AusNet

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Sebastian Roberts
Australian Energy Regulator (AER)
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Submitted via email: incentivereview@aer.gov.au

Dear Sebastian Roberts

Thank you for the opportunity to respond to the draft decision for the review of expenditure incentive schemes for Network Service Providers (NSPs).

We welcome the AER's finding that the current suite of incentive schemes has driven significant efficiency gains, which provides benefits to consumers in terms of lower prices and/or better service. In particular, we welcome the draft decision to retain both the Efficiency Benefit Sharing Scheme (EBSS) and the distribution Service Target Performance Incentive Scheme (STPIS) in their current form.

We also welcome the AER's proposal to undertake reviews of two distinct aspects of the transmission STPIS, the Market Impact Component (MIC) and the Network Capability Incentive Parameter Action Plan (NCIPAP). We look forward to both these reviews being completed prior to the commencement of the next Victorian transmission reset process.

With respect to the other issues raised in the draft decision, we explore some of these below.

Regulatory Information Notice requirements

Noting the *Better Resets Handbook* already offers an incentive for networks to provide greater transparency on the drivers of underspends, we recognise the benefits of having clear and transparent explanations for customers and other stakeholders of any differences between actual capital expenditure and AER allowances. Consequently, we support, in principle, the introduction of new Regulatory Information Notice (RIN) transparency arrangements. However, we note:

- Explanations of annual variances will of necessity often be relatively shallow as the significance and permanency of particular drivers or initiatives can be hard to ascertain over short time frames. A more detailed perspective is more appropriately made in Regulatory Proposals where an assessment of the entire previous period allows longer term trends to be observed and more accurately attributed to specific drivers. For example, extensive information on drivers of our under- and over-spends was included in our regulatory proposal for the current electricity distribution and transmission regulatory control periods, and we expect we will provide similar information in our electricity distribution price review proposal for the 2027-31 regulatory control period.
- The benefits of any additional requirements need to be carefully balanced with the expected cost. Therefore, we would be concerned if this new requirement evolved into a highly manual and time-consuming process. The cost of regulatory reporting is ultimately borne by customers, and this has been increasing significantly. In an environment where cost-of-living pressures are mounting, imposing unnecessary additional costs onto customers should be carefully considered, particularly if only a marginal additional benefit is expected.

Importantly, we also see benefit for stakeholders if the AER was to provide its own commentary on these issues in future issues papers, draft and final regulatory decisions. This type of information will not only help stakeholders understand all the issues it will provide great insight into the AER's consideration of these issues.

More broadly, concerns about over-forecasting can be addressed by a review of the AER's expenditure assessment approach and techniques, i.e., addressing the root cause of the issue; rather than adjusting the existing expenditure incentives that have delivered very material consumer benefits.

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Amending the sharing factors – evidence base

On introducing asymmetric efficiency sharing factors, as a matter of principle, we disagree with this change. Efficiency incentive schemes should be symmetrical and continuous to minimise the scope for them to distort efficient investment or operational decisions. The AER points to information asymmetry as the rationale for an asymmetric CESS. We agree with the AER that this asymmetry reduces over time as regulatory tools are refined – which include the important engagement expectations set out in the Better Resets Handbook. In addition, while the AER has observed several years of capex underspends due to relatively stable maximum demand, new energy transition-related investment drivers and uncertainty around the pace of change – including the electrification of gas and transport – means that networks face a growing risk of needing to spend more than was foreseen at the time of their determination to meet evolving customer and government expectations. History cannot be used as an indicator of the future in this context. Both of these factors suggest introducing asymmetry at this time is not warranted.

We also consider that the new RIN requirements may address much of the AER's concerns without amendment to the CESS sharing factors. For example, if the explanations of overspending provided do not satisfy the AER, they have powers to act through the ex-post expenditure review. If explanations of underspending do not satisfy, then the AER has grounds to adjust the CESS scheme outcomes accordingly or adjust future allowances.

More broadly, we are concerned that the use of predetermined asymmetric incentives to the CESS – without any evidence that demonstrates that the expected benefits of their use outweigh their costs – may set precedents for other schemes.

Conclusion

Modifying the CESS' incentive properties should only be done where there is a clear case for change and there is not. Given the significant level of investment expected over coming decades, we remain unconvinced that weaking CESS incentives is appropriate or in the long-term interests of our customers. All else equal, a stronger incentive will elicit a larger response (in terms of identifying and delivering the lowest cost capital solutions) than a weaker incentive and, therefore, provide greater benefits to consumers in the long run.

We look forward to further engagement on these issues.

Please contact [redacted] if you have any questions regarding this submission.

Sincerely,

Charlotte Eddy
General Manager (Distribution)
AusNet