

always
powering
ahead

apa

AER Better Resets Handbook – Towards Consumer Centric Network Proposals

APA Submission

October 20, 2021



Contents

1. Introduction	3
2. APA Stakeholder Engagement Framework	3
3. APA high level positions	5
4. Response to AER questions	5

1. Introduction

APA is pleased to make this submission to the Australian Energy Regulator's draft Better Resets Handbook – Towards Consumer Centric Network Proposals (Handbook).

APA supports the AER's intention to provide better incentives for regulated businesses to develop high quality proposals through genuine engagement with consumers. We believe that engagement between regulated businesses and stakeholders can provide outcomes that better reflect what is valued by customers and other stakeholders.

APA would welcome further discussions with the AER on any of these matters. Please contact Nives Matosin, Manager Regulatory at e. nives.matosin@apa.com.au.

2. APA Stakeholder Engagement Framework

APA is a leading energy infrastructure business. APA owns and/or manages and operates a diverse, \$21 billion portfolio of gas, electricity, solar and wind assets. Consistent with APA's purpose to strengthen communities through responsible energy, APA delivers about half of the nation's gas to households, business and industry through both regulated and unregulated gas transmission pipelines.

Our regulated electricity transmission assets (Directlink and Murraylink) connect Victoria with South Australia and New South Wales with Queensland. We are also one of the largest owners and operators of renewable power generation assets in Australia, with wind and solar projects across the country.

In 2021, APA expanded its Stakeholder Engagement Framework (Figure 1) to ensure we are better able to 'bring the outside in' when it comes to the ways we make decisions and execute on our business strategy. Listening to our stakeholders and responding to their needs is key to our purpose to strengthen communities through responsible energy.

We have established a Stakeholder Advisory Panel to enable APA to act as a sounding board to APA on policy matters, strategic programmes and plans as well as identifying additional matters that Panel members consider of importance to their stakeholders. The inaugural Panel comprises senior representatives from a range of high-profile and diverse Australian organisations.

Figure 1 APA’s stakeholder engagement framework



APA will be holding bi-annual Stakeholder Engagement Forums to inform stakeholders on APA business strategy, policies and programmes like our net zero ambition, our sustainability commitments and how we’re managing our regulated resets. Our first Forum was in June 2021.¹

Engagement on regulated assets is an important component of the stakeholder engagement framework. In 2021 APA is undertaking stakeholder engagement for the Roma Brisbane Pipeline, Victorian Transmission System (VTS) and Murraylink. In 2020-21, we completed stakeholder engagement for Amadeus Gas Pipeline and Directlink.

We consider that we still have a lot to learn from our peers and stakeholders, but we have been pleased with the interest and level of interaction by stakeholders during engagement. We were pleased with the recognition and congratulations we received from the AER for our stakeholder engagement for the Amadeus Gas Pipeline 2021–26 access arrangement.² The AER’s positive feedback encouraged us to do better in future engagements.

We are always looking to do things better and support the approach taken by the AER in the Handbook for regulated assets.

¹ See [stakeholder engagement | APA Group](#)

² Australian Energy Regulator (2020), Overview: Draft decision – Amadeus Gas Pipeline Access Arrangement 2021–26. November 2020, p.8.

APA's high-level positions are presented in section 2 and responses to AER's questions are presented in section 3.

3. APA high level positions

APA's position on AER's draft Handbook can be summarised as:

- APA supports the AER's intention to provide incentives to energy businesses to improve engagement with consumers. The AER's principles-based approach provides flexibility for engagement to be co-designed and adjusted to meet the needs and interests of stakeholders.
- We support the intent, but the targeted approach may not always be fit-for-purpose for APA. APA's engagement approach for regulated transmission services involves a broad range of stakeholders. The AER's expectation that multiple channels of engagement are necessary to gain understanding of preferences may not always be feasible or practicable for APA as there are often competing interests involved in engagement.
- AER expectations on capital expenditure, operating expenditure and depreciation are suitable for stable sectors but some parts of the gas sector are facing uncertain futures. We consider that the AER can play a significant role helping businesses and customers navigate the energy transition.
- We consider that stakeholder engagement needs to be complemented and better supported with regulatory policy guidance by the AER and complemented by fit-for-purpose regulatory framework and tools.

