

# AER stakeholder forum

Draft decision for ActewAGL Distribution

9 December 2014

# Themes

- The AER's draft decision in perspective of current prices and reliability
- AER's use of benchmarking is reckless and does not make sense
- Impact on our customers and business if draft decision is maintained

*ActewAGL will respond to the draft decision within regulatory timetable*



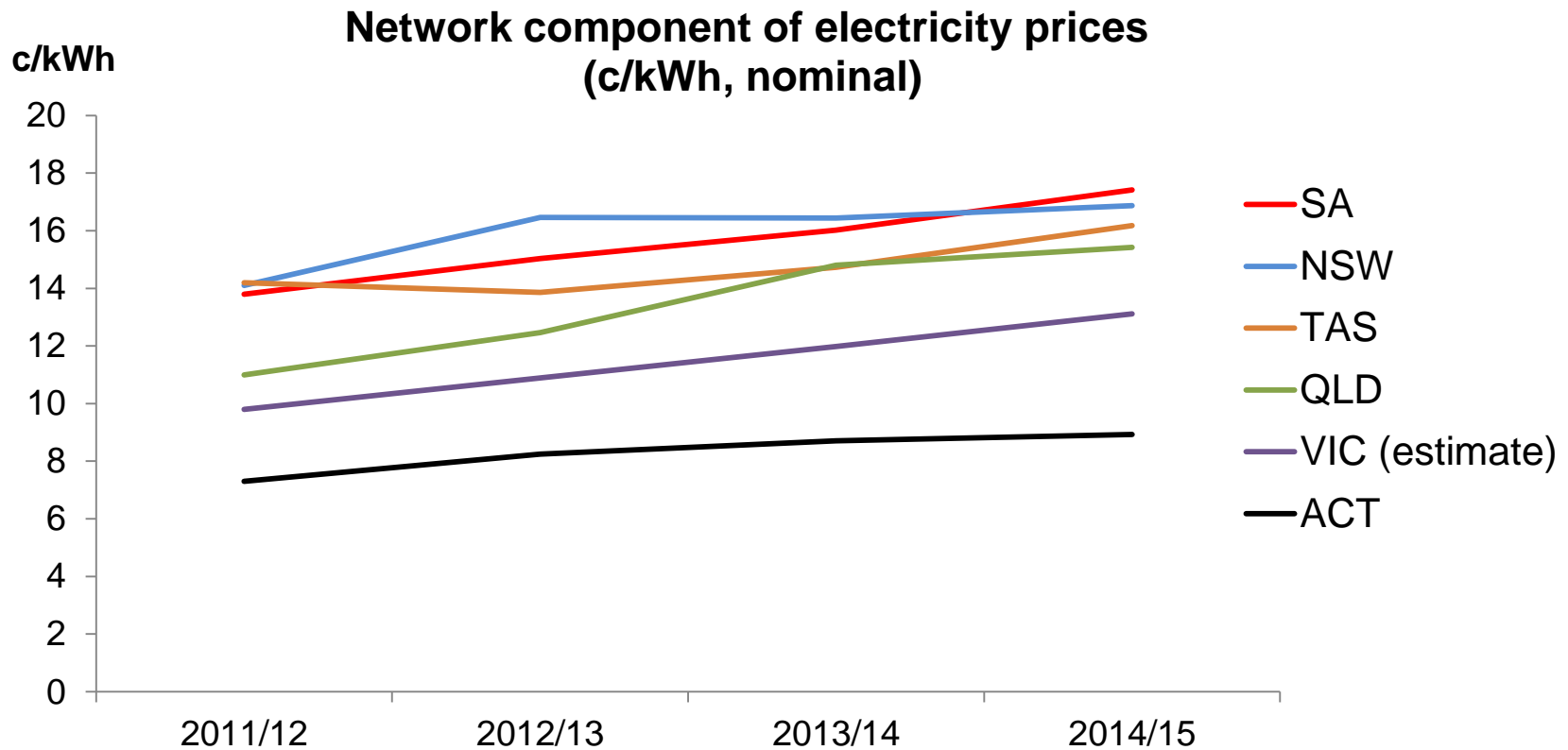
# Context of the draft decision

# Electricity prices

- ActewAGL recognises that rising electricity prices are a source of stakeholder concern
- ACT electricity bills
  - Account for only **1%** of disposable income for middle income households and **3.3%** for low income households\*
  - This is the lowest in Australia
  - ActewAGL Distribution's component of this is less than **0.5%** for middle income households and around **1%** for low income households, or around **\$10 per week**

