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Tina Wong
Senior Adviser
Australian Energy Market Commission
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Dear Ms Wong,

Network Service Provider Expenditure Objectives – submission to draft rule determination

Thank you for the opportunity to respond to the AEMC's draft rule determination on the Network Service Provider (NSP) Expenditure Objectives rule change. This rule change proposal, initiated by SCER, addresses an issue previously identified by us in the context of the network regulation rule change.¹

The objective of SCER's proposed rule change is to clarify that NSPs are only able to include sufficient operating and capital expenditure, in their regulatory proposals, to comply with applicable regulatory obligations or requirements that relate to the reliability of their services or systems.²

The current expenditure objectives related to maintaining quality, reliability and security, allow NSPs to include sufficient expenditure in their revenue proposals to maintain historical reliability levels delivered in the previous regulatory control period.³ This could be a problem where the required jurisdictional reliability standards are lowered. The current rules could therefore have the effect that lower jurisdictional reliability standards may not result in reductions in expenditure and may not be passed on to consumers.

We support amendments to the expenditure objectives that prevent this outcome.

¹ AER, Economic regulation of transmission and distribution network service providers, AER's proposed changes to the National Electricity Rules, September 2011, p 33.

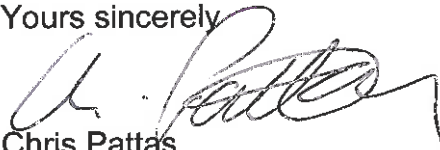
² SCER, Maintenance of reliability levels under the capital and operating expenditure objectives, Rule change request, September 2012, attachment A.

³ The word 'maintain' is not defined in the NER.

We consider the AEMC's draft rule determination clarifies the amount of expenditure that an NSP includes in its regulatory proposal for reliability must be no more than what it considers is required to comply with the relevant regulatory obligations and requirements. It also addresses situations where there are no pre-established regulatory obligations, where the maintenance of current delivered outcomes would remain appropriate.

If you would like to discuss any aspect of this submission please contact Anthony Bell on (03) 9290 6914.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Pattas', written over a light blue horizontal line.

Chris Pattas
General Manager, Operations and Development
Australian Energy Regulator