



# ***Major Energy Users Inc.***

24 October 2012

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

By email to: [Richard.Khoe@aemc.gov.au](mailto:Richard.Khoe@aemc.gov.au)

Dear John

## **Consultation paper on savings and transitional arrangements Draft National Gas and Electricity network Regulation Amendments**

The Major Energy Users (MEU) welcomes the opportunity to comment on the proposed transitional arrangements for the implementation of the amended gas and electricity network regulations.

As a basic premise the MEU considers that the implementation of the amended rules needs to apply as early as possible so that the benefits of the changes will apply to consumers as soon as is practicable.

The AEMC considers that the Australian Energy Regulator (AER) will require some 12 months to develop and to publish its new guidelines to apply to the various elements of the revised regulatory process. This implies that only those regulatory periods that would be impacted although the development of the new benchmark reporting might take longer. This means that the only regulatory reviews that might be impacted will be the electricity transmission and distribution reviews for NSW and ACT region and the electricity transmission review for Victoria region.

The AEMC has proposed in its draft transitional arrangements that there would be a number of one year regulatory periods using current rules followed by a full 5 year regulatory period based on the new rules – the implementation of these one year periods would apply to every distribution business in the NEM and the transmission businesses in NSW, Victoria and Queensland, even though some of these reviews would occur up to three years after the AER had completed its guideline preparation.

The MEU does not agree with the AEMC that the transitional approach needs to extend as long as the AEMC proposes. The MEU considers that only NSW and ACT distribution and transmission and Victorian transmission would have to have a transitional approach

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applied, as all other networks would be able to respond to the AER guidelines incorporating the new rules in sufficient time to develop their applications for a revenue reset.

The MEU has also reviewed the alternative proposal prepared by TransGrid, and considers that the TransGrid approach provides a number of aspects which are superior to the AEMC approach. The TransGrid approach essentially proposes that the next regulatory review of a regulated firm not currently in process would be carried out under the new rules – the fact that TransGrid would be quite impacted by this process indicates that the regulated firms consider that earlier implementation of the new rules can be readily accommodated by them, subject to some caveats applying to the development of the first year revenue.

The MEU considers that the TransGrid approach has considerable merit and that the benefits that are identified TransGrid by their approach are considerable and the detriments associated are modest. In particular, implementing the TransGrid approach would minimise the lag time between the AER developing its new guidelines and use of these by other networks, more readily enhancing the limitation of the transitional approach to just NSW and ACT transmission and distribution and Victorian transmission.

However the main area of disagreement MEU has with the TransGrid approach is that the TransGrid concept has the first year revenue of the next period based on a negotiation between the network provider and the AER. Although there will be a subsequent “true up” of the first year revenue after the full five year regulated revenue is determined (thereby eliminating the impacts of any error) there is a need for that first year revenue to be as accurate as is possible as this is equitable for those using the services in that first year.

Building on the basic approach proposed by TransGrid, the MEU considers that there needs to be some stakeholder consultation for the allowed revenue for the first year (as is proposed by the AEMC) but that such consultation be limited to one consultation based on the proposal by the network for that first year revenue. Such a proposal would be based on the rules and guidelines currently used by the AER. As there will be a “true up” after the determination is made by the AER based on the new rules and guidelines (to reflect the revenue allowed under the new rules) the AER would issue a final determination based on the application from the network and stakeholder responses to that application. This process avoids the need to issue draft determinations, revised applications and further stakeholder responses. As the revenue applies only for one year and there will be a “true up”.

The MEU notes the application of the new gas rules would impact ATCO and APA and the MEU supports the proposed transitional approach for these two revenue reviews

Yours sincerely

**David Headberry**  
Public Officer