

1 October 2010

Our Ref: 39804
Your Ref: ERC0114
Contact Officer: Craig Madden
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Mr John Pearce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

ERC0114 – National Electricity Amendment (DNSP Recovery of Transmission-related Charges) Rule 2010

Dear Mr Pearce

Thank you for the opportunity to provide comment on United Energy's proposed Rule change regarding the recovery of transmission-related charges and the AEMC's Consultation Paper of 2 September 2010 on this matter. I note that United Energy's proposed Rule change was made on behalf of all Victorian electricity distribution network service providers (DNSPs).

The AER supports a Rule change to allow transmission related, inter-DNSP and avoided TUOS costs that are incurred by DNSPs in the supply of standard control services to be recovered through clause 6.18.7 of the *National Electricity Rules* (NER).

In the AER's draft decision for the 2011-15 Victorian electricity distribution determinations, the AER did not consider that transmission connection, inter-DNSP and avoided TUOS costs, among other things, could be recovered through clause 6.18.7 of the NER. In the draft decision the AER agreed with SP AusNet's and United Energy's interpretation that TUOS is defined under the NER so as to exclude transmission connection costs. The AER also considered that inter-DNSP and avoided TUOS costs were excluded. This matter was first raised with the AER in November 2009 in SP AusNet's and United Energy's regulatory proposals for the 2011-15 Victorian electricity distribution determination. In March 2010 United Energy advised the AER that the Victorian DNSPs had contacted the AEMC to initiate a rule change regarding clause 6.18.7.

The AER recognises that transmission related, inter-DNSP and avoided TUOS costs have been recovered through a mechanism similar to clause 6.18.7 of the NER under previous

distribution determinations by the ESCV and other jurisdictional regulators. It has been past regulatory practice that these costs are recovered at the level at which they are incurred through annual pricing approval processes, that is, outside of the five year building block determination. The AER considers that this approach is appropriate given that the nature of these costs raises difficulties in forecasting their quantum under a five year building block determination and carries with it a high risk of over or under recovery of the costs from consumers.

I understand that the AEMC's final decision on United Energy's proposed Rule change will be made in 2011. The AER anticipates that its final decision for the 2011-15 Victorian electricity distribution determinations to be published by 31 October 2010 will be consistent with its draft decision in respect of the TUOS costs that can be recovered through clause 6.18.7 of the NER. The AER's consideration of the Victorian DNSPs' pricing proposals must be completed in December 2010. Victorian distribution tariffs for 2011 will therefore include only those TUOS costs that can be recovered through clause 6.18.7 of the NER.

On the basis that the proposed Rule change is accepted by the AEMC, the AER considers that it should include transitional provisions to allow for recovery of transmission related, inter-DNSP and avoided TUOS costs incurred before the Rule change was made. For Victoria, the AER recommends recovery of these costs over the remaining years of the regulatory control period (2012-15), allowing for the time value of money, to minimise the potential for a price shock for consumers in 2012 given that these costs would not have been recovered in 2011.

Should you wish to discuss the above matters, please contact Darren Kearney on (03) 9290 1966.

Yours sincerely



Chris Pattas
Acting Chief Executive Officer