



Objectives and priorities for reporting on regulated electricity and gas network performance

Final

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1 About Us

We, the Australian Energy Regulator (AER), work to make all Australian energy consumers better off, now and in the future. We are the independent regulator of energy network service providers (NSPs) in all jurisdictions in Australia except for Western Australia. We set the revenue requirements these NSPs can recover from customers using their networks.

The National Electricity Law and Rules (NEL and NER) and the National Gas Law and Rules (NGL and NGR) provide the regulatory framework which govern the NSPs. Our role is guided by the National Electricity and Gas Objectives (NEO and NGO).

NEO:¹

...to 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.

NGO:²

...to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

The decisions we make and the actions we take affect a wide range of individuals, businesses and organisations. Effective and meaningful engagement with stakeholders across all our functions is essential to fulfilling our role, and it provides stakeholders with an opportunity to inform and influence what we do. Engaging with those affected by our work helps us make better decisions, provides greater transparency and predictability, and builds trust and confidence in the regulatory regime. This is reflected in our Stakeholder Engagement Framework and the consultation processes we follow for our reviews.³

¹ NEL, s. 7.

² NGL, s. 23.

³ AER, *Revised stakeholder engagement framework*, September 2017.

2 Overview

We regulate electricity and gas NSPs to deliver good long-term outcomes for consumers in terms of price, quality, safety, reliability and security of supply. To support our role, we may prepare and publish reports on the performance of regulated networks.⁴

Reporting on network performance is an important task in our incentive-based regulatory framework. Done effectively, it should assist stakeholders, including the AER, to:

- more comprehensively understand the overall performance of NSPs against our revenue allowances
- obtain greater insights into the benefits consumers receive from the NSPs' services, which is at the core of our role under the NEO and NGO
- form a better understanding of ultimate returns to investors in networks over time
- quantify the impact of NSP performance and/or regulatory decisions on ultimate returns
- evaluate the effectiveness of the regulatory framework and our decisions under it, and
- having regard to this information, make better regulatory decisions.

In March 2020, we released a consultation paper on the objectives and priorities to be addressed through the preparation of electricity and gas network service provider performance reports.⁵ We received 10 submissions in response to the consultation paper.

This paper outlines the objectives and priorities for reporting on regulated electricity and gas network performance alongside our responses and consideration of issues raised in those submissions.

Our expectation is that these objectives and priorities should remain fit-for-purpose for a number of years. We have adopted an 'emerging issues' priority to give ourselves and stakeholders opportunity to prioritise new and important issues as they arise. However, we intend to review these objectives and priorities no later than 2025 to check they remain fit-for-purpose.

Our upcoming performance reporting will be guided by the objectives and priorities identified, beginning with a report published later in 2020, which will include profitability measures identified in our profitability measure for electricity and gas network businesses review.

2.1 Structure of this paper

The contents of this paper are as follows:

- In section 3, we set out the final objectives and priorities to be advanced through our reporting on regulated gas and electricity networks

⁴ NEL, s.28V; NER, r.8.7.4; NGL, s.64; NGR, r.140.

⁵ AER, *Consultation paper: Priorities and objectives for reporting on regulated electricity and gas network performance*, March 2020.

- In section 4, we address the views put forward by stakeholders on the objectives and priorities and identify the changes we made in response to those views.
- In section 5, we address the views put forward by stakeholders which relate to the manner in which we should undertake our reporting, or on specific topics stakeholders recommend we capture through the emerging issues priority.

3 Objectives and priorities for network performance reporting

Objectives

Through our network performance reporting, we aim to advance the following objectives:

Provide an accessible information resource

Performance reporting enables the AER to collect and report accurate and reliable information on the performance of NSPs. This information should:

- 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.

Quantifying the impacts of NSPs' performance and regulatory decisions will be a resource for stakeholders to draw on when contributing to our regulatory decisions, and to related policy processes.

Improve transparency

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.

