

Consumer
Challenge
Panel

Evoenergy Regulatory Proposal 2019-24 CCP10 Initial response

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Role of the CCP

- Set up under the Better Regulation Reforms
- CCP10 is part of the 'second iteration' of the CCP – for NSW / ACT
- We assist the AER to make better regulatory determinations by providing input on issues of importance to consumers

Represent a consumer
'real world' perspective –
the 'person in the street'

Focus: consumer outcomes
Price, performance,
service, corporate
responsibility

Fair outcomes for all
A well-performing utility is
of best value to the
community

the 'person in the street',
'real world' perspective –

responsibility
service, corporate

community
of best value to the

The “Vibe”

- Evoenergy has undertaken genuine efforts to engage with consumers on both its proposal for the 2019–24 regulatory control period and its proposed resolution to our remaking of our 2014–19 revenue determination. – AER DD
- Our impression is that Evoenergy's consumer engagement processes, including its increased efforts to engage with consumers prior to submission of its regulatory proposal in January this year, have improved significantly in recent years. - AER DD
- "Evoenergy has made significant effort to improve consumer engagement since its last regulatory proposal" and "is making significant steps, as are other network businesses across Australia, to improve the quality of their consumer engagement and to apply continuous improvement approaches". – CCP10

(in “regulatory speak,” this is effusive!)

Recap from 13th April 2018 - Overview

- This proposal is reasonable, and tends to address the contemporary concerns of customers.
- Capex approach to support the progressive energy policies in the ACT is noted.
- The stable approach to the quantum of capital investment is noted.
- TSS: support for Evo's initiatives and focus on demand tariffs. CCP is keen to understand the acceptance and real experience of energy consumers.
- Community engagement on the reset appeared to be a little 'closed', so limited in depth in feedback.
- Some surprise that reliability and network performance were top of the key issues for consumers.
- Interested in Evo's response to recent trends in network performance, and how that relates to the expenditure proposals.
- We present in a spirit of constructive debate.
- We retain a commitment to 'no surprises.'

Consumer Engagement - What was Tried?

- **ECRC**
- **Community Forums**
- **Online?**

Process Overview

REGULATORY TIMELINE



We
are
here

CUSTOMER AND STAKEHOLDER ENGAGEMENT

What was Heard?

- **Affordability**
- **Reliability**
- **Sustainability**

What was Applied?

- Is the price / reliability trade-off reflecting consumer views. NB Theme 2, “Price ...BUT ...”
- CCP had limited opportunity to observe consumer engagement
- Theme 4: is an annual price increase of 5.66% (nominal) “cost reflective and stable?”
- Can the Evoenergy network be used more efficiently?
- Evoenergy has had the second highest increase in network revenues, 2006-16 (price index), is this reasonable?
- Is there enough information about theme 3 “Supporting New technology?”

Topics for Consideration

- Is annual revenue growth > CPI justified. Nominal growth 5.66%,
“X-factor” = -3.08%
- What are consumers saying re price – reliability trade-off?
- How does Proposal stack up against Evoenergy’s 4 key themes?
- Rate of Return – separate process. MRP = 7% seems high.
- To what extent have non-network options been considered?
- Opex is about half the increase in proposed total revenue, are there more opportunities for efficiencies and cost reductions?
- Opex Partial Multifactor Productivity is OK, but Total Partial Multifactor Productivity improved over last 12 months, but still low. To what extent has this continued? How can network be used more efficiently?
- Is a “step change” for increased vegetation management costs warranted?

Topics for Consideration

- **AER's growth trends have been applied but are they appropriate? Eg Zero productivity Are there labour productivity gains to offset forecast wages growth?**
- **How realistic are growth forecasts? Eg Molongolo,**
- **How effective was consumer engagement? What was heard and applied?**
- **Repex is largest component (35% capex), despite a comparatively young network, is this reasonable?**
- **Depreciation / IT spending are related, is IT spending too high?**
- **Contingent Project, how will consumers be engaged?**
- **Rate of return and increased MRP will be addressed in rate of return review**

Current: AER Draft Decision

Positives (for Evoenergy and their customers)

- Consumer Engagement
- RAB trend decline
- TSS
- Openness to discuss all round

Elsewhere

- Rate of Return (MRP = 6%, beta = .6, gamma = .5 - and still prices up)
- Productivity Review

Further Work

- Augmentation capex
- Non network and capitalised overheads, including IT
- Step change quantum
- Demand Management Incentive Scheme

Estimated impact Evoenergy's proposal &AER DD on average annual electricity bills for the 2019–24 regulatory control period (\$ nominal), household and small business.

