RESPONSES TO FURTHER AER QUESTIONS ON DUAL FUNCTION ASSETS

ISSUE 1

With its letter of 30 June 2012, ActewAGL indicated that at 1 July 2012 it had DFA valued at $45.46 million and that this equates to around 4.7 % of its 1 July RAB. ActewAGL's response to AER queries, provided 20 July 2012, indicated a further $10 million transmission asset upgrade is currently in planning approval and that further revenue grade metering investment may also be required. On this basis, the AER considers it likely that ActewAGL's DFA value as a proportion of its RAB will increase in the short to medium term future, rather than decrease.

QUESTION 1

Does ActewAGL estimate that at the beginning of its new revenue determination its DFA value will increase from its current estimate of 4.7% of its RAB? If so, please estimate this value?

ACTEWAGL RESPONSE TO QUESTION 1

Consistent with our letter of 30 June 2012, the value of the DFA was estimated as 4.7 per cent of ActewAGL's *opening* RAB (ie, as at 1 July 2009). The value of $45.46 m was calculated using the AER's Post Tax Revnue Model (PTRM) and information of expenditure on the relevant assets during the period to date (note that the requirement of the NER is for an estimated valuation of the DFA *as at 1 July 2012*).[1]

Performing the additional calculation rolling forward the RAB as a whole until 1 July 2012 yields a proportionate share of the RAB of DFA of 6.3 per cent.

By the commencement of the 2014-19 period, DFA are forecast to represent 7.1 per cent of the RAB.

ISSUE 2

In deciding whether to apply chapter 6 or 6A of the NER to DFAs, the AER is required to take into account the materiality of DFA provided transmission services in the context of the service provider's total RAB.

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[1] NER 6.25(a) "The value to be advised is the value ascribed to the relevant *dual function assets* in the relevant *Distribution Network Service Provider's* regulatory asset base as at the start of the *regulatory year* which commences 24 months prior to the end of the current *regulatory control period*."

QUESTION 2

Does ActewAGL consider that its DFA are, and will be, material in the context of its total RAB? What specific measures has ActewAGL considered in reaching this view? What thresholds does ActewAGL consider are relevant in this context?

ACTEWAGL RESPONSE TO QUESTION 2

The NER specify that the AER must decide whether the DFA "comprise such a material proportion of that Distribution Network Service Provider's regulatory asset base" that they should be priced as transmission assets. In making it decision, the AER must consider whether resulting prices would be materially different, and the impact of those price changes would be material.

The word "material" in this context has a similar meaning to "important" or "significant" and is the opposite of "trivial" or "irrelevant".

ActewAGL considers the DFA to comprise a material portion of its network both in terms of function and of value. Moreover, recovering the cost of the DFA from NSW/ACT transmission network users rather than from ACT distribution network users would have a significant impact on the price of electricity supply for the latter group, but a trivially minor impact on the former.

The AER may also consider any other matter the AER considers relevant. The AER might consider relevant matters including the following:

- The DFA will provide important support to the TransGrid network, removing from TransGrid the need to further invest to secure that support in other ways;
- In providing that support, ActewAGL will need to fund obligations of a TNSP or a transmission network over and above those of a DNSP or distribution network which should not be funded solely by ACT consumers. For example, ActewAGL has been required to register as a TNSP in relation to the transmission functions performed by the DFA, and has an obligation to install metering and protection equipment at the connection points to its ACT network zone substations.

ISSUE 3

In determining whether to apply chapter 6 or 6A to DFA, clause 6.25(c)(1) requires the AER to consider whether distribution pricing rather than transmission pricing would have a material impact on prices for distribution customers. To reach a view on this issue the AER requires two sets of indicative tariffs from ActewAGL for the upcoming regulatory control period – assuming DFA priced as transmission assets and as distribution assets respectively.

QUESTION 3

Could ActewAGL please provide the AER with indicative distribution tariffs in both contexts: that is, indicative tariffs that would apply with DFA treated under chapter 6 compared with chapter 6A.

ACTEWAGL RESPONSE TO QUESTION 3

The impact in 2014/15 of DFA costs on ACT distribution customers will be 0.36 cents/kWh (in $2012/13) or 5.6 per cent of ACT DUOS charges. This was calculated by taking the forecast building blocks revenue requirement of the dual function assets in 2014/15 ($10.92 million), deflating it to 2012/13 dollars ($10.374 million) and dividing it by the ACT energy throughput (2,879GWh).

The ACT load represents 4 per cent of the transmission throughput in the NSW region. Therefore, the actual effect on ACT NUOS and retail prices of shifting the cost of the dual function assets from distribution to transmission services is a reduction of 0.35 c/kWh. Putting the reduction of 0.35 c/kWh in NUOS charges into the retail pricing model of the Independent Competition and Regulatory Commssion (which regulates ACT retail electricity prices), it would have reduced retail prices (via the pass through of lower network charges) by 1.9 per cent in 2012/13.

ISSUE 4

ActewAGL previously expressed a view that ACT consumers should not be required to pay for network costs as a consequence of the connection of the second supply point to the ACT.

QUESTION 4

Please clarify ActewAGL's reasoning behind this comment.

ACTEWAGL RESPONSE TO QUESTION 4

The classification of ActewAGL's 132 kV sub-transmission network as a transmission service was an unintended and unforeseen consequence of the building of the second supply point to the ACT. The additional costs mentioned in the response to Question 2 above are relevant in this context.

ActewAGL Distribution, 3 Septermber 2012