

Electricity Network Regulation

Productivity
Commission
Circular

*11 January 2012
Circular no. 1*

New Inquiry

The Australian Government has asked the Productivity Commission to undertake a 15 month public inquiry into aspects of national electricity network regulation.

The purpose of the inquiry is to inform the Australian Government about whether there are any practical or empirical constraints on the use of benchmarking of network businesses and then provide advice on how benchmarking could deliver efficient outcomes, consistent with the National Electricity Objective (NEO).

In addition, a second stream of this inquiry will examine if the regulatory regime is delivering efficient levels of transmission interconnectors to support the market.

The terms of reference specify that the Commission should:

- examine the use of benchmarking under the regulatory framework, incorporating any amendments introduced in the review period, in the National Electricity Rules (NER) and provide advice on how different benchmarking methodologies could be used to enhance efficient outcomes
- examine whether the regulatory regime, with respect to the delivery of interconnector investment in the National Electricity Market (NEM), is delivering economically efficient outcomes.

To this end, the Commission will seek to assess the extent to which:

- benchmarks of efficiency can be produced that are robust enough for regulatory purposes
- the NER could better specify the nature and use of benchmarking for determining efficient outcomes
- benchmarking could create incentives for efficiency, shed light on regulatory price setting and investment controls, and help reduce the scope of disputes and/or accelerate the pace of their resolution
- regulations affecting interconnector investment produce economically efficient outcomes.

In undertaking the inquiry, the Commission will consider and take into account the work that is currently being progressed through the Standing Council on Energy and Resources,

the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER).

The full terms of reference that guide the issues of relevance to the inquiry, are reproduced in Appendix A.

The Commissioners conducting the inquiry are Philip Weickhardt (presiding) and Wendy Craik.

Key dates

Issues paper	February 2012
Initial submissions due	9 April 2012
Draft report	September/October 2012
Public hearings	November/December 2012
Final report to Government	April 2013

Who should participate in the inquiry?

The Commission invites all interested individuals and organisations to register an interest in the inquiry. You can also participate by lodging written submissions and/or through appearance at public hearings or other discussion forums.

By registering your interest you will receive regular updates about the inquiry's progress and key dates. Register your interest either online (website address below) or by completing Attachment B and returning it by fax or mail to the address provided.

Make a submission

This is a public inquiry and the Commission invites interested people and organisations to make a written submission.

Each submission, except for any information supplied in confidence (see below), will be published on the Commission's website shortly after receipt, and will remain there indefinitely as a public document. Copyright in submissions sent to the Commission resides with the author(s), not with the Commission.

How to prepare a submission

To assist in the preparation of submissions, the Commission will shortly release an Issues Paper that will identify a range of matters about which information and comment are being sought. Submissions may range from a short letter outlining your views on a particular topic to a much more substantial document covering a range of issues. Where possible, you should provide evidence, such as relevant data and documentation, to support your views.

You will also be able to respond to the Draft Report

Before preparing its final report, the Commission will release a draft report setting out possible recommendations to the Government. People can then provide their views on the draft report through further submissions and/or attendance at the Commission's public hearings.

Confidential submissions

This is a public review and all submissions should be provided as public documents that can be placed on the Commission's website for others to read and comment on. However, under certain circumstances the Commission can accept sensitive material in confidence, which will not be published. For example, some information may be genuinely commercial-in-confidence. Please contact the Commission for further information and advice before submitting such material. Material supplied in confidence on personal or commercial grounds should be provided under a separate cover and clearly marked 'PERSONAL IN CONFIDENCE' or 'COMMERCIAL IN CONFIDENCE' accordingly.

How to submit a submission

Each submission should be accompanied by a submission cover sheet. The submission cover sheet is available on the inquiry web page and a copy is attached to this circular (Attachment C). For submissions received from individuals, all personal details (eg home and email address, phone and fax number) will be removed before it is published on the website for privacy reasons.

The Commission prefers to receive submissions as a Word (.doc) file attachment to an email (see address below). PDF files are acceptable. To ensure your PDF is as electronically readable as possible, the Commission recommends that it is derived from word processing software and not from a scanner, fax or photocopying machine.

Track changes, editing marks, hidden text and internal links should be removed from submissions before sending to the Commission. To ensure hyperlinks work in your submission, the Commission recommends that you type the full web address (eg <http://www.referred-website.com/folder/file-name.html>).

Submissions can also be accepted by fax or post (see address below).

By email*:	electricity@pc.gov.au
By fax:	(02) 6240 3399
By post:	Electricity Network Regulation Productivity Commission GPO Box 1428 Canberra City ACT 2600

* If you do not receive notification of receipt of an email message you have sent to the Commission within two working days of sending, please contact the Administrative Officer (see below).

Due date for submissions

Please send submissions to the Commission by **9 April 2012**.

Availability of submissions and transcripts

Public submissions and transcripts from public hearings will usually be available on the Commission's website shortly after receipt, where they will remain indefinitely.

Further information

If you have any queries please contact:

Administrative matters:

Jill Irvine	Ph: (02) 6240 3223
Christine Underwood	Ph: (02) 6240 3262
Maggie Eibisch	Ph: (02) 6240 3206

Other matters:

Michelle Osborne	Ph: (02) 6240 3354
Ineke Redmond	Ph: (02) 6240 3310
Ralph Lattimore	Ph: (02) 6240 3242

Fax number for the inquiry	Fax: (02) 6240 3399
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Freecall number for regional areas:	1800 020 083
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Email:	electricity@pc.gov.au
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Website:	www.pc.gov.au (under ' Projects)
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This circular and subsequent updates will be made available on the Commission's website — www.pc.gov.au (see under '**Projects**'). Further information on the Commission, its projects and publications can be obtained from the Commission's website or by contacting the Media and Publications section on (03) 9653 2244 or email: maps@pc.gov.au.

