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Consumer
Challenge
Panel

11/01/2019

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne, Vic, 3001
By email: NTPowerWater2019@aer.gov.au Cc: ccp@aer.gov.au

Dear Chris,

Re: Power and Water Corporation electricity network revised revenue proposal 2019-24

Please find attached our submission in relation to the above network determination.

Kind Regards,

Andrew Nance on behalf of CCP Sub-panel 13

Consumer
Challenge
Panel

Advice to the Australian Energy Regulator (AER)

Consumer Challenge Panel Sub-Panel 13

Response to Power and Water Corporation revised proposal for a revenue reset for the 2019-24 regulatory period

Sub-Panel 13

Andrew Nance

Mark Grenning

11/01/2019

Executive Summary

CCP 13 has considered Power and Water Corporation's Revised Regulatory Proposal (RRP) of 29th November 2018 in light of the objective of the CCP which 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.

Our overall conclusions are:

- There are a number of outstanding issues relating to proposed opex and capex expenditure that will require further analysis by the AER before we can conclude that the RRP is in the long term interests of NT electricity consumers, and
- PWC has undertaken a quality consumer engagement programme recognising the constraints it faced from this being the first time PWC has gone through the AER review process, the level of knowledge and understanding of the reset process with NT consumers and the lack of funding support for consumer advocates.

The submissions the CCP 13 makes at the various stages of the AER's review of PWC's 2019-24 revenue proposal have been informed by our interactions with the business, AER and NT customer representatives over a period of nearly two years. We want to acknowledge the immense amount of excellent work undertaking by all parts of PWC as it has progressed through the various stages of the revenue reset process. CCP13 has benefitted from the very co-operative, supportive and genuine engagement with PWC.

This has been a very steep learning exercise undertaken with limited resources and at a time of legacy PWC information and management systems that were well short of what is available to other networks that have a long experience with the revenue reset process. And all this was happening concurrently with the need to manage the transition to the National Electricity Rules.

2019-24 will be a challenging period for PWC

2019-24 will be the start of a huge transformation for PWC that is designed to embed significant improvement in performance not just for the next revenue period but for subsequent periods as well. There will be major changes in asset and maintenance management, work practices, planning and evaluation practices and this will require a fundamental change in the organisation's culture. Management has recognised this. As the Chief Executive comments:

> *"There is a lot to do within our organisation to deliver our proposed plan and the cost efficiencies we are committed to. Our staff and service providers are fully committed to this challenge to ensure we contribute positively to the Territory's economy and provide long term benefits to our customers."*[1]

This required change will be a challenge for many in the organisation who are used to the "old ways". It is a delicate balancing act in deciding what should be achievable as a stretch target and what might push the organisation "over the edge" so that the level of improvement is

[1] "A Message from the Chief Executive" PWC "Overview of our up-dated five-year plan" Attachment PWCR01.11

considerably lower because management loses "control" of the rapidly changing process. The AER has effectively recognised this as a potential outcome in not applying EBSS – consumers should not have to bear 30% of any opex over-run.

Public ownership of each stage of the supply chain as well as retail price regulation for small customers also provides important context for this regulatory process. PWC has proposed some significant progress towards the desirable aim of cost reflective network pricing. However, the vast majority of customers (85,000 out of 85,200) are covered by the Pricing Order and hence may see no impact in their bills. The changes made in large customer pricing that will impact this sub-sector, are welcome.

