

13 July 2015

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Email: VICElectricity2016@aer.gov.au

Dear Mr Pattas,

RE: Issues Paper - Victorian electricity distribution pricing review 2016-2020

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Australian Energy Regulator's (AER) review of the Victorian distribution network service providers (DNSPs) regulatory proposals for 2016-2020 (the Proposals).

The ERAA represents the organisations providing electricity and gas to over 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

Capital expenditure

It is the responsibility of the DNSPs to demonstrate that their individual proposals are underpinned by prudent systems, consistent with good operating practice and based on robust and reliable data. Where this is not demonstrated, the ERAA encourages the AER to put in place alternative arrangements that reflects the capital expenditure criteria set out in the National Electricity Rules.

The ERAA supports the AER assessing the appropriateness of the risk assessment approaches of the DNSPs to ensure that they are not overly conservative and that expenditure is adequately linked to a prudent needs-driven analysis.

Operating expenditure

The ERAA supports the AER assessing Proposals seeking step change costs in operating expenditure consistently across DNSPs and jurisdictions. The ERAA supports and believes the application of a benchmark efficiency threshold of the average of the top quartile to be appropriate.

Weighted average cost of capital

The ERAA does not support the proposed Market Risk Premium (MRP) included in the Proposals as part of the weighted average cost of capital (WACC). The AER's published methodology is considered preferable and provides a certain and predictable outcome for investors and a balance between the views of consumer groups and the DNSPs. Further, the ERAA does not support the immediate application of the debt risk premium to the trailing average approach.



The ERAA does not support the equity betas proposed by the DNSPs in the Proposals. The ERAA supports the use of the AER's equity point estimate of 0.7 across for each of the DNSPs.

Other comments

The ERAA believes that the inclusion in the Jemena proposal of a draft Tariff Structure Statement (TSS) is a positive step towards meeting the requirements for consultation. The ERAA strongly advocates that the DNSPs should be required to demonstrate consideration of customer impact of regulatory pricing proposals and provide further evidence clearly documenting the consultation processes with all stakeholders during the development of the Proposals. In particular, DNSPs should be documenting their responses and strategies to views that do not support the pricing models being advanced, not just confirming that consultation has occurred.

The ERAA recommends that the AER exercise its authority to seek further information from the DNSPs where there is insufficient evidence provided to assess any aspects of an individual proposal, inclusive of matters raised by our members in their individual submissions.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Alex Fraser', with a horizontal line underneath.

Alex Fraser
Interim CEO
Energy Retailers Association of Australia