

**Submission to the Australian Energy Regulator on Draft
Decision for Powerlink's Transmission Determination 2017-
22**

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Consumer Challenge Panel

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Executive Summary

The Consumer Challenge Panel has been engaged in discussions surrounding network regulatory determinations since 2013 when the Panel was first established. Members of the Panel have also been engaged in these discussions prior to appointment to the Panel, in most cases for a significant number of years.

Throughout these processes, the Panel has consistently drawn attention to the impact of high prices on households and businesses including the particular impact these have on the lowest income households across our community. These households already face major cost of living pressures and because the high prices for essential services presents affordability issues, they are at high risk of losing unrestricted access to the basic and essential service of electricity.

The author has previously noted that the consumer engagement program was the first of its kind for Powerlink in terms of its scope and breadth. Powerlink is to be commended for its decision to raise its level of engagement with customers. The author also wishes to acknowledge the openness and transparency with which Powerlink has approached the Regulatory Determination. The author thanks Powerlink for its express willingness to engage with the Consumer Challenge Panel and other consumer interest groups.

The author has previously noted the widely held Queensland consumer view that cost is the greatest concern. This consumer view is no surprise, given the affordability issues experienced by many Queenslanders and the slowing state of the Queensland economy. This report highlights that consumer representatives have continued to raise this cost issue throughout Powerlink's consumer engagement activity post the Regulatory Proposal. This indicates that there is heightened expectation from consumers of finding further efficiencies and more prudent expenditure beyond that outlined in the Regulatory Proposal.

The author's previous submission recognised that Powerlink had made a good start in proposing expenditure in line with consumer expectations and values. We recommended that the AER undertake detailed examination of significant capital expenditure proposals. As outlined in this submission, the author welcomed the AER's findings on capex as described in the Draft Decision. We believe that further efficiencies in capex are achievable beyond those identified by the AER.

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Introduction

As a member of the Consumer Challenge Panel, the author thanks the AER for the opportunity to provide comment on the AER's Draft Decision for Powerlink's Transmission Determination 2017-22.

As described by the AER, the Consumer Challenge Panel "assists the AER to make better regulatory determinations by providing input on issues of importance to consumers. Regulatory determinations are technical and complex processes which can make it difficult for ordinary consumers to participate. The expert members of the CCP bring consumer perspectives to the AER to better balance the range of views considered as part of our decisions."

The objective of the CCP is to:

- Advise the AER on whether the network businesses' proposals are in the long term interests of consumers; and
- Advise the AER on the effectiveness of network businesses' engagement activities with their customers and how this is reflected in the development of their proposals.

Throughout the regulatory determination processes which have proceeded since late 2011, the Consumer Challenge Panel has consistently drawn attention to the following:

- Impacts of high prices on consumers;
- The way in which network proposals impact on safety and reliability;
- Whether the allowances for debt funding are reasonable;
- Whether the cost of equity is adequate;
- The role of benchmarking in the AER's determination of expenditure allowances;
- The role of incentive payment schemes, and;
- The varying level of effectiveness of network businesses' engagement with their customers according to the network.

Members of the Consumer Challenge Panel were active in discussions with Powerlink in the lead up to the lodgement of the Regulatory Proposal. Members of the Panel including the author have met with Powerlink on at least 3 occasions, including a day-long meeting with business representatives. We have attended as observers of Powerlink Customer and Consumer Panel meetings. Members of the Consumer Challenge Panel engaged with the business in the lead up to lodgement of the Regulatory Proposal having formed the view that an important role the Panel can play is to provide early indications to the business of priorities and concerns. Members of the Panel have presented to two public forums for this Determination.

Affordability Issues

As recently reported by the AER and illustrated in figure 1 below, electricity bills in the NEM are third highest in Queensland.

