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15 February 2019

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

Via: [NSW2019-24@aer.gov.au](mailto:NSW2019-24@aer.gov.au)

## **SUBMISSION TO THE AER'S DRAFT DECISION ON THE ESSENTIAL ENERGY 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: Essential Energy Distribution Determination 2019 to 24* (the Draft Decision).

### *Essential Energy's revised proposal is capable of acceptance*

Our view is that Essential Energy's revised proposal is capable of acceptance.

### *Decision as a whole*

Our assessment of the NSW distribution business determinations has been considered on a decision-as-a-whole basis. In [our submission](#) to the AER's Issues Paper, while our view was that Essential Energy's proposal was capable of acceptance, we noted several issues that require ongoing engagement. These include:

- continuing to put downward pressure on the Regulated Asset Base (RAB);
- improving its capacity utilization rates and approach to capital expenditure (capex);
- adopting the 2018 Rate of Return Guideline; and
- adopting a productivity factor of no less than one per cent.

Essential Energy's revised proposal goes some way to address what we have now defined as "The Essential Dilemma". The Essential Dilemma refers to a steadily growing RAB despite reducing proposed expenditure. Essential Energy's revised proposal includes analysis to explain what is driving RAB growth. This analysis indicates that Essential Energy's RAB is being driven by a distortion of the true RAB growth (through errors in the opening RAB and how gifted assets are treated); drivers of true RAB growth (including needing to meet reliability standards and lower than expected load growth); and items that have inflated the RAB (unit rate increases and depreciation)<sup>1</sup>. Given the transparent

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<sup>1</sup> Essential Energy, *Empowering communities to share and use energy for a better tomorrow. 2019-24 Revised Regulatory Proposal*, page 19. Accessed from <https://www.aer.gov.au/networks->



nature of Essential Energy's consumer engagement approach, we will continue to engage with Essential Energy as it develops and delivers the to-be-developed options for managing its future RAB growth. We are pleased to see that Essential Energy's revised proposal is \$70 million (real, June 2019) lower than the AER's Draft Decision<sup>2</sup>.

The AER's Draft Decision was that it was satisfied that Essential Energy's forecast reasonably reflected the capex criteria, and made a correction to a Consumer Price Index (CPI) escalation error. The rectification of this error will see the forecast capex reduce from \$2099.6 million (\$2018-19) to \$2081.2 million (\$2018-19)<sup>3</sup>.

On the matter of the rate of return, Essential Energy has adopted the 2018 Rate of Return Guideline. What this means for consumers is that, instead of decreasing the average real revenue by 0.44 per cent (as per the AER's Draft Decision), the updated proposal sees the new rate of return decreasing average real annual revenue by 0.90 per cent<sup>4</sup>.

Essential Energy's revised proposal indicates that its transformation program has resulted in decreasing overheads since 2014-15, and that we will continue to see a reduction in its overheads over the 2019-24 period. Essential Energy's analysis indicates that "...by 2023-24, our total overheads will be 31 per cent lower than in 2014-15"<sup>5</sup>. We continue to support an approach by network businesses that see productivity improvements of no less than one per cent per year.

#### *Approach to network pricing*

We have appreciated the opportunity to engage with Essential Energy on their Tariff Structure Statement. We note that both Ausgrid and Endeavour Energy have proposed default demand tariffs, for new customers and meter replacement customers and in our view Essential Energy should also have default assignment to a demand tariff and not to the time of use tariff.

We see this TSS as a first step in developing innovation in pricing that rewards consumers for flexibility in their energy use and enables better capacity utilisation of the network and reduced need for future investment in network capacity. Together with the AER, and other members of the Tariff Reform Roundtable, Energy Consumers Australia is collaborating on opportunities for innovation in network tariffs and retail pricing, that empower consumers to understand and manage their energy bills. To support this work, we are developing an approach to customer impact analysis, using open source data and looking to energy companies to collaborate on trials to test and refine new retail pricing offers. 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.

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[pipelines/determinations-access-arrangements/essential-energy-determination-2019-24/revised-proposal](https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/essential-energy-determination-2019-24/revised-proposal).

<sup>2</sup> Ibid, page 27.

<sup>3</sup> AER, *Draft Decision, Essential Energy Distribution Determination 2019-24 Attachment 5 Capital Expenditure*, page 5-8. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/essential-energy-determination-2019-24/draft-decision>

<sup>4</sup> Essential Energy, *Empowering communities to share and use energy for a better tomorrow. 2019-24 Revised Regulatory Proposal*, page 18. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/essential-energy-determination-2019-24/revised-proposal>.

<sup>5</sup> Ibid, page 50.



### *Approach to stakeholder engagement*

Essential Energy's approach to stakeholder engagement has demonstrated a path towards maturity beyond that of its contemporaries. Key to this is that Essential Energy has worked *with* its consumers in a genuine way, and that the voices of its consumer helped shape Essential Energy's thinking. This is evidenced by consumer support for Essential Energy's initial proposal, despite the "Essential Dilemma". This reflects the level of confidence that Essential Energy will continue to operate in a transparent way with the aim of putting downward pressure on prices.

As a founding member of the Energy Charter, Essential Energy has worked hard to re-direct the focus of its business to consider consumers in all aspects of its decision-making processes.

As mentioned in its regulatory proposal, it is for these reasons that Essential Energy won the 2018 Energy Consumers Australia / Energy Networks Australia Consumer Engagement Award.

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](mailto:shelley.ashe@energyconsumersaustralia.com.au) if you would like to discuss this submission further.

Yours sincerely,  
**Rosemary Sinclair AM**  
**CEO, Energy Consumers Australia**