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1 February 2008

Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Pattas

Submission to Guidelines, Models and Schemes for Electricity Distribution Network Service Providers Issues Paper

Aurora Energy Pty Ltd (Aurora) welcomes the opportunity to make a submission on the *Guidelines, Models and Schemes for Electricity Distribution Network Service Providers Issues Paper* released for comment by the Australian Energy Regulator on the 30th of November, 2007.

Aurora is the sole licensed provider of distribution network services on mainland Tasmania, managing approximately 25,000 km of distribution network to serve around 250,000 customers.

Aurora supports the development of a framework of economic guidelines, models and schemes as part of future distribution network service provider regulatory proposals. There are however a number of key differences that exist not only between electricity transmission and distribution network service providers but also jurisdictionally between distributors that will have implications for the development of any guidelines, schemes and models. It is therefore important that the AER recognise that this will be a complex transition and that any final solution may take a period of time. Sufficient time needs to be allowed to ensure that these distribution specific issues are addressed.

Please find in the attachment to this letter Aurora's comments to the specific questions contained within the Issues Paper.

Yours sincerely

John Devereaux
General Manager Network

Detailed Responses to Questions.

2.3 National framework

2.1. Post tax revenue model

Aurora believes that the use of the post tax revenue model (PTRM) developed by the AER for transmission provides a suitable basis for distribution regulation. There are however certain jurisdictional differences in to the treatment of certain components of the revenue model of which the AER should be cognisant. These are discussed further in our response to the individual AER questions.

2.1.1 Basis and policy objectives

Q. The AER seeks comment on whether other rule provisions exist that are relevant to developing the PTRM for electricity distribution.

Aurora is not aware of any other rule provisions existing that are relevant to the development of the PTRM.

Q. Comments are also invited on whether the provisions mentioned here may require a different approach or have different meaning in the context of distribution and transmission regulation.

Aurora is concerned that certain components of its current pricing determination, specifically metering, are not assessed in the usual building block manner (WACC x DORC + DEPN + O&M) and may require specific assessment when converting to any PTRM.

2.1.2 Consistency between the PTRM for transmission and distribution regulation

Q. The AER seeks comment on whether the PTRM developed for electricity transmission provides a suitable basis for distribution regulation.

Aurora believes that the use of the PTRM developed by the AER provides a suitable basis for distribution regulation.

Q. If not, what particular features or aspects of the PTRM need to be amended?

Aurora supports the use of the PTRM.

2.1.3 Distribution specific issues

2.1.3.1 Capital contributions

Q. The AER seeks comment on how the PTRM could be modified to recognise the treatment of capital contributions, or whether it may be more suitable to deal with this during reset processes.

Jurisdictional variations are going to be the norm when dealing with capital contributions. Aurora supports an approach where capital contributions are dealt with as part of the reset process and a consistent PTRM is applied.

2.1.3.2 Cash-flow timing issues

Q. Do the PTRM's current timing assumptions result in any systematic bias in favour of service providers?

Aurora does not believe that the current timing assumptions result in any substantive systematic bias.

Q. If so, is there merit in considering modifications to the PTRM to remove this bias, for example, in the form of present value adjustments discussed here?

Aurora does not support modifications to the PTRM.

Q. To what extent would these adjustments increase the administrative burden and complexity of the modelling?

Any adjustments to the PTRM will result in further administrative burden and complexity to the DNSP and are not supported by Aurora.

2.1.3.3 Forms of control

Q. Stakeholders are invited to comment on the benefit of incorporating indicative X factor calculations in the PTRM under common forms of price control, namely revenue caps (as per the existing PTRM), weighted average price caps, and revenue yields.

Aurora does not believe there are any benefits in incorporating indicative X factor calculations in the PTRM.

2.1.4 Linkages with information requirements

Q. Stakeholders are invited to comment on other likely information requirements associated with the PTRM.

Aurora's current pricing determination has a pre-tax price cap for the provision of metering services that has been derived from an annuity approach to metering assets plus operations and maintenance. There will be some issues arising from this model that Aurora will need to work through with the AER in a transition to a PTRM. These

will include taxation, asset valuation, depreciation and data sources.

2.2 Roll-forward model

Aurora believes that the use of the roll forward model (RFM) developed by the AER for transmission provides a suitable basis for distribution regulation.

2.2.1 Basis and policy objectives

Q. The AER seeks comment on whether other rule provisions exist that are relevant to developing the RFM for electricity distribution.

Aurora is not aware of any other rule provisions existing that are relevant to the development of the RFM.

Q. Comments are also invited on whether the provisions mentioned here may require a different approach or have different meaning in the context of distribution and transmission regulation.

