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Mr Warwick Anderson
General Manager
Networks Finance and Reporting
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

By email to: networkperformancereporting@aer.gov.au

Reporting on Regulated Network Performance

Dear Mr Anderson,

Energy Consumers Australia appreciates the opportunity to comment on the Australian Energy Regulator's (the AER) *Priorities and objectives for reporting on regulated electricity and gas network performance Consultation Paper*¹ of March 2020 (the Paper).

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council (the 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.

Summary

The AER is seeking stakeholder views on whether the proposed objectives and priorities in the Paper:

- are clear and fit-for-purpose
- are sufficiently flexible to allow our reporting to evolve alongside the ongoing evolution of the energy sector, and
- appropriately capture the commonalities and/or differences between priorities and objectives for reporting on electricity and gas NSPs.

Overall, we support the AER's proposed approach and make some suggestions to improve the effectiveness of this reporting, and ultimately deliver better outcomes for energy consumers. The detailed suggestions are included in the attachment.

We have sought to frame the objectives of the framework in clearer, outcomes-based terms. We also offer suggestions about how to simplify the objectives. For the priorities we suggest that these should have some concept of order. We propose a way to describe them as a first, second and third priority.

¹ <https://www.aer.gov.au/system/files/AER%20Consultation%20Paper%20-%20Priorities%20and%20objectives%20for%20reporting%20on%20regulated%20electricity%20and%20gas%20network%20performance%20-%20March%202020.pdf>



Framework for Analysis

The long-term interests of consumers² are met when current and future consumers pay no more than is necessary for the quality and reliability they are prepared to pay for.

There are three characteristics accepted as the basis for delivery of the LTIC. The first is the separation of potentially competitive markets from natural monopoly services. The second is ensuring effective competition in the markets established. The third is implementing best practice incentive regulation of natural monopoly (network) services. The Paper is concerned with the last of these.

In our paper on operationalising the long-term interests of consumers we noted the importance of being able to achieve dynamic efficiency as well as the 'static' concepts of allocative efficiency (prices reflect costs) and productive efficiency (costs are as low as they can be). Dynamic efficiency is more than a matter of promoting investment, it is grounded in innovation which results in new ways of doing things.³ This is particularly important in the context of the energy transition that is underway.

We note that the second of the areas on which the AER is seeking views goes directly to the question of the energy transition, though it asks the question as whether the objectives and priorities are sufficiently flexible through the transition rather than whether the reporting will facilitate the transition.

Our paper also posed three questions to be answered in relation to regulatory proposals for networks:

- How does the proposal improve certainty over return of and for capital (and hence reduce cost of capital for networks)?
- How does the proposal improve the assessment of technical efficiency and promote further efficiency improvement?
- How does the proposal improve consumer direction of discretionary expenditure?

Without explicitly applying these questions to all elements of the Paper, they are the framework that underpins our responses. In general, the priority on performance reporting needs to be on how the networks are fulfilling their part of the requirement that 'current and future consumers pay no more than is necessary for the quality and reliability they are prepared to pay for.'

Application of the Framework

As noted in the Paper, the rules require the AER to consult with stakeholders 'in order to determine appropriate priorities and objectives to be addressed through the preparation of network service provider performance reports.'⁴ The Paper provides five proposed objectives and five proposed priorities. The way these are presented does not immediately denote a clear distinction between objectives and priorities.

Looking at the AER's 2011 decision on priorities and objectives for reporting reveals that the priorities listed there referred more to report content – that is objectives and priorities were interpreted as answers to 'why' and 'what' respectively.

² <https://energyconsumersaustralia.com.au/wp-content/uploads/Operationalising-the-Long-Term-Interests-of-Consumers.pdf>

³ See Havyatt 2017 *The Components of Efficiency*
<https://www.accc.gov.au/system/files/Network%20March%202017.pdf>

⁴ National Electricity Rules (NER), r.8.7.4(a), National Gas Rules, r.140(1).



We make detailed comments in relation to each of the five objectives in the first of the two tables attached. In general, we agree in principle with the objectives as proposed. We do however make suggestions about how to make them more succinct and therefore, easier to understand and apply.

In general usage the word 'priorities' is an ordinal concept and implies a ranking. We encourage the AER to utilize the concept of ranking in determining the priorities, this would, for example, be expected to guide AER resource allocation on performance reporting.

We think the ordinal approach can be applied to the priorities as follows, where priority two builds on the outcome of priority one, and priority three builds on the outcome of priority two.

1. Obtain and report in an accessible format the essential outcome data – that is all the financial and service level data. We believe that making it accessible – ideally through search terms across a large database rather than a myriad of spreadsheets is part of that priority.
2. Provide the analysis of the data, comparing actuals versus forecast, to derive ratios, comparing profitability to other industries.
3. Report using the analysis to consider wider policy issues including the effectiveness of the incentive regulation structure and the technological transition.

We have captured this concept in an alternative structure for the priorities in the second table in the attachment that shows how our proposed version relates to the version proposed in the Paper.

Thank you for the opportunity to make this submission. If you have any questions in relation to this submission please contact David Havyatt at david.havyatt@energyconsumersaustralia.com.au or on 0414 467 271.

