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Dear stakeholder

Invitation to discuss our approach to developing an improved regulatory framework

We are beginning a program of work to deliver an improved regulatory framework focused on the long term interests of electricity consumers. This follows from changes to the National Electricity and Gas Rules that were published by the Australian Energy Market Commission on 29 November 2012.

Our approach to regulation under the new framework will be set out in a series of guidelines to be published by the end of November 2013.

Important to our success in developing these guidelines will be to hear from all stakeholders on the matters that are important to you. We are therefore designing a consultation strategy to ensure that stakeholders will have the opportunity to be closely involved in the development of the revised approaches to regulation.

As set out in the attachment to this letter, we are currently planning to use working groups and other targeted forums where stakeholders will have the opportunity to discuss issues and approaches and provide feedback directly to us. Together with written submissions on our consultation papers, we will use this feedback to complete the final guidelines.

On 18 December 2012, we will hold a videoconference forum to discuss our work program and the consultation processes that we are planning. We invite you to consider the proposed work program and consultation strategy and provide feedback to us at the forum.

Further details and contacts for the forum are available at www.aer.gov.au. We look forward to working closely with you on these important changes to how Australia's energy networks are regulated.

Yours sincerely



Andrew Reeves
Chairman

Better Regulation

Consultation Process



We are beginning a program of work to deliver an improved regulatory framework focused on the long term interests of electricity consumers. This follows from changes to the National Electricity and Gas Rules that were published by the Australian Energy Market Commission on 29 November 2012.

As part of this process, we will develop guidelines that outline our approach to various elements of the regulatory framework. The guidelines are required to be finished by the end of November 2013. Formally, only the rate of return guideline applies to gas networks. However, the approach we develop for electricity networks in the other workstreams may also bear on how we approach gas network regulation.

The Australian Energy Market Commission is also finalising its Power of Choice Review which, pending consideration by the Standing Council of Energy and Resources Ministers, may also require amendments to existing guidelines.

This document reflects these developments and outlines our intention regarding consultation on the following guidelines over 2013:

- Expenditure forecast assessment guidelines—a statement on the methods and information that network businesses must submit along with their expenditure proposals to help us in our assessment of efficient capital and operating expenditures.
- Rate of return guidelines—the types of information sources and methods that we will use in setting the rate of return that network businesses are allowed to earn on their investments.
- Expenditure incentive guidelines—sets out our approach to designing schemes that encourage network businesses to invest efficiently. This includes our approach to examining expenditure of a network business that has exceeded the forecast, incentives arising through the treatment of depreciation and related party margins. We will also consider whether a new sharing scheme could help to create incentives for network businesses to incur efficient levels of capital expenditure.
- Shared asset guidelines—covering how to share the benefit with customers in situations where a network business uses assets that are paid for by customers but also earn revenue from other sources. For example, telecommunications companies paying electricity networks to share poles paid for by electricity customers.
- Confidentiality guidelines—regarding the types of information that may be claimed as confidential by network businesses in expenditure proposals.
- Service provider customer engagement guideline—dealing with the new requirement for network businesses to demonstrate effective consultation with customers and that they have responded to issues raised in preparing their expenditure proposals.

- Power of Choice implementation—including any amendments to our existing demand management and embedded generation connection incentives schemes, amendments to pricing principles and consequent need for pricing guidelines.

In the coming weeks we will begin publishing issues papers and establishing working groups to consult on each of these guidelines. This consultation will be inclusive, allowing an open process for relevant matters to be discussed.

Working groups will be chaired by an AER board member and include representatives of interested stakeholders.

