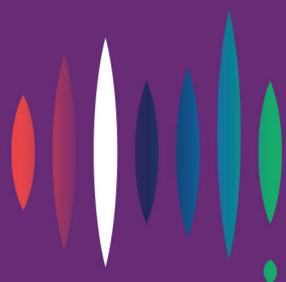


**Response to
Victorian Electricity Distributors'
Revised Proposals
2021-26
Submission
January 2021**



**ENERGY
CONSUMERS
AUSTRALIA**

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Introduction

We consider that the revised proposals are now closer to being capable of acceptance and with good engagement between the distributors and the Australian Energy Regulator on the outstanding matters should be able to be finalised in a timely way.

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the former Council of Australian Governments Energy Council, our objective is to promote the long-term interests of 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 decisions on the Victorian electricity distributors' proposals. This process sets the amount of revenue the businesses will collect from customers through distribution charges from 1 July 2021 to 31 June 2026. In doing so we also comment on the revised proposals distributors lodged in December 2020.

Overall, we are pleased that the distributors have accepted the majority of the AER's decisions. This is consistent with significant efforts by distributors, the AER and stakeholders to refine and agree on the substance of the proposals over three years.

We consider that the revised proposals are now closer to being capable of acceptance and should be able to be finalised with good engagement between the parties on the outstanding matters in the coming weeks.

Advice received from Spencer&Co (at Annexure 1) indicates that many of the issues proposed by CitiPower and United Energy appear reasonable, with only some more minor issues being recommended for further review. There are however more substantive outstanding issues where we seek further assurance in relation to the AusNet Services, Jemena and Powercor proposals. This submission summarises our views on these matters, with further detail contained in the technical advice at Annexure 1.



Our observations

Our assessment of the revised proposals is informed by the technical advice provided by Spencer&Co who has reviewed the draft, initial and now revised proposals. We have also considered supporting information provided by the distributors and stakeholders, as well as the AER and its experts. Our assessment is also grounded in our own research about consumer experience and perspectives, particularly the bi-annual Energy Consumer Sentiment Survey and our 2019 consumer expectations research.

This submission builds on our previous contributions to this process. This includes our presentations at the AER's draft determination forum in October 2020 and the altered pre-determination public forum process in April 2020; and our submission to the Issues Paper in June 2020.

We also engaged directly with all five distributors as they prepared their revised proposals; and with a broader group facilitated by the AER on the tariff structure statement. We will expand on stakeholder engagement later in this submission.

It is important to note at the outset that the Victorian distributors have largely addressed the evidence gaps we identified earlier in the process. We appreciate efforts by distributors to respond to our queries about the extent of step-changes, pole replacement and increasing capital expenditure (capex). This submission highlights the outstanding issues that we need to be assured about before we can consider them as capable of acceptance.

Spencer&Co's technical review of the revised proposals is included at Annexure 1 and provides further detail on these matters. The technical review also identifies other issues that we invite the AER to also reflect on as it finalises the determinations and in its broader regulatory agenda.

Common Issues

Accelerated depreciation

In the initial proposals, most of the distributors sought to depreciate some of their assets on an accelerated timeframe for a range of different reasons. The AER has accepted, or accepted at a reduced quantum, a number of these requests which range in value from hundreds to tens of millions of dollars over the five year period of the determinations.

Accelerated depreciation impacts affordability as it brings forward the collection of revenue that would otherwise be recovered from consumers over a longer period of time. As such, proposals must be very well justified and closely scrutinised to ensure they are in the long-term interests of consumers.

At a time when millions of Australians are struggling to manage the financial impacts of the bushfires and COVID-19, proposals to recover costs from consumers more quickly than usual need to be assessed even more closely. The nature of the energy transition, where technologies and business models are changing rapidly, means assets may no longer be required and in some cases might become 'stranded'. How the costs and risks associated



with this process should be managed is an important policy matter that has not yet been resolved.

In the absence of a consistent and agreed approach to accelerated depreciation, Energy Consumers Australia is not able to support the Victorian Distributors proposals.

Further detail on this issue is included in the technical advice at Annexure 1.

Bushfire insurance

We have heard from distributors both in and outside of Victoria about the difficulty in securing bushfire insurance which is being impacted by insurance events in overseas jurisdictions.

Victorian energy consumers have invested heavily in bushfire mitigation activities in response to numerous bushfire events in recent years.

We believe there is a good case for the AER to undertake a general review of the issue (including options for keeping downward pressure on insurance premiums), to ensure that risks and costs are not inappropriately passed through to consumers.

