

Profitability Measures Review

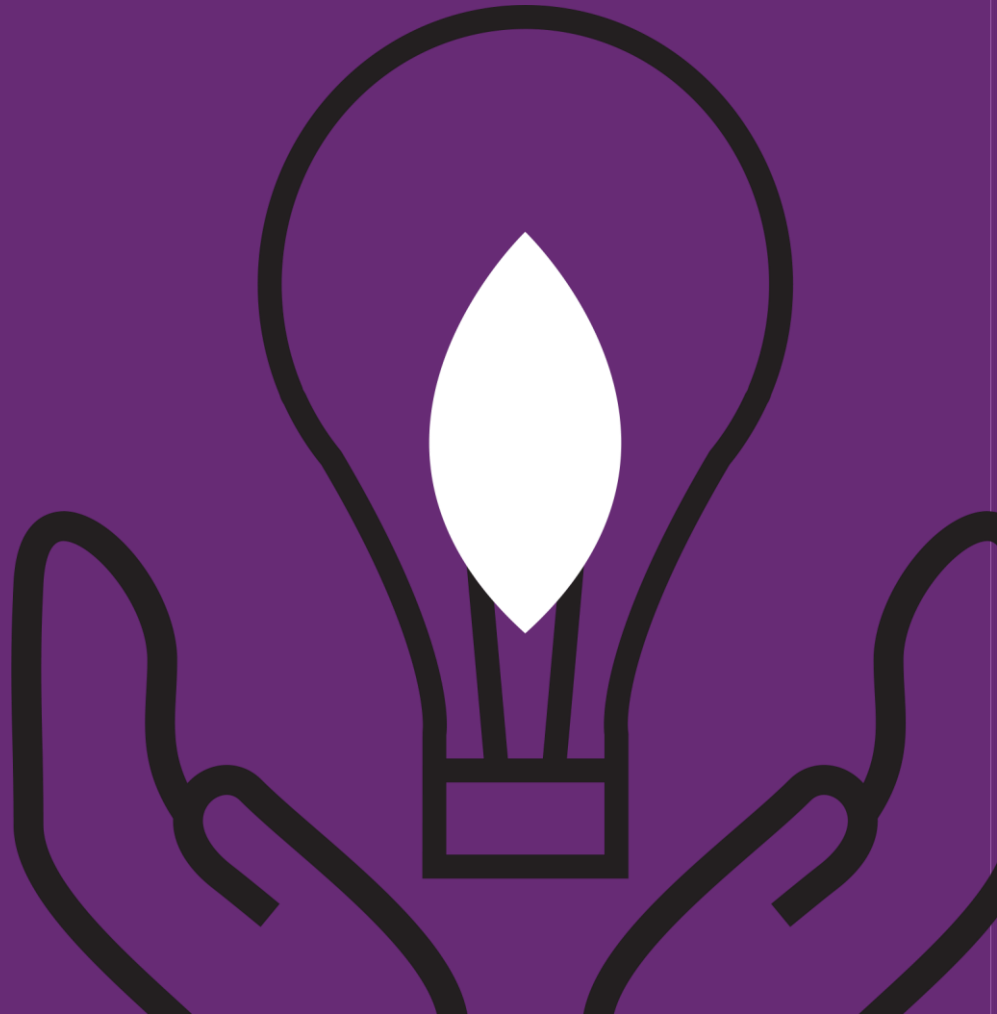
AER Public Forum
16 May 2018



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Context

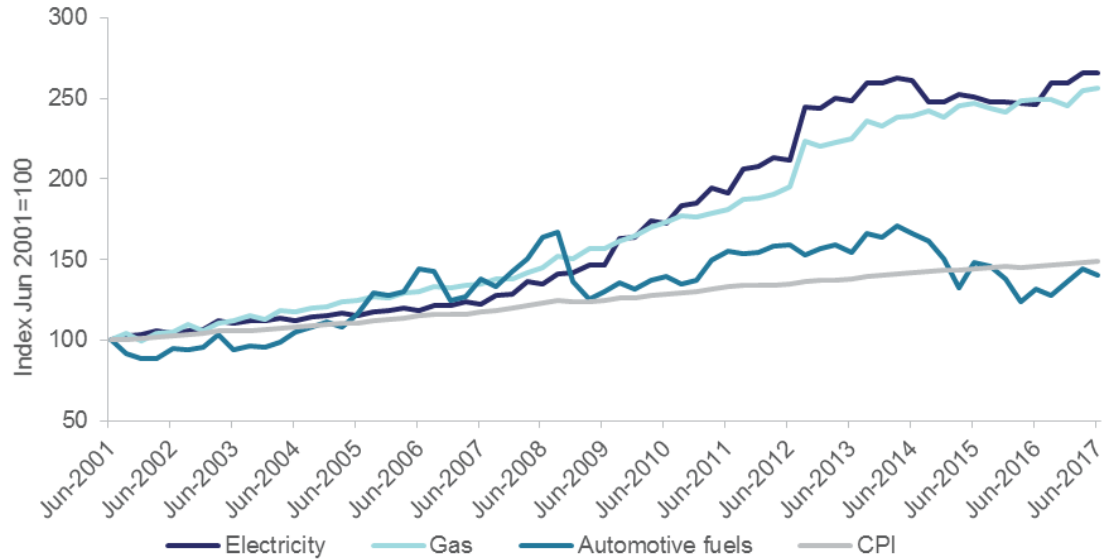
(focus on electricity)