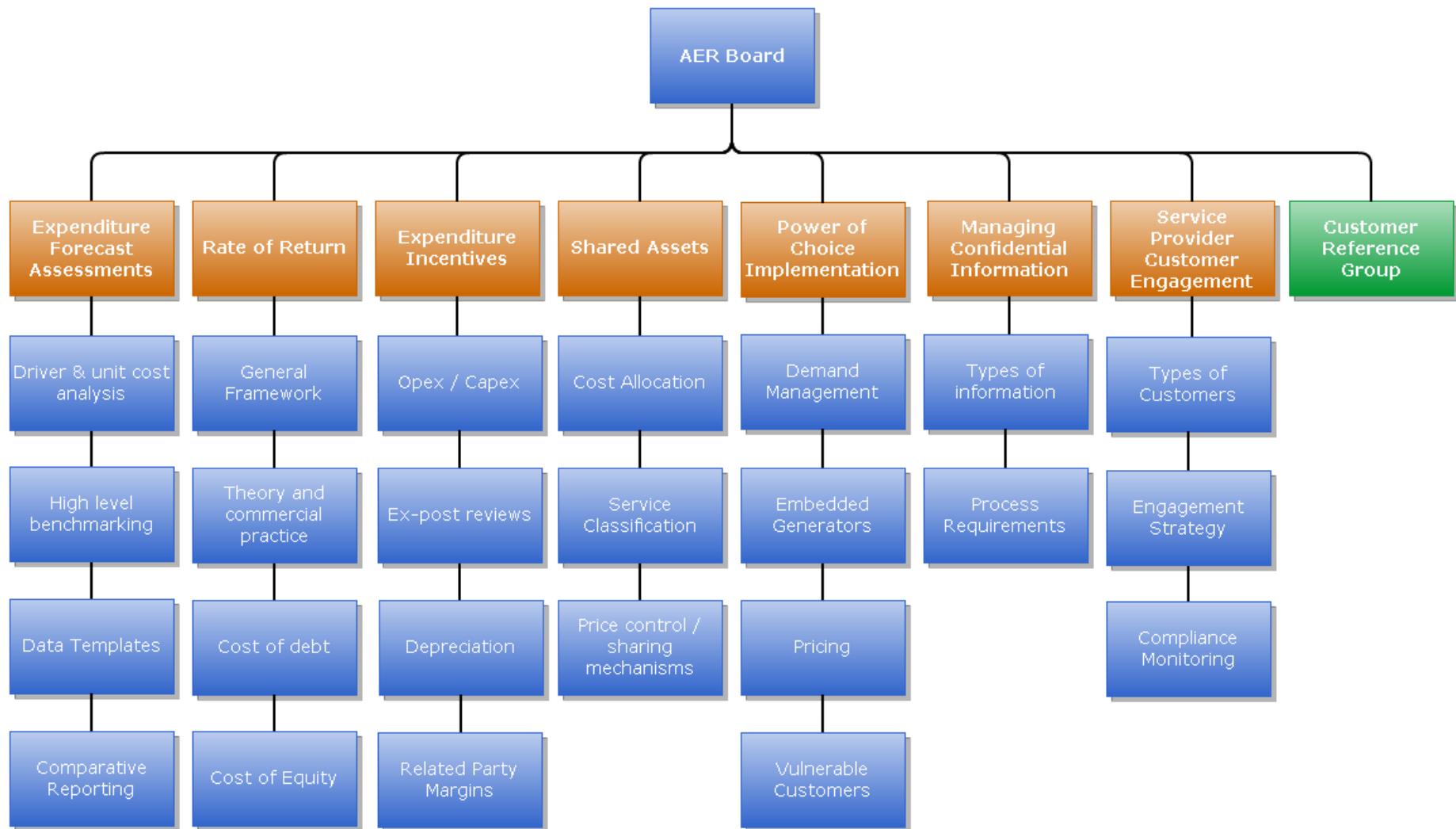
Discussions at the working group meetings will be guided by the issues raised in our issues papers. However, stakeholders will be free to raise other issues that are relevant to our regulatory approach. An overview of each guideline workstream and some issues expected to be addressed under each is illustrated on the next page.

We will take into account any work produced by each working group, including key conclusions and points of agreement/ disagreement, in developing draft guidelines that will then be published for formal consultation. Any presentations or documentation prepared and considered by each working group would be published on our website (subject to consent of attendees) along with agendas and any outcomes of working group meetings. It is not our intention to take formal minutes or verbatim accounts of meetings.

Customer reference panel

We expect that customer representatives will be keen to participate in as many of the working group meetings as possible. However, we also recognise that for many customer representative organisations, energy is only one of the policy issues that demands their time and resources. We have also found in the past that customer organisations have benefitted from having access to a separate forum in which they can share their ideas collectively, prior to having input in specific working groups.

We therefore propose to establish a panel specifically for customers. This separate panel will enable us to focus on the issues that are important to customer representatives. We will also be able to distil the issues being considered by the other workstreams to assist customer representatives better plan the commitment of their resources. Views are sought on the best way that this panel could be constituted to enable it to provide value to customer representatives.



How to get involved

Stakeholders wishing to either follow or participate in the working group meetings are encouraged to contact the relevant Project Director as outlined below. All materials including issues papers will be published on our website from mid December.

The AER will be in contact with stakeholders about the time and dates of initial working group meetings after they have registered their interest. The dates and locations of subsequent working group meetings will be coordinated by AER staff to minimise clashes and travel. It is expected that the scope and sequencing of matters considered by each working group, including the potential deferral of issues to specific sub-working groups, will be determined jointly within each working group during its initial meetings.

Guideline/ workstream	Project Director	Contact e-mail
Expenditure forecast assessment	Lawrence Irlam	expenditure@ aer.gov.au
Rate of return	Craig Madden	rateofreturn@ aer.gov.au
Expenditure incentives	Blair Burkitt	incentives@ aer.gov.au
Shared assets	Moston Neck	costallocations@ aer.gov.au
Power of choice implementation	John Skinner	demandmanagement@ aer.gov.au
Confidentiality	Adam Petersen	confidentiality@ aer.gov.au
Service provider customer engagement	Moston Neck	customerengagement@ aer.gov.au
Customer reference panel	Tanja Warre	customerreferencepanel@ aer.gov.au

Timetable

Indicative key milestones for consultation on each workstream are set out below.

Guideline/ workstream	Issues paper released	First working group meeting	Last responses to issues paper due*	Proposed guideline and explanatory statement	Responses due	Final guideline
Expenditure assessment method	Dec 2012	Jan 2013	Late May	9 August	20 Sept	29 Nov
Rate of return	Dec 2012	Jan 2013	February			
Expenditure incentives	Mar 2013	May 2013	Late May			
Shared assets	Feb 2013	Mar 2013	Late May			
Confidentiality	Apr 2013	Apr 2013	June			
Customer engagement	Dates for consultation on these matters will be determined at a later date					
Power of Choice implementation						

* We may publish further papers with more than one round of written responses.