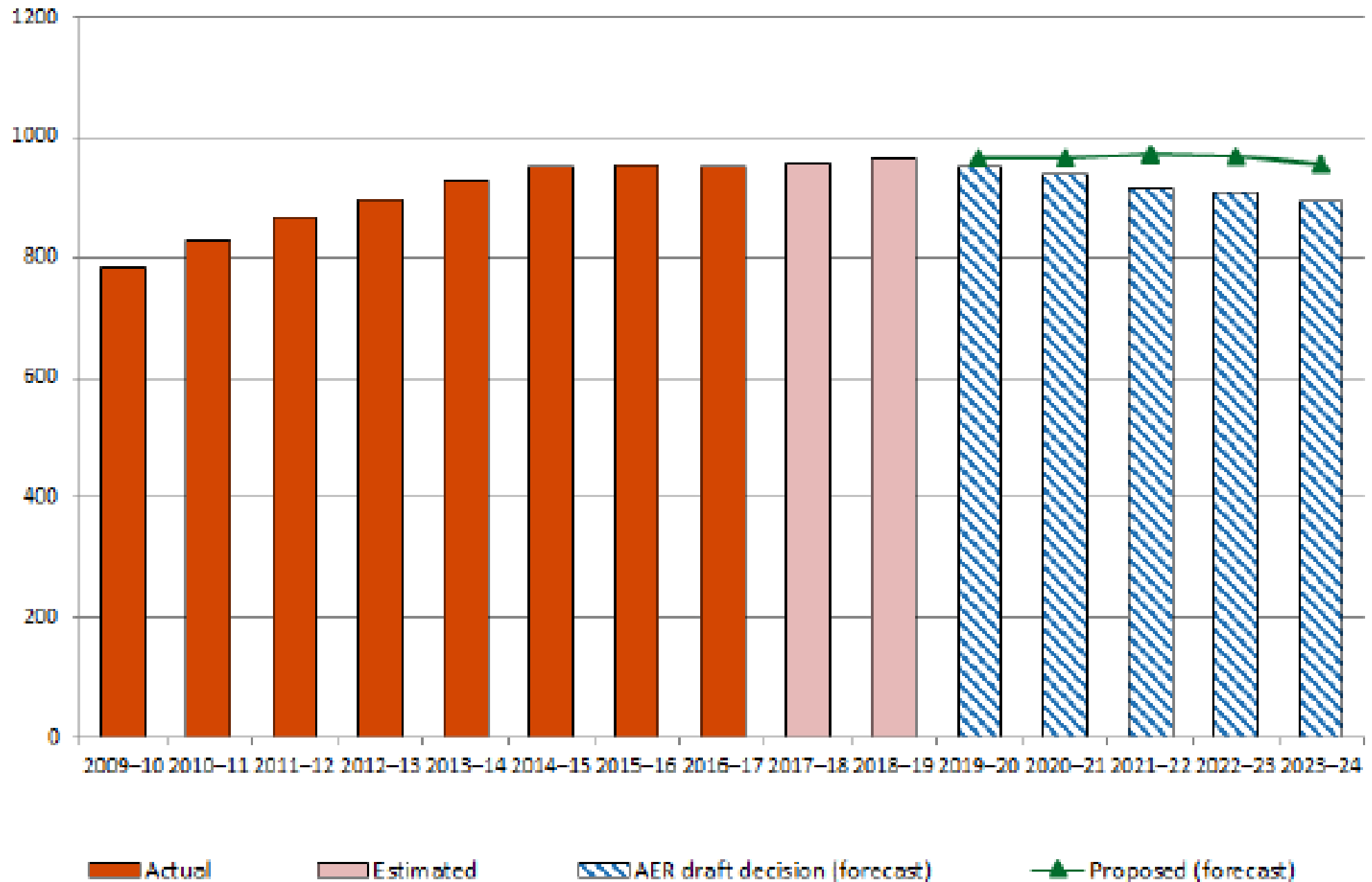
	2019-20	2020-21	2021-22	2022-2	2023-24
AER	3 (0.2%)	18 (0.9%)	11 (0.6%)	15 (0.7%)	14 (0.7%)
EVO	31 (1.5%)	33 (1.6%)	27 (1.3%)	31 (1.5%)	32 (1.5%)

