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Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Via: NSW2019-24@aer.gov.au

SUBMISSION TO THE AER'S DRAFT DECISION ON THE AUSGRID 2019 TO 2024 DISTRIBUTION DETERMINATION

Dear Mr Roberts,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council in 2015 our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to respond to the Australian Energy Regulator's (AER) *Draft Decision: Ausgrid Distribution Determination 2019-24* (the Draft Decision).

We believe Ausgrid's revised proposal is capable of acceptance

We have engaged heavily with Ausgrid since the release of the AER's draft decision, and our view that Ausgrid's revised proposal is capable of acceptance is based on our position that:

- Ausgrid will apply a productivity factor of no less than one per cent annually from FY21; and
- assessment by the AER that the proposed capital expenditure (capex) is efficient.

Important to our acceptance of the revised proposal are Ausgrid's broader commitments to us on the transparency of governance processes around investment and expenditure decision making.

Decision as a whole

Our approach to considering whether Ausgrid's revised proposal can be considered capable of acceptance, is on a decision-as-a-whole basis. Since the release of the Draft Decision, our engagement with Ausgrid has focused on:

- reducing capex and improving utilisation of the existing assets;
- building productivity improvements into the business of no less than one per cent per annum from FY21; and
- demonstrated commitment to more effective consumer engagement.

Ausgrid has amended its proposal to better align with the long-term interests of consumers, including through a better approach to risk management and reductions in planned capex. Together, this improves affordability outcomes for consumers.



The table below outlines the changes in Ausgrid’s capex components¹:

	AUSGRID ORIGINAL PROPOSAL	AER DRAFT DECISION SUBSTITUTE	AUSGRID REVISED PROPOSAL
Repex	1,673	1,207	1,402
Augex	189	169	182
Connection	52	29	33
ICT	158	134	144
OTI	58	3	77
Property	208	135	152
Motor vehicles and plant	99	73	87
Minor assets	25	0	23
Capital support	621	577	590
Total	3,084	2,327	2,690

Ausgrid’s revised proposal also acknowledges consumers’ concerns and the need for it to prioritise affordability and reduce network prices. Ausgrid states that its revised capital proposal will result in a 4.9 per cent real reduction in the RAB over the 2019-24 period².

Ausgrid also made a commitment to improving its utilisation of the existing network, stating that, “We provide the network capacity required to meet our customers’ forecast requirements. Looking forward, we are reducing costs to our customers by improving asset utilisation as we increase the use of our existing network capacity, which has been provided by past asset investments³”. We will continue to monitor utilisation rates through Ausgrid’s Regulatory Information Notices.

We have also had a particular focus on forecasting output growth and productivity growth. It is difficult for consumers to accept that network businesses should not be subject to a productivity dividend, when competitive businesses are under constant pressure to innovate and find efficiencies, and at a time when the cost of living is rising and wages growth is flat.

Ausgrid’s Revised Proposal states that it has adopted the AER’s Productivity Draft Decision forecast productivity growth of one per cent per annum as a placeholder. However, Ausgrid suggests that a lower estimate of productivity growth is more robust. Based on our discussions with Ausgrid, we support a productivity forecast of no less than one per cent per annum.

Over and above these and other improvements to discrete elements of the revenue proposal, our support for this proposal is premised on Ausgrid’s commitment to continuing improvements to internal governance, commitment to ongoing consumer engagement, including on innovation in pricing within the regulatory period, and cultural changes over the longer-term.

Approach to network pricing

We have appreciated the opportunity to work with Ausgrid and other consumer advocates through the Pricing Working Group. This process has helped assure us that the significantly improved Tariff Structure Statement (TSS) in the revised proposal is capable of acceptance.

¹ Ausgrid, *Revised Regulatory Proposal 1 July 2019 to 30 June 2024*, Table 5.3. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausgrid-determination-2019-24/revised-proposal>

² Ausgrid, *Revised Regulatory Proposal. 1 July 2019 to 30 June 2024*. Page 39. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausgrid-determination-2019-24/revised-proposal>

³ Ausgrid, *Revised Regulatory Proposal. 1 July 2019 to 30 June 2024*. Page 54. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausgrid-determination-2019-24/revised-proposal>.



We see this TSS as a first step in a longer-term agenda around innovation in pricing to reward consumers for flexibility in their energy use and enable better capacity utilisation of the network and reduced need for future investment in costly infrastructure. Together with the AER, and other members of the National Roundtable on Tariffs, Energy Consumers Australia is collaborating on opportunities for innovation in network tariffs and retail pricing, that empower consumers to understand and manage their energy use and their bills. To support this work, we are developing new approaches to customer impact analysis, using open source data and collaborating with energy companies to collaborate to trial and refine new pricing structures. From the Roundtable, we will be looking to facilitate discussions between network businesses and retailers, for a commitment to collaborate on trials of new offers.

An improved approach to engagement

In recent months, Ausgrid has made genuine efforts to engage effectively with our list of unanswered questions and concerns about its initial proposal. Our questions were broadly aimed at assessing how Ausgrid's approach to future expenditure would help mitigate price risk to consumers. These questions covered issues such as:

- timing risk: we were looking for Ausgrid to provide more information on the timing of expenditure such as, what was driving the need for expenditure; and how Ausgrid could better use existing capacity in the network instead of undertaking further growth and augmentation expenditure; and
- transparency of non-network expenditure. For example, understanding the tangible benefits to consumers from proposed network innovation programs; and expected savings from fleet and plant operational expenditure.

Ausgrid's stakeholder engagement has improved significantly since August 2018 when we made our [submission](#) on the first regulatory proposal. Ausgrid's senior management team has engaged extensively with Energy Consumers Australia, taking on board our feedback about our concerns and allowing us to engage directly with its engineering team on the technical elements of its proposal.

We see this as the beginning of an ongoing, long-term dialogue with Ausgrid about culture, governance and innovation. New modes of engagement that were tried and tested in recent months need to be refined and embedded in business-as-usual.

Ausgrid's new approach to stakeholder engagement has the potential to meet some of the elements of the "future focus" we are looking for:

- embedding consumer values in key business documents beyond processes prescribed in regulation;
- activities and programs of engagement where consumer engagement was not prescribed; and
- Networks designing and implementing solutions as seen through the consumer's lens.

We are also pleased to see that Ausgrid has joined the Energy Charter. Ausgrid states that, "The principles within the Charter align with Ausgrid's desire to become a customer-focused business"⁴.

Thank you for the opportunity to comment on the revised proposal. Please do not hesitate to contact Shelley Ashe, Associate Director of Advocacy and Communications on 08 9220 5500 or shelley.ashe@energyconsumersaustralia.com.au if you would like to discuss this submission further.

Yours sincerely,
Rosemary Sinclair AM
CEO, Energy Consumers Australia

⁴ <https://www.ausgrid.com.au/About-Us/Customer-Engagement/Energy-charter>