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Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

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AEMC Ref: **ERC0134**

To whom it may concern

**Consolidated Rule Request – Economic Regulation of Network Service Providers**

COTA Australia welcomes the opportunity to provide comment on the Economic Regulation of Network Service Providers (NSP) Rule Change Requests by the Australian Energy Regulator (AER) and the Energy Users Committee ('the Committee'). COTA believes that the issues raised by the proponents are serious, that the problems identified are real and that the solutions proposed deserve to be independently assessed.

COTA Australia ('COTA') is the national policy arm of the 8 State and Territory COTAs. Around Australia COTAs have a combined individual membership of around 40,000 older people as well as over 1,000 member organisations with a combined membership in excess of 500,000 seniors.

COTA is increasingly concerned that the rising costs of essential services such as energy are affecting the health and wellbeing of older Australians. Due to this concern COTA is active in energy policy debates and regulatory decisions through submissions and its membership on the AER Consumer Consultative Group (CCG).

Recognising both the importance of the regulatory and fiscal issues raised in the AER and Committee Requests and the further steps involved in the inquiry process, this submission is brief. COTA – in part through its participation on the National Consumers' Roundtable on Energy – intends to provide a greater level of detail following the release of the Directions Paper in early 2012.

However, COTA wishes to make clear its support of the notion that the energy network regulation framework can be improved. COTA therefore believes that there is merit in the approaches by the AER and the Committee. This broad position is based on the view that strong regulatory vigilance and rule-making powers are needed to meet the National Energy Objective (NEO) both in terms of reliability of supply and the long term interests of consumers of energy in respect to affordability.

COTA does not see that excessive price rises are in the long (or short) term interests of consumers and views the AEMC's treatment of this consolidated Rule Change Request as a test of its determination to uphold the principles underpinning the NEO in the face of entrenched interests.

COTA's views on the key points raised by the AER and the Committee include:

- Based on the level of spending in the current period, COTA agrees with the basic assessment of the AER and the Committee that the current regulatory framework as spelled out in Chapters 6 and 6A of the Rules is flawed. It is however also agreed that not all the additional spending by NSPs in the current period can be assigned to flaws in the Rules and that in fact much of it is justified on asset replacement and network augmentation undertaken for the purposes of reliability.
- COTA agrees with the AER that the estimated 25% of increased network charges in NSW and Qld<sup>1</sup> that can be attributed to overspend in the previous regulatory period represents a serious flaw in the way that assets are rolled into the regulated asset base (RAB). COTA is of the view that monopoly network businesses do not require the kind of protection that allows for revenue to be earned on unnecessary assets. Therefore the proposed 60/40 rule put forward by the AER deserves serious consideration.
- The key point made by the Committee regarding the treatment of debt for government-owned NSPs also has merit and requires further independent evaluation. On the surface it is clear that debt-raising is different for government than for privately-owned NSPs. This indicates that a different approach is required to ensure accuracy in revenue allowances and to ensure that consumers do not pay too much for their energy. COTA believes that the Committee's proposal should be independently assessed.
- On the key issue of prescription versus discretion, COTA has not formed a strong view at this stage. Clearly the AER is seeking greater discretion through its proposed changes to the weighted average cost of capital (WACC) regime whilst the Committee is seeking greater prescription by way of stronger rules around the cost of debt. Generally and on principle COTA prefers a more discretionary approach as this has served jurisdictional and overseas regulators well. However, it is uncertain whether the issue of the cost of debt will be adequately handled in the absence of more specific rules.

COTA has participated in the Brisbane public forum on the Consolidate Rule Request and the Adelaide stakeholder meeting and will continue to engage throughout the process.

If you have any questions regarding this brief submission, please contact Tom Stead, Senior Policy Adviser at COTA SA, on (08)8224 5515 or email [tstead@cotasa.org.au](mailto:tstead@cotasa.org.au).

Yours sincerely



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<sup>1</sup> AER Rule Change Proposal, 2011, p. 10.