Submission to

Multinet Gas, Australian Gas Networks and AusNet Services

Response to Issues Paper: incentive mechanisms for the Victorian gas distribution businesses: 2018-22 gas access arrangement review – Farrier Swier Consulting

From UnitingCare Australia

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UnitingCare Australia is the national body for social services in the Uniting Church in Australia, supporting service delivery and advocacy for children, young people, families, people with disabilities, and older people

UnitingCare Australia is the national body for the UnitingCare Network, one of the largest providers of community services in Australia. With over 1,600 sites, the network employs 39,000 staff and is supported by the work of over 28,000 volunteers through over 600 separate organisations. We provide services to children, young people and families, Indigenous Australians, people with disabilities, the poor and disadvantaged, people from culturally diverse backgrounds and older Australians in urban, rural and remote communities. The experiences of these services inform this submission.

<u>Our Involvement in Energy Network Regulation</u>

UnitingCare Australia has been actively engaged in considering network regulation for energy utilities in Australia for some time, particularly over the last five years. We were active in the AEMC network regulation rule changes which were finalised in 2012 and the subsequent AER "Better Regulation" process that consulted actively on guidelines flowing from this rule change.

<u>Consumer impact</u>

We note that rising energy costs have hit large numbers of Australian households very hard, and while more attention has been given to electricity than gas, we recognise the importance of gas for heating, hot water and cooking particularly in Victoria where gas mains service a greater proportion of households than is the case in some other jurisdictions.

On February 18th 2015 the Age newspaper reported the following"

> ***"Soaring power costs leads to record number of disconnections in Victoria***
>
> *The number of homes having gas and electricity disconnected has hit staggering levels with more than 58,000 disconnections in one year and the state government ordering an urgent inquiry.*
>
> *Disconnections for electricity have hit a new record with more than 34,000 homes having power shut off last financial year and more than 24,000 having gas shut off.*
>
> *"These figures represent the highest disconnection rate ever recorded by the Essential Services Commission," Energy Minister Lily D'Ambrosio said.*
>
> *The number of homes disconnected from electricity jumped 36 per cent and the number of homes that had gas shut off jumped 42 per cent in 2013-14."*

The message is clear, namely the growing numbers of Victorian households, and indeed households from the rest of Australia, are having their supply of energy services disconnected due to inability to pay, creating significant "deprivation" for a large number of households.

This context is crucial for considering any policy or operation of energy markets in Australia. The many households who have been disconnected from gas supply and the many thousands more who struggle to pay their gas bills provides a critical point of reference for consideration of the issues paper circulated by Multinet Gas, Australian Gas Networks and AusNet Services, hereafter referred to as “the businesses.”

Importance of issues paper

UnitingCare Australia applauds the businesses for commissioning this report from Farrier Swier and for opening up the debate for open and considered discussion with all interested stakeholders, particularly residential consumers and small business. We believe this sort of process is where energy policy and regulation in Australia needs to be heading, and we have summarised their views about such approaches in our discussion paper, released June 2015, “the DNA approach to energy network regulation”, where DNA refers to deliberation, negotiation and agreement between network businesses and consumer interests. This discussion paper and associated engagement process is very much in line with our beliefs in greater direct consumer engagement between network businesses and in consumers.

We also believe that the issues raised by the issues paper are particularly important and warrant close and detailed consideration by all interested stakeholders.

Responses to issues paper

overarching comments

we suggest that the paper is focused on two main concepts understanding of which is probably assumed to be understood by stakeholders but perhaps there are differences of understanding, some differences probably being quite nuanced. The two major concepts are:

1. Incentive
2. Efficiency

The following provides some brief commentary on both.

1. Incentives

the issues paper is all about incentive mechanisms for gas distribution businesses, but these incentives fit within our broader incentives regime for energy network regulation. The incentives regime upon which Australian energy regulation has been built is summarised by CPI – X. In this sense, incentive regulation means that each year, the total revenue collected from customers for a network business should be less than for the previous year, in real terms. The number ‘x’ should be a positive number and reflect the continuous improvement achieved by a network business by delivering the same or improved service outcomes for customers at a reduced price. Incentive is for network businesses to become ever more efficient in providing network services.