This submission focuses on the areas that are both within the CCP scope and where the PWC RRP differs from the AER's Draft Decision. The matters that we will not be commenting on are:

- Rate of return - PWC disagrees with an aspect of the AER's calculation of the debt transition component
- Regulatory taxation allowance – covered by the AER decision in December[2]
- Topics where PWC has accepted the AER's Draft Decision eg pass through events, parts of capex eg Wishart substation, incentive schemes and connections policy
- Alternative Control Services - with focus on Standard Control Services

This leaves the areas we do comment on as:

- Consumer engagement
- Demand forecasts
- Opex
- Capex
- Tariff Structure Statement

A. CONSUMER ENGAGEMENT

There was a clear need to educate and equip consumer representatives to understand and contribute to the development of the revenue proposal. As we noted in our earlier submission on the PWC initial Proposal, given the combination of public ownership, price control and small customer base, it is not surprising that consumer engagement is at a relatively low level when compared with other jurisdictions. We are encouraged by PWC's commitment to ongoing consumer engagement, building on the reset process to improve the capability in consumer organisations to more effectively engage with PWC. We see a key issue in the success of this will be the ability of consumer groups to access Energy Consumers Australia (ECA) funding and support, which is not possible currently.

Recommendations:

a) That the AER accept that PWC has undertaken a high-quality consumer engagement process and is well informed of consumer interests and concerns in framing its revised proposal.

[2] Regulatory tax approach review 2018 www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/regulatory-tax-approach-review-2018

B. LONG-TERM INTEREST OF CONSUMERS

Our approach to considering the long-term interests of consumers is based in the National Electricity Objective (NEO). The NEO is an economic efficiency objective that is often described in terms of three dimensions: productive, allocative and dynamic efficiency.

There are a number of issues in the PWC proposal which show or raise the prospect that the proposal is not necessarily in the long-term interest of consumers – particularly in relation to capital expenditure.

1. Demand Forecasts

Our starting point was to examine the demand forecasts prepared by AEMO. Our submission on the initial PWC proposal expressed concern that the AEMO demand forecasts were too optimistic and should be reviewed given later NT Treasury advice on a more pessimistic economic outlook, the NT Government's 50% renewables target and the level of energy productivity improvements we saw occurring in larger Territory users. A subsequent revised AEMO forecast had a slight reduction in connections but no change in consumption or maximum demand. Subsequent to the revised AEMO forecast being completed a further NT Government report has been published suggesting significant structural problems in the NT fiscal outlook. These could have a potentially significant adverse impact on economic activity over the next 5 years.

The impact of overly optimistic demand forecasts is different in the NT where the Government owns all parts of the supply chain and uses the Pricing Order to control the prices paid by most customers. Demand below the forecast will result in adjustment of PWC prices to Jacana to ensure recovery of the revenue cap. But to the extent that the Pricing Order prevents Jacana from passing on these price increases, increases in PWC network prices will be reflected in a larger Government subsidy to Jacana. A higher government subsidy requirement simply increases the Government's budgetary pressures that in turn influences the Government's ability to push economic growth to arrest the decline in consumption.

Apart from the impact of lower economic growth on total demand, the Government's 50% renewables target to increase the level of renewables will decrease grid consumption further increasing the subsidy requirements to both Jacana and Territory Generation. Again, further budget issues.

We recognise that, even with lower demand, there may be limited scope for PWC to adjust its expenditure given the large fixed cost component in a small network. Nevetheless, we strongly encourage the AER to consider the impact of lower demand as it considers the RRP.

Recommendation

b) *The recent report on the NT's budget situation support the AER closely examining the implications of too optimistic a demand forecast on the RRP revenue proposal.*

2. Operating Expenditure

The move to 2017/18 as the base year has resulted in an increase in base year opex. The 10% top down efficiency improvement has been replaced by an 8% bottom up efficiency improvement. PWC are to be commended for their general approach to opex, recognising the significant improvement required.

Recommendation

c) AER to closely review revised opex given the revised base year, uncertainty on demand and the outcome of the opex productivity review outcome.

3. Capital Expenditure

In capex, PWC has agreed with parts of the AER Draft Decision and presented comprehensive additional information to justify higher expenditure in other areas. The level of analysis in some areas still leaves gaps in a clear identification of consumer benefits, especially in ICT capex.

Recommendation

d) We welcome the increased level of analysis provided by PWC and recommend the AER closely examine the revised capex proposal, particularly in the case of ICT and the potential overall impact of lower system demand.

