



Optimisation of regulatory asset base and use of fully depreciated assets

Final rule determination – 13 September 2012

The AEMC has published its final rule determination on the Major Energy Users' rule change requests on optimisation of the regulatory asset base and the use of fully depreciated assets. The Commission has decided not to make the rules proposed by the Major Energy Users.

Major Energy Users' rule change requests

The Major Energy Users are concerned that the National Electricity Rules and the National Gas Rules allow actual capital expenditure into the regulatory asset base with little or no review. In the Major Energy Users' view consumers are paying for assets that are too large and for assets that are used but still useful. To redress this, the Major Energy Users have proposed rules that require the regulator:

- periodically to review the existing asset base to ensure that assets are only included in the asset based to the extent that they are utilised; and
- to reject the allowance for the replacement of an asset that can be used productively for further service, even if it is at the end of its economic life.

Commission's considerations

The Commission acknowledges that energy prices, particularly electricity prices, have risen significantly in recent years and that this has had an impact on consumers, both large and small. Against this background, it is understandable that consumers are seeking ways to address rising prices.

In the case of electricity, the Major Energy Users' concerns can be viewed as part of a broader set of capital expenditure incentive issues relating to concerns about over-investment in networks being considered as part of the network regulation rule change request submitted by the Australian Energy Regulator. The draft rule determination for that rule change request provides for a range of solutions that, if made into final rules and applied, would substantially address these concerns.¹

In respect of gas, there are already mechanisms that exist under the National Gas Rules which could be used to address the specific concerns of the Major Energy Users.

Commission's final rule determination

The Major Energy Users have not adequately established that the specific problems raised or that these problems warrant the solutions it has proposed. Yet there are potential benefits associated with the rule change requests. The proposed rules may result in a greater level of utilisation of networks and pipelines and service providers retaining older assets in service for longer.

The potential benefits of the proposed rules are, however, outweighed by the likely increased complexity, costs and resourcing of the regulatory process; the increased risk to service providers and the disincentives for future efficient investment; and the requirement on the regulator to take a too detailed role in approving service providers' projects and plans.

For information contact:

Director, **Richard Khoe** (02) 8296 7800

Media: Communication Manager, **Prudence Anderson** 0404 821 935 or (02) 8296 7817

13 September 2012

¹ AEMC 2012, Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Draft Rule Determinations, 23 August 2012, Sydney