



AER Consultation Paper

Priorities and objectives for reporting on regulated electricity and gas network performance

March 2020

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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.

1 Overview

We, the Australian Energy Regulator (AER), are commencing consultation on priorities and objectives for reporting on the performance of network service providers in electricity and gas (NSPs).

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, under the national energy laws and rules, we may prepare and publish reports on financial or operational performance.⁴

The reporting of the NSPs performance is an important task in our incentive-based regulatory framework. Done effectively, network performance reporting 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.

This paper outlines a set of proposed objectives and priorities for electricity and gas NSP performance reports. Stakeholders are invited to provide submissions on the proposed priorities and objectives.

Once we receive submissions, we will develop and publish a final set of priorities and objectives having regard to this input from stakeholders.

1.1 Why are we consulting on these priorities and objectives now?

Before the AER embarks on the preparation of NSP performance reports, we must consult with stakeholders in order to determine appropriate priorities and objectives to be addressed through the preparation of network service provider reports.⁵

To date we have not prepared network performance reports on regulated gas networks. We intend to commence this reporting in 2021. In preparation, we are currently developing new regulatory information instruments for gas NSPs subject to full regulation.

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

⁵ NER, r.8.7.4(a), NGR, r.140(1).

This consultation will assist us to determine appropriate priorities and objectives to guide our reporting once this data is available.

Second, in 2011 we published our priorities and objectives for electricity NSP performance reporting.⁶ We consider it is timely that we undertake a review and update.

We are consulting on both gas and electricity network performance reporting priorities and objectives through a combined consultation process.

1.2 What we want from stakeholders?

In particular, we seek stakeholder views on whether the proposed priorities and objectives discussed in this consultation paper:

- are clear and fit-for-purpose
- are sufficiently flexible to allow our reporting to evolve alongside the ongoing evolution of the energy sector, and
- appropriately capture the commonalities and/or differences between priorities and objectives for reporting on electricity and gas NSPs.

⁶ AER, *Priorities and objectives of electricity network service provider performance reports 2011*, 6 April 2011.

2 Proposed sets of priorities and objectives

2.1 Objectives of network performance reporting

We set out in Table 1 below:

- a proposed set of objectives on which we seek stakeholder feedback
- how our proposed objectives compare to the equivalent 2011 objectives for electricity network performance reporting, and
- where we have recommended changes, the reasons why.

In general, our view is that the 2011 objectives remain largely fit-for-purpose.

Further, we consider the objectives of network performance reporting are equally fit-for-purpose for gas and electricity network performance reporting. As such, we propose to adopt the same objectives.

Table 1 Proposed objectives for gas and electricity network performance reporting

Proposed objective	2011 objective	Reasons for proposed change
<p><i>Provide an information resource</i></p> <p>Performance reporting enables the AER to collect and report accurate and reliable information on the performance of NSPs. This information should:</p> <ul style="list-style-type: none"> • 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 	<p><i>Educate</i></p> <p>Performance reporting will enable the AER to publish meaningful regulatory information. The information in performance reports will educate stakeholders on the NSPs' performance and the outcomes of regulatory processes. Access to the information will encourage a greater understanding of and participation in future regulatory processes. This should lead to greater effectiveness of</p>	<p>The 2011 priorities and objectives were developed at a time when the national energy framework was relatively new, and when the set of stakeholders able to engage in regulatory processes was relatively smaller. However, as the framework has matured, a wide and growing body of stakeholders participate in our processes, and in regulatory reform processes relating to energy network regulation.</p> <p>In our view it is also important to recognise the</p>

outcomes.

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

the regulatory framework as a whole, and improvements in the regulatory framework over time.

increasingly influential role that stakeholders play in these processes, and the role network performance reporting might play in assisting.

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.

No change

No change

Accountability

Performance reporting enhances accountability through outcomes monitoring. Performance reports will allow users 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.

No change

No change

Performance

Performance reporting will enable comparisons

No change

No change

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 allow us and stakeholders to assess the effectiveness of the regulatory regime. Performance reports will quantify the results of regulatory decisions, allowing all stakeholders to analyse the effect on investment and how those decisions ultimately impact consumers. Performance reporting will also assist in identifying areas for regulatory law review.

