



INFORMATION

Changes to cost allocation method – Final determination

Final rule determination: 8 August 2013

The AEMC published a final determination on the changes to cost allocation method rule change request. The Commission has decided not to make a rule as it is not satisfied that there is a problem with the existing rules nor that the changes proposed promote the National Electricity Objective.

The rule change request

Trans Tasman Energy Group submitted a rule change request on 7 December 2012 to:

- require the Australian Energy Regulator (AER) to apply the distribution consultation procedures when approving a cost allocation method;
- require cost allocation methods to include the numeric values of allocators; and
- amend the principles for access to negotiated services, regarding how prices are derived for negotiated distribution services.

These proposed rule changes seek to improve the ability of customers to negotiate with distribution businesses with respect to negotiated services.

Reasons for the Commission's determination

The Commission is not satisfied that there is a problem with the existing rules in the areas identified in the rule change request, nor that the changes proposed promote the National Electricity Objective. This is for the following reasons:

- the cost allocation method must be consistent with the cost allocation guidelines, which are subject to public consultation by the AER. Any benefits of additional consultation are likely to be outweighed by the costs;
- customers of negotiated services currently have access to commercial information from distribution businesses. The costs to the distribution businesses and the AER of including the numeric value of allocators in the cost allocation method are therefore likely to outweigh any potential benefits; and
- prices for negotiated services should be determined by the negotiating parties. The current negotiation framework provides an appropriate backstop if negotiations fail and it gives the AER appropriate flexibility to determine the criteria, with opportunity for stakeholder engagement. Further, amending the principles as proposed is not consistent with the current legal drafting.

Background and considerations

The cost allocation method is a document published by a distribution business which sets out how it will split shared costs between the different classes of services that it provides.

Negotiated distribution services are a category of services for which parties can negotiate the terms and conditions of provision, including price. This is because the user of these services has some degree of bargaining power and so is able to negotiate with the provider. An example of a negotiated service is aspects of public lighting in some jurisdictions. In contrast, the price of direct control services is determined by the AER. The majority of distribution services are direct control services.

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