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**Summary of meeting**

**Expenditure Forecast Assessment Guidelines Forum No. 1**

**12 February 2013**

**Held via video link between AER’s Melbourne, Sydney and Adelaide offices**

On 12 February 2013, the AER, as part of its *Better Regulation* package, hosted a forum on the development of the Expenditure forecast assessment guidelines (the Guidelines). The forum was chaired by AER Chairman Andrew Reeves. A range of stakeholders participated, including representatives of:

* regulated energy businesses
* energy users
* consulting firms
* the AER.

A full attendee list can be found in Attachment A.

This summary outlines the key topics and themes of the meeting, including views expressed at the forum, without ascribing particular comments to any one individual or organisation. The outline follows that of the agenda.

**1 Introductions**

The AER highlighted its objective to refine its expenditure forecast assessment process to incorporate consistent data reporting, the use of economic benchmarking and to expand its use of category assessment techniques. The AER outlined that a key purpose of the forum was to provide an overview of and to consult with stakeholders on its forward agenda for industry consultation.

It was agreed that the substance of the forum discussions would be published, at summary level on the AER’s website.

**2 Major issues for discussion and feedback from forum (centred on the December 2012 Expenditure forecast assessment guidelines issues paper questions)**

Forum participants discussed issues raised in the AER’s December 2012 Expenditure forecast assessment guidelines Issues Paper (<http://www.aer.gov.au/node/18864>).

*Scope of issues paper*

Network service providers commented on their expectation that the guidelines would identify the AER’s expected process for expenditure assessment, and the consultation should clarify this early on rather than commence with specific assessment techniques. Having a better idea of the AER’s assessment process would assist in prioritising effort spent on examining specific techniques given the short consultation timeframes. It was also suggested that the AER should clarify its interpretation of efficiency, for example referring to the NEL’s second reading speech.

It was suggested that the AER could incorporate into the Guidelines a flowchart outlining the process the AER would use in applying techniques.

*Transitional arrangements*

Concerns were raised about the timing around the implementation of the Guidelines. In particular, NSPs commencing preparation for revenue resets in 2013/14 sought clarification on how the guidelines would affect their ability to prepare their proposals and submit data to the AER. AER representatives commented that transitional arrangements were under consideration but it does not wish to rush the process in setting out the Guidelines, emphasising its long-term focus.

*Coverage of network outputs*

Stakeholders questioned how the AER would account for customer preferences and measures around value for money more generally when assessing efficiency. In particular, the AER would need to understand whether apparent cost efficiencies of some network businesses reflected sustainable practices. AER representatives noted concurrent workstreams dealing specifically with consumer engagement at the time network businesses prepare expenditure proposals. The process of setting network planning and reliability standards was also discussed.

*Data integrity*

Network businesses raised the issue of the ability to provide data for benchmarking purposes. For example, some commented that the requirement for director sign-off on the accuracy of the data actually inhibited their ability to provide useful information. It was also noted that the use of confidential data by the AER resulted a particular NSP being unable to determine how its expenditure allowance was determined. NSPs considered it would be useful if the AER could specify how it intended to use data requested in its expenditure assessments. AER representatives noted they would consider this matter.

*Consultation with different types of networks*

It was suggested that gas distribution networks were likely to be more amenable to benchmarking than electricity networks, hence consultation should therefore include gas businesses. Transmission businesses recommended the AER consult with them and distribution businesses separately in future working group meetings. AER representatives noted they would consider these suggestions.

*Relationship between forecast assessment and incentive framework*

The interdependency between the AER’s expenditure assessments and incentive framework was well noted, including the necessity to have appropriate incentives to encourage NSPs to achieve further efficiency improvements. There was consensus that joint workshops would be needed to between the two workstreams.

*Matters not proposed in workshop forward program*

AER representatives sought views on its suggestion to not hold working group meetings on several expenditure categories, namely related party margins, debt and equity raising costs, real price escalators and risk adjustment factors for transmission businesses. It was suggested these matters would be considered by the AER only on the basis on written submissions. Stakeholders questioned whether they would have adequate opportunity to understand the AER’s position prior to issuing draft guidelines. AER representatives noted that its position on these matters could be understood from examining recent decisions.

Network businesses considered that debt and equity raising costs would be affected by developments on the rate of return guideline so would require further consultation, however in any case questioned why they were being dealt with by the expenditure assessment workstream. AER representatives agreed these matters would be better dealt with under the rate of return guidelines.

**3 Other matters**

AER representatives agreed to publish a full workshop schedule online and provide contact details for each Better Regulation workstream leader.

# Attachment A: Attendee list

**Melbourne office**

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| **Name** | **Organisation** |
| Renate Tirpcou | CitiPower/Powercor |
| Nicola Roscoe | Energex |
| Michael Seddon | Transend Networks |
| Andrew Schille | United Energy Distribution |
| David Headberry | Major Energy Users |
| Bev Hughson | Darach Energy Consulting Services |
| Tom Hallam | SP AusNet |
| Robert McMillan | Jemena Electricity |
| Anton Murashev | Jemena Gas networks |
| Bruce Mountain | CME (for EUAA) |
| Andrew Reeves | AER |
| Paul Dunn | AER |
| Mark McLeish | AER |
| Lawrence Irlam | AER |
| Anthony Seipolt | AER |
| Jeff Balchin | PWC (for Grid Australia) |
| Jennifer Harris | Powerlink |

**Sydney office**

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| **Name** | **Organisation** |
| Jason Cooke | Essential Energy |
| Jim Bain | Energy Networks Association |
| Rick Wallace | Endeavour Energy |
| Andrew Kingsmill | TransGrid |
| Patrick Duffy | Ausgrid |
| Brendon Crown | Ergon Energy |
| Shubha Sarma | Matrices Business Consulting |
| Chris Bell | ActewAGL |
| Cristina Cifuentes | AER |

**Adelaide office**

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| **Name** | **Organisation** |
| Eric Lindner | SA Power Networks |
| Chris Pattas | AER |