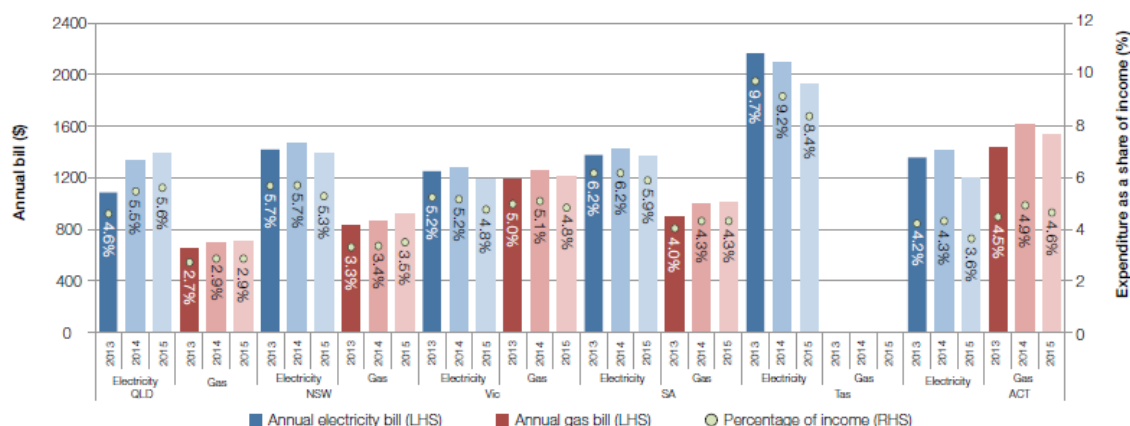


Figure 1: Annual electricity and gas bills, and as a share of benchmark low income household’s disposable income (without concession) – jurisdiction specific ‘low’ consumption levels, June 2014, 2015 and 2016

(Source: AER Annual Performance Report 2015-16 at

http://www.aer.gov.au/system/files/AER%20Annual%20Report%20on%20the%20Performance%20of%20the%20Retail%20Energy%20Market%20201415_0.PDF: p.40)

In Queensland, customers experience a high rate of electricity charges (second highest in the NEM).¹

An indicator of energy hardship is the percentage of the Australian population who could not pay utility bills on time at some stage during the previous year. 12.1% of all Australian households were unable to pay their utility bills, mainly electricity, on time in 2014, due to insufficient income to pay the bill.²

Further, there are significant numbers of customers in debt and experiencing electricity disconnections in Queensland. Table 1 below details the customer debt figures and table 2 highlights the disconnection statistics up to the most recently reported quarter.

Quarter/Financial year	Residential electricity customers with debt	Average residential electricity debt (\$)	Small business electricity customers with debt	Average small business electricity debt (\$)
Sep 15	39234	562	2550	1961
Dec 15	38459	582	2723	1831
Mar 16	38789	542	3070	1446
Jun 16	47924	502	4167	1639

Table 1: Queensland customer energy debt

Source: AER Retail Statistics at <http://www.aer.gov.au/retail-markets/retail-statistics/queensland-customer-energy-debt>

¹ AER (2015) Annual Performance Report

² ABS (2014) 4159.0 General Social Survey at

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4159.0Explanatory%20Notes12014?OpenDocument>

2012-13	2013-14	2014-15	2015-16
19306	25305	29692	21667

Table 2: Residential customers disconnected for non-payment from 2012-13 in Queensland

Source: AER Retail Statistics at <http://www.aer.gov.au/retail-markets/retail-statistics/queensland-residential-customer-disconnections>

The AER has stated “we do not consider that the NEO would be advanced if prices are so high that large numbers of consumers are unable to afford the service.”³ Energy hardship, debt and disconnection are indicators of lack of affordability. As an essential service, electricity disconnection is the worst possible outcome for an energy consumer. In the previous submission to this Determination process, the author reported on the impacts of disconnection. For example, the Public Interest Advocacy Centre has stated:

“Disconnection was disruptive to households, with a range of strategies deployed to cope with the situation, including using candles or lanterns, having cold showers/baths, and buying takeaway/prepared food. Those living in public housing were significantly more likely than others to take several courses of action to deal with the disconnection.

