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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Sir

Consultation Paper: National Electricity Amendment (Network Service Provider Expenditure Objectives) Rule 2013

Thank-you for the opportunity to provide input to the Consultation Paper *National Electricity Amendment (Network Service Provider Expenditure Objectives) Rule 2013*, released by the AEMC on 7 February 2013.

Aurora Energy Pty Ltd, ABN 85 082 464 622 (Aurora) is an incorporated, State Government owned fully integrated energy and network business, with complementary activities in telecommunications and energy-related technologies. Aurora provides electricity generation, retail and distribution services to more than 270,000 customers in the Tasmanian jurisdiction. In this document, reference to Aurora should be taken as reference to Aurora in its capacity as the provider of distribution network services licensed by the Regulator under the Electricity Supply Industry Act 1995.

Aurora understands that the rule change proponent is seeking to amend the opex and capex objectives contained within the National Electricity Rules. In particular, the rule proponent suggests that a literal reading of the opex and capex objectives as currently stated in clauses 6.5.6, 6.5.7, 6A.6.6 and 6A.6.7 may lead a Distribution Network Service Provider or a Transmission Network Service Provider to include in their regulatory proposals forecasts for opex and/or capex at a level that they expect would be necessary to maintain reliability at historical levels that may differ from those set jurisdictionally.

Aurora agrees with the rule proponent's assessment of the issue. The expenditure objectives do permit a network service provider to include expenditure forecasts to maintain reliability at historical levels that may differ from those set jurisdictionally.

Aurora is uncertain, however, why the inclusion of a particular category of expenditure in a regulatory proposal should be a concern. Under the pricing regime implemented under chapters 6 and 6A of the National Electricity Rules, a regulatory proposal should contain forecasts of expenditure required to meet the expenditure objectives. The AER is required to assess these expenditure forecasts against the expenditure criteria, having regard for the expenditure factors, and is bound to accept an expenditure forecast only if it is satisfied that the expenditure criteria are met.

A review of the first round of distribution determinations made by the AER under the 2007 revision of the chapter 6 pricing rules, starting with NSW for the 2009 to 2014 regulatory control period and ending with Tasmania for its 2012 to 2017 regulatory control period, indicates that the AER did not accept a single expenditure forecast during this period, with the reason being that the forecasts did not adequately meet the expenditure criteria.

Aurora notes that the issue identified by the rule proponent was in existence when these distribution determinations were made, yet created no demonstrable “adverse” outcomes. Aurora further notes that the pricing rule change made in 2012 further strengthens the AER’s ability to reject an expenditure forecast and to substitute its own forecasts. In light of this, Aurora considers that there is no requirement to amend the expenditure objectives.

In the event that the AEMC considers that a rule change is appropriate, Aurora notes that care will be needed to ensure that there is not a “disconnect” between the expenditure that is allowed to be forecast and the AER’s Service Target Performance Incentive Scheme (STPIS). In particular, while expenditure may only potentially be forecast (proposed) to address revised jurisdictional performance standards, Aurora understands that the reliability targets set under the STPIS are based on historical performance. In the event that historical reliability is better than jurisdictional standards, linking expenditure to jurisdictional standards may result in the network service provider being allowed minimal expenditure for reliability purposes. While this would, in the long term, cause reliability to approach jurisdictional standards, letting the network performance “run down” to jurisdictional standards means that the network service provider will suffer revenue penalties under STPIS.

If you have any questions, please address them to the contact noted above.

Yours faithfully

Anton Voss
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Distribution Business
Aurora Energy