

Better Resets Handbook - Towards consumer-centric network proposals

Consumer
Challenge
Panel

Public Forum 6 October 2021

Presentation 1: Further Exploration and
Possible Gaps

CCP sub-panel
Bev Hughson
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Recognition of Country



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
Topics for this Session

1. Handbook Objective and reflections on Figure 1
2. Expectations on Consumer Engagement
3. Other. What's missing and other observations
4. CCP role
 - a. What is the CCP role? Noting budget limitations
 - b. How can CCP adapt to different engagement models?

Handbook Objective and Reflections on Figure 1

- Overall view of proposal and the business' processes – good / bad / indifferent
- What is a draft proposal?
 - High order, indicative, exploratory or more detailed?
 - We have seen quite a range, from a set of questions through to almost finalised regulatory proposal.
 - Perhaps a draft proposal must be a near-to-lodgeable regulatory proposal with numbers
- What's the reward for consumers and NSPs?
- Not expecting a prescriptive methodology
- Not a tick-box process
- Not lose progress over last 8 years

Figure 1 – Targeted review stream compared to current AER assessment approach

	Current	Targeted review stream
Pre-lodgement steps	 <p>Start pre-lodgement engagement</p> <p>Network business commences pre-lodgement engagement with consumers. AER staff observe engagement process. Limited Consumer Challenge Panel involvement.</p>	<p>Network business commences genuine open consumer engagement. AER notified of intention to access the targeted review stream. AER staff support consumers in engagement process and provide feedback to network businesses where appropriate. Consumer Challenge Panel may observe consultation and engage where necessary.</p>
	 <p>NSP draft proposal</p> <p>A network business may publish a draft proposal to consult on.</p>	<p>Network business publishes a draft proposal for consultation with consumers and updates proposal based on feedback.</p>
	 <p>REG proposal</p> <p>Network business submits proposal for AER assessment.</p>	<p>Network business submits proposal for AER assessment. Proposal must show how consumer feedback on the draft proposal has been accounted for. Proposal to also include an independent consumer report. AER may commission the Consumer Challenge Panel to provide an assurance report on the quality and outcomes of the engagement process.</p>
Post-lodgement steps	 <p>Early signaling</p>	<p>In electricity, this could occur at the issues paper stage. AER would provide a view on:</p> <ol style="list-style-type: none"> 1. which aspects of the proposal have met our expectations and can be subject to a targeted review 2. for topics subject to a targeted review, signal which areas will be of particular focus and which are not 3. which topics will be subject to standard assessment approach.
	 <p>Forum and submissions</p> <p>Seek stakeholder feedback on proposal. Issues paper highlights AER view of key themes and issues raised by a proposal.</p>	<p>Seek stakeholder feedback on proposal and AER issues paper positions.</p>
	 <p>Draft decision</p> <p>AER uses its discretion in determining the extent of assessment required to publish draft decision on individual components of the proposal as required by the Rules.</p>	<p>Additionally, draft decision will highlight which parts of the proposal were subject to a targeted review and accepted using that assessment approach. We will also highlight if a proposal is exemplary and has been accepted in its entirety.</p>
	 <p>Revised proposal / Final decision</p> <p>Standard assessment process using our full range of assessment tools, including on new issues raised in the revised proposal.</p>	<p>Highly targeted review of any outstanding issues.</p>