New objective

In 2011, the national regulatory framework was relatively new. We and stakeholders now have a longer time series with which to draw conclusions about the effectiveness of the regulatory regimes and our decisions under it. This will be important resource for policy-makers to draw on when considering the evolution of the regulatory framework. In our view, it is appropriate to capture this as an objective for our network performance reporting.

Source: AER analysis.

2.2 Priorities for network performance reporting

Similar to the objectives, we consider many of the current priorities for electricity remain fit-for-purpose and equally applicable for gas and electricity network performance reporting.

We set out in Table 2 below:

- a proposed set of priorities on which we seek stakeholder feedback
- how our proposed objectives compare to the equivalent 2011 objectives for electricity network performance reporting
- where we have recommended changes, the reasons why.

For clarity, we have recommended a number of changes to simplify and consolidate the priorities. We have done so using a set of headings drawn from the national electricity and gas laws governing the scope of our network performance reporting.⁷

Table 2 Proposed priorities for gas and electricity network performance reporting

Proposed priority	2011 objective	Reasons for proposed change
<i>Operational performance of the networks</i> — 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.	<ul style="list-style-type: none"> • Report forecast and actual capex and opex, and identify reasons for differences between forecast and actual expenditures. • Report the NSPs' forecast and actual outputs, including measures of network utilisation and asset age, to identify areas of NSP performance that may be reviewed by the AER. 	We propose to consolidate and simplify two related priorities under the heading of 'operational performance'.

⁷ NEL, s.28V; NGL, s.64

<p><i>Financial performance of the networks</i>— such as reporting on the NSPs' profitability, comparing businesses within and across jurisdictions and regulatory control periods.</p>	<p>Report the NSPs' profitability, comparing businesses within and across jurisdictions and regulatory control periods.</p>	<p>No substantive changes.</p>
<p><i>Network efficiency</i>— such as reporting on benchmark expenditure information to allow comparison of NSP performance over time and between NSPs, including in different jurisdictions.</p>	<p>Report comprehensive, accurate and reliable information, enabling stakeholders to undertake analysis of performance and have confidence in the results of that analysis. Provide information over time to enable trends to be identified and comparisons of changes in performance, outputs and expenditures to be made between NSPs.</p>	<p>To avoid overlap with our network performance reporting objectives, we propose to redraft this priority to link it specifically to a reporting topic, in line with the rest of the priorities.</p>
<p><i>Network service quality</i>— such as reporting on service standard levels or reliability metrics</p>	<p>Report and compare the NSPs' network operations, including service standard levels and demand management information.</p>	<p>No substantive changes</p>
<p><i>Emerging issues</i>— such as reporting on the outcomes of incentive schemes, or measures relating to the technological transition of electricity and gas networks</p>	<ul style="list-style-type: none"> • Report information that can be utilised for future distribution determinations, including information on cost drivers, expenditure trends, service levels and variations in network performance. • Report the NSPs' compliance with approved cost allocation methods, and elements of the regulatory determination, including service standards and incentive schemes. 	<p>We propose to consolidate and update two related priorities under the heading of 'emerging issues'. Due to the evolving nature of the regulatory environment we recommend the addition of a priority that we report on emerging and relevant issues of stakeholder interest or concern, which may not be readily specifiable at this time. As an example, this might include reporting on the impact of incentive schemes, or measures of the impact arising from technological transformation on electricity and gas networks. While we have not specified it directly, this priority could capture reporting on (for example) compliance with cost allocation methods.</p>

3 Submissions

Stakeholders are invited to provide submissions on the proposed priorities and objectives. Once we receive submissions, we will develop and publish a final set of priorities and objectives having regard to this input from stakeholders.

Submissions are requested by close of business on Tuesday 31 March 2020 and should be emailed to [networkperformancereporting@aer.gov.au](mailto:networkperformancereporting@ aer.gov.au).

The AER prefers that all submissions be sent in an electronic format in Microsoft Word or other text-readable document form and publicly available, to facilitate an informed, transparent and robust consultation process.

Alternatively, submissions can be sent to:

Mr Warwick Anderson
General Manager
Networks Finance and Reporting
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Submissions will be treated as public documents and posted on the AER's website unless prior arrangements are made with the AER to treat the submission, or portions of it, as confidential. Those wishing to submit confidential information are requested to:

1. clearly identify the information that is the subject of the confidentiality claim, and
2. provide a non-confidential version of the submission.