



RECEIVED

23 JAN 2012

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Minister for Manufacturing,  
Innovation and Trade  
Minister for Mineral Resources  
and Energy

Minister for Small Business

Level 8 Terrace Towers  
178 North Terrace  
Adelaide SA 5000  
GPO Box 2832  
Adelaide SA 5001  
DX 451

Tel 08 8463 6560  
Fax 08 8204 1960

Dear Mr Pierce

A handwritten signature in blue ink that reads 'John'.

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consolidated Rule Change – *National Electricity and Gas Amendments (Optimisation of Regulatory Asset Base and Use of Fully Depreciated Assets) Rule 2011 - Consultation Paper*.

The Rule Changes proposed by the Major Energy Users (MEU) seek to ensure consumers pay no more than is necessary for network services. The South Australian Government agrees with this worthy objective and encourages the AEMC to examine whether the MEU proposal is the most efficient way of achieving it.

The proposed MEU Rule Change requires a determination of which assets are not required to provide the services. In considering this proposal, it is important for the AEMC to note that having network assets available does not necessarily equate with their continuous use. For example, South Australian electricity networks are constructed to service a peak demand which is about double the average demand, and thus a proportion of network assets are most of the time in use below their capacity. Additionally, supply security standards require that some assets, for example the Adelaide Central Area electricity transmission supply, are provided with built in back-up capacity.

Networks should also be built to economic scale and with capacity for forecast growth. Network capacity sizing thus results in a gradual increase in an asset's utilisation over its economic life.

In summary, in considering this Rule Change Proposal it is important for the AEMC to distinguish between assets which are required to be available for service as the need arises and assets genuinely surplus to requirements.

In relation to the MEU proposal to disallow assets in the Regulatory Asset Base (RAB) which replace depreciated assets still in use and useable, I encourage the AEMC to consider the consequences of the uncertainty this provision may introduce for Network Service Providers. In particular, the uncertainty about whether the Australian Energy Regulator (AER) will determine if a depreciated asset is still useable.

If this uncertainty should result in the Network Service Provider not replacing the end-of-life assets, the risks of supply failure will increase progressively. When the inevitable failure occurs, with replacement times for transmission lines and transformers, the costs to consumers and the economy may quickly exceed the asset replacement cost.

In considering this Rule Change proposal it is also important to note that the current framework includes a protection mechanism to ensure Network Service Providers do not inefficiently depreciate assets in the form of AER approval of the economic life of assets.

The MEU proposal also does not appear to consider what the consequences will be of not including replacement assets in the RAB on the Service Target Performance Incentive Scheme. The AEMC will need to consider how in-service assets which form part of the shared network but are not included in the RAB should be taken into account.

Again, thank you for the opportunity to comment on this Rule Change proposal.

Yours sincerely



**Hon Tom Koutsantonis MP**  
Minister for Mineral Resources and Energy

19<sup>th</sup> January 2012