Yours sincerely,

Lynne Gallagher
Chief Executive Officer



Proposed objective	Comments
<p><i>Provide an information resource</i></p> <p>Performance reporting enables the AER to collect and report accurate and reliable information on the performance of NSPs. This information should:</p> <ul style="list-style-type: none"> • educate those stakeholders seeking to better understand network regulation, • equip engaged stakeholders to more comprehensively understand and assess the overall performance of NSPs and regulatory outcomes. <p>Quantifying the impacts of NSPs performance and regulatory decisions will be a resource for those stakeholders to draw on when contributing to our regulatory decisions, and to related policy processes.</p>	<p>The sentence should be rewritten to read:</p> <p><i>Performance reporting enables the AER to collect and report accurate and reliable information on the efficiency and service characteristics of NSPs and monitor outcomes.</i></p> <p>The two dot points are redundant, and information on its own does not ‘educate’. They should be replaced with a sentence that reads:</p> <p><i>This information should equip stakeholders to understand and assess network regulation and regulatory outcomes.</i></p> <p>We propose no change to the third sentence.</p>
<p><i>Transparency</i></p> <p>Performance reporting promotes transparency. Reporting on the NSPs’ expenditure, investment decisions and service levels allows for comparisons to be made between NSPs and over time. This will provide an insight into the NSPs’ business practices and decision making. This will lead to better informed stakeholder participation in regulatory processes and enhance the effectiveness of the regulatory framework.</p>	<p>While parts of this are redundant given the first objective, the points are all worth emphasising. We suggest the order of the comparisons be reversed to read ‘for comparisons to be made over time and between NSPs.’</p>
<p><i>Accountability</i></p> <p>Performance reporting enhances accountability through outcomes monitoring.</p> <p>Performance reports will allow users to see whether an NSP’s actual expenditure is consistent with its forecast expenditure, and to review why differences may have occurred.</p> <p>Performance reports will also review and compare the NSPs’ service performance levels. This information will provide all stakeholders with the opportunity to assess the actual performance of the NSPs against the forecast performance levels specified in the NSPs’ regulatory proposals.</p>	<p>Suggest the first sentence reads ‘Outcomes monitoring enhances accountability of NSPs, the AER and the regulatory process to consumers and investors.’ Suggest that ‘performance reporting’ be changed to ‘outcomes monitoring’ in each of the other paragraphs.</p>



Proposed objective	Comments
<p><i>Performance</i></p> <p>Performance reporting will enable comparisons between the NSPs' expenditure, revenues and performance, in different regulatory years and jurisdictions. This may encourage NSPs to adopt more efficient processes and promote technologies applied successfully by better performing NSPs. It may also provide NSPs with an incentive to increase service performance while maintaining efficient investment levels.</p>	<p>This objective is both tautological and redundant. The first sentence is essentially saying that 'performance reporting will enable comparisons of performance'. Additionally, the ability to compare expenditure, revenues and service levels already appears in <i>Transparency</i>.</p> <p>The objective should be headed 'Performance Improvement' and would consist in a rewrite of the last two sentences as:</p> <p><i>The information resource, transparency and accountability objectives should provide NSPs with an incentive to increase service performance while maintaining efficient investment levels. This would occur both through NSPs adopting more efficient processes and technologies applied successfully by better performing NSPs, and through further innovation.</i></p>
<p><i>Inform consideration of the effectiveness of the regulatory regime</i></p> <p>Performance reporting will allow us and stakeholders to assess the effectiveness of the regulatory regime. Performance reports will quantify the results of regulatory decisions, allowing all stakeholders to analyse the effect on investment and how those decisions ultimately impact consumers. Performance reporting will also assist in identifying areas for regulatory law review.</p>	<p>Agree to this addition. The last sentence could be deleted as that is a logical consequence of assessing the effectiveness of the regulatory regime.</p>



Proposed priority	ECA suggested priorities
<p><i>Operational performance of the networks</i>— such as reporting identifying reasons for differences between forecast and actual expenditures and NSPs' forecast and actual outputs.</p>	<p><i>Priority 1 – Network operational performance data</i></p> <p>Priority 1(a) – obtaining operational performance data</p> <p>Accounting data on forecast and actual capital expenditure (capex) and operating expenditure (opex), service data on customer service metrics, reliability metrics, other technical performance metrics.</p> <p>Priority 1(b) – making access available to the database of operational performance data using standard database extraction approaches.</p>
<p><i>Network service quality</i>— such as reporting on service standard levels or reliability metrics</p>	
<p><i>Financial performance of the networks</i>— such as reporting on the NSPs' profitability, comparing businesses within and across jurisdictions and regulatory control periods.</p>	<p><i>Priority 2 – Analysis of performance data</i></p> <p><i>Financial performance of the networks</i>— such as reporting on the NSPs' profitability, comparing businesses within and across jurisdictions, with other sectors and regulatory control periods.</p> <p><i>Network efficiency</i>— such as reporting on benchmark expenditure information to allow comparison of NSP performance over time and between NSPs, including in different jurisdictions.</p>
<p><i>Network efficiency</i>— such as reporting on benchmark expenditure information to allow comparison of NSP performance over time and between NSPs, including in different jurisdictions.</p>	
<p><i>Emerging issues</i>— such as reporting on the outcomes of incentive schemes, or measures relating to the technological transition of electricity and gas networks</p>	<p>Priority 3 – Reporting on effectiveness of incentive regulation and progress or impediments to the energy system transition.</p>