



## Optimisation of regulatory asset base and use of fully depreciated assets

Draft rule determination 21 June 2012

**The Australian Energy Market Commission has published its draft rule determination to not make the proposed rules from Major Energy Users' (MEU). The Commission is considering general issues raised by the MEU in its consideration of the economic regulation of networks rule changes proposed by the Australian Energy Regulator.**

### The MEU rule change requests

The MEU rule change requests relate to electricity and gas. There are two specific components to these rule change requests. The first relates to the extent to which consumers must pay for assets which are not fully utilised. The proposed rules intend to ensure that consumers only pay for assets that are necessary. To achieve this, the regulator would have the power to assess how much assets in a network or pipeline are being utilised. To the extent any assets are not being fully utilised, the regulator would determine that consumers need not fund that portion of the asset.

The second component relates to fully depreciated assets. These are assets for which an electricity or gas business has fully recovered the cost of the asset from consumers. The MEU is concerned that businesses may seek to replace such assets even if the asset is still functional, in order to increase revenues. The rule change request would prevent the AER approving an allowance for such a replacement where the asset is still functional.

### Reasons for the Commission's draft determination

The Commission acknowledges that energy prices, particularly electricity prices, have risen significantly in recent years and that this has had an impact on consumers, both large and small. However, the Commission does not consider that the MEU has adequately established that the specific problems raised in its rule change requests warrant the solutions it has proposed.

Broadly speaking, the MEU's concerns regarding inefficient investment in networks and pipeline parallel those concerns coming out of the Australian Energy Regulator's (AER) rule change requests in relation to the economic regulation of network services. The Commission is doing further work to establish the extent to which, and reasons why, energy businesses may overspend against their expenditure allowances. The Commission agrees that some areas of the National Electricity Rules (NER) could benefit from enhancement and will address this in its draft rule determination in respect of the AER's rule change requests.

In respect of gas, there are already mechanisms that exist under the National Gas Rules (NGR) which could be used to address the specific concerns of the MEU.

**Submissions on  
this draft rule  
determination are  
due on 3 August  
2012.**

The Commission has also considered the solutions proposed by the MEU. In short the Commission does not consider that these rules would contribute to the National Electricity Objective/National Gas Objective for the following reasons:

- they could provide disincentives for future efficient investment;
- they would likely increase the complexity and costs of the regulatory process, reducing its efficiency; and
- they would require the regulator to take a too detailed role in approving an energy business's projects and plans.

The Commission invites submissions to its draft rule determination by 3 August 2012.

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