

AEMC ref: ERC0207

15 September 2016

Mr Julian La Brooy
Australian Energy Market Commission (AEMC)
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr La Brooy

Rate of Return Guideline Review – AEMC Consultation Paper 18 August 2016

SA Power Networks makes this brief submission in response to the Australian Energy Regulator's (AER's) proposed Rule change to extend the Rate of Return Guideline review deadline, currently due 17 December 2016, by a maximum of two years to 17 December 2018.

We are supportive of an extension to the Rate of Return Guideline review deadline, but to a date no later than October 2018. An extension to December 2018 would be problematic for SA Power Networks and other network service providers who must lodge their 2020-25 regulatory proposals by 31 January 2019.

Proposing an appropriate rate of return to apply for the next regulatory control period requires understanding the Guideline's methodology, involves considerable analysis of the underlying component parameters for the weighted average cost of capital calculation and determining the relevant prevailing market conditions. Such analysis generally involves engaging expert financial and economic consulting expertise, then documenting reasoning and explanations for stakeholder consideration and inclusion in a regulatory proposal. It is therefore necessary to allow sufficient time between guideline commencement and when a regulatory proposal must be submitted to properly undertake these tasks.

If a revised Guideline came into effect late in 2018, there would be inadequate time for SA Power Networks and other network service providers to properly prepare their regulatory proposals. It would be unreasonable and costly for an NSP to commence preparation of its proposal on the basis of one version of the Guideline and then have to amend or repeat the analysis to comply with a new version.

We believe extending the deadline to no later than October 2018 would allow ample time for the AER to properly consider the outcome of proceedings with the Australian Competition Tribunal, currently before the Federal Court. Many of the matters before the Court are issues dealing with transitional arrangements and will not impact the revised Guideline.

We also support the Rule change being expedited on a non-controversial basis.

We would also propose that if a revised Guideline is published less than three months prior to the date a regulatory proposal is due to be submitted, it should not apply to that determination process. This would likely be the case for the network service providers identified by the AEMC on page 3 of the Consultation Paper, namely: TasNetworks, Power and Water, Ausgrid, Endeavour, Essential, and ActewAGL who have determination processes occurring in 2018.

Below we summarise our views in accordance with the questions posed in the Consultation Paper.

Qu 1 Proposed Solution – benefits, costs and risks

SA Power Networks supports a deferral of the Rate of Return Guideline review but not by a maximum of two years to 17 December 2018.

We consider extending the deadline to no later than October 2018 would afford the AER ample time to properly incorporate relevant outcomes of the Federal Court proceedings into a revised Guideline.

Qu 2 Transitional provisions – the significance of timing issues and whether the proposed transitional provisions address the issue

Depending on when the AER publishes a revised Guideline, timing issues may be significant.

If a revised Guideline is published less than three months before a regulatory proposal is due, it should not apply to that determination process.

We trust this submission is useful to the AEMC. If you require any further clarification please contact Patrick Makinson, on 08 8404 5865.

Yours faithfully



Wayne Lissner

A/General Manager Corporate Strategy