Electricity price increases are unsustainable

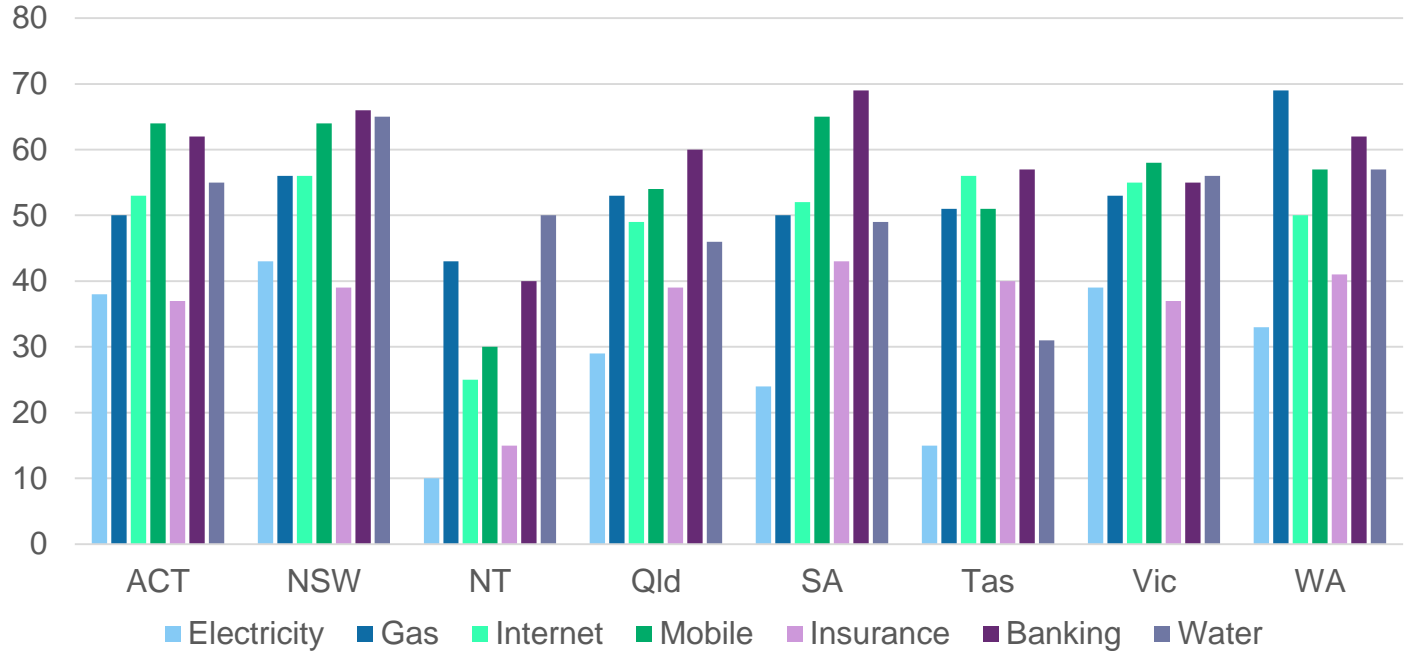
Australian Energy Update, Figure 3.6

<http://www.environment.gov.au/energy/publications/australian-energy-update-2017>



