



Ms Tara D'Souza
Adviser
Australian Energy Market Commission
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Email: submissions@aemc.gov.au

Dear Ms D'Souza

NATIONAL ELECTRICITY AMENDMENT (CHANGES TO COST ALLOCATION METHOD) RULE 2013 – CONSULTATION PAPER

CitiPower and Powercor Australia (**Businesses**) welcome the opportunity to respond to the Australian Energy Market Commission (**AEMC**) consultation paper in relation to the proposed amendment by Trans Tasman Energy Group regarding the cost allocation method (**CAM**).

Trans Tasman Energy Group has proposed that:

- the CAM be subject to public consultation by the Australian Energy Regulator (**AER**)
- the CAM be subject to greater transparency by requiring it to contain numeric values against the cost allocators, and
- a negotiated price should be based on the cost of providing the service, determined in accordance with the CAM.

While the Businesses generally welcome greater transparency and consultation through the regulatory process, the Businesses consider that the proposed amendment by Trans Tasman Energy Group will:

- not achieve the desired objectives of increasing transparency or assisting in the discussions of negotiated services, and
- the costs of the proposed rule change will likely outweigh any potential benefits.

The Businesses have set out their responses to the questions posed by the AEMC in its consultation paper in the attachment to this letter.

The Businesses would be pleased to discuss any aspect of this submission with the AEMC. Please contact Elizabeth Carlile on 03 9683 4886 or ecarlile@powercor.com.au.

Regards

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ATTACHMENT Responses to AEMC's questions

Question 1

Is the assessment framework presented in this consultation paper appropriate for assessing this rule change request?

The Businesses agree that the assessment framework presented is appropriate for reviewing this National Electricity Rule (**Rule**) change request.

Question 2

How often is the cost allocation method likely to change? What are the costs for stakeholders, including the AER, of public consultation for a change in the cost allocation method?

Currently, where a Distribution Network Service Provider (**DNSP**) wishes to update or amend the CAM, it must be submitted to the AER for approval. The AER has 6 months to decide whether or not it approves of the amendment. The process to amend the CAM can be long and time consuming for both the AER and the DNSP, since it is likely to involve an iterative process with the CAM being revised a number of times before AER approval. This iterative process is necessary because each DNSP has a unique cost accounting system and service provision model which may both need to be understood by the AER if it is to provide meaningful input into the DNSP's proposed revised CAM. Therefore it is preferable that a CAM amendment process provides sufficient flexibility for constructive dialogue between the AER and DNSP.

The proposal by Trans Tasman Energy would impose a formal process for a CAM amendment which may proceed as follows:

- the DNSP would submit a revised CAM proposal to the AER;
- the AER (potentially assisted by a consultant) would review the revised CAM proposal and is likely to request the DNSP to provide further information on its proposal, for instance, in relation to particular aspects of its cost accounting system or service provision model;
- the AER would consolidate the information in a consultation document/ draft decision inviting written submissions;
- the AER would receive and review responses from interested parties;
- the AER would need to discuss its anticipated final decision with the DNSP to check that it is workable in the circumstances of the DNSP;
- the AER would issue a final decision.

As the proponent acknowledges, the introduction of consultation requires is likely to impose costs on the AER.¹ DNSP's would also incur additional costs for engaging in the formal consultation process.

It is questionable whether the benefits outweigh the costs. Stakeholders will not have the same access to the DNSP as the AER, and are unlikely to understand the subtleties of the cost accounting system and service provision model of a DNSP. Additionally, imposing greater

¹ AEMC, *National Electricity Amendment (changes to cost allocation method) Rule 2013*, Consultation paper, 14 February 2013, page 9.

formality on the process will constrain the AER's flexibility to reach an optimal outcome which best meets the needs of the National Electricity Objective.

Question 3

What information is included in the cost allocation method in practice? How does this differ between DNSPs? Is comparability of cost allocation methods between DNSPs relevant to the negotiation framework? What is the cost of providing more detailed information of allocators?

An examination of published approved CAMs indicates significant differences between DNSP CAMs. This is hardly surprising due to differences in:

- service classification;
- cost collection;
- cost categorisation;
- capitalisation policy;
- treatment of overheads; and
- service provision model (outsourcing versus insourcing).

These differences mean that relevant considerations for the negotiating framework will differ from DNSP to DNSP. More importantly, if more detailed costs allocator information were provided in the CAM, this information is unlikely to assist stakeholders to forecast negotiated service charges because they would not know the value of shared costs to which cost allocators will be applied and the value of costs which are directly attributable to the service. It would be more efficient for the DNSP to provide these costs at the time of negotiation, rather than through the CAM.

Question 4

Are the problems that the proponent identified also present in the transmission frameworks for cost allocation method and negotiated services?

The Businesses have no comment in response to this question.

Question 5

Is additional consultation required? Are the Distribution Consultation Procedures an appropriate framework for consultation in this context? Will the AER have sufficient time to adequately consider stakeholder views with the consultation procedures? Will consultation delay changes to a cost allocation method?

As a general rule, the Businesses support any increase in transparency in the regulatory process. However, as indicated in response to question 2, the Businesses are unclear of the benefits of the proposal and therefore consider that they are likely to be outweighed by the costs acknowledged by the proponent.

Question 6

Will the inclusion of numeric quantities require more frequent updating of cost allocation methods? Does the proposed solution to include numeric quantities achieve the aim of including sufficient information to replicate costs to be recovered?

The numeric value of allocators is unlikely to change materially from year to year in the CAM, and therefore little benefit would be gained from annually updating the numeric values. Whilst the Businesses do not see any benefit for stakeholders from annually updating numeric values, if this was deemed desirable by the AEMC, the Rules would need to provide that this amendment does not trigger a formal consultation process.

Question 7

To what extent do the existing principles influence the negotiation criteria? Is imposing a pricing requirement consistent with the level of regulation appropriate for negotiated services?

The Businesses are concerned that the proposed change to the principles to establish negotiated prices may require a higher level of regulatory intervention that is currently required. The AER has previously noted that negotiated distribution services are subject to more light handed regulation than direct controlled services, and are not subject to a building block model.² It could be suggested that mandating that the prices of negotiated services to be based on costs would amount to rate of return / cost pass through regulation.

Question 8

If the cost allocation principles are amended are the existing arrangements sufficient to enable compliance? Should transitional arrangements be considered to allow any rule changes to have effect as soon as possible?

The Businesses do not consider that the existing cost allocation principles should be amended.

² AER, *Victorian electricity distribution network service providers*, Distribution determination 2011–2015, October 2010, page 14.