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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Rule change proposal - energy network regulation reform

Please find attached two rule change proposals to amend the energy network regulation provisions of the National Electricity Rules (NER) and National Gas Rules (NGR).

The AER has examined the operation of the current regulatory framework in the context of our experience over the past five years of its application. We consider that some areas of the current framework are operating well. However, the current restrictions on an objective assessment of the efficiency or the necessity of expenditure proposed by electricity businesses is causing consumers to pay more than they should for a safe and reliable supply of electricity services. Our proposed changes allow for a more effective and robust assessment of the costs proposed by electricity network businesses.

The AER is also proposing a consistent approach for setting the rate of return on investment for gas and electricity network businesses. Under this approach the rate of return would be reviewed at least every five years with the outcome applying to each subsequent energy network revenue determination. These changes would provide certainty for investors while ensuring that the regulator's approach can keep pace with changing financing practices.

Also proposed are improvements to the processes for stakeholders to provide their views on spending proposals from electricity network businesses.

Should you have any questions or queries regarding the attached proposals, please contact Mr Ross Mitchell on (02) 9230 9127.

Yours sincerely



Andrew Reeves
Chairman