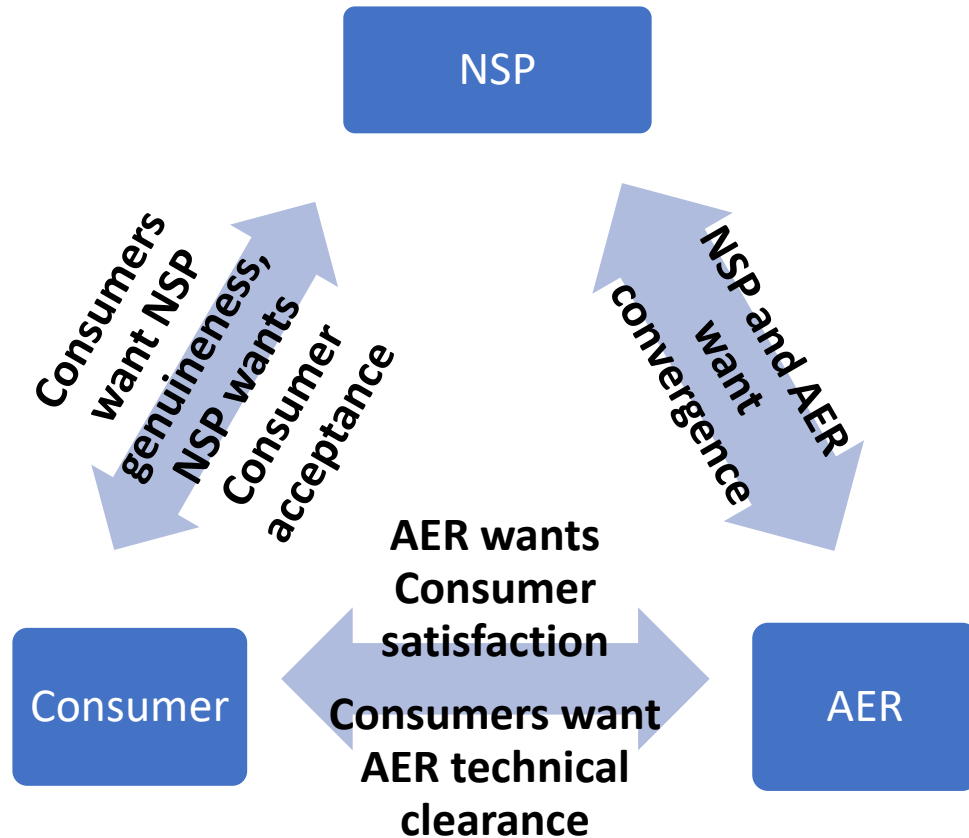
Consumer Engagement

AER Assessment Framework - great base. Note:

- Consumers “partner” with NSP
- Impartial support
- Sincerity
- Multiple engagement channels
- Breadth AND Depth
- Evidenced impact
- CEO / Board commitment and engagement

Element	Examples of how this could be assessed
Nature of engagement	<ul style="list-style-type: none"> • Consumers partner in forming the proposal rather than asked for feedback on service provider’s proposal • Relevant skills and experience of the consumers, representatives, and advocates • Consumers provided with impartial support to engage with energy sector issues • Sincerity of engagement with consumers • Independence of consumers and their funding • Multiple channels used to engage with a range of consumers across a service provider’s consumer base
Breadth and depth	<ul style="list-style-type: none"> • Clear identification of topics for engagement and how these will feed into the regulatory proposal • Consumers consulted on broad range of topics • Consumers able to influence topics for engagement • Consumers encouraged to test the assumptions and strategies underpinning the proposal • Consumers were able to access and resource independent research and engagement
Clearly evidenced impact	<ul style="list-style-type: none"> • Proposal clearly tied to expressed views of consumers • High level of business engagement, e.g. consumers given access to the service provider’s CEO and/or board • Service providers responding to consumer views rather than just recording them • Impact of engagement can be clearly identified • Submissions on proposal show consumers feel the impact is consistent with their expectations
Proof point	<ul style="list-style-type: none"> • Reasonable opex and capex allowances proposed <ul style="list-style-type: none"> ○ In line with, or lower than, historical expenditure ○ In line with, or lower than, our top down analysis of appropriate expenditure ○ If not in line with top down, can be explained through bottom up category analysis

Expectations on Consumer Engagement



1. Who Blinks First?

Each party would really like the other party to be the first to commit, eg in saying that a proposal is acceptable (capable of acceptance)

The “Handbook” process will need to allow scope for ‘soft’ signals between each other.