Improve accountability

Performance reporting enhances accountability through outcomes monitoring. Performance reports will allow stakeholders to see whether an NSP's actual expenditure is consistent with its forecast expenditure, and to review why differences may have occurred. 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.

Encourage improved performance

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.

Inform consideration of the effectiveness of the regulatory regime

Performance reporting will provide us and stakeholders with insights into the regulatory framework, our decisions under the framework and network performance under those decisions. This will allow all stakeholders to analyse these inputs and assess the effectiveness of the regulatory regime.

Improve network data resources

Performance reporting allows us to analyse and test our existing datasets. This will allow us to identify areas where data is not directly comparable between networks and improve our data accuracy. Performance reporting will also allow us to identify opportunities to improve our data collection process over time.

Priorities

Having regard to the input of stakeholders, we identified the following priorities to guide our network performance reporting:

- **Operational performance and network efficiency** — such as reporting on forecast and actual capital expenditure (capex) and operating expenditure (opex), identifying reasons for differences between forecast and actual expenditures and NSPs' forecast and actual outputs.
- **Financial performance of the networks** — such as reporting on the NSPs' profitability, comparing businesses within and across jurisdictions and regulatory control periods.
- **Network service quality** — such as reporting on service standard levels or reliability metrics.
- **Emerging issues** — such as reporting on the outcomes of incentive schemes, or measures relating to the technological transition of electricity and gas networks.

4 Stakeholder views on objectives and priorities

Having regard to the input from stakeholders, we will largely maintain the objectives and priorities set out for consultation. However, we have made two substantive changes in response to stakeholder feedback. Specifically, we have:

- introduced an additional objective to *Improve network data resources*, and
- updated the objective *Inform consideration of the effectiveness of the regulatory regime*.

Also, while we have not taken up all drafting suggestions raised by stakeholders, we have sought to simplify drafting where possible.

The remainder of this section addresses:

- Changes we will make in response to submissions
- Other issues raised in submissions.

Changes in response to submissions

Objective—Improve network data resources

In our view, our network performance reporting can and should contribute to the improvement of our network data resources over time. This relates both to:

- analysis of our existing data to identify circumstances where reported data is not directly comparable between networks or is inaccurate, and
- identifying opportunities to make our data collection more efficient and less costly, recognising that those costs are eventually passed onto consumers

We have added an objective to capture these outcomes.

We reached this view having regard to distinct but related issues raised in submissions:

- Major Energy Users raised concerns about the quality and accuracy of data in existing performance reports. Major Energy Users submitted that the AER should implement some form of accuracy checking to ensure the data is accurate and consistent.⁶
- Several industry stakeholders recommended the addition of a 'data efficiency and value' objective. Energy Networks Australia and Energy Queensland submitted that the AER should seek to collect no more data than is reasonably needed and consolidate data requests where possible.⁷

⁶ Major Energy Users, *Submission on AER priorities and objectives for reporting on network performance*, 30 March 2020, p. 3.

⁷ Energy Networks Australia, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 4; Energy Queensland, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 2.

- Australian Gas Infrastructure Group and Energy Networks Australia submitted that the AER should explicitly test that the benefits of data requests outweigh the costs of compliance.⁸

Objective—Inform consideration of the effectiveness of the regulatory regime

In our consultation paper, we included a new objective highlighting that network performance reporting should inform consideration of the effectiveness of the regulatory regime. An effective regulatory regime depends on its design, our decisions under it, and network performance under those decisions. Our view is that network performance reporting can generate insights on all of these inputs.

Stakeholders widely supported the inclusion of the proposed objective. However, in response to stakeholder feedback, we have made these distinct requirements for an effective regime more explicit in the objective.

Industry stakeholders submitted that the objective should be more clearly defined and include a stronger emphasis on the AER's role in implementing it.

