23 February 2018

Warwick Anderson
General Manager, Network Finance and Reporting
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Anderson,

Submission to position paper on NSW network debt remittals

PIAC supports the AER's move to a trailing average with a transition

PIAC supports the AER's proposal to move service providers to a trailing average cost of debt and with a revenue-neutral transition. PIAC also supports the legal and economic rationale put forward by CCP10. PIAC's position is informed by our analysis as well as discussions on these and related issues with the AER and CCP10.

PIAC strongly opposes the alternative proposal, put forward by some businesses, to not use a transition period. This would unnecessarily capture the extremely high debt costs during the GFC and hence provide a windfall gain to the service providers.

PIAC considers the transitional base year should be 2015/16

The AER's proposal to use 2014/15 as the transitional base year would:

> "anchor" the 5-year aggregate return on debt allowance to the "on the day" rate observed for the transitional base year. Whatever returns on debt are observed for the subsequent years 2015/16 through 2018/19, the "on the day" rate observed for the transitional base year will have an overall 80% weighting for the Networks' 5-year aggregate return on debt allowance.[1]

PIAC maintains the argument, put forward both in the initial revenue determination process and in merits review, that the AER should begin its debt averaging period (i.e.: the transitional base year) from 2015/16 rather than 2014/15. This would avoid windfall gains to the service providers that are recovered from consumers.

In light of this, PIAC contends that:

> taking appropriate account of the unusual circumstance here that the final decisions were required to include a revenue (and hence a return on debt) allowance for 2014/15, but were only to be made towards the end of the 2014/15 year, the appropriate transitional formula … would have been a formula that applied the QTC transition method, but commencing from 2015/16 as the transitional base year. Modified in that way, the return on debt allowance produced by the transitional formula would have been anchored to the observed return on debt for 2015/16 as the transitional base rate, which could readily have been observed "at the time or shortly before" the making of the final decisions, as cl 6.5.2(j)(1) requires.[2]

1 PIAC, *Application for leave to review and application for review by the Australian Competition Tribunal*, 24 June 2015, 25

2 PIAC, *Application for leave to review and application for review by the Australian Competition Tribunal*, 24 June 2015, 26

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Continued engagement

PIAC would welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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