*\*Based on 2013/14 electricity bills which included the carbon tax  
Source: AER Annual report on the performance of the retail energy market*

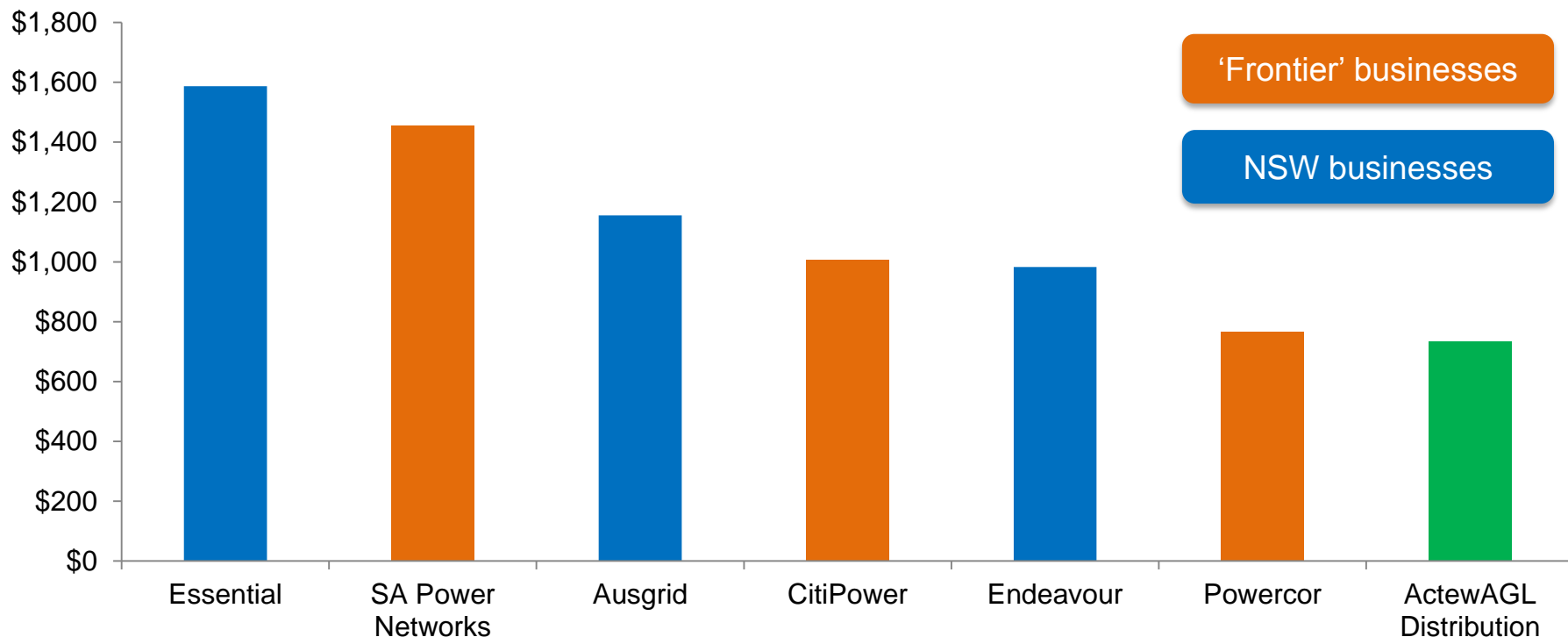
# ACT customers benefit from the lowest network charges in the country



Source: AEMC 2013 Residential Electricity Price Trends Final Report December 2013

