



Utility Research and Advocacy Project
Credit, Commercial and Consumer Law Program
Law and Justice Research Centre
Faculty of Law, QUT

8 December 2011

Commissioner John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic submission

Dear Commissioner Pierce,

Network Regulation Rule Change (AEMC Project Codes ERC0134 and GRC0011)

The Utility Research and Advocacy Project is a specialised project of the Credit, Commercial and Consumer Law Program (CCCL) within the Faculty of Law at the Queensland University of Technology (QUT). The project is funded by the Consumer Advocacy Panel, and aims to build a deeper level of insight and knowledge about issues concerning residential, business, rural and remote consumers of electricity. CCCL does not currently engage in gas distribution/retail consumer issues.

CCCL welcomes the opportunity to participate in consultations undertaken by the Australian Energy Market Commission (AEMC) regarding the consolidated Rule change request detailed in the 3 November 2011 AEMC Consultation Paper which identifies the Rule proponents to be the Australian Energy Regulator (AER) and the Energy Users Rule Change Committee (EURCC). CCCL also participated at the Network Regulation Rule Change Requests Public Forum hosted by the AEMC in Brisbane on 23 November 2011.

CCCL is mindful of the discretion given to the AEMC under section 88(2) of the National Electricity Law (NEL) to consider the relative weight of any written submission made to the AEMC regarding a Rule change proposal. CCCL welcomes the AEMC decision to extend the statutory Rule change process and timing due to the complex nature of the Rule change requests.

There is no claim for confidentiality attached to this submission.

CCCL understands that the AER is seeking a number of changes to the framework for the economic regulation of electricity network businesses under the NER. The

AER's proposed rule changes involve three aspects of the framework, which can be summarised as follows:

- changes to the capital and operating expenditure frameworks;
- changes to the expenditure incentive arrangements; and
- changes to the cost of capital (weighted average cost of capital) framework for determining the rate of return for network businesses.

The AER's rule change request also includes other proposals that seek to change some aspects of its regulatory determination and stakeholder engagement processes.

The EURCC's rule change seeks to address what it considers to be one of the main failures of the NER that is contributing to rising network charges resulting from higher capital expenditure and higher regulated rates of returns - i.e. the methodology for the calculation of the return on debt component of the rate of return allowance.

CCCL supports the material issues raised by both the AER and EURCC, and further believes the current regulatory framework is failing consumers by permitting energy network businesses to exploit assessable expenditure costs by over-estimation and over-investment in capital asset bases. It is palpable that additional network costs are currently being ultimately met by increased end-user pricing.

The existing Rule regime allows energy network businesses to propose capital expenditure forecasts without the need to substantiate that their forecasts reasonably represent prudent and efficient costs.

CCCL looks forward to the publication of the AEMC Directions Paper on these Rule change proposals in early 2012 prior to making any further or substantive comment.

Please direct any enquiries regarding this submission to the undersigned.



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