



ElectraNet Pty Limited

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Mr John Pierce
Chairman
AEMC
Level 5
201 Elizabeth Street
Sydney NSW 2000

Dear John

re: AEMC Draft Rule Determination: Cost Pass Through Arrangements

ElectraNet is making this submission in response to the Commission's Draft Rule Determination on the National Electricity Amendment (Cost pass through arrangements for network service providers) Rule 2012.

ElectraNet notes that Grid Australia is making a separate submission in relation to the Draft Rule Determination. ElectraNet supports the points made in the Grid Australia submission. This supplementary submission is limited to the issue of the appropriate transitional provisions to apply to ElectraNet, in relation to the amending Rule.

The Draft Rule Determination already includes transitional arrangements in relation to Powerlink, in order to provide Powerlink with the opportunity to nominate additional pass through events, in accordance with the amending Rule. The Commission's Draft Rule Determination notes that the time lag between the start of the proposed amending Rule and Powerlink's next regulatory reset would entail a significant delay before Powerlink could utilise the new Rules, in the absence of transitional provisions, which raises questions of transparency and fairness between network businesses.

The Commission raises the question in its Draft Rule Determination as to whether it is necessary to include transitional arrangements for any other network business. The Commission has also highlighted that at the time of making the amending Rule, ElectraNet will be in the process of making its revenue determination with the AER for its next regulatory control period. The Commission notes that transitional provisions to allow ElectraNet to nominate additional pass through events in its Revised Revenue Proposal may be included if necessary.

ElectraNet does consider that transitional provisions are needed, in order to allow ElectraNet to utilise the new Rules to nominate additional pass through events to apply in the 2013-2018 regulatory period, and to provide an appropriate process for any such nomination to be considered by the AER. The specific transitional provisions proposed by ElectraNet are appended to

this submission, and in summary:

- provide ElectraNet with the ability to submit an application to the AER for additional cost pass through events within 30 days following the commencement of the amending Rule – provided that commencement of the Rule occurs before 29 August 2012 (this date being 90 business days following lodgement of the Revenue Proposal).
- provide ElectraNet with the ability to submit an application to the AER for additional cost pass through events as part of its Revised Revenue Proposal - where commencement of the amending Rule occurs after 29 August 2012.
- allow ElectraNet to include any consequent amendments to its Revenue Proposal associated with any nominated cost pass through events, as part of its application

ElectraNet lodged its Revenue Proposal for the 2013-2018 regulatory period with the AER on 31st May 2012. In the absence of any transitional provisions, ElectraNet would not have the ability to nominate additional pass through events on commencement of the amended Rules, given the requirement in the proposed Rule 6.5.10(a) for such nomination to form part of the TNSP's building block proposal. ElectraNet believes that it would be appropriate for it to be able to utilise the new Rules for the forthcoming regulatory period, consistent with the Commission's approach to Powerlink.

ElectraNet therefore considers that it would be appropriate for it to have the ability to nominate additional cost pass through events to the AER, to apply in the forthcoming regulatory period, once the amending Rule comes into place.

Consistent with this, ElectraNet noted in its Revenue Proposal that:

- it is party to the proposed Rule, which if approved, would be expected to impact on the uninsured risk profile faced by ElectraNet;¹
- the self-insurance forecast contained in the Revenue Proposal is necessarily based on the Rules currently in force, and therefore does not take these potential impacts into account;
- given the potential for transitional provisions to allow ElectraNet to nominate additional pass through events, as identified by the AEMC, ElectraNet reserves the right to act in accordance with that Rule, if approved, for the purposes of the current transmission determination process. This could include, for example, the nomination of defined pass-through events, and any corresponding adjustments to the self-insurance allowance;
- ElectraNet indicated that it intended to nominate additional cost pass-through events as soon as practicable after any enabling Rule change takes effect, and may seek to adjust the self-insurance forecast accordingly; and
- Additional pass through events are likely to include those identified in the Grid Australia Rule change proposal, such as natural disaster events.