Consumer Engagement

Overall, the engagement for the Victorian revenue reset has been excellent. All distributors have improved on their previous approaches, in terms of timeframe, breadth and depth of engagement. All distributors have been forthcoming in responding to our information requests and engaging in difficult conversations.

The bushfire and COVID-19 shocks have also created opportunities for distributors, with the support of the executive teams, to respond to the new and changing needs of their customers and develop new business practice. For example, networks have significantly improved how they manage planned outages to minimise the disruption for their customers at a time when millions of Victorians have been self-isolating or working from home.

Why engage with consumers?

We see successful transition to the future grid as one where consumers have trust and confidence that distributors' future investments and business practices are incorporating the values of consumers and delivering services that they want.

Consumer engagement is a key aspect of delivering on this future vision, with the other aspect being a larger culture change process as we move from a business to community focus. This mirrors the changing nature of energy infrastructure from a small number of big things (that is, traditional energy supply) to many small things (that is, distributed energy resources owned by both traditional and non-traditional players, including consumers).

While best-practice consumer engagement is encouraged, we believe that flexibility in frameworks is important so that distributors can tailor the engagement model to their, and their communities', needs. We support a principle-based approach to ensuring that the best *outcome* for consumers is achieved.



The evolution of engagement

The way the sector engages with consumers and reflects consumer preferences in key business processes, including the regulated revenue reset processes, continues to evolve. We have observed significant changes over the last few years with many different engagement models being used by distributors in the preparation of the revenue proposals. This evolution has been supported by initiatives such as the Energy Networks Australia (ENA) 2016 *Consumer Engagement Handbook* and the AER's 2013 *Consumer Engagement Guideline for Network Service Providers*.

We have also seen examples of how distributors across Australia are engaging on other business processes through the ECA ENA Network Consumer Engagement Award.

Award winners are businesses who can best demonstrate how their approach delivered the outcomes that are important for consumers and culture change. Principles identified as important to this include:

- Accessibility: how did the distributor ensure the consumer engagement activities were fit for purpose?
- Inclusiveness: how did the consumer engagement process reflect the will to engage, both with the broader customer base and with affected and interested groups?
- Responsiveness and Transparency: how did the consumer engagement process respond to stakeholder views, impact decisions within the business and address how feedback had been used.
- Measurability: how did the distributor document and assess the consumer engagement process and degree of satisfaction with it – both internally and externally?
- Leadership and transferability: how were senior executives involved? What were the business's key learnings and points of reflection? How will this contribute to leading consumer engagement practices across the energy network sector?¹

Through this Award, we have seen the diversity of projects expand from traditional revenue resets and demand management projects. In 2018, projects included those that developed network solutions for local problems and embedded consumer values into 'business-as-usual' functions.² In 2019, the Judges Report highlighted the benefits of the different engagement models, supporting approaches that:

- met consumers where they were;
- put the consumers in the driver's seat with consumers leading how the engagement would progress; and

¹ ECA/ENA Network Consumer Engagement Award Application Form. Accessed online at <https://www.energynetworks.com.au/miscellaneous/2020-2020-consumer-engagement-award-application-form/>

² ECA/ENA Network Consumer Engagement Award Judges' Report 2018, page 5. Accessed online at <https://energyconsumersaustralia.com.au/wp-content/uploads/ECA-ENA-Network-Consumer-Engagement-Awards-Judges-report.pdf>



- saw the value of consumer engagement being embedded in all levels of the business.³

We are also seeing evidence of the changing culture of distributors – that is, genuine engagement with consumers to ensure better outcomes for consumers rather than consumer engagement as a tick-a-box exercise.

The AusNet Services trial of the 'New Reg' consumer engagement model has also sharpened the focus on how distributors engage with consumers and reflect consumer preferences in their revenue proposals. At the same time, other distributors have been trialing other models of engagement. Jemena has used a People's Panel approach, while CitiPower, Powercor and United Energy (CP/P/UE) has used a mix of engagement approaches.

In developing their revised proposals, AusNet Services and Jemena re-engaged their consumer groups and also engaged with a broader range of stakeholders. CP/P/UE listened to feedback about its consumer engagement approach and pivoted, engaging a Customer Advisory Panel (CAP) to help it develop revised proposals that better reflect consumer preferences. ECA participated in the CAP and found it to be a positive experience, with the distributors engaging in a genuine way, working hard to ensure that consumer preferences are reflected in their revised proposals.

