AUSTRALIAN ENERGY REGULATOR

GPO Box 520
Melbourne VIC 3001
Telephone: (03) 9290 1444
Facsimile: (03) 9290 1457
www.aer.gov.au

21 October 2011

Richard Khoe
Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235

Dear Mr Khoe

Draft Rule determination for total factor productivity for distribution network regulation (Project number: ERC0068)

Thank you for the opportunity to comment on the AEMC's draft Rule determination not to make a draft Rule to implement a total factor productivity (TFP) methodology for electricity distribution network regulation as proposed by the Victorian Minister for Energy.

The AER agrees with the AEMC's draft decision. As noted in earlier AER submissions, the AER considers that a robust and consistent dataset for applying a TFP methodology to pricing determinations do not yet exist.

Consistent with the AEMC's view, the AER considers the feasibility of a TFP methodology for electricity distribution network regulation will be determined by the outcomes of the AEMC's wider review into the use of TFP for the determination of prices and revenue. To this end, the AER supports the AEMC proposed two stage implementation approach, with the initial focus on facilitating data collection and assessing whether the necessary conditions for introducing TFP have been met.

The AEMC's proposed Rules, currently under consideration by the Ministerial Council on Energy, have implications for the AER's existing processes. As noted in the draft Rule determination, the AER is developing its national cost database, with the aim to have it operational in stages, with the first main milestone completed by July 2013. The AER will engage further with the AEMC regarding data collection and reporting requirements. While the AER will be able to rely on additional information gathering powers, under the proposed TFP rule change, we will also consider the how these provisions will best interact with the AER's existing NEL-based information powers that are currently being used to effect the new information, reporting and analytical framework that is being developed.

We look forward to participating in the next stage of consultations for TFP. If you would like to discuss this issue further please contact Sugi Sivarajan on 03 9290 6913, or myself on 03 9290 1470.

Yours sincerely

Chris Pattas
General Manager