In particular:

- Energy Networks Australia submitted that the objective be amended to also consider the effectiveness of regulatory approaches employed under the current framework.⁹
- Similarly, Australian Gas Infrastructure Group submitted that there are several elements to an effective regime including the regulatory framework itself, how the AER implements its role within that regulatory framework and how energy businesses respond to both the framework and the AER.¹⁰

Other minor drafting changes

Having regard to input from stakeholders, we have also sought to clarify or simplify drafting where possible. In our view these changes do not affect the meaning or intention of the objectives or priorities. They are intended only to make them simpler and clearer.

- We have refined the titles of some objectives to refer to actions we can take through our network performance reporting, rather than end goals. In our view, this improves the clarity of our objectives, which was recommended by Energy Consumers Australia.
- We have updated the title of an objective to 'provide an accessible information resource', recognizing that simply providing the data is insufficient to generate full value from its availability.

⁸ Energy Networks Australia, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 4; Australian Gas Infrastructure Group, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 1.

⁹ Energy Networks Australia, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 3.

¹⁰ Australian Gas Infrastructure Group, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 2.

- We have consolidated the priorities relating to network performance and network efficiency. Australian Gas Infrastructure Group submitted that there was substantial overlap in these priorities.¹¹ While their separation matches the distinction drafted in the rules, we agree there is substantial overlap and have combined them into a single priority to make this clear.

Other issues raised

Focus on network outcomes

The objectives of the network regulatory regimes are described in the NEL and NGL as follows:

Table 1 National electricity and gas objectives

National electricity objective	National gas objective
<p>...to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:</p> <p>(a) price, quality, safety, reliability and security of supply of electricity; and</p> <p>(b) the reliability, safety and security of the national electricity system.</p>	<p>...to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.</p>

National electricity law s. 7; National gas law s. 23.

These objectives highlight that the advancement of the long-term interests of consumers depends on a balance between service outcomes—security and reliability of energy supply—and the costs of providing those services. Network performance reporting should engage with that balance. In our view, the objectives and priorities encourage this.

CitiPower, Powercor and United Energy submitted that the objectives and priorities should have an increased emphasis on network outcomes, and that comparisons made purely on expenditure may provide limited insight to consumers.¹² Energy Networks Australia also submitted that the AER report on performance across all dimensions, including quality, safety, reliability and security - as well as price.¹³

In our view it is not necessary to amend the objectives and priorities as drafted noting:

¹¹ Australian Gas Infrastructure Group, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 2.

¹² CitiPower, Powercor and United Energy, *Submission on AER priorities and objectives for reporting on network performance*, 30 March 2020, p. 1.

¹³ Energy Networks Australia, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 3.

- Many of the existing objectives directly support consideration of outcomes—in particular those relating to improvement of performance and informing consideration of the regulatory regime.
- The existing priorities include service quality and, through the emerging issues priority, give scope to explore other aspects of network outcomes such as (for example) integration of distributed energy resources into networks or the evolution of customer engagement.

Ranking priorities

In our current objectives and priorities, and in the draft set for consultation, we have not ranked or ordered the priorities or objectives. In response, Energy Consumers Australia suggested we rank the priorities.¹⁴

We recognise that ranked priorities could have some practical benefits. Our performance reporting may identify competing areas of interest and, in order to produce timely and focussed reporting, we may not be able to investigate all of those areas in any given year. In those circumstances, ranked priorities would give a clear guide. However, we consider this tension is best resolved through the exercise of discretion having regard to the circumstances in any particular year. As a result, we have not ranked the priorities.

Common objectives and priorities for reporting on electricity and gas networks

In our consultation paper, we proposed to rely on a common set of objectives and priorities to guide our network performance reporting for both gas and electricity networks. Reflecting support from stakeholders, we will maintain this position.

Stakeholders agreed that performance reporting plays an important role in regulation, with Major Energy Users and Energy Users Association of Australia strongly supporting increased collection and reporting of performance data for regulated gas networks.¹⁵

Stakeholders broadly considered that the proposed objectives and priorities to be addressed through the preparation of performance reports are clear and fit-for-purpose for both electricity and gas networks. No stakeholders indicated or proposed differing objectives or priorities between electricity and gas networks.

