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Neil Howes
Senior Advisor
Australian Energy Market Commission
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Dear Neil,

Network Service Provider Expenditure Objectives – ERC0152

The AER welcomes the opportunity to respond to the AEMC's consultation paper on the Network Service Provider (NSP) Expenditure Objectives Rule Change. This rule change proposal addresses an issue previously identified by the AER in the context of the network regulation rule change.¹

The current expenditure objectives can be summarised as:

1. Meet expected demand over the regulatory control period
2. Comply with all applicable regulatory obligations or requirements
3. Maintain quality, reliability and security of supply and
4. Maintain the reliability, safety and security of the distribution or transmission system.²

We agree that the current expenditure objectives 3 and 4 could be interpreted to allow NSPs to include expenditure they consider necessary to maintain the level of reliability they achieved in the previous regulatory period. We also agree that this could be a problem where:

- the required jurisdictional reliability standards are lowered; or
- a NSP is performing above the jurisdictional reliability standards.

The current drafting could therefore have the effect that reductions in expenditure from lower jurisdictional reliability standards are not be passed through to end use consumers. We support amendments to the expenditure objectives that prevent this outcome.

The SCER rule change proposal seeks to add a new expenditure objective which would require NSPs to only include sufficient expenditure in their regulatory proposals to comply with any relevant regulatory obligation or requirement that relates to reliability. While the amendment proposed by the

¹ AER, Economic regulation of transmission and distribution network service providers, AER's proposed changes to the National Electricity Rules, September 2011, pg 33.

² National Electricity Rules 6.6.5(a), 6.5.7(a), 6A.6.6(a) and 6A.6.7(a).

SCER is capable of addressing the problem, we consider that the drafting could give rise to unnecessary complexity.

We prefer the alternative solution proposed by the AEMC, which is to remove objectives 3 and 4. We do not share the AEMC's concern that "if the clauses are removed, there may be a risk that the AER would take a too broad of an interpretation and not consider particular aspects of performance such as reliability, quality, security and safety".³ The National Electricity Law requires us to take these matters into account.⁴

We consider that objectives 3 and 4 do not add value beyond what it already set out in objectives 1 and 2. Accordingly, deleting objectives 3 and 4 would simply remove unhelpful duplication. It would not create a risk that the AER might fail to consider reliability, quality, security or safety.

The AER would be pleased to provide further assistance to the AEMC on this issue. If you would like to discuss any aspect of this submission please contact Jess Hunt on (08) 8213 3441.

Yours sincerely



Chris Pattas
General Manager, Networks Operations and Development,
Australian Energy Regulator

³ AEMC, National Electricity Amendment (Network Service Provider Expenditure Objectives) Rule 2013, Consultation Paper, 7 February 2013, pg 17.

⁴ Section 16 of the National Electricity Law (NEL) requires the AER to perform its functions and powers in a manner that will or is likely to contribute to the achievement of the national electricity objective (NEO). The NEO is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—
(a) price, quality, safety, reliability and security of supply of electricity; and
(b) the reliability, safety and security of the national electricity system. (NEL s7)