



Changes to cost allocation method – draft determination

AEMC consults on draft determination

The Australian Energy Market Commission released its draft determination on the proposed rule from Trans Tasman Energy Group. The Commission has decided not to make a rule as it is not satisfied that there is a problem with the existing rules nor that the changes proposed promote the National Electricity Objective.

The Trans Tasman Energy Group's rule change request

Trans Tasman Energy Group submitted a rule change request on 7 December 2012 to the Commission to make a rule that seeks to:

- Require the Australian Energy Regulator (AER) to comply with the distribution consultation procedures when approving a cost allocation method;
- Require cost allocation methods to include the numeric values of allocators; and
- Amend the principles for access to negotiated services, regarding how prices are derived for negotiated distribution services.

Reasons for the Commission's draft determination

The Commission is not satisfied that there is a problem with the existing rules in the areas identified in the rule change request nor that the changes proposed promote the National Electricity Objective.

The reasons for the Commission's draft determination are:

- The cost allocation method must be consistent with the cost allocation guidelines, which are subject to public consultation by the AER. Any benefits of additional consultation on changes to the cost allocation method are likely to be outweighed by the costs of conducting additional public consultation.
- Customers of negotiated services currently have access to sufficient information outside of the cost allocation method, including numeric allocators. The costs to Distribution Network Service Providers (DNSPs) and the AER of providing the same information as part of the cost allocation method are likely to outweigh any potential benefits.
- Prices for negotiated services should be determined by the negotiating parties. The current negotiation framework provides an appropriate backstop if negotiations fail and it gives the AER appropriate flexibility to determine the criteria, with opportunity for stakeholder engagement.

**Submissions on
the draft
determination are
due by
4 July 2013.**

Background

Cost allocation method

The cost allocation method is a document published by a distribution network service provider which sets out how it will allocate costs between the different classes of services that it provides. Its principal aim is to ensure that an appropriate amount of costs are allocated to the activities that drive the relevant costs.

Negotiated services

Negotiated distribution services are a category of services for which the parties can negotiate the terms and conditions for services, including price. This is in contrast to direct control services for which the AER determines the maximum price that a DNSP can charge for a particular service.

Consultation Process

The AEMC will be accepting submissions on its draft determination for consideration prior to making its final determination.

Submissions are due by 4 July 2013.

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