4. Response to AER questions

1. *Do you consider the Handbook as set out will achieve the AER's aim of incentivising proposals that reflect consumer preferences and are capable of acceptance*
 - a) *If yes to 1, what do you see as the main benefits of the Handbook? Are they the same as those set out in this document or do you consider there additional benefits which are not listed?*
 - b) *If no to 1, what are your reasons for this? Further, what changes do you consider could be made to the Handbook to achieve the aim of incentivising proposals that reflect consumer preferences and are capable of acceptance?*

APA considers that the Handbook will encourage regulated businesses to undertake better engagement as part of developing proposals for regulated services. APA supports the

principles-based approach set out in the draft Handbook. The AER's principles-based approach to consumer engagement provides flexibility for engagement to be co-designed with stakeholders and to adjust to stakeholder needs and interests during the course of engagement. This approach will most likely result in proposals that better reflect consumer preferences.

APA's engagement approach for regulated involves a broad spectrum of stakeholders who are impacted by the services provided by our regulated assets. The types of stakeholders include consumer advocates, business advocates, shippers, large customers, storage facility owners, and proponents of gas import terminals, government and other interested parties. These are the groups that are impacted and interested in gas and electricity transmission services.

In our experience, this creates a well-informed group that provides a varied perspective to decision-making. Engaging with broad group of stakeholders allows for multi-faceted consideration of complex matters.

We question, however, whether it is feasible or appropriate to seek agreement from a broad range of stakeholders for our proposals to the AER. For example, participants for the Victorian Transmission System 2023-27 access arrangement proposal include stakeholders such as shippers, proponents for gas import terminals, storage facility owners, consumer advocates, business advocates and government and regulators. These stakeholders are impacted by the operation and investment in the VTS. Given the competing demands and expectations of these stakeholders, we consider that it will be challenging to get agreement from such a broad group of stakeholders for our proposals. Instead, take on board comments, balance stakeholder feedback to align with our assessment of the long-term interest of consumers. Stakeholder involvement helps shape our proposals.

2. Do you agree with the proposed targeted review stream and that this a positive change to how we regulate networks? Please include reasons for your views in the answer provided.

Eligibility for consideration of a targeted assessment, rather than the standard assessment approach, requires meeting several expectations - including customer support; evidence that proposals are prudent and efficient; applying AER models; and not changing assets lives for depreciation proposal.

Whether the AER's proposed targeted review is a positive change will depend on how many regulated businesses will be able to meet these criteria and apply for the targeted review. The other consideration that needs to be considered is the amount of resourcing that is required to meet these criteria. Following an interim period, it would be beneficial for the

AER to take into consideration the costs and benefits of the proposed targeted review approach.

Regulated businesses that can satisfy the AER that they meet these criteria will benefit from the AER's targeted review. The benefit to consumers will hopefully be proposals that better reflect their needs.

- 3. Do you consider the Handbook will improve the level of consumer engagement undertaken by network businesses and result in consumer preferences being better reflected in proposals? Please include reasons for your views in the answer provided.***

As noted by the AER in the draft Handbook, in recent years, regulated businesses have been undertaking innovative approaches on consumer engagement. Regulated businesses have been doing what best fits their customers and their businesses. From what we have seen, engagement has been genuine and comprehensive.

The Handbook will play in role in reinforcing the importance of engagement as part of the approach to forming regulatory proposals. This will encourage better engagement by regulated businesses.

- 4. Are the incentives offered by the Handbook sufficient for network businesses to seek access to the targeted review stream process? If you do not consider the incentives are sufficient, then what additional incentives do you think could be provided within the current regulatory framework?**

The incentives offered by the AER include

- Publicly recognise the proposal has achieved this early in the assessment process – this would occur prior to the draft decision stage.
- Undertake a targeted review rather than the standard assessment approach subject to stakeholder submissions and any material changes in circumstances subject to stakeholder submissions and any material changes in circumstances,

There are several matters that need to be considered including:

- The appropriateness of seeking stakeholder support for proposals given that stakeholders are sometimes competitors (with APA, and with each other)
- Support for proposals would require an increase in stakeholder resourcing and funding by regulated businesses

- The increase in cost and resourcing provides no guarantee that agreement would be reached
- Without agreement from stakeholders, there is no guarantee of being eligible for targeted assessment
- There is no guarantee that the AER will accept the outcomes from consumer engagement.

These are the types of matters that we are considering in our response to the AER's Handbook.