¹⁴ Energy Consumers Australia, *Submission on AER priorities and objectives for reporting on network performance*, 6 April 2020, p. 3.

¹⁵ Major Energy Users, *Submission on AER priorities and objectives for reporting on network performance*, 30 March 2020, p. 2; Energy Users Association of Australia, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 1.

5 Our network performance reporting process

In addition to submissions on our objectives and priorities, stakeholders made recommendations relating to the form and process of our network performance reporting. In summary, all submissions emphasised the importance of annual performance reporting with more analysis than has been included in our recent data-reports. We agree that this is an important part of our network reporting role, and we are committed to it.

In this section we engage with those submissions and set out our expectations for our annual network performance reporting process. They include:

- network performance reporting outputs
- contents of our performance reports
- consultation on emerging issues, and
- the scope of gas reporting.

Network performance reporting outputs

In recent years our annual network performance reporting has included release of 'data-only' performance reports for electricity distribution and transmission networks. In our recent profitability measures review, we indicated our expectation that our network performance reporting would expand to include greater analysis of our data and to link our existing operational performance data with the new financial performance measures on which we propose to report.

As such, we intend to expand our annual network performance reports beginning this year (2020) to include:

- Annual release of operational and financial performance datasets for electricity networks. The 'data-only' reports that we have released in recent years will be the basis of the operational performance data, and the financial performance data will include the profitability measures that we have consulted on.
- A written report to accompany these datasets in which we set out our analysis of the data. In 2020 this report will include analysis for electricity networks of the measures identified in our recent profitability measures review

In 2021 we will receive data for gas networks in response to a regulatory information notice (RIN). This will allow us to develop operational and financial performance datasets for gas networks. We intend also to include analysis of this data in our 2021 annual report, including the measures on profitability.

Finally, as raised in submissions, we intend to conduct periodic reviews on emerging priorities for stakeholders. Stakeholders indicated that the detailed consultation in our profitability measures review is a useful template on how these reviews will be conducted:

- It allowed for deep engagement with stakeholders on the specific topic of interest, what stakeholders sought from it and the best measures through which we could report on it.

- Having identified those measures, it gave us an opportunity to consult with stakeholders on the sufficiency of our existing data resources and to identify any requirements for new or more consistent data.

We expect to conduct these periodic reviews as and when justified by stakeholder demand.

Contents of our performance reports

Several submissions included commentary on the way in which we should undertake our analysis in our performance reporting:

- CitiPower, Powercor and United Energy submitted that performance reports should contain commentary including differences in network operating environments.¹⁶
- Energy Queensland and Australian Gas Infrastructure Group noted that the AER be mindful of legitimate differences between networks and operating environment factors.¹⁷
- Energy Networks Australia and Australian Gas Infrastructure Group submitted that comparisons of forecast and actual expenditure should have regard to the nature of an incentive regulation framework.¹⁸
- Spark Infrastructure submitted that stakeholders may have differing views on the reasons networks outperform allowances.¹⁹
- The submission from a private citizen set out a suite of topics and measures that we should have regard to as we report on the response of networks to the COVID-19 pandemic.²⁰
- Spark Infrastructure submitted the inclusion of a measure assessing a networks ability to maintain the assumed credit rating.²¹
- Business NSW submitted that revisiting the objectives and priorities allows the AER to consider new uses for information that networks provide, such as incentives schemes based on a networks relative performance compared to other networks.²²

¹⁶ CitiPower, Powercor and United Energy, *Submission on AER priorities and objectives for reporting on network performance*, 30 March 2020, p. 1.

¹⁷ Energy Queensland, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 1; Australian Gas Infrastructure Group, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 1.

¹⁸ Energy Networks Australia, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 2; Australian Gas Infrastructure Group, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 1.

¹⁹ Spark Infrastructure, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 1.

²⁰ Private Citizen, *Submission on AER priorities and objectives for reporting on network performance*, 17 April 2020, p. 2.

