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Jemena Electricity
Networks (Vic) Ltd
ABN 82 064 651 083

Mr Richard Owens
Acting Senior Director
Australian Energy Market Commission
201 Elizabeth Street
Sydney NSW 2000

321 Ferntree Gully Road
Mount Waverley VIC 3149
Locked Bag 7000
Mount Waverley VIC 3149
T +61 3 8544 9000
F +61 3 8544 9888
www.jemena.com.au

Dear Mr Owens

National Electricity Amendment (Recovery of Network Support Payments) Rule 2013 – Draft Rule Determination, 8 August 2013

Jemena Electricity Networks (Vic) (**Jemena**) welcomes the opportunity to respond to the Australian Energy Market Commission (**AEMC**) Draft Rule Determination on recovery of network support payments.

In the draft determination, the AEMC declined to make the rule change proposed by SP AusNet, the reason being there are two general mechanisms that are available for NSP's to recover costs associated with network and non-related solutions under the rules:

- regulatory determination process: and
- potentially, cost pass throughs

JEN has explored whether these mechanisms are workable and are likely to promote efficient non-network solutions to lessen the need for expensive transmission connection asset augmentations – which is a key objective of the RIT-D rules in the NER.

Regulatory determination process

It is noteworthy the Victorian Distribution Network Service Providers (**DNSPs**) are responsible for planning transmission connection asset augmentation. Accordingly, they initiate augmentations or contract for network support in relation to these assets. Elsewhere in the NEM, this responsibility falls to Transmission Network Service Provides (**TNSPs**).

In Victoria, neither the TNSP nor the DNSP receives a capex allowance for augmenting transmission connection assets. Instead the DNSP contracts with the TNSP to deliver the transmission connection augmentation and recovers the cost of the contract through the annual pricing proposal process. This cost recovery works well provided the response to transmission connection augmentation is a network solution. Where it is more efficient to pursue a non-network solution (e.g. network support payments to a generator), the DNSP is not able to recover these costs under the current rules, unless they are included in the forecast operating expenditure as part of the regulatory determination process.

Victorian DNSPs contend that it is very difficult to forecast network support costs because they are unknown until such time the DNSP and the non-network solution provider (assuming a provider is willing to provide these services) negotiate the network support payments. If the DNSP were to contract network support, there will be no certainty that the AER will approve the associated payments at the beginning of the next regulatory period. To this issue, the AEMC simply notes¹ that these costs are not sufficiently different to the other costs which can be difficult to forecast at a time of the regulatory determination. JEN does not agree with the AEMC's assessment, in that the costs are different to the other operating expenditures. In fact operating expenditures forecasts are based on actual expenditures of previous years adjusted for CPI, cost escalators (labour and material) and any regulatory step changes. In contrast, a network support payment is not known (unless the negotiated payment perfectly aligns with the timing regulatory proposal) until such time the non-network solution is identified and network support payments negotiated.

JEN reaffirms its position that it is very difficult for Victorian DNSPs to forecast network support costs through the operating expenditures forecast as part of the regulatory process.

Nominated cost pass throughs

The AEMC notes²:

“If a particular category of event proposed by the NSP is defined by the AER as a cost pass through event, then the NSP may apply for a cost pass through in respect of costs incurred as a result of such an event during the regulatory control period.”

JEN agrees that the AER may decide to include network support payments as a nominate cost pass throughs event. However, the issue with this cost pass through mechanism is that the costs must meet the materiality threshold of one per cent of the DNSP's annual revenue requirement. For example, if the annual revenue requirement is \$300 million, then there is no prospect of a DNSP recovering network support payments to a non-network solution provider that are below \$3 million mid period. JEN considers the nominated cost pass through cost recovery mechanism is not workable where network support payment costs are below one per cent of the DNSP's annual revenue requirement.

Fundamental to RIT-T and RIT-D processes is the ability to recover operating and capital expenditures on an equivalent basis. It allows DNSPs to consider the costs and benefits of network and non-network options on an equal footing. In JEN's view, the materiality threshold of this cost pass through mechanism for the purposes of network support payments prohibits these payments from being recovered by the DNSP. This could change the outcome of the RIT-D process so that a network solution is selected, which may not necessarily be the most efficient solution to a transmission connection augmentation need.

JEN would like the AEMC to acknowledge in their final rule determination the materiality threshold of the nominated cost pass through mechanism has limitation in

¹ National Electricity Amendment (Recovery of Network Support Payments) Rule 20013 – Draft Rule Determination, p. 17.

² *ibid.*, p. 18

its applicability to the recovery of network support payments of non-network solutions that falls below the 1 per cent materiality threshold.

For those smaller non-network solutions, the only mechanism available to Victorian DNSPs is to recover the network support payments through the operating expenditure forecasts of a regulatory determination process, which is difficult to do as explained in the previous section above.

JEN supports SP AusNet's proposed more preferable rule

In response to the AEMC's Draft Rule Determination regarding the recovery of network support payments, SP AusNet has proposed a targeted more preferable Rule that specifically addresses the Victorian DNSPs' unique responsibility for planning transmission connection asset augmentation. The proposal is to insert a network support pass through provision similar to that for TNSP's in chapter 6A of the NER, but focused on deferring transmission connection asset augmentation. JEN supports this rule change proposal.

Conclusion

The AEMC concludes³ that the regulatory determination process is the primary and most appropriate mechanism for NSPs to seek support costs for services that defer distribution network augmentation and transmission-distribution connection assets. Whilst we agree the regulatory determination process is the appropriate mechanism for DNSPs to seek support costs for services that defer distribution network augmentation, we do not believe it is workable for transmission-distribution connection assets in Victoria.

Only the Victorian DNSPs face this problem because of their unique responsibility for planning transmission connection asset augmentation. Elsewhere in the NEM, this responsibility falls to TNSPs, and they have the necessary network support pass through mechanism set out in clause 6A7.2 of the NER. A similar rule modelled on clause 6A7.2 is required to ensure Victorian DNSPs can evaluate network and non-network solutions on an equal footing.

If you have any questions in relation to this submission, please contact me on (03) 8544 9442 or by email siva.moorthy@jemena.com.au.

Yours sincerely



Siva Moorthy
Manager Network Regulation and Strategy

³ National Electricity Amendment (Recovery of Network Support Payments) Rule 20013 – Draft Rule Determination, p. 18.