



31 January 2014

Mr Chris Pattas
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Australian Energy Regulator
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via email: chris.pattas@aer.gov.au

Dear Chris,

Victorian Electricity Distribution Determination 2016-20 – Need for new Framework and Approach paper

This letter is in anticipation of the AER's review of the Framework and Approach paper for the 2016-20 Victorian Electricity Distribution Determination. It sets out the issues that SP AusNet believes need to be addressed and the reasons that these matters should be addressed in advance of the regulatory submissions of the Distribution Network Service Providers (DNSPs) in 2015.

Clause 6.8.1(c)(1) of the National Electricity Rules allows DNSPs to request an amendment or replacement Framework and Approach paper in respect of a matter and requires the DNSP to set out its reasons for the request.

In the lead-up to the forthcoming Determination, widespread changes have occurred or are expected to occur in the regulatory framework (including the 2012 Rule Changes and the AER's Better Regulation Program) and in the Victorian electricity market (including the expiry of the AMI derogation and changes to energy consumption trends). In light of the significance of these changes, it is appropriate for the AER to develop a new (replacement) Framework and Approach paper. In its Economic Regulation of Network Service Providers Rule Change, the AEMC noted that it expected that the AER would publish an amended or replacement Framework and Approach to address new provisions in the Rules.

Specifically, the Framework and Approach paper needs to be amended in relation to the following matters:

- The form of control, including formulae to give effect to the control mechanism;
- Service classification, identifying those services that are Standard Control Services and those that are Alternative Control Services;
- The approach to the application of incentive schemes, including for expenditure incentives (EBSS and CESS), performance incentives (STPIS and F-Factor) and Demand Management and Embedded Generation Connection incentives;

- The approach to the application of the Expenditure Forecast Assessment Guidelines; and
- Whether actual or forecast capex will be used to determine depreciation when establishing opening RAB for the subsequent regulatory control period.

Clause 6.8.1(g) allows the AER to address matters other than those listed in the Rules in its Framework and Approach paper. There are a number of such matters that it would be prudent to address, including:

- Transitional issues for Advanced Metering Infrastructure (AMI) at the expiry of the current derogation;
- Matters arising from the adoption of the National Energy Customer Framework in Victoria, and/or changes to the Customer Connections Framework;
- The AER's approach to matters for the 2016 regulatory year which is subject to a Preliminary Determination, including the calculation of benchmarks for incentive schemes and adjustment mechanisms to true-up for differences between the Preliminary and Substitute Determinations; and
- Timelines for the Determination process, particularly for the Preliminary Determination and the Revised Proposal.

SP AusNet's reasons for this request are set out in the remainder of this letter.

Classification of services

Changes to the service classification in the current Framework and Approach paper will be required. In particular, the classification of metering services and connection services will need to be reviewed.

- *Metering:* In the current regulatory control period, metering services that are subject to the AMI Order In Council did not receive a service classification. As the AMI derogation will expire during the 2016-20 regulatory period, these services will need to be classified.
- *Connection Services:* In Victoria, customer connection services are currently subject to Guideline 14. It is expected that the Victorian Government will review whether to move to the national connections framework prior to the Victorian State Election in November 2014. Any change to the connections framework could result in significant changes to the customer contributions methodology and should trigger a review of the classification of these services.

Form of control and formulae

The form of control will need to be set for metering services. A review should be conducted of the appropriate form of control for Standard Control Services and for Connection Services.

- *Metering and Connection Services:* Any services that receive a new classification will require the form of control to also be set. This will be the case for services that are currently subject to the AMI Order In Council, and may be required for connection services if there are changes to the Victorian regulatory arrangements.

- *Standard Control Services:* The current regulatory period has witnessed dramatic changes in energy consumption trends. This has resulted in increased uncertainty, and warrants a review of the form of control.

Any changes to Control Mechanisms will need to be defined in control formulae.

Service Target Performance Incentive Scheme (STPIS)

There are a series of regulatory developments that necessitate a review of the application of the STPIS to SP AusNet, including that:

- the introduction of the Capital Expenditure Sharing Scheme (CESS) and amended Efficiency Benefits Sharing Scheme (EBSS) will alter the power of the existing STPIS;
- AEMO's review of the Value of Customer Reliability (VCR) will also potentially alter the power of incentive scheme; and,
- The AEMC's current review of the national reliability framework for Distribution may result in changes to STPIS.

Changes to the power of the incentive for investment in reliability and potential changes to the design of the STPIS will affect the operation of the STPIS in the 2016-20 regulatory period and the application of the scheme will need to be reviewed to give consideration to these effects.

