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24 November 2017
Dr Paul Grimes, Commissioner
c/o Secretariat
Review of Victoria's Electricity and Gas Network Safety Framework
By email to dwelp.secretariat@delwp.vic.gov.au

Dear Dr Grimes

Re: Review of Victoria's Electricity and Gas Network Safety Framework – Interim Report Overview

The Australian Energy Regulator (AER) welcomes the opportunity to make a submission in response to the interim report on the Review of Victoria's Electricity and Gas Network Safety Framework ('interim report').

We are responsible for the economic regulation of gas and electricity networks in all states and territories, except Western Australia. Our access arrangement reviews and pricing resets drive businesses to deliver good long-term outcomes for consumers, in terms of price, quality, safety, reliability and security of supply.¹

The interim report highlights the importance of integrating safety regulation with economic regulation. We agree, and welcome the recommendation to strengthen our already productive relationship with the ESV (draft recommendation 20). We also support the recommendation to facilitate more effective engagement between ESV and regulated network businesses as an input into review processes (draft recommendation 21). Such early engagement and ESV involvement could allow a more informed debate of the merits of businesses proposals.

While we undertake capital and operating expenditure assessments for our regulatory decisions, the decisions on what to invest in and whether to invest at all are made by the regulated businesses. This is consistent with our incentive-based regulation approach and provides consumers benefit from improved efficiencies through lower regulated prices. The draft recommendation to strengthen the transparency around safety implementation plans (draft recommendation 22) is consistent with this incentive-based regulatory approach. We consider this transparency would be beneficial to many stakeholders; the AER included for when we assess expenditure proposals in future regulatory periods.

¹ See AER Strategic Statement, <https://www.aer.gov.au/publications/corporate-documents/aer-strategic-statement>

Also relevant to this review is our draft decision to approve a Capital Expenditure Sharing Scheme (CESS) for AGN and AusNet in the 2018-22 Access Arrangement review. Multinet has also submitted a revised proposal incorporating a CESS.² Our final decisions on the Victorian gas businesses 2018-22 access arrangements are due in December 2017.

A CESS enables the businesses and consumers to share in the rewards of the business being able to outperform its approved capital expenditure forecasts. Specifically, a CESS provides benefits to consumers because it encourages businesses to incur only efficient capex and therefore limits the growth of the capital base.

However, in recognition that there is no service quality scheme in gas like the STPIS in electricity, our draft decisions approved a CESS which is contingent on maintaining current service standards. To measure this we have approved a Network Health Index, which utilises five health indicators, such as measuring the number of reported gas leaks, to monitor the health of the gas network. If service standards were to decline, then the businesses would receive a reduced CESS reward or have the payments removed entirely.

We have also approved a deferral mechanism in the calculation of the CESS payment. This is consistent with electricity and enables the AER to remove CESS payments if the business presents the same expenditure proposals across multiple access arrangement periods without delivering the projects.

In relation to the draft recommendations 23 and 24, we note that investment in the Victorian Declared Transmission System (DTS) was discussed in the AEMC's Review of the Victorian Declared Wholesale Gas Market.³

As part of that review we noted that we currently are not aware of evidence to indicate that investment in the DTS has been inefficient.⁴ We also noted that we consider the consultation process for access arrangement reviews provides a supportive environment for businesses and stakeholders to work together to prepare, and if necessary revise expenditure proposals. This extensive consultative process is ultimately beneficial for the long term interests of consumers.

Thank you for the opportunity to provide a submission. We would be willing to elaborate on any of the matters raised in this submission. Please contact Sarah Ogilvie on (03) 9290 1464 or myself on (03) 9290 1895 if you would like to discuss matters further.

Yours sincerely



Sebastian Roberts
General Manager, AER networks expenditure

² Please see the AER draft decisions and revised proposals for AusNet, AGN, and Multinet for more information on the approved CESS. <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausnet-services-access-arrangement-2018-22>, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/australian-gas-networks-victoria-and-albury-access-arrangement-2018-22>, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/multinet-gas-access-arrangement-2018-22>.

³ See the AEMC's webpage, <http://www.aemc.gov.au/Markets-Reviews-Advice/Review-of-the-Victorian-Declared-Wholesale-Gas-Mar>

⁴ AER submission to the AEMC Review into the Victorian Declared Wholesale Gas Market, May 2017, page 8-9. <https://www.aer.gov.au/system/files/AER%20submission%20to%20AEMC%20-%20Review%20of%20the%20Victorian%20DWGM%20-%20assessment%20of%20alternative%20market%20designs%20-%20may%202017%20%28D2017-00060459%29.pdf>