- 5. The targeted review stream is a new process which we expect to refine and improve as we learn from each iterative application. Therefore our preference would be to first apply the targeted review stream process to a limited number of network businesses. This approach would allow us to better manage the risks of introducing a new process, maximise learnings and manage resourcing constraints. What approach or criteria should we use to determine which network businesses should be selected?***

Eligibility for consideration of a targeted assessment, rather than the standard assessment approach, requires meeting a number of expectations - including customer support; evidence that proposals are prudent and efficient; applying AER models; and not changing assets lives for depreciation proposal.

The criteria seem appropriate to APA.

- 6. Do you agree with the approach to commence the full application of the targeted review stream process to the revenue proposals due in January 2023?***
 - a) We would be open to considering applying of the targeted review stream process partially to a proposal which is submitted before January 2023. This would allow us to test the process before it is fully applied. Would you be supportive of this approach? Please include reasons for your views in the answer provided.***
 - b) For stakeholders that answered yes to 6(a), what approach or criteria should we use to determine which network business' proposal should be considered for a partial application?***

We do not have any concerns with the AER's approach.

7. Do you agree with the expectations for the topics set out in sections 4 to 8 of this document? If not, what changes do you consider need to be made to the expectations? Please include your reasons for any proposed changes.

The AER's expectations on capital and operating expenditure and depreciation are a useful reinforcement of information and evidence that regulated businesses need to prepare. However, the AER regulatory approach is more suitable for stable sectors, whereas the energy sector as a result of the need to decarbonise will be less than stable over an extended period. The current fragmented and disjointed energy and climate change policy environment in Australia creates much investment uncertainty for traditional energy network and transmission service providers.

APA considers that the AER, as the economic regulator, has a significant role to play in providing regulatory policy direction on complex matters emerging in the energy transition. For example, we consider that there is a greater role for the AER to guide regulatory policy to ensure recovery of efficient investments by regulated businesses facing the threat of stranded assets.

Capital expenditure

As the AER would know, capital expenditure for transmission assets can be lumpy and can fluctuate based on age related cycles. Therefore, we do not consider it appropriate for the AER to expect forecast total capital expenditure to not be materially above current period actual spend. We ask that the AER not make this an expectation for transmission.

The AER expects evidence of prudent and efficient decision-making on key program and projects to include quantitative cost benefit analysis for projects that are not recurrent or that make up a large part of the capital expenditure proposal. APA considers that for programs and projects where the need is driven by safety, integrity and reliability and regulatory obligations or industry good practice guidelines, that cost-effectiveness analysis is the more appropriate form of economic analysis. Cost effectiveness analysis is more appropriate for information and operational technology where systems are integral to the functions of the businesses.

Cost effectiveness analysis is more appropriate in circumstances where the business has no option but to do something. For examples, for replacement expenditure, do nothing is often not a credible option as it risks breaching regulatory obligations and standards regarding safety, integrity and reliability. We ask that the AER add cost-effectiveness studies to its evidence toolkit.

Further we note that it may not always be feasible to have completed a regulatory investment test in time for submission of regulatory proposals. This AER needs to take this timing issue into account.

Operating expenditure

We support the AER's adoption of base-step-trend but consider that the AER could be more flexible in allowing for additional category specific costs in circumstances where there is great uncertainty in operating costs. In APA's case, the Transformation and Technology program is instigating an upgrade of critical systems that will be cloud base and will be considered operating cost. However, it is early days in developing business solutions and costs are uncertain. It is not appropriate to have these costs included as a step change as they are likely to vary. Having a specific category for these types of costs and allow them to be excluded from the base year would allow for changes to the costs to be outside of the incentive scheme.

Depreciation

As part of the VTS access arrangement stakeholder engagement, APA and stakeholders are grappling with how to address issues arising from the Victorian Government policy to substitute gas use with electricity use. The AER is aware of APA's draft proposal to start

addressing the need for transitioning tariffs by shortening asset lives and suggestions to remove indexation from the regulatory asset base

Consideration by the AER of these types of measures could help to make the regulatory framework more certain and fit-for-purpose. The AER can play an important role of regulatory guidance dealing with these complex matters.

8. Is there any further clarification or issues which the Handbook should set out?

The targeted stream approach is likely to be a more resource intensive and more costly process than the current stakeholder engagement approach adopted by APA. We wish to know whether the AER is proposing to allow engagement costs to be recovered through a form of cost pass through mechanism or allowance.