



4 February 2016

Mr Chris Pattas
General Manager – Network Investment and Pricing
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

Dear Mr Pattas

RE: VICTORIAN NETWORKS REVISED PROPOSALS

Origin Energy (Origin) appreciates the opportunity to provide input to the Australian Energy Regulator's (AER) assessment of the Victorian distribution networks' annual revenue allowances for the period 2016-20.

The National Electricity Rules allow a distribution network service provider (DNSP) to revise its regulatory proposal to address matters raised by the draft distribution determination or the AER's reasons for it.

On 6 January 2016, the Victorian DNSPs lodged revised regulatory proposals. Submissions on these proposals are required within 20 business days. The Victorian DNSPs have collectively submitted over 70,000 pages of material to address matters raised in the AER's preliminary decision. This is in addition to the vast quantity of information submitted in their substantive regulatory proposals.

We recognise the importance for regulated DNSPs to present robust and accurate regulatory submissions to support their proposed expenditure and revenue allowances. However, we are concerned that the quantity of information, not just in this process, but in all recent network reviews, makes it increasingly challenging for stakeholders to meaningfully contribute to the regulatory debate.

Notwithstanding, Origin largely agreed with the outcomes of the AER's preliminary decision. We strongly supported the AER's position on the rate of return and while we supported the reductions made to operating and capital costs, expressed the view that the proposed overhead costs warranted further examination.

In response, the Victorian DNSPs have stated that there is a material difference between what they consider to be the efficient costs of running their networks and what the preliminary decision provided for. However, Origin considers that these differences do not reflect the recovery of efficient costs.

As part of their regulatory proposals, the Victorian DNSPs proposed a hybrid method of calculation to transition to the trailing average return on debt. However, in the revised proposals, an immediate transition to the trailing average return on debt has been proposed.

The Victorian DNSPs also note that the Australian Competition Tribunal (the Tribunal) is currently considering a rate of return appeal made by Networks NSW.

We would be concerned if the reasons behind the change in approach were simply to provide the Victorian DNSPs with the opportunity to access a higher rate of return should the Tribunal find in favour of Networks NSW, especially as this was not the method they originally proposed.

In our submission to the Victorian DNSPs' proposals, and in response to the AER's assessment of other distribution businesses, we tabled our support for the AER's application of the Rate of Return Guidelines. Origin maintains its view that the AER has adopted a balanced and pragmatic approach that provides certain and predictable outcomes for investors and provides a balance between the views of consumer groups and the network businesses. We strongly encourage the AER to not accept the revised rate of return proposals put forward by the Victorian DNSPs. For further detail on our position with respect to WACC we refer the AER to our previous submissions.

If you have any questions regarding this submission please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely

A handwritten signature in blue ink that reads "R. Keith Robertson".

Keith Robertson
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