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ADVICE

A. Consumer Engagement

The effectiveness of network businesses' engagement activities with their customers and how this is reflected in the development of the network businesses' proposals

Post lodgement of the initial proposal, PWC has undertaken a range of consumer engagement activities that have continued their quality consumer and stakeholder engagement programme. These are outlined in Chapter 2 of the RRP. PWC has kept us informed of these activities as limited funds meant that CCP 13 was unable to observe activities first hand.

PWC engagement has resulted in a much more informed Customer Advisory Council (CAC) that will continue to meet as BAU consumer engagement. A key to the continued success of the engagement and an expanded capability of consumer advocates will be the availability of funding to support this advocacy. We encourage PWC and the NT Government to pursue membership of Energy Consumers Australia (ECA) as a key step in expanding the capacity and capabilities of consumers to engage in the regulatory processes.

Recommendations:

a) *That the AER accept that PWC has undertaken a high-quality consumer engagement process and is well informed of consumer interests and concerns in framing its revised proposal.*

B. Long-term Interests of Consumers

Whether the network businesses' proposals are in the long-term interests of consumers

B.1 Overview of PWC Revenue Proposal

The key building block features of the revised regulatory proposal (RRP) compared to the AER Draft Decision are:

- not accepting the AER's approach to calculation of base year opex – RRP proposes increased opex compared with both the AER Draft Decision and PWC initial proposal
- partial acceptance of the AER's capex with disagreement around particular projects esp Berrimah sub-station – RRP proposes increased capex compared with the AER Draft Decision but lower than the PWC initial proposal
- accepting the AER's decision on incentive programmes and pass through events
- accepting the AER's approach on establishing opening RAB and forecast regulatory depreciation; additional proposed capex means that RAB is higher at the end of the 2019-24 period that it is at the end of the current 2014-19 period; the increase is lower than PWC's initial proposal and higher than the AER's Draft decision
- not accepting the AER's decision on application of the debt transition in calculating the rate of return

The following table summarises the numbers.

$2018-19	2014-19[1]	2019-24					
		PWC Initial Proposal	AER Draft Decision	% change	PWC RRP	% change vs PWC Initial Proposal	% change vs AER Draft Decision
Opex	$459.7m*	$339.3m	$305.9m	-9.8%	$351.3m	3.5%	14.8%
Capex	$264.7m*	$384.2m	$316.4m	-17.6%	$339.3m	-11.7%	+7.2%
RAB							
- End of current period	$938.0m	$973.5m	$966.4m	-0.7%	$967.4m	-0.6%	0.1%
- End of 2019-24		$1,092.7m	$1,043.6m	-4.5%	$1,066.0m	-2.4%	2.1%

1. Ministerial allowance, adjusted to exclude metering related costs (assumed to make up 3% of opex, capex and RAB) and for inflation to convert from $2013-14 to $2018-19. (Values marked with a * were updated to reflect latest actual / forecast inflation)
2. RAB value as at 30 June 2019 determined in the AER Draft Decision.
3. Values are for SCS only.
4. Capex is net of capital contributions and disposals.

Other key objectives highlighted in the RRP are:

- improving reliability in poor performing rural and urban areas
- rolling out smart meters on a new and replacement basis, thereby helping make energy technology and pricing innovations available to them, and
- providing more cost reflective tariff structures.

B.2 AEMO Demand Forecasts

The CCP engaged with PWC in a range of discussions and telephone conferences. One of the outcomes was the decision to commission an updated demand forecast from AEMO.

As part of its initial proposal, PWC commissioned AEMO to provide long term demand forecasts for the period 2017/18 to 2026/27 for the three network regions – Darwin-Katherine, Alice Springs and Tennant Creek. These forecasts were prepared based on information provided by PWC up to 18th August 2017. AEMO's overall conclusion was for a moderate decline in both maximum energy demand and energy consumption.