Impacts of DD over 5 years

- The networks component of the average annual residential electricity bill in 2023–24 is expected to increase by about \$61 (\$ nominal) from the 2018–19 level - a 3.0 per cent increase over 5 years.
- Evoenergy's proposal, in 2023–24 would increase by about \$153 from the 2018–19 level - a 7.6 per cent increase over 5 years.
- Average small business (25Mw pa) electricity bill in 2023–24 is expected to increase by about \$213 from the 2018–19 level - a 3.0 per cent increase.
- Evo proposal electricity increase of about \$533, a 7.6 per cent increase in the average small business total over five years.

RAB

Closing
RAB
[\$m, 2018-19)



Capex issues

Table 3 Assessment of required capex by driver 2019–24 (\$2019, million)

Category	Evoenergy	Our alternative estimate	Difference
Augmentation and reliability	\$47.2	\$24.8	➡ (47.5%)
Reliability	\$6.2	-	(100%)
Connections	\$85.9	\$85.7	(0.2%)
Replacement	\$91.6	\$83.6	(8.7%)
Non-Network	\$58.3	\$46.0	➡ (21.1%)
Capitalised overheads	\$75.6	\$58.0	➡ (23.2 %)
Gross Capex (includes capital contributions)	\$365.0	\$298.0	(18.4%)
Less Capital Contributions	\$34.2	\$35.6	0.4%
Less Disposals	\$1.1	\$1.1	-
Net Capex (excluding capital contributions)	\$329.8	\$261.4	(20.7%)

Augex

- More discussion needed on approaches to planning,
- Molonglo zone substation and feeders, Evoenergy's forecast of demand in the Molonglo Valley district is currently subject to considerable change. We consider it would be more appropriate to consider the prudence and efficiency of the proposed augmentation measure once there is greater certainty on the load that would need to be supplied.

Capitalised Overheads

- Evoenergy's proposed capitalised overheads of \$75.6 million (\$2018-19) does not appear to be a reasonable estimate of the prudent and efficient costs required for this capex category. Evoenergy has not justified that its capitalised overheads forecast would form part of a total capex forecast that reasonably reflects the capex criteria.
- In using 2018-19 as the base year for forecasting the fixed price service charge, we consider that Evoenergy has over-estimated its capitalised overheads forecast.
- We also consider that Evoenergy's forecast decrease in direct labour expenditure should lead to a lower support requirement and therefore counter-balance any increase in wages.

