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Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
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Via email: AusNetServices2022@aer.gov.au

AUSNET SERVICES (TRANSMISSION) DETERMINATION 2022-27: PRELIMINARY FRAMEWORK AND APPROACH CONSULTATION

Dear Mr Roberts,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) 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) consultation on its Preliminary Framework and Approach for AusNet Services (Transmission) (AusNet) regulated revenue determination process for 2022-27.

In this submission, we will discuss our observations across electricity revenue determination setting processes and market developments that may have an impact on the application of the incentive regime. Our focus in this submission is on four incentive schemes covered in the Framework and Approach paper:

1. Service Target Performance Incentive Scheme (STPIS)
2. Efficiency Benefit Sharing Scheme (EBSS)
3. Capital Expenditure Sharing Scheme (CESS)
4. Customer Service Incentive Scheme (CSIS)

We are seeking assurance that these incentives will deliver value for consumers. We have not commented on the demand management incentive scheme/demand management incentive allowance, expenditure forecast assessment guideline or depreciation.

We support the principle of incentive-based regulatory regimes and where justified by performance, investors receiving a share of the rewards of efficiency sharing arrangements. Networks must demonstrate that savings are from true efficiency measures rather than a reward for not delivering projects that were contemplated in regulatory proposals.

What consumers are telling us

In our December 2019 [Energy Consumer Sentiment Survey](#) (ECSS), Victorian consumers are telling us that satisfaction has increased across all measures, except fault resolution. This includes satisfaction with reliability which is up three per cent to 72 per cent; and satisfaction with the overall



value for money of their electricity, which is up nine per cent to 55 per cent.¹ We've also heard that Victorian consumer confidence in the energy market delivering better outcomes in the future has increased, but confidence in the future value for money lags over other measures.²

These results emphasise the need for network businesses to continue to work within a strict affordability constraint.

Service Target Performance Incentive Scheme (STPIS)

Rule 6A.7.4 of the National Electricity Rules requires the AER to develop and publish an incentive scheme that complies with the principles stated in that Rule. The Framework and Approach summarises these principles:

“The purpose of the STPIS is to provide incentives to TNSPs to provide greater transmission reliability when network users place greatest value on reliability, and improve and maintain the reliability of the elements of the transmission network most important to determining spot prices.”³

The November 2019 meeting of the COAG Energy Council confirmed reliability as an ongoing priority. The Energy Council tasked the Energy Security Board (ESB) with reviewing the National Electricity Market (NEM) reliability standards to ensure that it is fit for purpose; and to assess the costs and benefits to consumers. The ESB is due to report to the Energy Council in March 2020.⁴

The word 'reliability' appears twice in the National Electricity Objective; once in reference to the reliability of the supply of electricity and once in reference to the reliability of the national electricity system. At the extremes, the former is most impacted by loss of distribution network services, while the latter is the inability to provide enough electricity supply to meet demand.

Transmission networks feed into both concepts of reliability. A transmission fault can completely isolate a community while transmission congestion can result in either load not being served because available generation could not be fully dispatched or result in higher wholesale prices because lower cost generation could not be dispatched.

This combined functionality explains in part the complexity of the STPIS for transmission. As a first principle for an incentive to be effective, the managers of the network business need to be able to understand the pay-off from alternative decisions. The second principle is that the amount of incentive paid must not be greater than the value of the benefit from the incentivised behaviour.

We are not yet assured that either of these principles are met under version 5 of the STPIS that is proposed to apply in this determination.

The STPIS must be aimed at ensuring that any expenditure to meet applicable reliability standards (either direct or indirect) is prudent and efficient. Consumers rely upon the AER to perform the difficult task of untangling the complexity of reliability requirements and the incentive scheme. The AER needs

¹ Energy Consumers Australia, *Energy Consumer Sentiment Survey*, December 2019, page 75.

² *Ibid*, page 79.

³ AER, *Preliminary framework and approach – AusNet Services transmission determination 2022-27*, page 8. Accessed from <https://www.aer.gov.au/system/files/AER%20-%20AusNet%20Services%202022-27%20-%20Preliminary%20F%26A%20-%20December%202019.pdf>.

⁴ COAG Energy Council, *Meeting Communique Friday 22 November 2019*, page 1. Accessed from <http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/EC%20-%20Final%20Communique.pdf>.



to report transparently to consumers that any reward provided under STPIS is for genuine activity that provides a net benefit to consumers.

