

20 January 2012

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235



positive energy

Attention Mr Charles Hoang

Dear Charles

**ERC 0136 - OPTIMISATION OF REGULATORY ASSET BASE AND USE OF FULLY DEPRECIATED ASSETS**

ENERGEX welcomes the opportunity to make this submission on the Australian Energy Market Commission's (AEMC) consultation paper regarding the rule change requests submitted by Major Energy Users (MEU).

ENERGEX has responded to the consolidated rule change requests from the Australian Energy Regulator (AER) and the Energy Users Rule Change Committee (EURCC) on the economic regulation of network service providers. The subsequent rule change requests from the MEU are in relation to the optimisation of assets from the regulatory asset base (RAB) and assessment for replacement of assets. The MEU have described these rule change requests as additional elements to the proposed changes from the AER.

ENERGEX is a member of the Energy Network Association (ENA), the peak national body representing Australia's electricity and gas network service providers. ENA will be making a submission on behalf of its members and the submission addresses the questions raised in the AEMC's consultation paper. ENERGEX supports the ENA's responses to the AEMC's questions as set out in the submission.

In addition to the ENA's submission, ENERGEX is pleased to provide the following comments:

- Overall, the rule change requests from the MEU have not adequately outlined its propositions and lack supporting evidence of the purported deficiencies in the regulatory regime;
- The proposals would represent a change in the fundamental nature of the forward-looking incentive-based approach adopted by Australian policy-makers and regulatory bodies;
- There is very little detail in the MEU rule change proposal on how the proposals could be practically implemented;

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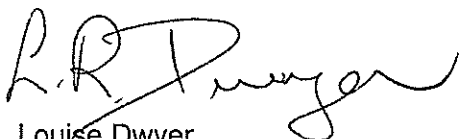
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- In relation to the optimisation of networks regulatory asset base, the rule change proposal would:
  - create disincentives and uncertainty to network investments;
  - change to the allocation of risk under the regulatory regime and would not improve the efficiency of investment; and
  - increase the complexity and costs to the regulatory process as the regulator would be required to undertake a major review to assess the utilisation, and estimate the optimised replacement costs.
  
- In relation to the assessment of replacement capex:
  - It is unclear if the MEU concern is with ex ante forecasts or intended to be applied as ex post or both;
  - Assessment of capital expenditure (including replacement capex) is already a key part of the AER's distribution determination process; and
  - the proposal would increase the complexity and costs to the regulatory process as the regulator would be required to make technical assessment of replacement projects and determine the degree to which individual projects will replace partially or fully depreciated assets.

ENERGEX considers that the AER-EURCC rule change process is better placed to be the forum for rule change discussions relating the managing incentives for efficient capital expenditure.

ENERGEX looks forward to participating in the consultation process and would be pleased to discuss this matter further. Should you have any enquiries please contact Sue Lee, Revenue Strategy Manager - Regulatory on (07) 3664 4055.

Yours sincerely



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