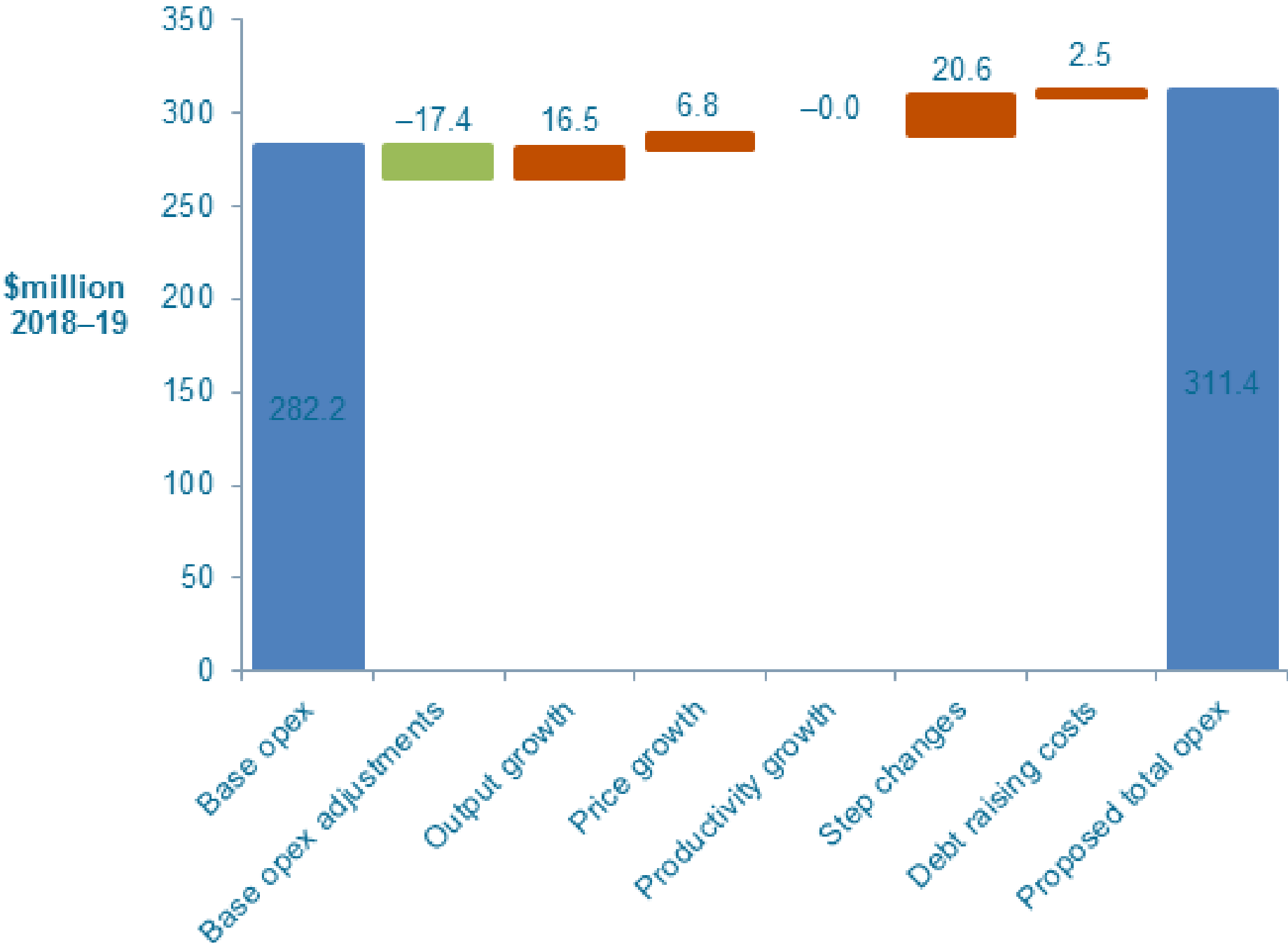
NB Repex:

- Evoenergy's repex forecast is broadly in line with our modelled results for all asset groups except underground cables.