We think of the incentive mechanisms as discussed in the issues paper as “micro incentives” as compared with the macro incentive regime of CPI-X. Somewhat akin to Russian babushka dolls, incentive mechanisms proposed in the issues paper are wholly contained within a broader set of incentives.

2. Efficiency

in section 1.2 of the issues paper under the heading ‘overview of the economic and regulatory framework’, the paper says “they are aimed to provide a holistic package of incentives that work together to better promote efficiency for the long-term interests of consumers. This is noncontroversial except that there can be trade-offs between long term and shorter term interests of consumers. So for example, giving cost pressures on existing consumers it would be difficult to ask existing consumers to pay more for an investment that would deliver benefits to future consumers. There is a trade-off in the long term interests of consumers between existing and future consumers.

Different consumers and different businesses also have varying views about what efficiency means. Australian consumers, particularly in capital cities and regional centres, generally reflect the view that they are happy with the existing levels of efficiency of energy businesses, they do not want to pay more for a high level of efficiency. This was a finding of the AEMO “value of customer reliability, VCR” survey of 2014. There are also likely to be different views about efficiency of energy service provision between people living in more remote locations and people living in capital cities and regional centres, for example Melbourne CBD, or Bendigo compared with people living near Manangatang or Tallangatta, for example.

We now turn to brief responses to the specific questions posed in the issues paper.

Q1. How should the AER assess incentive arrangement proposal is included in the gas distribution AA and AAI proposals?

The “core test” that the AER needs to apply against the proposed incentive mechanism is whether India consumers are better off than they would otherwise be, ie is the NEO upheld we also propose that the main unit of measurement for this test should be “dollars. So the core test becomes “is it highly probable that a vast majority of end consumers will pay less for their gas supply if the proposed incentive mechanism is applied?

Is critical that there is symmetry in incentives between consumers and network businesses. Incentive arrangements need to be “win - win” for both consumers and network businesses, able to leave end consumers paying less, while business profitability increases. We do not accept that a trade-off between better financial return for shareholders and improved efficiency of supply for customers is an acceptable deal for a majority of consumers.

We also accept that there are many trade-offs at play in considering incentive arrangements for example:

- Increasing Capex and reducing Opex
- increased rate of depreciation and are diminished RAB, regulatory asset base
- fast money versus slow money.

The AER and needs to be able to assess the net benefit to consumers from a proposed incentive mechanism including considering implications across all aspects of business expenditure.

Additionally in considering incentive mechanisms, the AER should look for mechanisms that are neutral from an intergenerational perspective, that is any costs and benefits from a mechanism should be fairly shared between all customers who are likely to be impacted.

An approach is suggested in Box 1 of the issues paper.

The suggested approach is acceptable, noting our comments above about understanding the NGO an impact on consumers, from point 1.

regarding points 2 and 4, arrangements promoting efficiency for the long-term interests of consumers, we note our perspective is that the long-term interests of consumers, includes a shorter term perspective as well. Customers do not want to pay more in the immediate future, with a promise that one day they will pay less.

Point 3 notes the high priority of safety for gas businesses. We do not disagree, however we are well aware that there are a number of organisations that have safety responsibilities associated with gas, including technical regulators, local government and various state government departments and authorities. Gas service business should not be charging consumers a higher price for safety, to allow a separate organisation or government department to play a lesser role.

Point 5, we agree that regulatory precedents are important for a regulator assistive incentive mechanisms. This needs to be done with an understanding of the Australian context, because not all aspects of overseas markets, e.g. UK, USA translate directly into the Australian context.

Q2. Do stakeholders agree with the theoretically desirable attributes of an incentive framework set out in box 3?

Q3. Would introducing a capital expenditure efficiency sharing scheme be desirable?