31 May 2012

Ms Caroline Taylor
Project Leader
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Email: submissions@aemc.gov.au

Dear Ms Taylor

RE: ERC0142 – NATIONAL ELECTRICITY AMENDMENT (DISTRIBUTION LOSSES IN EXPENDITURE FORECASTS) RULE 2012

CitiPower and Powercor Australia (**the Businesses**) welcome the opportunity to comment on the Australian Energy Markey Commission's (**AEMC**) "*National Electricity Amendment (Distribution Losses in Expenditure Forecasts) Rule 2012 Consultation Paper*" (**Consultation Paper**).

1. Nature of the Copper Development Centre's (CDC) rule change proposal

On 22 December 2011, the CDC submitted a rule change request to the AEMC seeking amendment to the National Electricity Rules (**Rules**) to require distribution network service providers (**DNSP**) to consider the cost of network losses in preparing their operating expenditure (**opex**) and capital expenditure (**capex**) forecasts for their upcoming regulatory control periods.

In particular, CDC proposes amendments to clauses 6.5.6 and 6.5.7 of the Rules, which respectively set out the opex and capex expenditure objectives. CDC's proposed amendments involve the inclusion of sub-clauses 6.5.6(b)(1A) and 6.5.7(b)(1A), which would require DNSPs to consider the cost of electrical energy losses in the distribution system when preparing their expenditure forecasts.

The proposed amendments would also require the AER to assess whether the costs of distribution network losses have been given appropriate consideration in the DNSPs' expenditure forecasts.

2. Businesses' views

The Businesses recognise that minimising electrical losses is important as they impose:

- An environmental impact on society though carbon emissions. The magnitude of this impact is, however, dependant on the carbon intensity of the generation mix; and
- An economic impact on society because electrical energy losses are ultimately paid for by consumers.

Chapter 6 of the Rules, as it currently stands, does not:

- Incentivise DNSPs to undertake network investment to minimise distribution losses; or
- Require the AER to approve expenditure associated with minimising distribution losses.

The Businesses support incentive regulation, however they appreciate the difficulties associated with developing a national distribution loss incentive scheme. These difficulties relate to, amongst other things, the lack of a consistent national approach to the calculation and reporting of distribution losses.

The proposed Rule change will promote consistency with the provisions in the Regulatory Test for Distribution (**RIT-D**) under the network planning and expansion arrangements that are due to be finalised in September this year. The RIT-D principles will require DNSPs to consider the cost of losses for all investment that meet the RIT-D threshold of $5 million.

To this end, the Businesses support the proposed Rule change on the basis that it is the best way to minimise losses in the absence of a national distribution loss incentive scheme.

The Businesses note that CDC has provided a method for calculating distribution losses, albeit that this does not form part of CDC's Rule change proposal. The Businesses would be pleased to participate in any future industry consultation on methods for calculating distribution network losses.

3. Closing

The Businesses would be pleased to discuss any of the matters raised in this submission. Please do not hesitate to contact Stephanie McDougall, Manager Regulatory Projects, on (03) 9683 4518 if you have any further questions.

Yours sincerely

Brent Cleeve

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MANAGER REGULATION