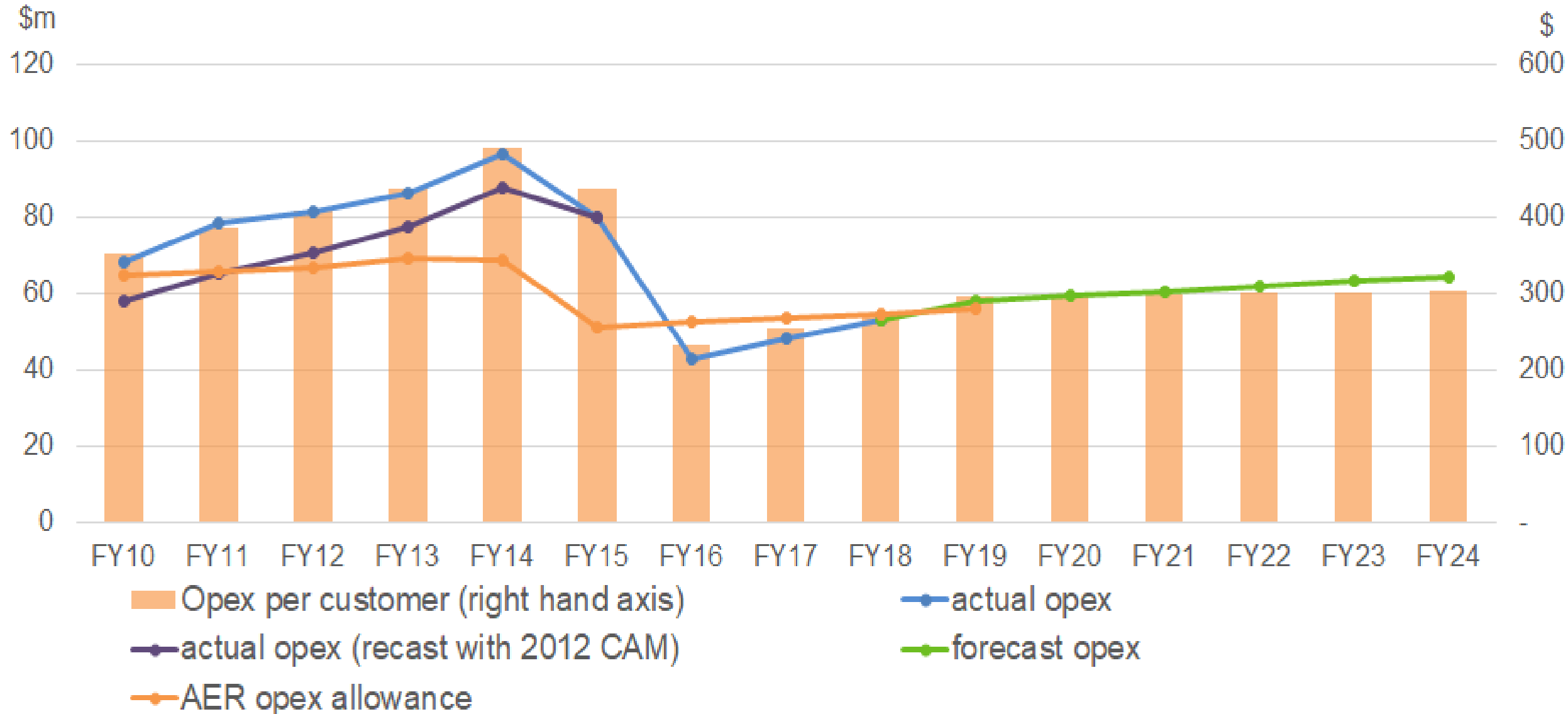
ICT

- Evoenergy has included contingency costs in forming forecast capital expenditure for ICT replacement programs.
 - Evoenergy has not demonstrated that the upgrade of its advanced distribution management system (ADMS) is prudent and efficient in the forthcoming regulatory period. Evoenergy has also not demonstrated any forecast benefits associated with this upgrade within its overall proposal.
 - Evoenergy has not demonstrated that proposed ICT asset extension programs are prudent and has not demonstrated how any forecast benefits were incorporated into its overall proposal.
 - In particular, we do not consider that increased ICT operating expenditure should lead to an increase in capital expenditure.
- IT spend needs to result in opex reduction (on top of 14-19 improvements)

Opex EVO



Evo opex from January 2018 proposal



Opex
DD

Table 4 Our alternative estimate compared to Evoenergy's proposal
(\$ million, 2018–19)

	Evoenergy	Our alternative estimate	Difference
Base opex	282.2	283.0	0.8
Base opex adjustment	-17.4	-17.6	-0.3
Price growth	16.5	12.0	➡ -4.5
Output growth	6.8	3.5	-3.4
Productivity growth	0.0	0.0	0.0
Step changes	20.6	13.8	➡ -6.8
Category specific forecasts	0.0	0.0	0.0
Debt raising costs	2.5	2.4	-0.1
Total opex	311.4	297.1	-14.3

Wages Growth in ACT below national Average:

Deloitte for AER
WPI = Wage Price Index

Our forecast of expected increase in real labour prices in the ACT ('labour price growth') is lower than proposed by Evoenergy.
- AER DD



