INFORMATION

Assumed utilisation of imputation credits

Draft rule determination – 28 June 2012

The AEMC today calls for public submissions on its draft rule determination to not make a rule regarding the assumed utilisation of imputation credits (gamma) to apply to SP AusNet and ElectraNet for their upcoming revenue determinations.

Proponent's proposed amendments

SP AusNet and ElectraNet submitted rule change requests to the AEMC to change the value of gamma from 0.65, the current value prescribed in the 2009 review of the rate of return elements under chapter 6A of the National Electricity Rules, to 0.25 for their forthcoming revenue determinations. Two solutions were proposed by the proponents (proposed rules):

- amending chapter 6A of the NER to directly substitute the Tribunal determined value of gamma; and
- proposing a one-off transitional rule under chapter 11 of the NER obliging the AER to apply the Australian Competition Tribunal determined value of gamma (0.25),to the revenue determinations for the proponents.

Overview of the AEMC's draft determination

The AEMC has assessed the consolidated rule change request on a transitional basis and determined not to make a draft rule in response to the consolidated rule change request.

The AEMC acknowledges that the current rate of return framework for transmission businesses does not provide flexibility to adapt to changing circumstances. However, the AEMC is not satisfied that the proposed rules providing for a revised gamma of 0.25 to apply to the next revenue determination for SP AusNet and ElectraNet will, or are likely to, contribute to the achievement of the National Electricity Objective.

This is because:

- the framework for calculating the rate of return for transmission businesses is codified in the NER. The framework requires that all elements of the rate of return (including gamma) be considered as part of a single periodic review.
- permitting gamma or any other individual rate of return element to be amended on an ad hoc basis outside of that framework would undermine the integrity of the current rate of return framework and create regulatory uncertainty;
- varying the value of gamma as proposed by SP AusNet and ElectraNet without taking into account any cross-linkages with other parameters could result in an underlying change in the incentive arrangements for the network businesses; and
- it is neither appropriate nor efficient for the AEMC to conduct a review of the appropriate value of gamma or any other parameter, as this review is more appropriately carried out by the AER.

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Submissions on this draft rule determination are due on 10 August 2012

Relevant background

Utilisation of imputation credits in the rate of return framework

The National Electricity Rules (NER) outline the rate of return framework for transmission businesses. The rate of return provides an estimate of the fair return that investors may reasonably expect.

The Australian Energy Regulator (AER) must conduct a review of the rate of return elements every five years. For some parameters, the specific values adopted in that review cannot be departed from for all revenue determinations made during that five year period. These parameters include gamma.

Gamma

Gamma is the assumed value of imputation credits (franking credits).

Where the value of imputation credits or gamma is lowered, the revenue requirement will network businesses will be higher.

The AER's determination of the value of gamma for transmission businesses is not subject to merits review.

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