Aurora is concerned that certain components of its current pricing determination, specifically metering, have not been previously assessed in any roll forward methodology and may require specific assessment when converting to any PTRM.

2.2.2 Consistency between the RFM for transmission and distribution regulation

Q. Stakeholders are invited to comment on whether there are any impediments to using the AER's transmission RFM as a basis for the distribution model.

Aurora is not aware of any impediments to using the AER's transmission RFM as the basis for the distribution model.

2.2.3 Distribution specific issues

Q. The AER invites comments on whether the adoption of existing models is appropriate and whether there are specific issues regarding these models, and current jurisdictional revenue determinations, that the AER needs to consider in performing its first round of roll-forward calculations in each jurisdiction.

The current modelling of metering values and revenues is an area that will require AER consideration in the first round of roll forward calculations.

2.3 Cost allocation guidelines

Aurora believes that jurisdictional cost allocations have been specifically developed for each distributor and any newly proposed methodology may result in DNSPs having to undertake additional administrative burden to satisfy multiple masters. It would be preferable for the AER to work through any such issues as part of the handover of regulatory powers.

Q. Written comments from interested parties are sought on the following:

- *Given the similarity between the respective NER provisions for transmission and distribution, to what extent should the AER adopt a similar approach to cost allocation between distribution and transmission businesses?*
- *Are the proposed general principles discussed above for the provision of information for cost allocation in the distribution sector appropriate?*
- *Should any other general principles and or requirements be reflected in the distribution cost allocation guidelines?*

Aurora supports the adoption of a similar approach to cost allocation for transmission and distribution businesses and can see no issues.

2.4 Efficiency benefit sharing scheme

2.4.2 Similarities with the approach to transmission networks

Q. Is it reasonable to apply to DNSPs an EBSS with the same general approach as the transmission EBSS?

Aurora does not believe it is appropriate to apply the same scheme as that utilised in the transmission EBSS.

Q. Are there any significant differences between transmission and distribution businesses that would require a different general approach?

The nature of distribution networks is significantly different than that of transmission networks and spending patterns are far less easily predicted. Indeed, the Tasmanian Regulator introduced an opex efficiency scheme as part of his 2003 Determination and subsequently dropped the scheme as part of the current Determination due to the complexities in determining actual efficiency gains or losses.

2.4.5 Nature of capex

Q. Would the application of an EBSS to capex yield sufficient benefits to consumers to offset the risk of windfall gains and losses?

Aurora does not believe that the application of an appropriate EBSS provides either windfall gains or losses.

Q. Could forecasts and/or actuals be adjusted ex post to reduce the risk of windfall gains and losses to acceptable levels?

Aurora does not support the concept of adjustments to either forecasts or actuals once the 'regulatory contract' has been formalised for the regulatory period.

2.4.6 Incentives to defer capex

Q. Would the application of an EBSS to capex provide inappropriate incentives to delay capex?

Aurora believes an appropriately constructed EBSS on capex would not be inappropriate in the provision of incentives to allow the DNSP to defer capex.

2.4.7 Impact of the EBSS on incentives to undertake demand side responses and invest in distributed generation

Q. Would the application of an EBSS to only opex materially impact DNSPs' incentives to undertake demand side responses and invest in distributed generation?

Aurora has no comment on this question.

2.4.8 Other issues regarding inclusion of capex

Q. Are the incentives for efficient capex in the broader regulatory framework sufficient or is there also a need for an EBSS that incorporates capex?

Aurora believes that existing incentives in the broader regulatory framework are sufficient in achieving efficient capital expenditure outcomes.

Q. How would the exclusion of capex from the EBSS affect the overall regulatory incentives faced by DNSPs?

Aurora has no comment on this question.

Q. In considering whether or not it is appropriate to include capex in the EBSS for distribution networks, what issues should the AER consider in addition to those discussed in this issues paper?

Aurora has no comment on this question.

2.4.9 Treatment of distribution losses

Q. Is there any evidence available showing that the current level of distribution losses is significantly greater than the economically efficient level?

Aurora does not believe that any evidence to date supporting the premise that distribution losses are significantly greater than the economically efficient level.

Q. If a distribution loss scheme is found necessary, would either of the Ofgem or IPART schemes be appropriate given the requirements of the NER? If not, what would be the best form of scheme?

If any loss scheme is to be implemented Aurora believes the IPART scheme to be preferential.

2.4.10 Linkages with information requirements

Q. Is it reasonable to require DNSPs to provide the proposed information? Is there any further information that DNSPs should provide to assist in achieving the objectives of the scheme?

If any scheme is to be introduced it is appropriate that DNSPs provide sufficient information for the working of the scheme.