# Network charges compared to NSW and 'frontier' businesses

**Comparisons of residential network charges  
for customer consuming 7,000 kWh pa in 2014/15 (incl GST)**



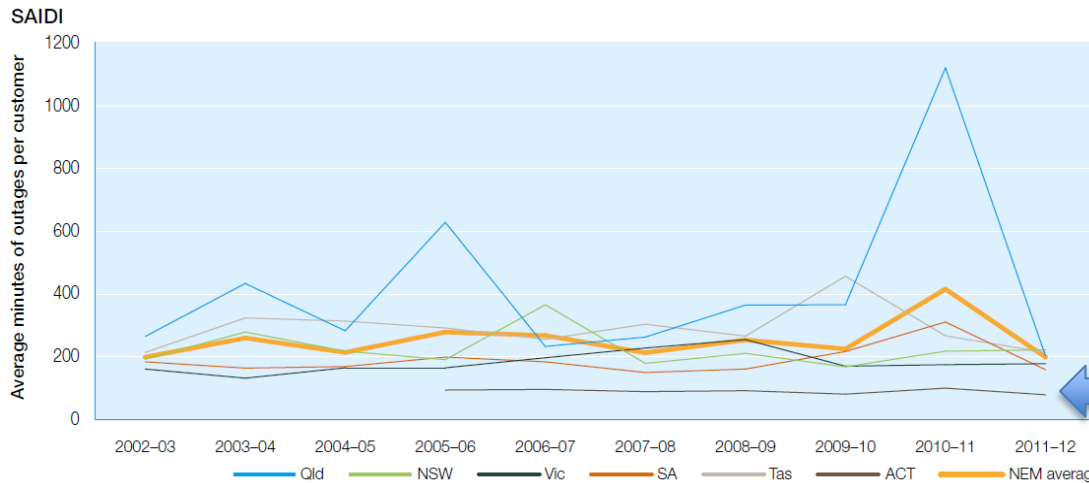
\*All prices include DUOS, TUOS and metering

\*GST inclusive

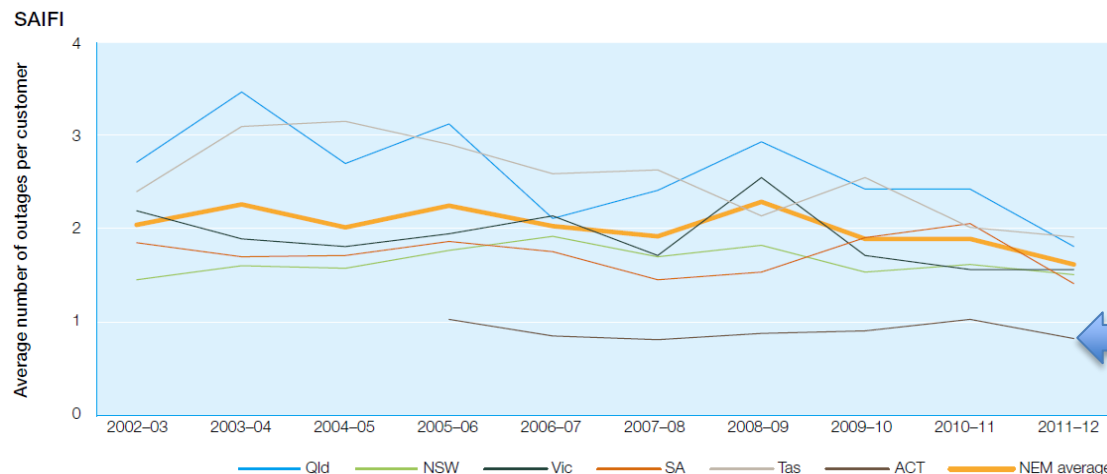
Source: Distribution network business websites and AAD analysis



# ACT customers benefit from consistently high network reliability



System Average Interruption **Duration** Index (SAIDI) performance by state (planned and unplanned interruptions)