2. Resourcing for Consumers

How are consumers resourced, equipped, briefed and supported? Note its about 3 years from likely start of process to final AER determination, Funding for consumers does not currently fund for 3 year regulatory proposal engagement.

Consumer Engagement, Continued ...

3. Expectations re breadth of consumer input needs to reflect heterogeneity of consumers
4. Are there some consumer perspectives that must be sought? Eg vulnerable customers, Indigenous, life support, CALD etc
5. At least some consumer reps / advocates need a constituency to report to and to be accountable to
6. AER has important 'equipping consumers' role
7. NB IAP2 spectrum as a guide, aim for at least "Involve" and "Collaborate" in processes
8. What role will AER staff teams play pre-lodgement, including briefing and supporting Consumers.
9. Process neutral, appropriate process for appropriate settings
10. Need to limit any spending 'arms race' on Consumer engagement. CE spending needs to be efficient too.

What's missing and other observations

- Where does “handbook” fit into the F&A? Isn't this all just part of what an F&A should look like these days?
- Where do pass throughs, contingent projects, RiT-T, RiT-D all fit into engagement expectations? Don't want NSPs incentivised to limit Regulatory proposals to get easier run on “big capex” elsewhere
- Role of exogenous shocks, eg AEMO directives, Jurisdictional Government interventions
- Where does innovation fit in, e.g. DMIAM, DMIS, gas network innovation deliberations and innovation more broadly?
- How does this process link to the AER's Consumer Engagement Guideline? This needs to be updated too, we might suggest.
- Transition timing. Too late for ENet, TransGrid, maybe Vic Gas too. Start with NSW/ACT distribution?

CCP Role

- Must include content and process considerations. The two inform each other
- Often consumers are more relaxed to be involved when they know CCP looking at the content of capex, opex, RAB, depreciation etc.
- “Assurance report” from CCP will need to be developed for each reset.
- NB CCP “backstop” to ensure Consumer Input. Note: Vic Electricity Transmission regulatory proposal did not receive other consumer input

Comments or Questions?

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Presentation 2: Technical Considerations

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Topics for this Session

- 1.Expectations for capital investment (capex)
- 2.Expectations for operating expenditure (opex)
- 3.Expectations on regulatory depreciation
- 4.CCP observations – the good and the not so good
- 5.Expectations on tariff structure statements (TSS)

Capex proposals & AER's targeted reviews

AER: "Our assessment of forecast capex seeks to ensure that consumers are provided with safe, reliable and good quality services that meet their needs at an efficient price"

- Who/how to determine what makes a good quality service, what consumers need and what's an efficient price?.
- Scope for consumers to define their needs is limited by Rules, guidelines, standards, policies, models, procedures, directives, ISPs, RIT-Ts and RIT-Ds....

The AER's expectations for a targeted capex review

- Top down testing of total capex forecast & at category level
- Evidence of prudent and efficient decision making on key projects
- Evidence of alignment with asset and risk management standards
- A steady and stable regulatory asset base
- And then – *"Genuine consumer engagement on capex proposals"*

We support a targeted review approach, but note:

- Where and when in the process can consumers be 'genuinely engaged'?
- How will consumers define the outputs they want (given the rules, reliability standards etc)?
- Importance of "equipping consumers" & having "breadth and depth" if the engagement is to be genuine
- Equipping consumers to genuinely participate must include providing a business narrative, & legal/regulatory primer
- Requires the network and consumers to be flexible and adaptable - expect an iterative processes
- Not only "top down"
- Transmission and distribution capex processes may require different approaches -transmission becoming increasingly important and Handbook may need to expand on this

Opex proposals & AER's targeted reviews

AER: *“Broadly, we must decide whether or not we are satisfied that the opex forecast proposed reasonably reflects prudent and efficient costs required by a network business to deliver the current levels of service to customers”*

- Have we lost the customer in this ‘objective’?

