



3 May 2013

Mr Charles Hoang
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Project reference code : ERC0154
Email: submissions@aemc.gov.au

Dear Mr Hoang

RE: ERC0154 – RECOVERY OF NETWORK SUPPORT PAYMENTS

CitiPower and Powercor Australia (**the Businesses**) welcome the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) *'Consultation Paper – National Electricity Amendment (Recovery of Network Support Payments) Rule 2013 (Consultation Paper)*.

The Businesses are supportive of the proposed Rule changes. There are however some specific comments the Businesses' wish to make.

Transmission connection network support payments

The Businesses agree the current Rules do not provide ability for a distribution network service provider (**DNSP**) to recover network support payments to allow efficient deferral of a transmission connection augmentation.

The Businesses consider, given appropriate avenues for cost recovery, there are significant opportunities to acquire network support to defer transmission connection works. The Businesses are currently negotiating with a potential provider of such services and one of the key issues in those discussions has been the regulatory framework and the opportunity for cost recovery. The Businesses expect opportunities for further network support arrangements will continue to grow in its franchise areas over the next 5-10 years.

Distribution network support payments

At the last Electricity Distribution Price Review (**EDPR**), CitiPower sought and received an allowance for distribution network support payments in relation to works at West Melbourne Terminal Station. CitiPower was fortunate at the time it could predict the need for such network support and be in an advanced enough position with a proponent to provide detailed costing to satisfy the Australian Energy Regulator (**AER**).

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It is not however always possible to predict the need for such network support payments or be in a position to provide the AER with the sufficient level of certainty to obtain funding through the regulatory review processes as CitiPower was.

In such circumstances there is a need for an alternate avenue to allow recovery of network support payments to avoid the regulatory framework becoming an impediment to network support arrangements outside of the narrow EDPR timetable.

The Businesses agree that ideally all network support payments should be recovered through the EDPR process. This is consistent with maintaining an incentive based regulatory framework. However to manage situations that fall outside the EDPR window, the Businesses consider it appropriate the Rules provide the requisite flexibility to allow for a pass through arrangement.

It is an expectation of the Businesses that over time there will increasingly be situations where a network support option offers an efficient and preferable alternative to a network option. Given the expected growth in such arrangements, and their recurrent nature, the Businesses consider it is appropriate that a specific network support pass through arrangement is provided under the Rules. The Businesses do not support a nominated network support payment pass through arrangement on the basis it is subject to the uncertainties of the AER's discretion which could threaten the viability of network support arrangements that span multiple regulatory periods.

It is also important that any network support cost recovery arrangement not be subject to the 1 per cent of annual maximum allowed revenue materiality threshold that applies to other cost pass through arrangements. It is extremely unlikely that any network support cost recovery arrangement would be of this magnitude (i.e. greater than \$5M per annum) hence if such a threshold was imposed, it would be equivalent to having no pass through provision at all.

The Businesses would be pleased to discuss their views on this proposed Rule change further. Please do not hesitate to contact me (03) 9683 4465 or bcleeve@powercor.com.au if you would like to discuss the positions presented in this submission further.

Yours sincerely



Brent Cleeve
MANAGER REGULATION