Expenditure Incentives

A new capital expenditure incentive scheme and an amended operating expenditure incentive scheme will apply in the 2016-20 regulatory period. The new Framework and Approach paper will need to reflect the AER's approach to the application of the new schemes.

Demand Management and Embedded Generation incentive scheme

Currently, the Demand Management Incentive Scheme (DMIS) and the Demand Management Innovation Allowance (DMIA) apply to SP AusNet. The application of these schemes may need to be reviewed if these schemes are revised in 2014.

Expenditure Forecasting Assessment guidelines

The Guidelines have been created since the publication of the current Framework and Approach paper. The new Framework and Approach paper needs to address the application of the Expenditure Forecasting Assessment Guidelines, including specifying information requirements and any deviations from the guideline.

Application of actual or forecast capex

It is a new requirement that the Framework and Approach paper state whether actual or forecast capex is used to determine depreciation when calculating the opening Regulatory Asset Base (RAB) for the subsequent regulatory control period.

Other matters

1. Transitional issues

Two major sets of transitional arrangements need to be settled in relation to the forthcoming Determination: arrangements for the expiry of the AMI Order In Council and arrangements for the 2016 regulatory year which will be subject to the Preliminary Determination.

- *Matters to be resolved in relation to expiry of AMI derogation*

Metering Services in Victoria are currently subject to the AMI Order In Council. The derogation will expire during the next regulatory period. As identified above, this means that service classification and form of control need to be established for these metering services. Further, details will need to be settled for the transition to the national smart metering arrangements.

- *Matters to be resolved in relation to 2016 regulatory year*

The arrangements for the forthcoming Victorian EDPR involve a Preliminary Determination with mandatory re-opener (Substitute Determination).

Clauses 11.60.4(d) and 11.60.4(e) set out the requirements for a true up with respect to differences between the two determinations regarding the 2016 regulatory year.

The AEMC, in its Rule Change Final Determination¹, noted that it expected the AER to address the manner in which incentive schemes will operate for the first year of the regulatory period for networks subject to the preliminary determination with mandatory reopener. SP AusNet expects that this will include specifying how benchmarks for all incentive schemes (including STPIS, CESS, EBSS, DMIS, F-factor, and any other incentive schemes that are to apply) will be set, and whether the benchmarks for 2016 will be final at the Preliminary Determination or whether these could be altered in the Substitute Determination.

2. NECF and Customer Connections Framework

The Victorian Government should work with the AER to establish the appropriate arrangements for the adoption of the National Energy Customer Framework (NECF) in Victoria. It appears unlikely that NECF will be in place prior to the commencement of the Victorian Determination. If it is not possible to confirm a commencement date for NECF, the AER should provide guidance as to its likely approach to assessing NECF-related costs.

As previously indicated, it is critical that the regulatory framework for Customer Connections for 2016 onwards in Victoria is finalised well in advance of the submission of regulatory proposals. A transition to the national framework would result in major changes to the calculation of customer contributions and therefore revenue requirements for the next regulatory period. SP AusNet encourages the AER to clarify with the Victorian Government which customer connections framework will apply from 2016.

¹ AEMC (2012), *Rule Determination – National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012*, 29 November 2012. p.256

3. Review timelines

The AER has published a regulatory determinations timetable which sets out a series of timelines for the Victorian Electricity Distribution Determination.² SP AusNet has identified two sets of issues regarding the set timeframes and requests the AER review whether any adjustments can be made.

Firstly, the AER has specified that the Preliminary Determination will be made on 31 October 2015. This date is potentially problematic as it is the same date that Victorian DNSPs are required to lodge their annual tariff submissions. Under current practice, the proposed timing of the Preliminary Determination would not allow DNSPs to prepare tariff submissions by the required date. The timing of the Preliminary Determination, or the tariff submission arrangements should be reviewed.

Clause 11.60.4(b) provides DNSPs a minimum of 45 business days to submit a revised proposal in response to the Preliminary Determination. The AER's timetable identifies that the revised proposal will be due in January. In setting the final timeframe for the revised proposal, SP AusNet requests that the AER be mindful that this time period covers the Christmas/New Year period when staffing levels will be below normal levels and that this will reduce the staffing capacity to produce additional information in response to the Preliminary Determination.

Conclusion

SP AusNet would be pleased to address any queries you may have in relation to this submission. Please do not hesitate to contact Katie Yates, Principal Economist on (03) 9695 6622 if you wish to do so.

Yours Sincerely,



John Howarth
Manager Regulation and Network Strategy

² <http://www.aer.gov.au/sites/default/files/AER%205%20year%20regulatory%20determination%20calendar%202013-2017%20%28updated%2030%20September%202013%29.xlsx>