AER's expectations for a targeted review:

- Use of the base-step-trend approach
 - **Base cost** is consistent with the economic benchmark efficiency score >0.75 (or consultant report for gas). Adjustments to the base cost to be discussed with the AER
 - **Trend** in output, price and productivity growth – factor in a ‘challenge’ productivity growth?
 - **Step** changes limited to “a few well justified ones, or none at all” for regulatory obligations, capex/opex substitution & step change driven by major external factors outside the control of the business
- Category specific forecasts – limited to categories previously identified
- Consumer engagement evidence
 - Provide details on how the proposed forecast opex is consistent with or takes account of consumer preferences
 - Where forecast deviates from the consumers’ preferences or the base-step-trend approach, then this should be discussed with consumers & outcomes identified

We support this targeted review process, and suggest:

- AER indicate an acceptable range for total opex before the draft proposal (‘tram tracks’)
- Include indicative materiality threshold(s) for the step changes
- Review whether ‘current levels of service’ is the optimal target (what do consumers’ think)

Regulatory depreciation & targeted review

AER: “no more or less than the real value of the asset should be recovered through regulatory depreciation over the economic life of the asset in net present value terms” ...

- An even profile of recovery over the life of the sunk assets avoids distortions and provides stability:

AER's expectations for a targeted review

- Business use the AER's post-tax revenue, roll forward & depreciation tracking modules without amendments – straight line depreciation
- The asset classes and asset ages would be unchanged from last approved review

Changes to be discussed with AER and consumers

- Accelerated depreciation, reclassifications of assets, changes to asset age
- Changes can have a significant impact on network cost profile, and prices
- Rules provide some degree of discretion in the choice of depreciation approach

We support the targeted review, but notes:

- Potential impacts on the regulated tax allowance as well as network prices?
- Should changes in approach apply only to new assets, or overall?
- Customer engagement on this topic can be difficult (well done Powerlink!)
- Gas distribution network depreciation a significant issue – Governments' policies/risk sharing
- Is AER correct in suggesting that technology obsolescence is not a significant issue for electricity networks?
- Economic life & excess capacity in some areas of the network?
- Intergenerational equity?

CCP observations: The good & the not so good engagement

The good:

- Early development of a shared 'business narrative' to provide broader business context, shared objectives, measures of success etc
- Building sustained relationships over time between the business and consumers/consumer representatives
- Clear communication – targeted to different consumer sectors
 - Panels and sub-panels
- Openness to challenging views/allow time for genuine discussion
- Adaptability – it's a long process and things will change, sometimes drastically (ElectraNet example)
- Business commitment to change & feedback - from Board down to the field worker

CCP observations: The good & the not so good engagement (2)

The not so good:

- Capex proposals: “its just a cup of coffee a week” (for 50 years!)
- Scary pictures that distort perception of actual risk:
 - bushfires, storms, broken towers
- Simplistic choices and implied threats to services
- ‘Guiding’ the engagement
- Swamping the meetings with detailed presentations
- Leaving it all to the ‘reg guys’
- Narrow stakeholder coverage

Tariffs

- Demonstration of significant stakeholder engagement and broad stakeholder support for tariff proposals is essential
- The role of tariffs as part of a business narrative
- Two way feedback – tariffs should also improve business efficiency
- Careful consideration of any adverse customer impacts will be necessary along with discussion about ‘losers’ and how they will be informed / supported / transitioned
- Avoid confusing cost-reflective tariffs with tariff complexity: increase cost reflectivity but minimise unnecessary complexity
- Remember that customers may have other off-grid and alternative technology options. The role of tariffs to reflect future costs vs recovering sunk costs (RAB and rate of return)
- Tariff implementation after final decision for 5-year implementation
- To what extent can retailers be expected / encouraged to participate and to pass on “network price signals”?