A range of impacts resulted from disconnection, most commonly anxiety and emotional disorders, loss of food and an inability to wash. These impacts were compounded the longer the disconnection.”⁴

³ AER Issues Paper for NSW Distribution Determination at <http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausgrid-determination-2014-19/proposal>: p.25

⁴ Public Interest Advocacy Centre (2013) Cut Off III at http://www.piac.asn.au/sites/default/files/publications/extras/13.04.14_final_report.pdf: p.ii

Expenditure Trends

The author has previously reviewed Powerlink’s actual and forecast expenditure for the current regulatory period as indicated below:

Activity	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Capex total	445.7	316.1	158.5	159.8	211.3	1291.4
Opex total	167.4	181.0	211.3	216.5	216.1	992.3
Total expenditure	613.1	497.1	369.8	376.3	427.4	2283.7

Table 2: Actual and forecast expenditure for the 2012-16 regulatory period (\$m nominal)

The author has previously compared capital and operating expenditure for the previous two regulatory periods to that proposed in the Regulatory Proposal and against the allowance as below:

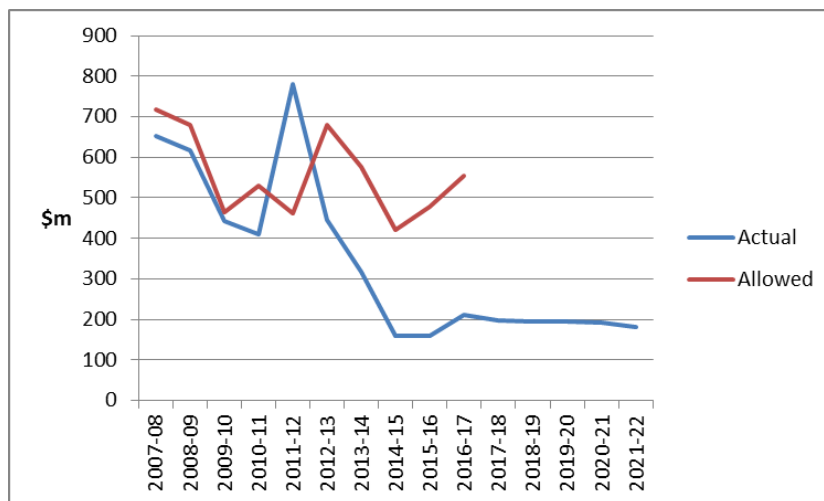


Table 3: Powerlink Capital Expenditure 2008-09 to 2021-22

(Note: Actual 2015-16 to 2016-17 is forecast and Actual 2017-18 to 2021-22 is as proposed in Powerlink’s RP)

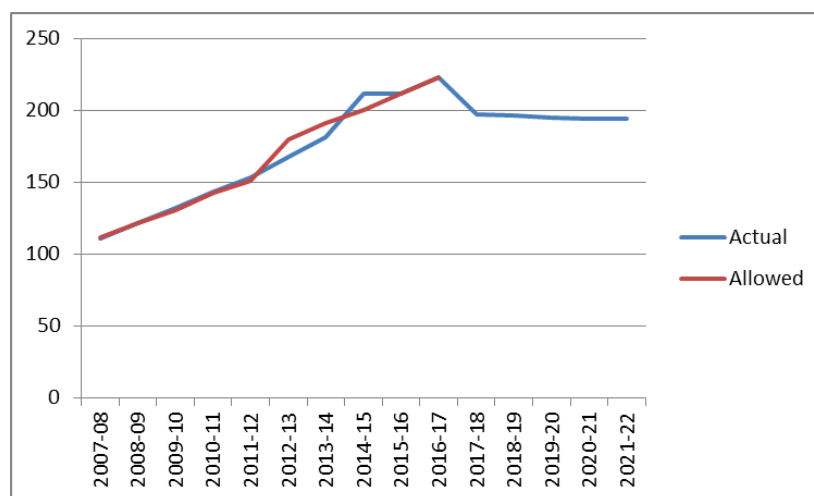


Table 4: Powerlink Operating Expenditure 2008-09 to 2021-22

(Note: Actual 2015-16 to 2016-17 is forecast and Actual 2017-18 to 2021-22 is as proposed in Powerlink’s RP)