²¹ Spark Infrastructure, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 10.

²² Business NSW, *Submission on AER priorities and objectives for reporting on network performance*, 30 March 2020, p. 1.

- Energy Queensland and Energy Networks Australia made submissions encouraging continued review and development of our annual benchmarking reports.²³

We agree that these submissions raise relevant and material issues we should have regard to in our reporting process. We have not set out detailed responses to them in this document, but will engage with them as appropriate in our reporting. In some cases, these submissions also raise issues relevant to other aspects of our work. For example, submissions relating to our benchmarking report and development of new incentive schemes are outside the scope of network performance reporting. We consider these issues are best addressed through consultation processes to support those functions.

Consultation on emerging issues

Having regard to stakeholder submissions, we will maintain a priority which allows flexibility to prioritise emerging issues of high interest to stakeholders. In order to do so, we intend to seek stakeholder input on those topics of emerging interest and how they may best be reported on. Several submissions highlighted this as an important step in our processes.

- Spark Infrastructure submitted that it expects performance metrics to adapt to the changing way networks are being used and that historical measures of performance will need to be replaced or supplemented by measures that reflect a changing set of outcomes valued by customers.²⁴
- Energy Networks Australia and Australian Infrastructure Gas Group submitted that the AER consult with stakeholder before new reporting metrics are included in performance reports.²⁵

It is our view that effective and meaningful engagement with stakeholders is essential to fulfilling our role. Engaging with those affected by our work helps us make better decisions, provides greater transparency and predictability, and builds trust and confidence in the regulatory regime.

In particular, our review into profitability measures is a useful framework for how this consultation process could work. Stakeholders had the opportunity to put forward their views via written responses to consultation and draft papers, as well as in person during a public forum. Industry and consumer representatives provided further input via a working group that allowed us to develop and test technical aspects of our review. Industry and consumer participants in the working group all indicated that the collaborative approach was valuable.²⁶

²³ Energy Queensland, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 2; Energy Networks Australia, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 2.

²⁴ Spark Infrastructure, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 3.

²⁵ Energy Networks Australia, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 2; Australian Gas Infrastructure Group, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 1.

²⁶ See for example: Australian Gas Infrastructure Group, *Allocation of interest and tax expense for the return on equity*

Scope of gas network performance reporting

Energy Users Association of Australia indicated in its submission strong support for the expansion of network performance reporting to include gas networks, including gas networks under light regulation.²⁷ We are currently finalising RINs to be issued to gas networks under full regulation. We will not at this stage report on networks regulated under other parts of the framework.

The COAG Energy Council is currently conducting a Regulatory Impact Statement on options to improve gas pipeline regulation. Amongst other issues, the RIS is considering options for reform to the information disclosure requirements which are core parts of the light regulation and part 23 (NGR) regulation frameworks. In our submission to the regulatory impact statement, we set out our views on the review of information disclosure requirements relating to the different tiers of gas network regulation.²⁸ In that submission, we highlighted the work underway to introduce RINs for fully regulated gas networks. We also commented that:

... we think it would be challenging for the AER to run a consultation process on any proposed changes to the Part 23 guidelines while the RIS process into future regulatory arrangements is ongoing. We feel that any concurrent review would only add further uncertainty to the gas pipeline regulatory environment. Therefore, our position is that we will await the outcome of the RIS process before revising our Part 23 guideline and our revised guideline should be based on the form of regulation that is the outcome of the current process.

(regulatory) profitability measure, 22 August 2019, p. 2; Consumer Challenge Panel 18, *Submissions on PwC's advice on the allocation of tax and interest expenses*, 23 August 2019, p. 2.

²⁷ Energy Users Association of Australia, *Submission on AER priorities and objectives for reporting on network performance*, 31 March 2020, p. 1.

²⁸ AER, *Submission: Consultation RIS – Gas Pipeline Regulation Reform*, 20 December 2019, p. 8.