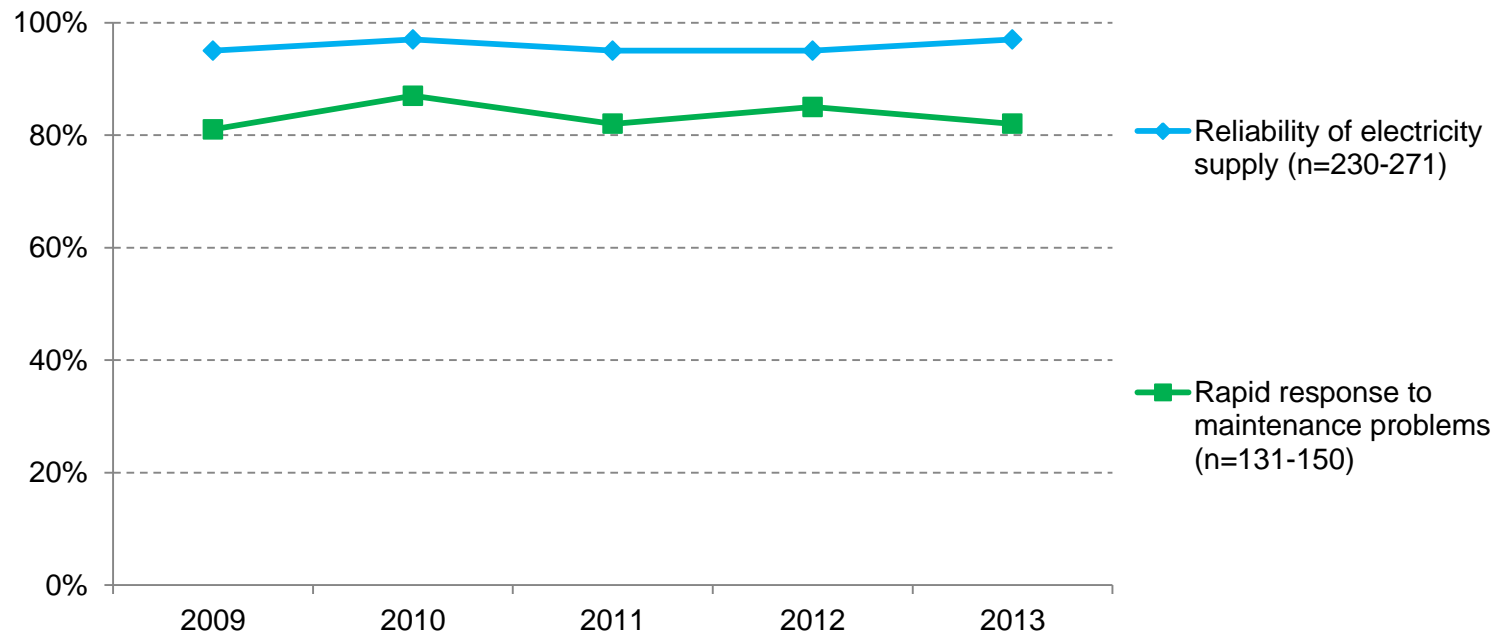
System Average Interruption **Frequency** Index (SAIFI) performance by state (planned and unplanned interruptions)



# High rates of customer satisfaction

## 2013 customer satisfaction survey

**How well do you think ActewAGL's electricity service is performing in the following areas?**  
% of respondents who indicated 'good' or 'very good' performance





# ActewAGL's customers do not want degraded reliability at a lower price

- ActewAGL has asked its customers whether they would prefer different service offerings at different prices
- ActewAGL undertook a pioneering study in 2003 and university researchers undertook similar studies in the ACT in 2009 and 2012
- These studies used a survey technique called choice modelling
- These studies estimated the amounts that customers are willing to pay (or accept compensation) for changes in supply reliability and quality, undergrounding of overhead power lines and customer service levels.



# **Preliminary views on the draft decision**

# AER has proposed unprecedented cuts

Element	AAD's Proposal (2014-19)	AER Draft Decision (2014-19)	% change
Revenue (nominal)	1,062.0	761	-28%
Opex (\$13/14)	383.5	222.6	-42%
Capex (\$13/14)	372.2	244.2	-34%
WACC	8.99%	6.88%	2.11% pp

- Some reduction to revenue expected due to change in market conditions since our proposal was submitted
- Proposed cuts to operating and capital expenditure are unjustified, excessive and unsustainable

**ActewAGL**

# Draft decision does not make sense

- How is it possible for ActewAGL to rank so low in the AER's benchmarking analysis yet have consistently lowest prices and highest reliability?

