

## Draft Better Resets Handbook 2021

- 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?**

*Response:*

- Yes, we consider the Handbook will achieve the AER's aim of incentivising proposals that reflect customer preferences.
- The Handbook outlines, very clearly, what the AER's expectations are when it comes to good quality customer engagement. This gives networks the opportunity to improve the engagement that they have with customers and their advocates when preparing their regulatory proposals.
- The Handbook does not set a prescribed set of activities that networks must undertake as part of their engagement, rather provides a guiding framework, therefore allowing fit-for-purpose engagement across networks. A key benefit of this is that it allows flexibility and ensures that networks can tailor engagement activities to suit their customer base.
- The Handbook provides clear guidance around the role of the AER in engagement. AGIG welcomes this.

- 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.**

*Response:*

- Yes, we agree the proposed targeted review stream is a positive change.
- The targeted review stream allows the AER, businesses and customers to engage on, and devote more resources to, those issues critical to the individual business and their customers, or the industry as a whole. Our dedicated engagement on the future of our gas networks in Victoria is a good example of this.
- It also empowers customers to participate in and influence business decision making to drive customer outcomes through the regulatory proposals.
- The Handbook outlines the AER's key considerations when determining if a business can be subjected to a targeted review – therefore the process can be well understood by customers and businesses and applied consistently.

**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.**

*Response:*

- Yes. The draft Better Regulation Handbook sets out the AER's expectations on what good engagement looks like across the nature, breadth, depth and evidence of engagement. It also incorporates examples from recent regulatory reviews to illustrate approaches which the AER considers meet these expectations.

**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?**

*Response:*

- Yes. We would however highlight that the overall effort from the businesses in preparing regulatory proposals would be unlikely to diminish, but the incentive for businesses is strong because:
  - the review of the proposal by the AER would be a much lighter touch; and
  - the overall outcome for customers would improve as the focus of the business when preparing a regulatory proposal will be on customers, and eliciting customers' feedback.

**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?**

*Response:*

- The first criterion should be if a business requests to be considered for a targeted review.
- If a business does nominate, then the key consideration should be how well the business has met the expectations detailed in the Handbook in prior regulatory reset reviews. A business that is already meeting those expectations should be given access to a targeted review if requested.

- 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?**

*Response:*

- We think it possible to apply the approach to commence earlier than January 2023. As we have noted in our cover letter, given the strong alignment between the Better Reset Handbook and our own approach to preparing regulatory proposals, we will request that the regulatory proposals we submit on 1 July 2022 have access to the streamlined review. We consider that our current engagement process will meet the requirements proposed in the draft Better Reset Handbook, and the criteria used by the AER to apply the streamlined review should be no different.

- 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.**

*Response:*

- We broadly agree with the expectations outlined, however we note that a deviation from the expectations should not preclude access to the streamlined review. Gas businesses are operating in an ever changing environment where jurisdictions are actively pursuing decarbonisation of energy supply through diminution of the gas network. The regulatory proposals prepared by the businesses in such instances are therefore unlikely to follow the "expectations" completely (regulatory depreciation in the case of gas networks as an example) but this does not mean that a streamlined review is not warranted, particularly if the criteria around good engagement have been met.
- We do not support the use of AEMO forecasts of consumption and demand, as these forecasts are prepared at a statewide level, and therefore assumptions would need to be made to allocated that demand to an individual network area. We consider an independently prepared demand forecast for each network is a more appropriate approach, and note that such demand forecasts are prepared for other parts of the regulatory proposal.
- We also consider a zero real non-labour cost price change should not be prescribed in the Handbook.

- The cumulative impact of step changes should be considered when assessing materiality. This includes both across the reset period, but also the total impact of a number of step changes within a year

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

*Response:*

- We would like to see further clarity around the definition of 'consumers', 'consumer advocates' and 'stakeholders' as part of the Handbook. This will be important to inform the design of our engagement activities, where we might tailor engagement to a specific cohort.
- The Handbook provides excellent clarity on how and when networks should engage/utilise the AER throughout engagement. The role, and when we should engage the CCP and their role, was less clear. We welcome further discussion on the CCP.
- We acknowledge that the AER and CCP should be involved in pre-lodgement engagement activities as part of the targeted review stream. AGIG commences its pre-lodgement engagement 18-months prior to submission. We consider that having the AER and CCP involved from the beginning of engagement will benefit the development of the regulatory proposals and the AER's and CCP's understanding of them.