Energy Networks Australia

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AER draft decision on TransGrid's determination for the 2018–23 regulatory period – Calculation of the capital expenditure sharing scheme (CESS)

Energy Networks Australia appreciates the opportunity to make a submission to the Australian Energy Regulator's (AER) draft decision on TransGrid's revenue proposal for the 2018–23 regulatory period – Calculation of the capital expenditure sharing scheme (CESS).

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

Background

Energy Networks Australia supports the use of incentive-based mechanisms to promote continuous, effective and stable financial incentives for efficient expenditure, including the CESS.

The AER's draft decision on TransGrid's determination for the 2018–23 regulatory period represents the first application of the CESS by the AER to a transmission business. As such, it is important that the parameters and associated modelling be correctly established from the outset of the scheme's application. The CESS needs to be consistently applied so that Network Service Providers (NSPs) are clear on how the incentive arrangements operate up-front and can monitor and respond to the relevant incentives within the regulatory period.

Issue

Energy Networks Australia understands that the current model contains a number of errors as highlighted in TransGrid's revised revenue proposal, and which has been detailed in a report by HoustonKemp (Appendix D to TransGrid's revised revenue proposal). Further, Energy Networks Australia understands that the CESS model submitted by TransGrid in its revised revenue proposal was modified to correct for these errors.

Energy Networks Australia requests that the AER investigate the findings of the HoustonKemp report and rectify the CESS for application to TransGrid and other NSPs.

Specific details of the modifications

HoustonKemp's independent review identified that to ensure the CESS model calculates efficiency gains and losses as intended under the scheme and consistent with the AER's Post-Tax Revenue Model (PTRM), the following modifications need to be made:

- The removal of the financing benefit in the year that an underspend or overspend is incurred, because a return on capital is not provided on capital expenditure until the start of the following year
- The financing benefit for each subsequent year incorporate capitalisation of a ½ year return on capital, consistent with the approach adopted in the PTRM and roll forward model (RFM), and
- The financing benefit for each subsequent year is calculated by multiplying the underspend (or overspend) grossed up for the ½ year return on capital and the real Vanilla WACC, because the PTRM delivers a real rate of return.

Recommendation

Continuous, effective and stable financial incentives are critical to driving efficient expenditure outcomes for consumers. It is therefore recommended that the AER consider the HoustonKemp report and apply the proposed corrections to the CESS model in all determinations moving forward.

Should you have any additional queries, please contact Norman Jip, Energy Network Australia's Senior Program Manager – Transmission on (02) 6272 1521 or njip@energynetworks.com.au.

Yours sincerely

Andrew Dillon

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