

13 October 2014

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Sir/Madam

National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014

Sydney Airport is aware that the AEMC is reviewing the guidelines under which energy distributors determine distribution charges for different classes of users. We understand that this review may potentially prescribe detailed rules that all energy distributors will have to follow nationally. Sydney Airport would like to share its views on the proposed guidelines, based on our experiences.

For context, Sydney Airport is a major customer of Ausgrid. The airport is connected to the grid by five dedicated cables that were installed many years ago. Consequently, they are both largely depreciated and substantially longer than any replacement cables that would be installed today. Sydney Airport is concerned that the current allocation of charges does not take these features into account and therefore does not reflect best regulatory practice. Sydney Airport is keen to ensure that the AEMC's rules for allocation of charges do appropriately take these features into account.

Sydney Airport believes that to be consistent with best regulatory practice any prescribed rules for the calculation of charges for different classes of users, and major users individually, should:

- Allow Distribution Network Service Provider's (DNSP's) to recover their total efficient costs of providing network services which is approximately equal to a WACC return for each class of user and each major user. Where applicable, this should include an appropriate allowance for the risk of asset optimisation/redundancy
- Send appropriate price signals for efficient decisions by both the customers and the energy companies
- Be equitable to customers, taking into account historic prices paid by different classes of users and individual major customers. This is particularly important for major users with dedicated assets
- Allow commercial negotiations with major customers – for example, to allow energy distributors and customers to enter long term arrangements

Generating reasonable returns

Sydney Airport understands the AEMC is considering a long-run marginal cost approach. We expect that the AEMC's implementation of such an approach will ensure consistency between the WACC used (eg real vs nominal, pre vs post-tax), the asset valuation (including implicit revaluations) and the cashflows (eg tax allowances and reductions for asset revaluations net of any redundancy).

Appropriate price signals

The AEMC draft determination states that "total efficient costs must be recovered in a way that minimises distortions to price signals". Our understanding is that Ausgrid's current approach allows assets to be revalued without reference to the optimised replacement cost (ORC). This has the potential to set prices at above the ORC which could result in major customers being incentivised to leave the grid. In particular, the current approach could lead to the perverse outcome where major customers are financially better off installing their own cables even if the presence of existing cables made them unnecessary.

Sydney Airport believes that asset values for different customer groups and individual major customers should not be set above the optimised replacement cost (ORC). The ORC should reflect the cheapest option to replace or upgrade the assets, including the shortest possible distance for any cables.

Ensuring historical equity

Particularly for customers with dedicated assets, it is critical that ongoing charges reflect the historical charges. For example, Sydney Airport is served by five dedicated cables that were installed many years ago – and some of which are believed to be fully depreciated. Sydney Airport has largely or wholly paid for those dedicated cables and it would be inequitable for Sydney Airport's charges to be set under a methodology that results in it paying for the dedicated assets twice.

Sydney Airport believes that users with dedicated assets should have the option to purchase any dedicated assets for the depreciated historic cost (reflecting the residual value not yet paid for by the customer), and cease paying ongoing charges for the dedicated assets.

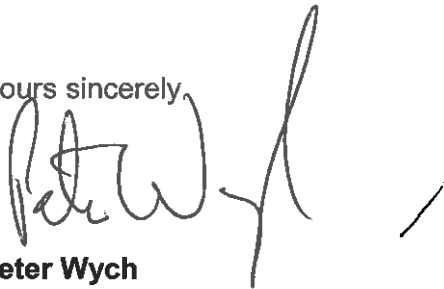
Commercial negotiations

Sydney Airport believes there is value in customers being able to negotiate long term agreements with energy companies, which could provide certainty to both businesses as well as downstream customers. Sydney Airport negotiates long term agreements with its major customers, and would benefit from the opportunity to align these agreements with the energy supply agreements.

Prior to the draft determination of the AEMC, Sydney Airport had commenced discussions with Ausgrid to reset charges on a basis broadly consistent with the position set out above. Sydney Airport believes that this constructive dialogue with Ausgrid could still come to a mutually agreeable outcome if the AEMC adopts the principles proposed above and permits commercial negotiations.

We would welcome the opportunity to meet with you to further expand on our position. If you have any questions, please contact Luke Kameron at luke.kameron@syd.com.au or (02) 9667 6400.

Yours sincerely,



Peter Wych
General Manager, Development and Construction

