

25 September 2013

Mr Tom Leuner
General Manager
Wholesale Markets Branch
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Tom

re: AER Draft Decision - Early Application of Version 4 of the STPIS

ElectraNet welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) draft decision of 14 August 2013 on the early application of version 4 of the Service Target Performance Incentive Scheme (STPIS) for transmission network service providers (TNSPs).

The AER's Draft Decision applies to ElectraNet as follows:

- ElectraNet would be permitted to opt-in to the Network Capability Component (NCC) of version 4 of the STPIS during its current regulatory control period, starting from the next regulatory year (2014-15).
- ElectraNet would be subject to the Market Impact Component (MIC) of version 4 of the STPIS from the 2014 calendar year.
- The service components of the STPIS as they currently apply to ElectraNet would remain unchanged during the current regulatory control period.

These matters are addressed in turn below.

1. Network Capability Component

ElectraNet supports the AER's Draft Decision allowing ElectraNet to opt in to the NCC during its current regulatory control period.

This follows the AER's Draft Decision of 30 November 2012 on ElectraNet's Transmission Determination for 2013-18, in which the AER rejected a number of network optimisation projects which ElectraNet had proposed to improve the capability to the network in order to release additional capacity and defer the need for capital investment.

In its revised Revenue Proposal of 16 January 2013, ElectraNet removed all of the initiatives aimed at improving network transfer capability and stated its intent to seek to have the new network capability component (NCC) of the Service Targets Performance Incentive Scheme applied to ElectraNet in the 2013-2018 regulatory control period as the preferred mechanism to fund these initiatives. The AER's Final Revenue Determination of 30 April 2013 was consistent with this position.

On 29 May 2013, ElectraNet therefore wrote to the AER to formally seek the early application of the Network Capability Component of the Version 4 of the STPIS.

ElectraNet is currently working to finalise and lodge its NCIPAP application by the required date of 1 February 2014. ElectraNet also looks forward to working with the AER to resolve the detailed arrangements for the assessment and administration of NCC payments under the STPIS.

2. Market Impact Component

ElectraNet does not support the imposition by the AER of changed incentive arrangements on an NSP during a regulatory control period. ElectraNet, therefore, does not support the proposed requirement for early application of the MIC component of version 4 of the STPIS to a TNSP within a regulatory control period.

ElectraNet considers that mandatory early application of a component (or all) of a changed STPIS would undermine the incentive properties of the Scheme and regulatory certainty for TNSPs. This would also depart from the established practice of establishing revenue parameters and incentive arrangements for the applicable regulatory period at the time of a revenue determination and not changing these within a regulatory period.

A decision to impose the new MIC arrangements on ElectraNet at this time would also be inconsistent with both the Final Revenue Determination for ElectraNet issued by the AER in April 2013, and the Final Decision on version 4 of the STPIS issued by the AER in December 2012.

However, while it should not be open to the AER unilaterally to seek to impose elements of the changed STPIS during a regulatory control period, ElectraNet accepts that in seeking early application of a new component of the Scheme on a voluntary basis, it is reasonable that other applicable elements of the Scheme should apply, to the extent practicable. For this reason, ElectraNet accepts that should it choose to opt in to the new NCC, the new MIC arrangements should also apply.

3. Service Component

As a result of the substantial changes to the definitions for the service component of the STPIS, it is not practicable to introduce this element of the Scheme before the next regulatory control period.

ElectraNet therefore agrees with the AER that the service component should remain unchanged for ElectraNet.

4. Conclusion

While ElectraNet supports the option for a TNSP to seek the early application of a component of the STPIS, as per the AER's Draft Decision on the NCC, it does not support the unilateral imposition of aspects of the new STPIS to TNSPs by the AER during a regulatory control period.

Mandatory application of a changed incentive scheme within a regulatory control period undermines the incentive properties of the scheme and regulatory certainty for TNSPs.

In seeking to voluntarily opt in to a component of the Scheme, ElectraNet accepts that all applicable elements of the Scheme should apply at that point, to the extent that this is practicable.

Should you wish to discuss any aspect of this submission, please feel free to contact me on (08) 8404 7983 or Simon Appleby, Senior Manager Regulatory Affairs, on (08) 8404 7324.

Yours sincerely



Rainer Korte
Executive Manager
Network Strategy and Regulatory Affairs