

10 August 2018

Mr Richard Gross
Chief Executive Officer
Ausgrid
GPO Box 4009
SYDNEY NSW 2001

Copy to: Rob Amphlett Lewis (by email rob.amphlettlewis@ausgrid.com.au)

Proposal for the remake of Ausgrid's 2014-19 Determination

Dear Mr Gross

Thank you for the opportunity to respond to Ausgrid's proposal for the remaking of its 2014-19 revenue determination (the Proposal), following the remittal of that decision to the Australian Energy Regulator (AER) from the Australian Competition Tribunal and the Federal Court. Our comments are based on the draft for comment of the proposed correspondence from you to Paula Conboy, Chair of the AER.

Consumers are looking to Ausgrid to provide high quality services, at affordable prices. In return, they accept that the investors should earn a fair return for their long-term investment in these regulated assets. For these reasons, Energy Consumers Australia is looking to Ausgrid to adopt long-term strategies, and revenue proposals that align the interests of their shareholders with the interests of their customers.

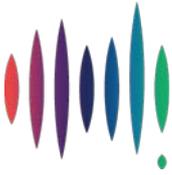
In forming our view of the Proposal, we have taken as our starting point the AER's 2015 determination, and then considered whether the Proposal as a whole is in the long-term interests of the consumers, such that consumers served by the Ausgrid network will not have paid more than is necessary in the period 2014-19.

We understand that the over-recovery of revenue by Ausgrid in the 2014-19 period due to the undertakings that were put in place to achieve price stability for consumers is \$807 million (in real terms), above the AER's set-aside 2015 determination. Of this amount Ausgrid proposes to:

- retain \$519 million, of which \$438 million is related to the recovery of transformation costs associated with achieving greater efficiencies in operating expenditure; and
- return \$288 million to consumers through price reductions from 1 July 2019, applying over the 2019-24 regulatory period.

On balance Energy Consumers Australia is prepared to accept Ausgrid's proposal to follow the AER's 2015 determination and return \$288 million to consumers. Consumers stand to benefit from the lower, more efficient levels of operating expenditure into the future and in lower prices from 1 July 2019.

In our view it is unfortunate that it has taken so long for this matter to be resolved with Ausgrid, particularly as it is likely to now impact on clear consideration of the 2019-24 revenue proposal currently underway.



For future revenue determination processes, Energy Consumers Australia's expectation of Ausgrid is sincere and meaningful consideration of the impacts on consumers stemming from future revenue determination processes. This includes demonstrating a commitment to transparency of revenue determination cost inputs, demonstrated productivity efficiencies and a rigorous examination of capital expenditure, in particular by focusing on better risk management decisions.

Accordingly, Energy Consumers Australia will continue to work productively with Ausgrid, together with other consumer advocates, stakeholders and the AER, to examine whether further significant price decreases are achievable in the 2020-24 period, in particular by focusing on better risk management in capital expenditure decisions.

If you would like to discuss anything related to this issue further, please do not hesitate to contact me, or Lynne Gallagher on (02) 9220 5500.

Yours sincerely,

Rosemary Sinclair AM
Chief Executive Officer