ActewAGL

Attachment: ActewAGL responses to AER's preliminary positions

Demand management incentive scheme

ActewAGL supports the AER's preliminary position that it would not be appropriate to apply a D-factor to the ACT for the 2009-2014 regulatory period. ActewAGL also supports the AER's the trial of a learning-by-doing fund.

Control mechanism for alternative control services

ActewAGL believes that maintaining the total revenue control mechanism for metering services during the next regulatory period is appropriate. ActewAGL notes the preliminary position to allow ActewAGL to recover the additional efficient costs incurred through the roll-out of interval meters in the ACT.

Also, in the Final Decision of its Review of Metrology Procedures the Independent Competition and Regulatory Commission (the Commission) makes it clear that it does not intend for ActewAGL to be disadvantaged by the Commission's decision to mandate the roll out of interval meters[1] and "that ActewAGL Distribution's revenue would be protected from any costs the business incurred in the installation of interval meters as required by the decision".[2]

Consistent with this intent, the ICRC has allowed ActewAGL to *fully* recovery the costs associated with the installation of interval meters. Therefore, ActewAGL believes that the AER's approach should be consistent with that adopted by the Commission, and therefore it should not adopt a materiality threshold for the additional costs associated with mandated metering requirements.

Approach to determining materiality for possible pass through events

The Value of the Threshold

In its response to the Issues Paper, ActewAGL provided the AER with a detailed discussion of the key factors associated with determining the value of the materiality threshold for an eligible pass through event. ActewAGL is of the belief that once an event is considered 'eligible', the only remaining issue should be whether the cost of forming and processing a claim is efficient.

In its response to the AER's Issues Paper, ActewAGL proposed that the AER consider 'no threshold' as an option to determining materiality. This was based on the belief that there were already the necessary checks and balances within the transitional Rules to discourage

[1] ICRC 2005, *Final Decision, Review of Metrology Procedures*, Report 15 of 2005, December, p11
[2] ibid, p13

inefficient pass through applications. In particular DNSPs would only be expected to submit applications where the value of those applications is above the administrative costs associated with its production. ActewAGL notes that the administrative costs it incurs through the development and submission of a pass through application should not be underestimated and essentially acts as a threshold to the pass through of unforeseen costs.

ActewAGL also recognises that there is also an administrative burden that will be placed on the AER when it assesses pass through claims made by ActewAGL. ActewAGL therefore believes it would be appropriate for the materiality threshold to be based on an estimate of the combined administrative cost of assessing a typical pass through claim. ActewAGL considers that this threshold would be significantly less than the threshold implied by 1% of revenue, which in ActewAGL's case is equivalent to around $1 million.

The Type of Threshold

In its response to the *Issues Paper*, ActewAGL did not explicitly state a preference for a cost or revenue impact measure when determining a materiality threshold. ActewAGL notes the AER's preliminary position is to apply a revenue impact measure for the materiality threshold based on its reasoning that revenue better reflects a firm's 'financial position'. ActewAGL is concerned by the AER's reasoning on this issue.

Firstly, AER states that there should be "no difference" between a cost and revenue threshold. ActewAGL agrees that there should be no *theoretical* difference between the two as the revenue requirement is based on an assessment of forecast efficient costs. However, the AER would be aware that there is a significant *practical* difference as a revenue impact assessment would place an additional administrative burden on both ActewAGL and the AER to model the revenue impact that flowed from the change in efficient costs. Furthermore, ActewAGL also believes that an assessment of revenue is only an incomplete gauge of a DNSP's financial position, and could not reasonably be isolated from an assessment of costs and market conditions more generally.

The AER comments that a threshold based on costs would allow events that impose the same additional costs on DNSPs to be passed through by all DNSPs, regardless of their ability to absorb the cost increase. ActewAGL notes that this would only be true if the threshold was defined in terms of the absolute impact on costs. If it is defined in relation to the proportionate increase in costs in the same way as the AER suggests for revenues, then it would operate in exactly the same way as a revenue threshold.

For these reasons, ActewAGL supports a cost impact measure over a revenue impact measure.

Uniformity across DNSPs

In the event that the AER decides to impose a threshold that lies above an estimate of total administrative costs, the AER should attempt to balance the need for pragmatism, the recognition that NSW and ACT DNSPs differ in size, and the requirement of equity amongst the DNSPs.

In light of these considerations, ActewAGL proposed two alternative approaches to the formulation of the threshold:

1. A DNSP-specific threshold based on an assessment of 'materiality' to each specific business.

The AER discusses this approach in section 4.3.3, and indicates that it acknowledges its merits:

> The AER considers that materiality depends on the particular circumstances of each business. What is material for one may not be material for another (page 49)

However, curiously, the AER's conclusion on this issue relates not to its discussion of a DNSP specific threshold, but rather its prior discussion of the type of threshold (which it had already discussed and provided a preliminary position on at section 4.3.1):

> Accordingly the AER considers that a threshold related to revenue is an appropriate proxy for addressing likely financial impact (page 49)

Therefore ActewAGL seeks the AER's preliminary position on the application of a DNSP-specific threshold.

2. A two stage materiality test whereby the cost or revenue impact of the event must exceed x% of the value of the RAB or the cost or revenue impact of the event must exceed an absolute dollar amount determined to be material for a larger DNSP.

ActewAGL still believes that this approach helps address the inequity associated with a uniform proportional threshold. The AER raises this approach in its list of submissions, but has not discussed its advantages and disadvantages. ActewAGL seeks the AER's view on this approach to a materiality threshold.