The complexity of measuring and rewarding transmission reliability initiatives is compounded by the changes occurring in the NEM; the changing location of generation; the changing profiles of demand; and the creation of major new transmission paths. In the face of these uncertainties, the AER should exercise caution in assessing the way service targets are set because history may not be the best guide for future performance. And of course, the size of the incentives must be commensurate with affordability outcomes for consumers.

It is important that the final Framework and Approach Paper addresses these issues systematically. This would include a detailed explanation of how the incentives are designed and work for AusNet rather than a reference to how some input parameters to a complicated model are set. Greater transparency of the consumer benefits being delivered by the incentives regime will help build consumer confidence and trust in the regulatory process.

Efficiency Benefit Sharing Scheme (EBSS) and Capital Expenditure Sharing Scheme (CESS)

For consumers to have confidence in the incentive regime, there needs to be absolute clarity that rewards are being provided for genuine efficiency improvement.

Consumer confidence in the incentive regime would also be strengthened through greater transparency of the accuracy of operational and capital expenditure (opex and capex) forecasts which underpin future incentive claims.

We are encouraged by efforts by some networks to review their approach to incentives by applying an affordability lens. In particular, we have seen businesses demonstrate the benefits of not claiming incentive rewards:

- For the Powering Sydney's Future project to be considered capable of acceptance, TransGrid entered into an agreement with Energy Consumers Australia to establish a Stakeholder Monitoring Committee. An agreed understanding for support of the project was that, where it is agreed that the project can be deferred or substantially reduced in scope, the financial benefits would be passed through to consumers in full.⁵
- In response to consultation with its consumers, Ausgrid's revised revenue proposal for 2019-24 proposed to exclude its network innovation program; an advanced distribution management system; and additional cyber security from its capex allowance in application of the CESS for the 2019-24 regulatory period.⁶

In general, the less certain the AER can be in the efficiency or prudence of a proposed capital expenditure, the less justification there is for including the capex in the base against which the CESS can be claimed.

⁵ TransGrid, *Powering Sydney's Future Stakeholder Monitoring Committee: Committee proposal and purpose*, section 3.B.3, page 4. Accessed from https://www.transgrid.com.au/news-views/lets-connect/consultations/consultations-archive/Documents/PSF_Stakeholder_Monitoring_Committee_Final_Signed.pdf#search=Stakeholder%20monitoring%20committee

⁶ Ausgrid, *Ausgrid's Revised Regulatory Proposal 2019-24*, page 150. Accessed from <https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Revised%20Regulatory%20Proposal%20-%20January%202019.pdf>



We would encourage the AER to consider these types of innovative approaches to the incentive regime when assessing EBSS and CESS applications.

Small-scale incentive scheme aka the Customer Service Incentive Scheme (CSIS)

While AusNet has sought to keep open the possibility of developing and applying a small-scale incentive scheme for the 2022-27 determination period, we agree with the AER's draft position to not include it.

AusNet's letter to the AER does not provide assurance about the value it would deliver for consumers.⁷ Consequently, we encourage AusNet to use the 2022-27 regulatory period to measure its baseline for customer service, and take the time to develop a strong understanding of its value to all of its consumers (including large and small end-use consumers) before seeking a reward for improvement. This would give AusNet the opportunity to undertake quantitative and qualitative analysis about the customer service it believes it delivers now, and, in partnership with its consumers, develop a plan for genuine customer service improvements in the future.

We support the AER conducting a separate consultation on a CSIS for transmission.

If you have any questions about this submission, please contact Shelley Ashe, Associate Director Networks, at shelley.ashe@energyconsumersaustralia.com.au or on 02 9220 5514.

Yours sincerely,

Rosemary Sinclair AM
Chief Executive Officer

⁷ The Energy Charter Independent Accountability Panel has suggested that there needs to be a stronger focus from signatories on knowing their customers and communities. While AusNet is not a signatory to the Energy Charter, the Panel's *Building Trust Together – Report of the Energy Charter Independent Accountability Panel*, provides an evidence-based account and assessment of the industry's approach to consumers. This includes a "tighter focus on end-use customers and those communities directly impacted by a Signatory's activities rather than stakeholder in general." The Accountability Panel, *Building Trust Together – Report of the Energy Charter Independent Accountability Panel*, 20 November 2019, page 16. Accessed from <https://theenergycharterpanel.com.au/wp-content/uploads/2019/12/ECIAP-Report.pdf>