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ECONOMIC REGULATION OF TRANSMISSION AND DISTRIBUTION NETWORK SERVICE PROVIDERS – AER's PROPSED CHANGES TO THE NATIONAL ELECTRICITY RULES

Alinta Energy (Alinta) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) 3 November 2011 Consultation Paper on the National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2011.

Alinta is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta has over 2500MW of generation facilities in Australia (and New Zealand), and maintains over 690,000 retail energy customers in Western Australia, South Australia and Victoria with a commitment to growing its retail energy business in Australia.

Alinta acknowledges the challenge of expanding and maintaining ageing network infrastructure, while consumers, large and small, continue to face significant pressures from rising energy costs. Ultimately, any changes to the National Electricity Rules (NER) regarding the economic regulation of Network Service Providers (NSPs) should provide certainty to consumers that investment undertaken to support network reliability and continued supply are efficient.

In order to provide the market with confidence that rising costs are necessary to support efficient investment in the network, Alinta supports the current rule change process initiated by Australian Energy Regulator (AER) and encourages NSPs to work with the AEMC during this process.

The AER has proposed its rule change with three distinct components:

- removing some of the restrictions around the AER's ability to respond to proposals around capital and operating expenditure;
- changes to the National Electricity Rules to provide stronger incentives for NSP's to spend no more than is efficient; and
- changes to the way the Weighted Average Cost of Capital (WACC) parameters can be estimated for regulatory decisions.

Alinta does not intend to comment upon the third component of the AER's submission concerning WACC parameters, but does wish to provide some general comments on the first two of the proposals put forward by the AER.

Alinta is generally supportive of the AER proposal for greater scrutiny of operating expenditure and capital expenditure, and agrees there is merit in reviewing some of the restrictions on the AER's ability to assess and respond to regulatory proposals as put forward by NSP's. Alinta therefore supports the AEMC considering the benefits and any possible risks of moving away from the current prescriptive provisions around the forward assessment by the regulator of capital and operating expenditure.

In terms of the AER's proposal to provide stronger incentives for NSP's not to inefficiently over-spend their approved capital allowance, Alinta agrees that the likely outcomes under AER's proposal are worth assessing against the current provisions within the NER.

In regards to the second component of the rule change proposed by the AER, Alinta seeks further clarification about the potential impact this will have on the integrity of the network and security of supply should mitigating circumstances arise. That is, the AER's proposal that a pre-determined percentage of capital expenditure be automatically included in the Regulatory Asset Base, with the majority left as a speculative investment with no guarantee of recovery, may deter shareholders and debt holders of network companies from financing expenditure above the regulatory proposal allowance. This may prevent NSP's from undertaking essential capital expenditure late in a regulatory period that will impact on the integrity of the network and security of supply.

Alinta therefore urges the Commission to carefully consider the incentives for NSP's to undertake efficient investment in the network at the appropriate point in time to ensure security of supply is maintained in the long term interests of consumers. However, Alinta notes that any solution to this issue does not preclude providing greater discretion to the AER to scrutinise capital expenditure, as this may minimise future capital driven network price increases.

Should you require any further information in these matters, please contact Mr Adam Lourey, Senior Regulatory Analyst, on 08 9226 4688.

Yours sincerely

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