Analysis of these forecasts was a key issue for the CCP in its submission on the PWC initial proposal.[4] Our analysis concluded that the forecasts may overestimate future demand and recommended that AEMO be commissioned to provide an updated forecast based on:

- latter data available from the NT Treasury in May 2018 indicating a slowing of economic growth, and
- the NT Government's 50% renewables policy.

PWC has presented these revised AEMO forecasts as part of the its RRP. AEMO provided an updated forecast of customer connections numbers and a review (not an updated forecast) of

[4] See pp 44-49 https://www.aer.gov.au/system/files/Consumer%20Challenge%20Panel%20subpanel%2013%20-%20Issues%20paper%20Power%20and%20Water%20electricity%20network%20revenue%20proposal%202019%E2%80%9324%20-%2016%20May%202018.PDF

peak and total demand numbers. Time and resource constraints prevented an update of the latter – though the impact of maximum demand on PWC capex is minimal.

We consider that these revised forecasts may still be too optimistic. In December 2018, the NT Government released "A plan for Budget Repair"[5] report suggesting that even the May 2018 assumptions used by AEMO may still be too optimistic. The report highlights the difficult budget situation faced by the NT Government. There is a significant structural deficit that is unlikely to be resolved for at least a decade, even with reduced Government expenditures. This is driven by lower GST receipts, no more assets to be privatised, the end of the cycle of infrastructure projects with the completion of Ichthys LNG project. High and rising debt levels place a significant constraint on the ability of the government to drive economic growth in a place where Government spending is the key determinate of economic and population growth.

Structural changes are difficult to incorporate into AEMO's demand forecasting approach which relies on continuation of historical trends and relationships as the basis for its forecasts.

What does this mean for C&I connections?

The impression CCP13 had in our discussions with C&I customers in 2017 and 2018 is that the economic outlook is grim. They see the end of the investment boom and nothing to replace it. In its September 2017 forecast, AEMO has the following table:[6]

Table 1 Darwin–Katherine connections forecast

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
RES	59,678	60,028	60,485	61,016	61,556	61,756	61,957	62,154	62,351	62,547
C&G	10,233	10,343	10,502	10,684	10,870	11,052	11,235	11,421	11,611	11,800
C&I	224	228	232	237	242	246	250	253	256	260
Total	**70,135**	**70,599**	**71,219**	**71,937**	**72,668**	**73,054**	**73,442**	**73,828**	**74,218**	**74,607**

In its updated November 2018 forecast it has this table:[7]

Table 1 Darwin–Katherine connections forecast (number of connections)

Customer type	*2017-18 actual*	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
RES	*61,061*	61,962	62,533	63,210	64,183	64,765	65,353	65,944	66,541	67,142
C&G	*9,823*	9,959	10,095	10,232	10,368	10,504	10,640	10,776	10,913	11,049
C&I	*174*	179	183	187	192	195	199	202	206	209
Total	*71,058*	72,100	72,811	73,629	74,743	75,464	76,192	76,922	77,660	78,400

[5] "A plan for budget repair – interim report" 14th December 2018 https://nt.gov.au/news/2018/december-2018/a-plan-for-budget-repair-interim-report

[6] AEMO Power and Water Corporation Maximum Demand, Maximum Consumption and Connections Forecast September 2017 p.5 www.aer.gov.au/system/files/PWC%20-%2004.4P%20AEMO%20PWC%20Maximum%20Demand%2C%20Energy%20Consumption%20and%20Connection%20Forecasts%20-%20Sep%202017.pdf

[7] AEMO 'Forecasting Advice for the Revised Regulatory Proposal" November 2018 p. 7 www.aer.gov.au/system/files/PWC%20-%2003.2P%20-%20Forecasting%20Advice%20for%20the%20Revised%20Regulatory%20Proposal%20-%2029%20November%202018.pdf

There was a change in categorisation of C&I customers in the latest forecast but the increase over the 2019-24 period is 20 vs 22 in the earlier forecast. This suggests a relatively minor reduction in the largest customer class.