The way that consumers and their advocates engage is varied according to the issues and what is the best fit for the consumer or constituent base. For example, both the Consumer Challenge Panel and ECA look for a decision that is capable of acceptance on a decision-as-a-whole basis, where other organisations may look at specific building block or strategic issues.

A guideline for good engagement

In its Draft Determinations, the AER is seeking feedback on a proposed consumer engagement framework. We support the AER updating its guidance and are comfortable with the draft framework it has developed at Figure 1 which provides a clear and straightforward framework that companies can adapt and apply that is consistent with the practice we outlined above.

We think there is a case for the AER to also undertake a wider review of the *Consumer Engagement Guideline for Network Service Providers* for two key reasons:

1. There is valuable experience to be shared by consumer advocates and organisations in jurisdictions outside Victoria who may be precluded from participating in the Victorian electricity distribution regulated reset process. Taking a national approach to the review may remove this barrier to participation and will likely result in a better outcome.

³ ECA/ENA Network Consumer Engagement Award Judges' Report 2020, page 5. Accessed online at <https://www.energynetworks.com.au/resources/reports/2020-reports-and-publications/consumer-engagement-report-2020/>



2. Consumer engagement activities can sometimes commence up to 18-24 months prior to a distributor lodging its formal revenue proposal. A living guideline would provide useful guiderails for distributors and a level of certainty throughout that period.

A national review outside a reset process could also ensure that innovative ideas and approaches are identified and discussed. For example, what is the best way to get the most out of the process in an efficient way and what types of activities will deliver the outcomes consumers are looking for?

Figure 1: AER's draft consumer engagement framework

Element	Examples of how this could be assessed
Nature of engagement	<ul style="list-style-type: none"> • Consumers partner in forming the proposal rather than asked for feedback on distributor's proposal • Relevant skills and experience of the consumers, representatives, and advocates • Consumers provided with impartial support to engage with energy sector issues • Sincerity of engagement with consumers • Independence of consumers and their funding • Multiple channels used to engage with a range of consumers across a distributor's consumer base
Breadth and depth	<ul style="list-style-type: none"> • Clear identification of topics for engagement and how these will feed into the regulatory proposal • Consumers consulted on broad range of topics • Consumers able to influence topics for engagement • Consumers encouraged to test the assumptions and strategies underpinning the proposal • Consumers were able to access and resource independent research and engagement
Clearly evidenced impact	<ul style="list-style-type: none"> • Proposal clearly tied to expressed views of consumers • High level of business engagement, e.g. consumers given access to the distributor's CEO and/or board • Distributors responding to consumer views rather than just recording them • Impact of engagement can be clearly identified • Submissions on proposal show consumers feel the impact is consistent with their expectations
Proof point	<ul style="list-style-type: none"> • Reasonable opex and capex allowances proposed <ul style="list-style-type: none"> ○ In line with, or lower than, historical expenditure ○ In line with, or lower than, our top down analysis of appropriate expenditure ○ If not in line with top down, can be explained through bottom up category analysis



AusNet Services and New Reg

AusNet Services is to be commended for its decision to step outside the usual practice and trial the New Reg Customer Forum for its 2021-26 reset.

The purpose of New Reg was to "...ensure that customers' preferences drive energy network businesses proposals and regulatory outcomes."⁴ The report from the innovative Customer Forum provides a valuable additional perspective and data source to complement the AER's usual thorough review of the revenue proposals.

Spencer&Co's assessment (Annexure 1) highlights the importance of the AER's consistent and expert approach to testing the proposals and revised proposals, with a focus on the outcomes for consumers. The challenge for future practice is to continue to trial and develop innovative approaches like New Reg, while also ensuring appropriate oversight by the regulator. This is a balance that will require a level of judgement on the part of the regulator, and trust and confidence in networks to come forward with their very best proposals at the start of the process – things that can develop over time as confidence in doing things differently grows.

A particular issue in relation to these proposals relates to the way proposed expenditure is compared to historical expenditure, and the levels that are considered to be 'normal'. We note that comparing AusNet Services' proposal with the current period could inadvertently lead to inefficient expenditure levels being set due to the increased capex in this period in response to the Black Saturday events.

Jemena and the capitalisation policy

Jemena's revised proposal raises concerns about its ability in the 2021-26 period to manage cash flow and key projects should the AER's draft decision to reduce its opex by \$59m stand. Jemena believes that this reduction is not warranted, and that the lack of consideration of differences in capitalisation policy in the benchmarking model means that modelled outcomes do not accurately reflect Jemena's level of efficiency.