In the Draft Decision, the AER is proposing to allow a program of capital expenditure of \$775.2 million over five years which is a reduction of \$184.5 million on Powerlink’s proposal:

Capex by category (\$m 2016/17)	2017/18	2018/19	2019/20	2020/21	2021/22	Total over period
Augmentation	0.3	2.6	0.3	0.0	0.0	3.1
Easements	2.6	1.5	3.2	0.3	0.0	7.7
Replacement	120.2	123.7	120.2	124.7	121.0	609.8
Non-load driven other	12.0	6.1	4.0	4.0	4.0	30.1
Non-network	18.3	19.6	24.9	25.0	18.0	105.8
Security and compliance	3.7	3.7	3.8	3.8	3.8	18.8
Total	157.1	157.2	156.3	157.9	146.7	775.2

Table 5: Capital Expenditure Proposed to be Allowed by AER for Powerlink 2017-22 (\$m)
(Source: AER DD)

In particular, the author notes the following significant reduction in expenditure compared with that proposed by Powerlink:

- Replacement (Powerlink proposed \$794.3m).

The author previously recommended that the AER undertake detailed analysis about business cases and allowances for each of the capex significant projects and programs. The author intended to reassess this proposed expenditure after the Draft Decision, and anticipated further review of the proposals at that stage.

The author is aware of extensive commentary on the proposed capex allowance by Hugh Grant, which will be submitted in response to the Draft Decision and the business’ Revised Regulatory Proposal. The author supports the assertion that further capex savings are achievable for Powerlink, beyond those identified in the Draft Decision. The author will make more extensive commentary on this in response to the Revised Regulatory Proposal. Briefly, we are concerned about the limited extent to which the AER has addressed the findings in the EMC reports. We also have concerns regarding asset lives, asset reinvestment and trend analysis, as outlined in Hugh Grant and David Headberry’s submission on the Regulatory Proposal.

In its Draft Decision, the AER is proposing to allow a significant program of operating expenditure of \$976.7 million over five years. The author has previously noted the decrease in opex expenditure relative to the current regulatory period.

Powerlink's Customer Engagement Program and Findings

The author's submission on Powerlink's Regulatory Proposal summarised Powerlink's customer engagement program which was conducted as part of Powerlink's Regulatory Proposal for 2017-22.

Since then, Powerlink has held three Customer and Consumer Panel meetings (February, May and October 2016). Powerlink has also continued to use its customer and consumer engagement framework to engage with key stakeholders, through activities including:

- Powerlink Transmission Network Forum
- Demand and Energy Forecasting Forum
- Stakeholder Perception Survey
- One-on-one stakeholder briefings.

For the previous submission, the author spoke to three members of the Powerlink Customer and Consumer Panel. In general, the feedback was extremely positive about the approach of Powerlink to engagement with customers and consumers. There was agreement among each of the members that the Regulatory Proposal contained no negative surprises and that their expectations were largely met through the RP.

Since the previous submission, the author notes that recent discussion on Powerlink's Customer and Consumer Panel has indicated there are some members who are concerned about aspects of Powerlink's proposal and the AER decision. Specifically, members concerns have included reference to:

- Rate of return
- Regulated Asset Base
- Opex Benchmarking
- Opex base year
- Capex
- Replacement capex
- Asset lives
- Failings in the regulatory framework
- Reliability
- VCR

The expression of these concerns after the release of the Regulatory Proposal may indicate that as consumers become more familiar with Powerlink's Proposal and external parties' assessments, their initial reactions are challenged and there is heightened expectation of finding further efficiencies and more prudent expenditure.