We have had detailed discussions with PWC around specific customer assumptions used by AEMO in its revised forecasts. We have concluded that these assumptions contribute to overly optimistic forecasts of total consumption.

What does this mean for energy efficiency assumptions?

The AEMO forecast uses a trend from 2012:[9]

> *"Since 2009, at the territory-level there has been a reasonably constant improvement in the energy efficiency of appliances and buildings. This supports the use of a trend-based approach developing models from data no older than 2012."*

However, no data is provided on the trends since 2009.

C&I customers response to the grim economic outlook is to focus on driving improved energy productivity/efficiency measures at a significant rate. We saw examples of a third reduction in electricity consumption due to revised air conditioning operation, a major use in the Territory. So, we wonder if a trend from 2009 will be a good forecast of the 2019-24 situation.

What is our conclusion?

While it is difficult to translate the recent report on the state of the NT Government finances into demand forecasts, it does suggest that more fundamental structural factors may be at work in the NT economy over 2019-24 leading to poor economic growth. This plus our interpretation of specific customer assumptions leaves us with a view that the demand forecasts are likely to overstate actual levels over the regulatory period. Against this context, we generally support the AER's Draft decision and do not support the additional revenue sought by PWC in their RRP. Of course, this does not preclude support for additional funds where the AER considers sufficient justification has been provided in the RRP.

Recommendation

> *b) The recent report on the NT's budget situation support the AER closely examining the implications of too optimistic a demand forecast on the RRP revenue proposal.*

B.3 Operating Expenditure

PWC are to be commended for their general approach to opex. They recognised that significant change is required and proposed a large reduction in their base year opex. The steps in the opex calculations can be illustrated using Table 4.2 in the RRP.[10]

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[9] Ibid p. 14

[10] RRP p. 38

Table 4.2 – Updated base year opex

$M, Real 2018-19	Initial Regulatory Proposal	Draft Decision	Revised Regulatory Proposal
Source for base year	2016-17 audited actual opex	2016-17 audited actual opex	2017-18 audited actual opex
Base opex (before adjustments)	75.8	75.8	88.4
Removal of provisions	-	(0.8)	(0.4)
Removal of GSLs	0.0	0.0	(0.1)
Capitalisation change	(5.5)	(5.5)	(6.3)
Non-recurrent expenditure adjustments	-	(10.4)	(7.9)
Efficiency adjustments	(7.0)		(6.6)
Adjusted base opex (before trending)	63.3	59.1	66.9

- In its initial proposal, PWC, using 2016-17 as the base year where actual costs were $75.8m, proposed an adjusted base of $63.3m which included a top down 10% reduction in base opex

- The AER Draft Decision, again using 2016-17 as the base year, proposed an adjusted base of $59.1m which included a 14% reduction to base opex following a bottom up category level assessment that included reductions in the PWC proposed expenditure for maintenance, vegetation management and network overheads

- In its RRP, PWC now using 2017/18 as the base year (AER agrees to this being the base year) where actual costs were $88.4m, proposes the base year cost of $66.9m; this was calculated through a combination of removing non-recurrent costs, other adjustments (eg capitalisation of leases) and a bottom up category analysis of efficiency savings; the total efficiency savings were $6.6m or 8% of costs after all adjustments and removal on non-recurrent costs.

So it will be up to AER to assess whether the proposed base year is appropriate. We would also encourage the AER to review the BIS Oxford real labour cost escalation forecasts which are for real increases significantly above the AER's Deloitte forecasts. We doubt their credibility given the forecast difficult economic conditions likely to prevail in the Territory over 2019-24.

The AER's decision to not apply EBSS in 2019-24 (which PWC accepts) reflects the risks involved in PWC actually achieving that opex level. Applying an EBSS in the situation where PWC does not achieve the opex allowance will leave consumers paying 30% of the increase costs over the allowable level. This is why we support the AER decision to not apply EBSS.