Jemena's original and revised proposal both recognise the need to deliver the savings from its 2019 efficiency measures (the transformation project) to consumers as soon as possible. This was through a \$20m negative step change approach.

Jemena mentions the pending AER review of the capitalisation policy which has been flagged to commence in 2021, which poses a timing complication for this reset.⁵

⁴ <https://www.aer.gov.au/networks-pipelines/new-reg>

⁵ Jemena, *Jemena Electricity Networks (Vic) Ltd, 2021-26 Electricity Distribution Price Review, Attachment 05-01 Response to the AER's draft decision – Operating expenditure*, page 6. Accessed online at <https://www.aer.gov.au/system/files/Jemena%20-%20Revised%20Regulatory%20Proposal%20-%202021-26%20-%20Att%2005-01%20Operating%20Expenditure%20-%20December%202020.pdf>



We are looking for assurance that of the two options (reduced opex as per the AER's Draft Decision or negative step changes as per Jemena's proposal) the path forward will deliver the better outcomes for consumers, both in the coming period and over the long-term.

We are confident that the AER and Jemena can work together to deliver an outcome that is in the long-term interests of consumers.

Powercor and poles replacement

In response to submissions received on its initial proposal about opportunities to improve its consumer engagement activities, Powercor (along with CitiPower and United Energy) convened a CAP. The CAP provided an opportunity for collaboration and representation of consumer and stakeholder views and preferences, and to ensure consumer views are embedded in its decision-making processes. Energy Consumers Australia was a member of the CAP. We recognise the improvements made in CP/P/UE's engagement over the review process.

We recognise the significant effort that both CP/P/UE and the AER have put into this particular matter. While it appears to be agreed that the management of pole replacement for Powercor needs to be improved, we understand that there are two key moving pieces that are yet to be set:

1. Assurance that the pole replacement calculator and its inputs, and relevant models are sound.

We appreciate that Powercor brought forward its testing to get actual data to inform its revised proposal and subjected its modelling to peer review as requested.

We encourage CP/P/UE and the AER to continue to communicate in a transparent and timely way to provide the assurance needed to move forward.

2. That the quantum of poles and replacement meets a pragmatic standard for the safety regulator, mitigating the risk of investment before it is absolutely needed.

We understand that the AER is meeting with Energy Safe Victoria and Powercor towards the end of January 2021. We are confident that a prudent and safe pathway forward can be reached.

Tariffs

Specific response to the Tariff Structure Statements

It is our understanding that the AER was generally satisfied with the Tariff Structure Statements (TSS) put forward by the Victorian distributors, while recommending further actions that would contribute to greater compliance with the pricing principles.

This included:

- Moving customers off legacy tariffs as quickly as possible
- Providing an incentive for customers to move on to more cost reflective tariffs



- Allowing DER customers to opt out to a flat tariff;
- Providing a more focused peak window for business customers; and
- Explaining how tariff proposals are integrated with demand management and other initiatives.

We are supportive of the AER's recommendations and based on advice (SpencerCo) and our review of the revised proposals are satisfied that the businesses have all responded appropriately.

We welcome the revised time of use tariffs proposed by the network businesses, and the commitment to undertake trials of more dynamic tariffs in the context of electric vehicle charging. The businesses are to be commended for their commitment to undertaking detailed impact analysis.

Where we remain concerned is the lack of an overarching narrative from any of the businesses as to the purpose of their suite of tariffs and the intended outcomes, both from a consumer perspective and the future of the network business. This means that the TSS appears to be a "tick a box" exercise, notwithstanding the considerable efforts and resourcing that the businesses together committed to engaging with consumers and undertaking the very valuable survey, that was the basis of the ACIL Allen work.

Conclusion

Overall, the revised proposals indicate the Victorian distributors' willingness to amend their proposals to respond to the views of stakeholders and feedback from the AER. While each distributor has followed a different path for stakeholder engagement for this reset, this process has showcased the variety of ways that consumers can contribute to the development of proposals.

While the proposals are closer to being capable of acceptance, there are outstanding issues which need to be resolved and which we have discussed in this submission. We would be happy to discuss any of these issues in more detail if that would assist the AER or the distributors.

To discuss the issues raised in this submission, please contact Shelley Ashe, Associate Director via email at shelley.ashe@energyconsumersaustralia.com.au.

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