

31 May 2012

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear John,

**National Electricity Amendment (Distribution Losses in Expenditure Forecasts)
Rule 2012**

SP AusNet is pleased to make this submission to the AEMC in response to the above Rule change request submitted by the Copper Development Centre (CDC).

Electrical losses in the networks are noted by the AEMC to account for approximately 10% of total electricity transported in the NEM. This represents a material contribution to electricity prices.

There are a number of ways in which losses are already effectively managed. In particular, within the network planning framework network service providers are required to carry out economic cost effectiveness analysis of options and the cost of losses can be included in this analysis. This is provided for in the Regulatory Test, under the market benefits limb.

In Victoria, probabilistic approach to network planning is used. Individual augmentation projects are subject to net benefit economic justification. SP AusNet's experience is that the cost of losses makes a material contribution in this analysis, for both small projects, such as overcoming distribution feeder capacity constraints, and for much larger distribution network augmentation needs. The Victorian regime has included positive encouragement for consideration of losses in network management through a distribution code provision requiring losses to be taken into account.

The CDC Rule change request proposes a broad-based mechanism for consideration of network losses, to be included in the national framework. In SP AusNet's view the proposal is flawed, for the following reasons:

- the expenditure forecast factors in 6.5.6(b) and 6.5.7(b) of the Rules prescribe the criteria for a compliant forecast. They relate to the revenue setting process, and the proposed additional factor is not complementary;
- the new factor may not be adequately supported by an asset or network management objective. This misalignment would lead to confusion;

- inserting an obligation relating to one particular network management matter amongst the expenditure forecast factors may result in a disproportionate focus on this element of the expenditure forecast; and
- it is not clear that the Rule change would place a requirement on the AER to have regard to the loss mitigation component of forecast expenditure.

For these reasons SP AusNet does not support the Rule change request.

The AEMC has asked how the extension of the EEO program to distribution networks may address the concerns raised in the rule change request. The EEO program would appear to have a similar objective to that of the CDC, and therefore would be expected to address the concerns raised in the rule change request. It is acknowledged in the EEO options paper for extension of the program to networks that complementary changes to network regulation may be required. However there has not yet been consultation on the appropriate form of changes.

In our view the most effective mechanism to encourage consideration of the cost of losses and which may also satisfy the requirements for the EEO, would be through a losses incentive mechanism for network service providers. Other jurisdictions, including the electricity distribution regulatory regime in the United Kingdom incorporate this form of positive incentive to reduce the cost of losses to consumers.

SP AusNet therefore encourages the AEMC to consider the inclusion of losses incentive mechanism in the regulatory framework.

We would be pleased to respond to any queries you may have regarding this submission and invite you to contact me on Ph. 03 9695 6603.

Yours Sincerely,



Kelvin Gebert
Manager Regulatory Frameworks