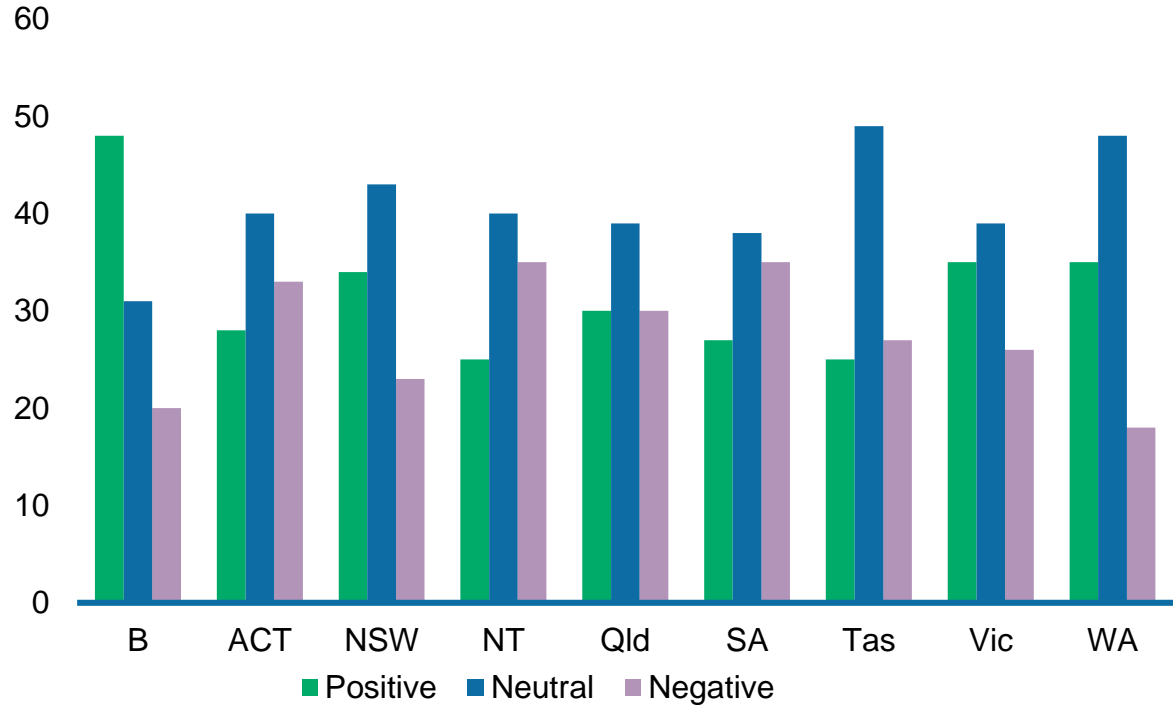
Consumers are not satisfied with value for money from electricity

Net Positive Response: How satisfied are you with the value for money for the service



Consumers lack confidence in the market

How confident are you that the overall market is working in your long-term interests?



2 Profit

...



Network profitability

A long term concern of consumers



Assets or Liabilities?

The Need to Apply Fair Regulatory Values
to Australia's Electricity Networks

Hugh Grant, Executive Director, ResponseAbility
5th May 2016

The opportunity

- Profitability reporting is important to address consumer concerns - ECA has been encouraging AER to do this since the Assets or Liabilities report (funded by an ECA grant)

