

4 September 2014

Mr Warwick Anderson
 General Manager Network Regulation
 Australian Energy Regulator
 GPO Box 3131
 Canberra ACT 2601

Dear Mr Anderson

**Electricity Distribution Determination for the ACT 2014-19:
 Clarifications following the AER’s public forum for ActewAGL Distribution’s regulatory proposal**

On 30 July 2014, the AER held a public forum in Canberra on ActewAGL Distribution’s 2014-19 regulatory proposal. ActewAGL Distribution presented its regulatory proposal to a number of stakeholders including the Consumer Challenge Panel (CCP), which also provided two presentations on the day.¹

ActewAGL Distribution welcomes the interest in this review, and is keen to respond to some of the statements by the CCP.

The issues are listed in the table below:

CCP statement:	ActewAGL Distribution clarification:
<p>The CCP stated that there was no evidence to support ActewAGL Distribution’s weighted average cost of capital (WACC) proposal and that it was ‘out of whack’.</p>	<p>ActewAGL Distribution has provided a significant amount of evidence based on expert and academic opinion in support of its proposed WACC to ensure that it is consistent with the rate of return objective in the National Electricity Rules (NER).</p>
<p>The CCP suggested that AAD may have been selective in its use of results from past willingness to pay (WTP) surveys to support its regulatory proposal.</p>	<p>ActewAGL Distribution rejects any suggestion that it has been selective in its use of WTP survey results. Results from the 2003, 2009 and 2012 surveys were used to inform network planning priorities and expenditure proposals, the level of rewards and penalties under the service target performance incentive scheme, and ActewAGL Distribution submissions to national service quality reviews. The studies were peer reviewed by academic experts Professor David Hensher (2003 and 2009), Professor Jeff Bennett (2009) and Professor Riccardo Scarpa (2012). Articles on the study results have been published in academic journals, including <i>Energy Policy</i> and <i>Applied Energy</i>.</p>

¹ Presented by Mark Henley and Ruth Lavery respectively

The CCP questioned why the results of the 2009 WTP study had not been used more extensively given this survey was based on the largest sample.

As advised at the public forum, this study investigated customer willingness to pay for the undergrounding of overhead lines in detail and these results have been used extensively and been referenced in four academic journal articles.

The CCP indicated that ActewAGL Distribution had been selective in its price comparison chart and suggested that Victoria had lower network charges than ActewAGL Distribution.

ActewAGL Distribution confirms that according to the AEMC's residential network charge comparison on which its comparison was based², the ACT network charges are the lowest in Australia, including 20% lower than in Victoria.

The CCP stated that ActewAGL Distribution was to be subject to a revenue cap form of control.

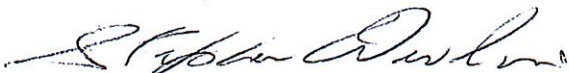
As determined by the AER in its Framework and Approach in March 2013, ActewAGL Distribution is subject to an 'average revenue cap' form of control for its standard control services and we note this was acknowledged by the CCP at the forum.

The CCP questioned ActewAGL Distribution's proposed increase in undergrounding capital expenditure, given that ActewAGL Distribution had said this needed further assessment based on the willingness to pay study findings.

ActewAGL Distribution would like to clarify that expenditure in relation to underground assets in ActewAGL Distribution's regulatory proposal reflects only the replacement of existing, aged underground cables. ActewAGL Distribution has not included any capital expenditure for undergrounding the existing overhead lines in residential areas.

If you would like to discuss this matter, please contact Mr David Graham, Director Regulatory Affairs and Pricing on 02 6248 3605.

Yours sincerely



Stephen Devlin
General Manager Asset Management

² The Australian Energy Market Commission's Electricity price trends Final Report reports network costs for Queensland (14.80 cents/KWh, page 45), New South Wales (16.44 cents/KWh, page 57) Australian Capital Territory (8.71 cents/KWh, page 68), South Australia (16.02 cents/KWh, page 78) Victoria (11.98 cents/KWh, page 91), Tasmania (14.73 cents KWh, page 104), Western Australia (12.57 cents/KWh, page 113) and Northern Territory (10.77 cents /KWh, page 122). Available: <http://www.aemc.gov.au/markets-reviews-advice/retail-electricity-price-trends-2013>