

1 February 2008

Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
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Melbourne VIC 3001

AERInquiry@aer.gov.au

Dear Chris,

**ISSUES PAPER – Guidelines, models, schemes and service target performance
incentive schemes for electricity distribution network service providers**

SP AusNet welcomes the opportunity to provide a submission in response to the above papers, issued by the Australian Energy Regulator (AER) during November 2007.

SP AusNet endorses the comments provided to the AER by the Energy Networks Association (ENA) on behalf of the Association members.

The AER notes in section 1.2 of the Guidelines paper that the amended National Electricity Rules (NER) have taken into account differences in the nature of transmission and distribution networks. The AER notes it is also similarly mindful of these differences and the need to tailor guidelines, schemes and models for the purposes of distribution regulation, where appropriate to do so.

At this early stage of the consultation process for these guideline it is not clear to SP AusNet which particular differences in the nature of transmission and distribution networks the AER has taken into account, where they have been taken into account, and how they have been taken into account.

In SP AusNet's view, the most significant differences between transmission and distribution businesses include;

Customer numbers – typically, transmission businesses are dealing directly with quite limited number of customers, whereas distribution businesses interface with hundreds of thousand customers on a regular basis

Implications of unplanned outages - the impact of unplanned outages on the transmission networks at peak load can be extremely disruptive. While unplanned distribution outages are also disruptive and are to be avoided wherever possible, they do generally impact on a limited number of customers at any one time.

Work programs – transmission businesses often have a few large and complex work programs that take a year or more to complete, where distribution businesses can have more than ten thousand jobs to be completed in any year, with individual jobs varying from hours to days. As a result, distribution ‘incurred’ and ‘in service’ dates are basically the same.

Customer initiated works – much of the work of a distribution business is in response to requests from customers that are required to be completed within specific timeframes, and therefore are much more difficult to forecast than transmission works that are initiated by the business itself.

In section 2.1.2 the AER notes

“The NER provisions outlined above relating to the building block calculation and the contents of the PTRM are almost identical between distribution and transmission. Accordingly, it is anticipated that the PTRM developed by the AER for transmission regulation can be used as a basis for distribution regulation.”

SP AusNet advocates that the AER carefully consider the implications of the fundamental differences between transmission and distribution businesses when attempting to tailor transmission models and arrangements for distribution businesses.

The statement in section 2.1.4, that DNSPs may need to begin reporting capex on both an as incurred and as commissioned basis, if initiated, would clearly add onerous and expensive responsibilities on distribution business for no discernable benefits to customers as distribution ‘incurred’ and ‘in service’ dates are basically the same.

SP AusNet supports the AER giving in depth consideration as to how to simplify the information requirements and complexity of the AER’s PTRM, particularly for distributors forecast capital expenditure, customer contributions and cash-flow timing. The issues raised in the paper indicate the potential to make the PTRM even more complex and onerous, rather than less, without identification of any clear benefit to customers to offset the costs imposed on both the AER and distribution businesses.

Yours sincerely,

SIGNED

Charles Popple
GENERAL MANAGER,
REGULATORY AND BUSINESS STRATEGY