We look forward to the approach to be determined on how the conclusions from the opex productivity review will be applied. We do not accept the PWC argument:[11]

> *"However, as noted above, our proposed efficiencies were made on the basis that a 0% productivity factor would apply and they would be achieved by 2023-24. If a positive productivity factor were adopted (such as the 1% included in the AER discussion paper on the review), then the base year efficiencies would need to reduce."*

The AER review is about how the "efficiency frontier" should move out over time. Given that networks are at various points in relation to the frontier (some are "not materially inefficient" and some are "materially inefficient") we expect that the same productivity factor will apply to all networks irrespective of their position in relation to the frontier.

Recommendation

> c) *AER to closely review revised opex given the revised base year, uncertainty on demand and the outcome of the opex productivity review outcome.*

B.4 Capital Expenditure

CCP13's general approach to capex is to comment on high level trends and methodological approaches and select one or two particular projects to look at more closely. Otherwise we rely on the AER's and its consultant's expertise with the repex model and individual project evaluation.

A common conclusion in the AER's Draft Decision was the need for PWC to provide additional information to justify the proposed capex. This is the case across many networks.

Our experience across networks is that while there has been significant improvement in the last couple of years, there is considerable scope for further improvement in the economic evaluation of capex projects. Given the regulatory structure is designed to replicate a workably competitive market, this should mean that:

- There is always a limited capex budget and not all projects that meet the RoR hurdle are approved
- The funding is not given until a full business case is presented by the project proponents and independently evaluated

Now we recognise that the 5 years regulatory cycle means that there will be a varying level of analysis underlying a networks capex programme – but it is reasonable to expect those projects to be implemented in the early years of the regulatory period would have a greater level of certainty ie lower contingency and more developed risk analyses.

The PWC RRP capex compared to the initial proposal and AER Draft Decision is shown in the following table:[12]

[11] RRP p. 40
[12] RRP p. 17

Table 3.1 – Forecast capex 2019-20 to 2023-24

$M, Real 2018-19	IRP	Draft Decision	RRP
Augmentation	60.6	35.9	35.8
Connections (including gifted assets)	62.7	61.6	55.5
Replacement	148.6	129.0	141.0
Non-Network ICT	37.5	25.7	32.1
Non-Network Other	69.4	54.8	56.1
Capitalised overheads	66.9	58.4	65.1
Equity raising costs	1.2	0.7	0.9
Total gross capex[1]	**446.9**	**366.2**	**386.7**
Less capital contributions	(62.7)	(49.0)	(46.6)
Less disposals	-	(0.8)	(0.8)
Total net capex[1]	**384.2**	**316.4**	**339.3**

The Draft Decision particularly reduced capex in most categories, but especially augmentation, repex and non-network ICT. PWC agrees with the approach in some areas eg augmentation but not others eg repex. A common reason for the reduction in capex was around the lack of information provided to justify the investment. In the RRP PWC have provided what they consider is the required additional information to satisfy the AER that the revised lower proposed expenditure is justified eg Berrimah sub-station and Darwin suburb's cables. We leave it to the AER to assess if this additional information justifies the revised expenditure.

However there is a consistent theme in PWC's RRP – when PWC has looked at the issue more closely post the initial proposal, the level of requested capital was generally revised down. We welcome the effort PWC is putting into developing risk and asset management practices to support its capital programme analysis. We offer the following comments on how two different examples of the capex proposals have developed since the initial proposal where PWC has not accepted the AER's Draft Decision:

Repex – Alice Springs pole replacement

PWC initially proposed capex of $12.6m. The AER reduced this to $6.5m and the RRP proposes $10.2m. The AER Draft Decision scaled back the requested capex because of the CBA overstated risk and was unlikely to represent the most efficient outcome. Following the AER's Draft Decision comments around the lack of quantitative risk analysis and subsequent discussions between the AER and PWC, further comprehensive analysis has been completed incorporating a probabilistic risk-cost methodology. This suggests a much stronger justification for the RRP proposed expenditure.