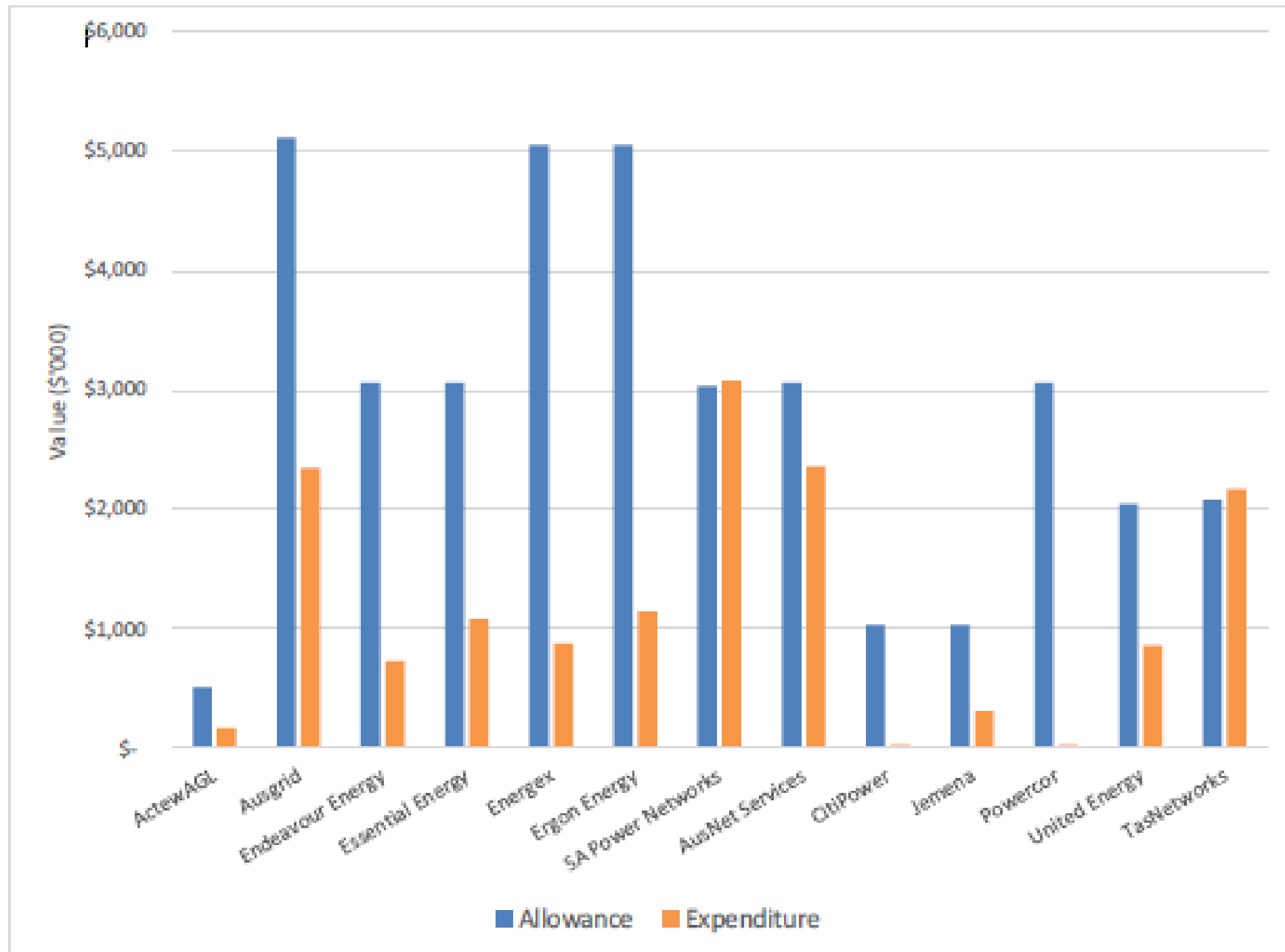
Main Opex reductions

- The step change for Evoenergy's expanded vegetation management responsibilities is lower than proposed by Evoenergy. This reflects our view—based on the information before us—that the prudent and efficient level of expenditure required to meet these new responsibilities is less than Evoenergy has put to us.
- Price Growth: While we accept that Evoenergy's forecasts of maximum demand are reasonable, we have adopted a different measure of maximum demand than Evoenergy's proposal.

Incentives DMIA

DMIA – comparison
of regulatory period
allowance vs
expenditure to date.

ACT has penchant for
innovation, Evo can
be stronger here



Tariff Structures Statement

- We see Evoenergy as the most advanced distributor in the National Electricity Market (NEM) in respect of reforming its residential and small business customer network tariff structures. Its proposal has a stated aim to increase cost reflectivity and improve price signals while concurrently managing customer impacts.
- AER seeking more detail including amendments to provide more certainty as to how customers are assigned to particular tariffs, and of the structure of particular tariffs.
- Tell the story about modelling / customer impacts

Next steps

Comments from AER DD

- In many respects we agree with Evoenergy on the key drivers influencing its revenue requirement for 2019–24. However, a few areas remain in which we require further information before we can accept its proposed increases to capex and opex relative to the current period. - AER DD
- Evoenergy will now have the opportunity to respond to our concerns in its revised proposal. We will continue to work with Evoenergy and stakeholders to ensure that our final decision, which will determine the revenue Evoenergy can recover from its customers for the 2019–24 regulatory control period, is in the long term interests of consumers. - AER DD

Now Its About the Narrative.

From now to the Revised Revenue Proposal, its mainly about “the narrative” But what sort of Narrative?

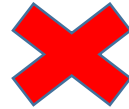
- Fantasy?



- Fiction?



- Who dunnit?



- Romance?



Not there yet

- Autobiography



NB: More discussion still needed on the price vs reliability question