# Heavy reliance on benchmarking is reckless

- ActewAGL supports use of benchmarking when used cautiously and as part of a suite of assessment techniques
- Cuts to opex are based on questionable benchmarking analysis
- Last minute changes to methodologies and models without industry consultation
- AER has changed how benchmarking would be used – it is now clear that is being used deterministically
- Data set is immature - AER's consultants state that Australian data leads to results that are “unstable and unreliable”
- ActewAGL rejects the analysis



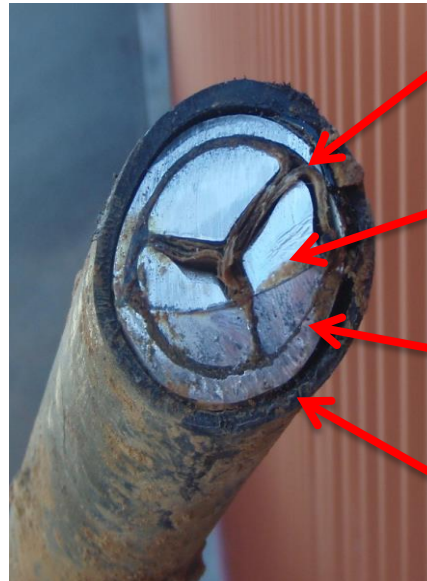
# Impacts of draft decision if it is maintained

# Customer impacts are concerning

- Serious concerns for the reliability, safety and security of the ACT's electricity supply if this decision holds
  - AER is encouraging risk-taking
  - AER is risking breach of legislated technical and safety obligations
- Cuts to capital expenditure will seriously impact our ability to meet future growth in Canberra
  - cutting investment in key growth area of Molonglo
  - replacement of aging underground cables in established areas

# Example of reductions in replacement capital expenditure

- 25% reduction in Replacement Capital
- Largely for underground cable renewal
- AER have suggested that ActewAGL maintain a “run to failure” strategy instead of moving to a condition monitoring and prioritised replacement
- AER has not had sufficient regard to the “safety and reliability” criteria in the NEO & NEL



## **Paper insulation**

Provide insulation phase to phase and Phase to neutral.

## **Aluminium conductor**

To conduct current  
(deliver energy to customers)

## **Aluminium sheath**

Act as a ‘concentric’ neutral  
and a moisture barrier

## **Outer PVC sheath**

Protects the aluminium sheath from  
corrosions



# How does the draft decision compare?

- Proposed opex allowance is lower than our spend 15 years ago in real terms even though...
  - Customer numbers have **increased by 37%**
  - Energy throughput has **increased by 13%**
  - Regulated Asset Base has **increased by 42%**

Opex allowance per customer (\$13/14)

1999/2000 = \$366  2014-19 = \$243

# Price impacts at the expense of increased risk

- AER's draft determination will result in a significant reduction in distribution network charges of approximately 28% compared to ActewAGL's proposal
- For a typical Canberra residential customer\*, this means a reduction of \$162 (\$3.12 per week) compared to ActewAGL's proposal
- This reduction is driven in large part by a 42% cut to our opex which will deliver the average residential consumer a saving of only \$1.61 per week\*

\* using 7000kWh per annum

# Reliable consumer preference inputs?

- AER and CCP have made judgements based on anecdotal and international evidence, not based on what our customers have told us they want
- AEMO's value of customer reliability review only included a very small ACT consumer sample
- Findings of the AEMC's review of distribution reliability outcomes and standards for NSW do not necessarily reflect ACT consumers' preferences

# Questions for the AER

## National Electricity Objective

*"promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:  
(a) price, quality, safety, reliability and security of supply of electricity; and  
(b) the reliability, safety and security of the national electricity system"*

- Did the AER test the impact of its decision on **safety** to our staff, contractors and the public? *We have seen no evidence of this*
- Did the AER test the impact of its decision on **reliability** in the long term? *We have seen no evidence of this*
- Did the AER's decision have regard to the risks of **under investment**? *We have seen no evidence of this*
- Did the AER test whether the proposed cuts can be realistically achieved? *We have seen no evidence of this*
- How has the AER tested **customer preferences in the ACT**? *We have seen no evidence of this*
- How has the AER tested the **financeability** of the decision? *We have seen no evidence of this*



- End of presentation -