AUSTRALIAN ENERGY REGULATOR

GPO Box 520
Melbourne VIC 3001

Telephone: (03) 9290 1444
Facsimile: (03) 9290 1457
www.aer.gov.au

9 February 2022

Mr Michael Wright
Acting National Secretary
Electrical Trades Union

Sent via email: [redacted]

Dear Mr Wright

Thank you for agreeing to meet with the Australian Energy Regulator (AER) today to discuss the concerns Electrical Trades Union (ETU) has raised publicly about the maintenance allowances for regulated energy businesses.

Role of the AER in regulatory determinations

The AER is responsible for the economic regulation of electricity transmission and distribution networks and gas transmission and distribution pipelines in all Australian jurisdictions except Western Australia.

Regulated electricity network businesses must periodically apply to the AER to assess their revenue requirements (typically, every five years). This regulatory determination process is performed under the National Electricity Law and Regulations (NEL/NER) and National Gas Law and Regulations (NGL/NGR).

These revenue proposals, commonly known as resets, deal with several matters, including the network service provider's estimated future operating (Opex) and capital costs (Capex) and the regulatory requirements and obligations that the service provider is required to meet. The AER undertakes rigorous economic analysis of these proposals using a range of tools and economic benchmarking involving internal and independent experts.

As part of the resets determination process, the AER also consults extensively with interested parties, including seeking submissions from stakeholders such as consumer bodies, the ETU and relevant State and Territory technical and safety regulators.

Once a determination has been made, the network service provider is responsible for how the received funding is allocated within its business, ensuring that it meets its technical, safety and other regulatory obligations in doing so. The network service provider is also responsible for scheduling its program of work including managing its budget over these periods.

Data trends

The AER does not agree with your assertion that it has cut the maintenance budgets of regulated businesses by $10 billion since 2012 and we feel that you have mischaracterised our data in your campaign.

Since 2012 the AER has provided overall funding for network businesses of over $90 billion, while actual spend is just over $80 billion. This represents underspend of allocated expenditure of over $10 billion since 2012.

Further, as illustrated in Figure 1, over the past five years the overall underspend of allocated replacement capex by networks provided by the AER, which is a core component of most safety related expenditure, was $1.8 billion.

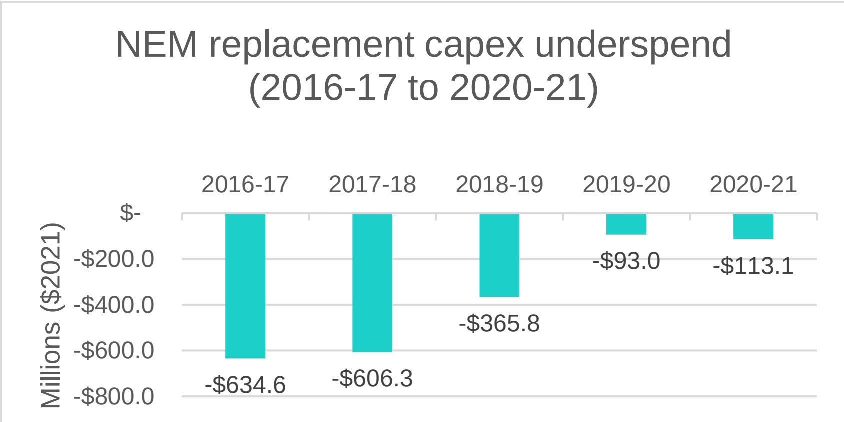

Figure 1

Consumers are also now paying less in network costs for a more reliable network. Figure 2 illustrates that there has been a steady decline across proposed, allowed and actual expenditure by regulated businesses in the NEM since 2014, while there has also been a decreasing trend of outages per customer.

The decline in expenditure for network businesses in Figure 2 is due in part to the AER's 2014 benchmarking exercise, which identified opex inefficiencies in some businesses and also because of more efficient capital expenditure proposals and allowances. This has saved consumers more than $14 billion dollars over the past decade (proposed minus allowed revenue). Over the same period, network reliability has increased, with a significant reduction in network outages since 2010. This indicates businesses have sufficient revenue to maintain the required service standards.

