



## Recovery of network support payments

Final Determination: 31 August 2013

**The Australian Energy Market Commission has published a final determination on SP AusNet's rule change request regarding recovery of network support payments. The Commission has determined not to make a rule as it considers that appropriate cost recovery mechanisms for these costs already exist under the rules.**

### The rule change request

SP AusNet's rule change request relates to how electricity network businesses can recover costs for providing network support services in certain circumstances. This network support would be an alternative to a solution based on expanding the existing network.

To address these concerns, SP AusNet proposes that these non-network costs be recovered through a new mechanism. The effect of this mechanism would give a network business, subject to AER approval, greater scope to pass these costs through to consumers.

### Reasons for the Commission's determination

The Commission considers that there are already appropriate cost recovery mechanisms for the costs of providing network support service arrangements including the regulatory determination process.

The current cost recovery arrangements are based on the principles of incentive-based regulation. In the regulatory determination process, the regulator sets an allowance for the network business to apply for a period of time based on the network business's forecast of expected costs. Over the period, the network business is rewarded if it can "beat" the allowance but bears the risk of costs being higher than the allowance. This encourages network businesses to incur only efficient costs, and by revealing the level of the business' efficient costs, consumers can benefit in the long term through lower costs.

In some cases, costs can be difficult to predict. Therefore, in certain special circumstances, the current regulatory arrangements allow network businesses to recover these costs even if they were not forecast, subject to the regulator's approval. This cost recovery mechanism provides a somewhat weaker form of incentive to achieve efficiency compared to those described above.

The changes proposed to the rules would broaden the application of mechanisms with this weaker incentive. Given the appropriateness of the current cost recovery mechanisms for costs for network support services, the Commission does not support the change in the rules proposed by SP AusNet.

### Background

A network support service is a type of non-network solution, which defers the need for a traditional network investment. Under this arrangement local (or embedded) generation could be contracted by the network business to provide a service to address a network issue. In certain circumstances, a network business may find it more cost effective to implement a non-network solution than to expand its network.

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