



Our Ref: D12/45748

24 October 2012

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Mr Pierce

### **Economic Regulation of Network Service Providers – Transitional Arrangements**

I refer to the AEMC's consultation on the proposed arrangements for transitioning to the new National Electricity and Gas Rules.

We believe that the AEMC's originally proposed arrangements create a level of administrative complexity that is unnecessary to achieve the desired outcome of applying the new Rules as soon as possible. We also note that the AEMC has been open to discussions on alternative arrangements and is considering, and consulting on, several alternative models.

Transend was involved in consultation with TransGrid and the Australian Energy Regulator (AER) during development of the TransGrid alternative model.

Transend considers that there are considerable benefits associated with the alternative model, in contrast to the AEMC's proposed model, and agrees with the benefits as outlined in TransGrid's submission. In this regard Transend particularly notes the following:

- It allows for the new Rules to apply to all network service providers (NSPs) as soon as is practically possible, thereby meeting an objective of the AEMC;
- It limits the administrative burden and costs associated with two reviews, for both the NSPs and the AER;
- The "appropriate revenue" for the first year of the next regulatory period would be assessed by the AER based on the best available forecast expenditure and prevailing financial market information just prior to the start of the next regulatory period;
- The "appropriate revenue" for the first year is clearly a placeholder only and is subject to a subsequent adjustment to reflect any difference to the AER's final revenue determination for the full regulatory period, including the first year;
- It continues to allow for full stakeholder consultation to be undertaken by the AER in determining the NSPs allowed revenue for the next regulatory period, including the first year, and does not involve a shortened regulatory process to that which currently applies; and
- Appropriate incentive schemes would apply in the first year of the regulatory period.

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We note that “mechanistic” and “hybrid” models have also been discussed as possible alternative arrangements.

In this regard we consider that the “hybrid” model introduces an option that provides for an even less complex approach to that contained in the TransGrid model.

Specifically, the inclusion of an option that allows for a NSP’s proposed placeholder revenue in year one to be automatically approved if it falls below a cap specified in the rules is an enhancement on the TransGrid model.

Provided the cap is set at a realistic level it also achieves an appropriate outcome for customers. Importantly, as the allowed revenue in year one is subject to a true up adjustment as part of the AER’s final decision, neither the businesses nor customers are disadvantaged over the regulatory period.

Given that the “hybrid” model provides the cap as an option, the NSP is not restricted to this level of revenue if its expenditure plans and/or cost of capital forecast indicate that its likely required revenue will be above the cap. Should this be the case then the NSP’s indicative forecasts are subject to public consultation thereby providing confidence that the reasonableness of the higher placeholder revenue will be appropriately assessed and determined by the AER.

Transend considers that the alternative “hybrid” model meets the objective of the AEMC in implementing the new Rules as soon as possible, is far less complex than the AEMC’s original proposal, and minimises the administrative burden, costs and resourcing constraints on the NSPs and the AER.

Consequently, we believe that the four principles identified by the AEMC for developing the transitional arrangements are addressed by the alternative “hybrid” model in an efficient and fair manner for all stakeholders, including the NSPs, the AER and customers.

Whilst we believe that the “hybrid” model provides the most efficient option given Transend’s expected future revenue path, we consider that the TransGrid model also achieves the objectives of the AEMC albeit with some additional costs, timing and resourcing issues for the businesses and the AER to address.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Clark', written in a cursive style.

Peter Clark  
Chief Executive Officer