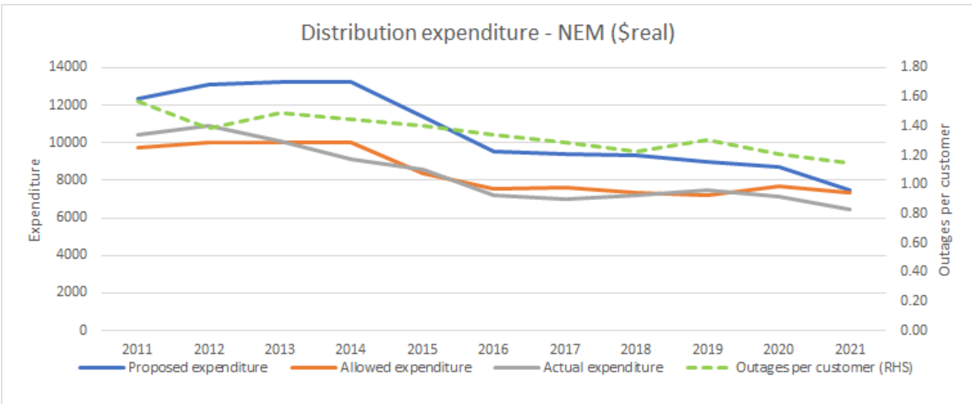

Figure 2

It should also be noted, that measuring any reduction in expenditure from 2012 as noted by the ETU, does not accurately reflect data trends over time. The 2012 year represents the peak of actual and allowed expenditure by network businesses. Figure 3 below, which shows NSW distribution expenditure data, is indicative of this.

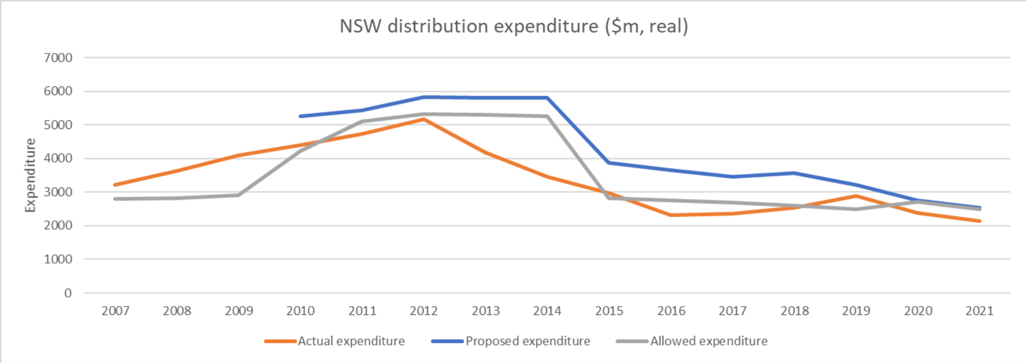

Figure 3

Incentive schemes and cost pass throughs

The AER uses various network service performance and incentive schemes in its determinations during the regulatory period to encourage networks to run an efficient business so that customers pay no more than necessary for a safe and reliable service. The incentive schemes look to align businesses' and consumers' interests.

The incentive-based scheme set out in the NEL/NER, is designed to provide networks with financial incentives to make efficient decisions on when and what type of expenditure to incur, whilst maintaining or improving service reliability. The incentive schemes share the costs of these changes (both rewards and penalties) between networks and consumers.

The AER is currently reviewing and refining our incentive schemes and guidelines that apply to regulated electricity and gas networks to ensure they remain relevant and fit-for-purpose. I encourage you to review the discussion paper and we welcome your views by making a submission by 11 March 2022.

Further, during the regulatory control period, network service providers can apply to 'pass through' to its customers certain material changes in costs caused by pre-defined external events. These events are called cost pass-through events. The AER has recently revised the way it interprets the materiality threshold and we now include consideration of actual capital costs incurred from the damage, rather than just the return on capital investments. This has resulted in an increase in cost pass through applications for capital investments following damage to the network.

If the ETU has any concerns about the safety of any specific part of the National Electricity Market (NEM), we encourage you to reach out to the responsible business and relevant safety regulator in each jurisdiction.

Network resilience

The AER understands the ETU has raised concerns about network resilience being impacted by the increased likelihood of natural disasters and extreme climate events.

The AER recognises that resilience expenditure will need to be considered in our network determinations, and that this type of expenditure has some similarities to the existing safety and reliability expenditure.

To this end, we believe we can assess resilience expenditure under the existing rules and regulatory framework. Customer engagement and demonstrated consumer willingness to pay for increased resilience will continue to be crucial for networks to demonstrate the benefits of increased expenditure associated with resilience.

Regulated network businesses are currently considering resilience expenditure and I encourage you to engage with them in the lead up to the upcoming 2024-2029 electricity resets in New South Wales, Tasmania and the Northern Territory.

I want to thank you and your staff for engaging productively with the AER over the last few years. I have appreciated the time your staff have provided to be briefed on key AER decisions. We are here to continue to have an open and transparent relationship with you and assist information requests in understanding of the national energy regulatory regime.

If you would like to discuss the contents of this letter further please contact Jesse Price, Director, Stakeholder Engagement at jesse.price@aer.gov.au.

Yours sincerely

Clare Savage
Chair AER