PWC presented the proposal to their October 2018 CAC meeting. PWC comment that:

> *"The CAC noted that public safety should be a priority in our decision making. We canvassed the idea of targeting poles in more populated areas as a means of reducing costs to customers in the 2019-24 regulatory control period. In response to a question, we provided a rough calculation of the cost of a pole on customer prices. The CAC*

considered that we should address all poles at serious risk of failing regardless of location."

While PWC provided a reasonable amount of information to the CAC discussion, we would caution on relying too heavily on CAC feedback to justify expenditure. Despite the CAC view, PWC did scale back their request following further analysis.

ICT

ICT is an area where the AER Draft Decision sought further information. We welcome the reduction in ICT expenditure with a more realistic view of the pace of implementation and delivery. Even with the lower proposed capex, we note PWC's comment:[15]

> *"In our Initial Regulatory Proposal, we quantified reductions to staff numbers for some ICT programs. However, we had not undertaken a comprehensive quantification of benefits for each of the 22 ICT projects. To a degree, this reflected our limited experience in performing such analysis. It also reflected the inherent difficulty in identifying the exact dollar benefits from improvements to processes and analytics.*
>
> *For the Revised Regulatory Proposal, we have not had enough time to develop a robust quantification methodology. We will continue to work on developing a framework as part of our ongoing improvements."*

In our experience, all NSPs have difficulty in quantifying the benefits of ICT expenditure. Consumers need to be confident that the expenditure has a quantifiable benefit – not simply "we need to get the latest version". If the latest version does, for example, enable lower opex then this should be quantified. It is not sufficient to say as PWC does:[16]

> *"In addition to the specific efficiencies, we have also applied efficiency targets to our recurrent network overheads and corporate overheads. We consider several of our priority projects, such as our Target Operating Model and ICT capital program, will be essential in realising these efficiencies. This is consistent with our Initial Regulatory Proposal which recognised these projects as important in achieving the top down 10% efficiency reduction."*

There needs to be much more specific linkage between expenditure and identifiable consumer benefit. Consumers should not have to simply accept it as a promise or statement.

Consumers also need to be satisfied that networks are aware of the risks of aligning with a particular supplier. Locking in with a particular supplier might have scale benefits but also has the risk that this supplier will effectively control future costs and replacement profile eg "we no longer support this model so you will have to upgrade to the new more expensive model".

We look forward to the issues around ICT being more closely examined in a NEM wide review by the AER.

Recommendation

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[15] RRP Revised Capex Overview p. 51
[16] RRP p. 37

d) *We welcome the increased level of analysis provided by PWC and recommend the AER closely examine the revised capex proposal, particularly in the case of ICT and the potential overall impact of lower system demand.*

B.5 Tariff Structure Statement

As we noted at the Forum presentation in October, PWC has made some impressive moves towards more cost reflective pricing across all customer classes. However, given that all but ~200 of the ~85,000 customers are protected by the Pricing Order for those consuming >750MWh/yr, will generally not see these prices, it will be up to the Government to decide how the NT market will transition to more cost reflective prices – and how much of the reduction in PWC costs for 2019-24 will flow through to final consumers.

We support moves to introduce smart meters – even though pricing through the Pricing Order currently does not support using the data smart meters provide. Increasing the penetration of smart meters will increase the scope for cost reflective pricing in the future when Government policy changes.

We support the moves to more cost reflective pricing for the 200 large customers – particularly the removal of declining block tariffs.

CONCLUSION

CCP 13 considers the consumer engagement by PWC to generally be of high quality and appropriate for the NT context. However, there are a number of areas where CCP 13 is concerned that the proposal from the PWC may not be in the long-term interests of consumers – particularly in relation to capital expenditure.

A review of PWC's consumer engagement and consideration of issues that may not be in the long-term interests of consumers, with CCP 13's recommendations regarding these, are concisely summarised in the Executive Summary above.

CCP 13 commends to the AER the issues raised in this advice and the recommendations made.

Signed

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Andrew Nance Mark Grenning
Sub-panel Chairperson