Understanding profit

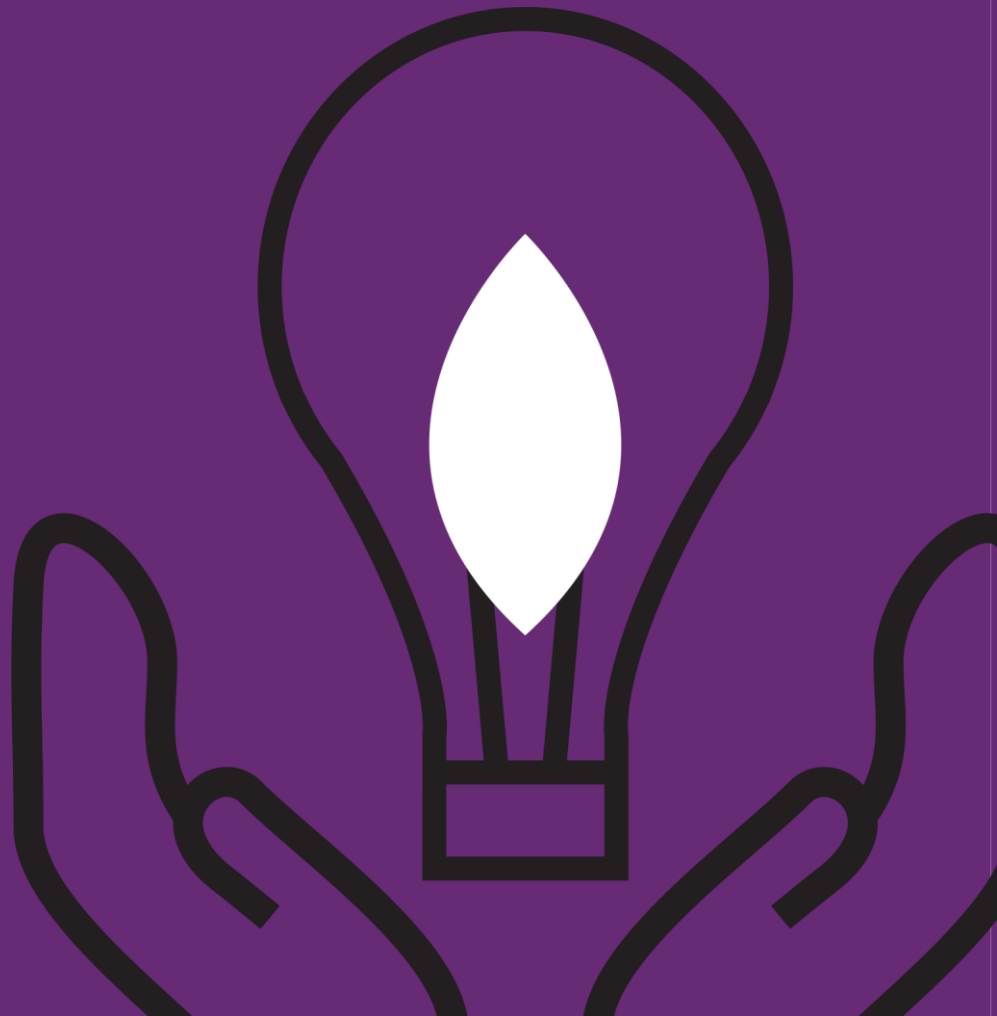


Three concepts

- Accounting profit is return to shareholders for their investment
- Economic profit as 'rent'
- Schumpeterian reward for innovation

Consumers want investors to get an appropriate return on their investment and to get rewards from innovation – but not rents

3 Profit reporting



Importance of profit reporting



Good regulatory practice

- *Ex post* assessment of the effectiveness of AER decision making
- Essential task for a responsible regulator focused on outcomes not relying on process
- Therefore *ex ante* informing the regulator in future decision making OR informing policy makers of need for more fundamental reform

What consumers need from the regulator



Multiple metrics and multiple comparisons

- Multiple measures address different data availability issues
- Comparisons
 - Expected to actual returns
 - Between providers in same sectors
 - Of providers to businesses in other sectors

Consumers want the regulator to report the measures and to provide the comparisons

What consumers need from providers



Providers need to rebuild confidence and trust

- Assist regulator in preparing reports, including providing historic data if requested by the AER
- Work with the AER to ensure effectiveness of the data capture, analysis and reporting approach
- Respond to the conclusions found

Anything other than full engagement with and support for the AER and consumers in this process will be interpreted as providers having something to hide



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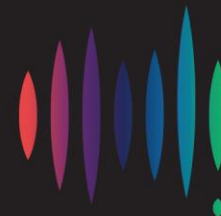
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