Terms of reference

**Productivity Commission Inquiry into
Electricity Network Regulation**

Productivity Commission Act 1998

I, Wayne Swan, Deputy Prime Minister and Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998* hereby request that the Productivity Commission undertake an inquiry into electricity network frameworks, focussing on benchmarking arrangements and the effectiveness of the application by network businesses of the current regulatory regime for the evaluation and development of interregional network capacity in the National Electricity Market (NEM).

Background

Australia's electricity sector is facing a number of challenges over the coming years. This includes a large investment requirement for networks to replace ageing assets, meet growing levels of peak demand, reliability requirements and to facilitate the transition towards Australia's clean energy future.

Recent increases in network expenditure, and the resultant flow on to increases in electricity prices for end users, have highlighted the need to ensure networks continue to deliver efficient outcomes for consumers. Network regulation is a complex task requiring difficult and technical judgements. This inquiry will inform the Australian Government about whether there are any practical or empirical constraints on the use of benchmarking of network businesses and then provide advice on how benchmarking could deliver efficient outcomes, consistent with the National Electricity Objective (NEO). In addition, a second stream of this inquiry will examine if efficient levels of transmission interconnectors are being delivered, to inform the Australian Government about whether the regulatory regime is delivering efficient levels of interconnection to support the market.

Scope of the Inquiry

The Commission is requested to assess the use of benchmarking as a means of achieving the efficient delivery of network services and electricity infrastructure to meet the long term interests of consumers, consistent with the NEO. In addition, the Commission is requested to assess whether the current regulatory regime, as applied to interconnectors, is delivering efficient levels of network and generation investment across the NEM.

In undertaking the review, the Commission should:

- examine the use of benchmarking under the regulatory framework, incorporating any amendments introduced in the review period, in the National Electricity Rules and provide advice on how different benchmarking methodologies could be used to enhance efficient outcomes; and
- examine whether the regulatory regime, with respect to the delivery of interconnector investment in the NEM, is delivering economically efficient outcomes.

In undertaking the inquiry, the Commission should consider and take into account the work that is currently being progressed through the Standing Council on Energy and Resources, the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER). The Commission should have particular regard for the AEMC reviews into transmission frameworks, power of choice (demand side participation) and the suite of rule changes relating to network regulation currently under consideration by the AEMC in accordance with its statutory obligations.

The Commission should engage with the AEMC, the AER and the Australian Energy Market Operator in undertaking the review. In addition, the Commission should consult with Australian Government agencies, state and territory government agencies and other key stakeholders in undertaking the review.

The Commission will report within 15 months of receipt of this reference and will hold hearings for the purpose of this inquiry. The Commission is to provide both a draft and a final report, and the reports will be published. The Government will consider the Commission's recommendations, and its response will be announced as soon as possible after the receipt of the Commission's final report.

Wayne Swan
Deputy Prime Minister and Treasurer
[Received 09 January 2012]

REGISTRATION OF INTEREST Electricity Network Regulation



Australian Government
Productivity Commission

To register your interest please complete and return this form to:

Electricity Network Regulation
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

OR

By facsimile (fax) to either:

Jill Irvine,
Christine Underwood, or
Maggie Eibisch
(02) 6240 3399

By email: electricity@pc.gov.au

OR register online at: www.pc.gov.au/projects/inquiry/electricity

**Organisation or
Individual:** _____

**Principal
contact:** _____

Position: _____

Phone: _____

Fax: _____

Mobile: _____

Email address: _____

Street address: _____

Suburb/City: _____

State _____

P'code: _____

Postal address: _____

Suburb/City: _____

State _____

P'code: _____

You will be kept informed about the inquiry's progress through periodic circulars and emails. Please indicate if you would prefer material by:

Email

Post

Your details will only be used for the purpose for which you have provided them.

Productivity Commission
SUBMISSION COVER SHEET
(not for publication)



Please complete and submit this form with your submission to:
Electricity Network Regulation **OR** **By facsimile (fax) to either:**
Productivity Commission Jill Irvine,
GPO Box 1428 Christine Underwood, or
Canberra City ACT 2601 Maggie Eibisch
(02) 6240 3399
By email: electricity@pc.gov.au

**Organisation or
Individual:**

**Principal
contact:**

Position:

Phone:

Fax:

Mobile:

Email address:

Street address:

Suburb/City:

State

P'code:

Postal address:

Suburb/City:

State

P'code:

Please note:

- § For submissions made by individuals, all personal details other than your name and the State or Territory in which you reside will be removed from your submission before it is published on the Commission's website.
- § Copyright in submissions resides with the author(s), not with the Productivity Commission.
- § Submissions will be placed on the Commission's website, shortly after receipt, unless prior contact has been made concerning material supplied in confidence, or to request a delayed release for a short period of time. **Submissions will remain on our website as public documents indefinitely.**

Please indicate if your submission:

- contains NO material supplied in confidence and can be placed on the Commission's website
- contains SOME material supplied in confidence (provided under separate cover and clearly marked COMMERCIAL IN CONFIDENCE, or PERSONAL IN CONFIDENCE)