made to the *Rules*. In particular, clause 6.8.1(b) was amended in 2012 to specify a list of additional matters that the

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<sup>1</sup> A term printed in italics has the same meaning given to that term in Chapter 10 of the *Rules*.

<sup>2</sup> "Framework and approach paper ETSA Utilities 2010-15", Australian Energy Regulator, November 2008

AER must set out in a F&A that is to apply in the next regulatory control period (being, for SA Power Networks, the period from 1 July 2015 to 30 June 2020).

The additional matters relevant to SA Power Networks are:

- the formulae that give effect to the control mechanisms;
- the application of any *capital expenditure sharing scheme*;
- the application of any *small-scale incentive scheme*;
- the application of the *Expenditure Forecast Assessment Guidelines*; and
- whether depreciation for establishing SA Power Networks' opening regulatory asset base for the 2020-2025 regulatory control period is to be based on actual or forecast capital expenditure (in accordance with clause S6.2.2B of the *Rules*).

As those matters are, of course, not addressed in the 2008 F&A, it is necessary for the 2008 F&A to be amended or replaced in order to deal with each of them.

Prior to 2012, clause 6.8.1(b) had been amended to expand the *demand management incentive scheme* to address embedded generation connections under a *demand management and embedded generation connection incentive scheme*. It follows that it is necessary for the 2008 F&A to also be amended or replaced in order to address the more expansive nature of that scheme.

In addition to the new and varied matters referred to above which must be dealt with by way of an amended or replaced F&A, SA Power Networks considers that a number of items in the 2008 F&A need to be reviewed in light of changes to energy policy, operating environment and efficiency and effectiveness of current processes and methodologies. This could result in amended approaches in relation to a number of matters including:

- the form of control mechanism;
- the classification of certain distribution services currently classified as negotiated services; and
- the *service target performance incentive scheme*.

Subject to the outcomes of finalising the Better Regulation Guidelines, there may also be other matters that should be included in the F&A.

Given the extensive nature of the matters that need to be reviewed and addressed, SA Power Networks submits:

- that a new (rather than an amended) F&A should be developed by the AER for the upcoming regulatory control period (following appropriate consultation in accordance with the requirements of the *Rules*), as a replacement for the 2008 F&A; and
- that replacement F&A should apply just to SA Power Networks.

Accordingly, SA Power Networks requests under clause 6.8.1(c)(1) of the *Rules* that the AER make a replacement F&A for SA Power Networks' 2015-2020 regulatory control period.



SA Power Networks would welcome the opportunity to discuss with the AER any proposed timeline for the development and consultation on a replacement F&A. A critical consideration in this regard is that any issues or preliminary consultation paper should be released by the AER after the Better Regulation Guidelines have been finalised. This would allow for more effective input from customers, interested stakeholders and SA Power Networks.

If you wish to discuss any of the issues raised in this submission or require any further information, please contact Richard Sibly on 08 8404 5613.

Yours sincerely



Sean Kelly  
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