The AER's Draft Decision on ElectraNet's Revenue Proposal is due by 30 November 2012. Based on the timeframes relating to the process for Rule amendment, it is likely that the amending Rule will come into effect significantly prior to this date, towards the beginning of

¹ ElectraNet notes that the AEMC's Draft Rule Determination allows TNSPs to nominate additional pass through events, but did not approve Grid Australia's proposal to codify additional categories of pass through event in the Rules. As a consequence, ElectraNet's uninsured risk profile will only be affected if it proposes, and the AER approves, additional pass through events, as allowed by the modified Rule.

August. ElectraNet therefore considers that it would be preferable for the transitional provisions to enable ElectraNet to nominate additional pass through events ahead of the AER's Draft Decision. The exception would be if there were to be a delay in the commencement of the proposed Rule such that there would then be insufficient time prior to the publication of the AER's Draft Decision to enable ElectraNet's application for additional pass through events to be published by the AER and subject to consultation. ElectraNet considers that providing that the amending Rule commences by the end of August, there would be sufficient time prior to the AER's Draft Decision for ElectraNet to lodge an application for additional cost pass through events and for that application to be subject to consultation.

Providing ElectraNet with the ability to nominate additional cost pass through provisions ahead of the AER's Draft Decision would have the advantage of allowing the AER to consider as part of its Draft Decision the most appropriate approach to managing the risk of events beyond ElectraNet's reasonable control, ie either through insurance or via an additional cost pass through event. It also provides an opportunity for all parties to assess and comment on the AER's consideration of this issue. The alternative of transitional Rules which allow ElectraNet only to nominate additional pass through events at part of its later, revised Revenue Proposal would mean both that the AER is unable to consider the full range of options for addressing external risk at the time of its Draft Decision, and also that parties would not have an opportunity to comment on the AER's assessment of any additional cost pass through events, prior to the AER's Final Decision.

Finally, ElectraNet's proposed transitional provisions make clear that any application in relation to additional pass through events may also include such amendments to ElectraNet's Revenue Proposal as ElectraNet considers are reasonably necessary as a consequence of it applying for additional pass through events. Where additional pass through events are substitutes for commercial insurance or self-insurance, and where the cost of such insurance has been included in the operating expenditure forecasts in ElectraNet's Revenue Proposal, this provision would allow for the consequent adjustment to expenditure forecasts to be highlighted in any application for additional pass through events. ElectraNet notes that the AER, in making its Draft Decision, is also able to make amendments to ElectraNet's Revenue Proposal in the light of any subsequent application by ElectraNet in relation to additional pass through events, even if such amendments were not incorporated in ElectraNet's application.

ElectraNet would welcome the opportunity to discuss any aspect of the proposed transitional provisions. If you require any further information please contact Simon Appleby on (08) 8404 7324.

Yours sincerely



Rainer Korte
Executive Manager Network Strategy and Regulatory Affairs

New definitions in clause 11.[xx].1

ElectraNet means ElectraNet Pty Ltd (ACN 094 482 416).

forthcoming regulatory control period means the first *regulatory control period* for ElectraNet that commences after the commencement date.

New clause 11.[xx].4

11.[xx].4 Transitional arrangement for ElectraNet

- a. ElectraNet may apply to the *AER* to include one or more additional *pass through events* in its *transmission determination* for the forthcoming regulatory control period, notwithstanding that ElectraNet did not nominate those events in its *Revenue Proposal* for that *regulatory control period*.
- b. Where the commencement date occurs less than 90 days after the date ElectraNet submits its *Revenue Proposal* for the forthcoming regulatory control period, the application referred to in paragraph (a) must be made by a written notice given to the *AER* no later than 30 days after the commencement date.
- c. Where paragraph (b) does not apply, the application referred to in paragraph (a) must be made in a revised *Revenue Proposal* that is submitted by ElectraNet to the *AER* under clause 6A.12.3 following publication of the *AER's* draft decision in relation to ElectraNet's *Revenue Proposal* for the forthcoming regulatory control period.
- d. An application referred to in paragraph (a) may include such amendments to ElectraNet's *Revenue Proposal* as ElectraNet considers are reasonably necessary as a result of ElectraNet nominating one or more additional *pass through events* in that application.