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Dear Ms Kaur,

### **Revenue determination guideline for NSW contestable network projects**

Ausgrid welcomes the opportunity to make this submission in response to the Australian Energy Regulator's (AER) draft Revenue Determination Guideline for NSW contestable network projects (**draft guideline**).

Ausgrid supports the AER's overall approach as set out in its draft guideline. In particular, it is appropriate for the guideline to focus on the procurement strategy and decision-making process to assess whether the proposed service and prices are prudent and efficient. While we support the AER's approach, there are several areas detailed below where relatively minor changes could deliver better outcomes and transparency for customers and entities with a role to play in the process.

#### Consolidated guideline preferred

The draft guideline details the AER's role in making revenue determinations for Network Operators under the *NSW Electricity Infrastructure Investment Act 2020 (EII Act)* and associated (yet to be drafted) regulations for contestable network projects and that another draft guideline will be released in 2022 for non-contestable network projects.

We recommend that the AER consider consolidating the guidelines to address both contestable and non-contestable service provision. This approach is likely to be more helpful to stakeholders, result in a more streamlined process, and avoid potential overlap and confusion in maintaining two separate guidelines.

#### Application of existing AER Guidelines

We support the AER's view that the various schemes and models that apply under its standard building block framework should not apply to competitively-procured network services. However the AER considers that Chapter 6A of the NER Confidentiality Guideline, the Ring-fencing Guideline and the Cost Allocation Guideline should apply to Network Operators.

It is not clear that contestable projects would warrant the application of these guidelines as the Network Operator has been selected through a competitive procurement process. For example, the AER suggests that a Network Operator may use revenue earned from providing Regulated Network Services (i.e. services that are subject to the revenue determination) to cross-subsidise unregulated activities undertaken by the Network Operator or an associate of the Network Operator. In our view, this is unlikely to be a concern in relation to a Network Operator that has been appointed following a competitive procurement process. As the revenue has been substantially settled through that process, there would be no incentive to cross subsidise unregulated activities.

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While we expect that some aspects of regulatory guidelines may need to apply to Network Operators that have been appointed through a competitive procurement process, it will be important to ensure that such guidelines are tailored appropriately and developed for a contestable Network Operator framework. For example, consideration should be given to developing guidelines for the situation where a Network Operator goes into administration. Processes are needed to ensure the secure, reliable and safe operation of the network, which an appointed administrator may not be able to do, necessitating the need for a, for example, 'network services provider of last resort'.

By adopting a fit-for-purpose approach to guidelines, the AER will be able to ensure that regulation is targeted to address issues relevant to a contestable network and therefore maximise the regulatory effectiveness and minimise costs to customer.

#### Other matters

Ausgrid is working under the assumption that the Infrastructure Planner will:

- establish procurement processes that verify cost efficiency and risk management are addressed in the Network Operator's procurement strategy; and
- ensure that essential aspects of quality, reliability and safety are considered in the selection of the Network Operator.

It may be worth clarifying these matters with the Infrastructure Planner ahead of finalising the guideline.

Please contact Naomi Wynn at [naomi.wynn@ausgrid.com.au](mailto:naomi.wynn@ausgrid.com.au) with any questions.

Regards,



Rob Amphlett Lewis  
Chief Customer Officer