Consumer
Challenge
Panel

CCP10 Response to the Evoenergy Revised Regulatory Proposal 2019-24 and AER Draft Determination

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SECTION 1

Observations of the regulatory reset process in New South Wales and the Australian Capital Territory

OVERVIEW

This section is common to the four submissions that CCP 10 is making in responding to the AER Draft Decisions and subsequent Revised Revenue Proposals from the three New South Wales and the Australian Capital Territory electricity distribution businesses: namely Ausgrid, Endeavour Energy, Essential Energy and Evoenergy. Section 2 and beyond deals specifically with issues relating to each distributor.

The observations in this section relate to our activity during the past two years when we have been engaging with the businesses. We have sought to set out matters relevant to all 4 businesses and the processes that we have observed. It is not our intention to compare the four businesses, rather to derive the common issues. We recognise that while the 4 businesses have many technical issues in common, other aspects of the businesses are quite different - particularly governance and individual business culture.

In this section 1, we address three predominant aspects of the revenue reset process observed by CCP10:

- Firstly, we note the unique circumstances in which CCP10 has operated;
- the second part highlights our observations on emerging best practice in consumer engagement; and
- we then discuss the issues that we believe are emerging NEM wide and that need to be addressed by the AER, the businesses and all stakeholders in the medium term.

UNIQUE CIRCUMSTANCES

At the outset we acknowledge that the context in which the 2019- 24 regulatory processes has been developed is unique with a number of abnormal factors in play, particularly when compared to previous regulatory processes. We have made this point in all of our previous submissions, but we repeat the observations here because they are significant.

Ownership

Changes in ownership have been significant for Endeavour Energy and Ausgrid due to the partial sale of these businesses by the New South Wales government. While Essential Energy has remained under government ownership, it now needs to operate as a separate business just like the other two New South Wales distribution businesses. This means that the New South Wales businesses have dealt with the development of 2019-24 regulatory processes in a very different manner to the approach taken for the 2014-19 regulatory proposals, when the businesses acted as a group under the banner of Networks New South Wales. Evoenergy has changed its name from Actew AGL with this business being separated from other parts of the Actew AGL business group, with retail functions also being separated from network activity.

We recognise that changing ownership and governance arrangements and, in some cases, legislated operational restrictions, coupled with the application of a new ring-fencing guideline (in 2017), have required new processes to be undertaken in developing regulatory proposals for each of the four businesses. This is not to suggest that any of the businesses were unaware of the timing or the rules for development of their 2019-24 proposals, but they provide important context.

2014-19 regulatory process - remitted decisions

One of the significant, unique factors is that the 2014-19 revenue determinations had not been resolved before the initial revenue proposals for 2019-24 were to be lodged. This is due to the Limited Merits Reviews (LMR) and subsequent Federal court appeals that followed from the AER's final decisions for 2014-19, which resulted in aspects of the AER's final decisions being remitted to it to be remade. We note that aspects of final decisions were also remitted back to the AER for a fifth business, Jemena Gas Networks (JGN), though the issues in play for JGN were not as closely correlated with the issues for the ACT and New South Wales electricity distribution businesses. The AER's final decisions were also made after the 2014-19 regulatory period commenced due to changes in the rules for network regulation that were finalised by the AEMC late in 2012, which in turn led to the AER developing the "Better Regulation" guidelines to deal with application of the new rules in 2013. This resulted in a placeholder decision for the first year of the 2014-19 period.

The end result was that the total amount of money that customers would need to pay to each of the businesses for its operation of network services during 2014-19 was not fully known at the time of lodgement of the 2019-24 initial revenue proposals. This means that these regulatory proposals were lodged against a backdrop of some price uncertainty for not only customers but also for each of the network businesses.

An important factor in the initial AER final decisions for 2014-19 was the recognition that the ACT and the New South Wales businesses, in particular, needed to transition from businesses that were operationally inefficient to businesses that were more efficient. The introduction of benchmarking of operational expenditure for Australian network businesses coincided with the release of the original final decisions for 2014-19, another important development in regulatory practice in Australia, though the timing may not have been ideal.

The good news for this 2019-24 regulatory proposal is that the 2012 rule changes in the better regulation approaches are now tested and embedded in Australian network regulatory practice. The introduction of benchmarking was a key element of the better regulation process and so was new in the last regulatory period. Increasingly the AER's use of benchmarking is better understood with the benefit of history and greater certainty in the collection of RIN data across the NEM. We have drawn on aspects of the most recent AER benchmarking report in considering aspects of regulatory proposals, believing that benchmarking is an important aspect of regulatory processes and remains a critical cross check tool for the AER. The use of benchmarking as one of a number of informative tools by the AER helps to secure outcomes that are in the long-term interests of consumers.

Since the processes for developing the 2019-24 regulatory proposals were running parallel to and somewhat determined by the outcomes of the remitted decisions for 2014-19, CCP10 in effect became a party involved in the consideration of each of the remitted decisions. We actively discussed the development of remittal proposals with each of the businesses and with other consumer advocates including ECA, PIAC, NCOSS and EUAA as well as consumer representatives on each of the distributor's consumer engagement committees. We recognise that LMR, other legal challenges and remitted decisions have not been easy to deal with for the businesses, the AER nor consumers. What is clear is that consumers were not well served by the actions of the 4 businesses and Networks NSW in challenging the AER's original 2014-19 Final Decisions.

Restoring Confidence in Energy Regulation (AER 2.0)

It is worth recalling that on 26 July 2017, at an Energy Networks Association (ENA) conference in Brisbane, AER chair Paula Conboy delivered a presentation entitled "Working together to restore confidence in energy regulation." In this presentation she provided some context to the situation at that time:

> "*We have had a highly adversarial culture around energy regulation in Australia. In fact, I was quite shocked at the intensity of that culture when I arrived here three years ago and it has been a conscious effort of mine to move away from it. This adversarial approach needs to change if we are to achieve mutually acceptable outcomes for investors and consumers; outcomes that are in the long-term interests of consumers. I know that many of you agree that a more constructive working relationship with us is essential if we are to move on from an inefficient and ultimately unsustainable adversarial approach*."
>
> Paula continued: "*we want to engage with you and with consumers earlier in the process. We want to identify key points of disagreement early and we want to work collaboratively to resolve them… It's a new way; and in a post limited merits review world; I would suggest it is the only way… We are essentially kicking off AER 2.0*."

The AER then hosted a Round Table discussion about approaches to resolving the remitted decisions in August 2017. That meeting included the relevant network businesses, AER, CCP10 and selected consumer groups and focussed on the need to resolve the remitted decisions expeditiously.

In recognising the uniqueness of the circumstances leading up to the remits for NSW and ACT network businesses, and observing the significant price impacts on households and businesses of rapidly rising energy costs, CCP10 suggested starting with some principles to help shape the more specific aspects of the matters raised in the AER's remittal Issues Paper.

There was no 'roadmap' for resolving the remitted decisions efficiently and effectively nor for the implementation of "AER 2.0." In considering the aspects of the remitted decisions relating to operating costs and debt, both the subject of Issues Papers from the AER, CCP10 proposed the following principles, as a basis for seeking resolution and garnering goodwill:

1. The focus must be on not only the National Energy Objective (NEO), but shorter-term impacts matter too (The short term can impact on the long term, interests of consumers)
2. Recognition of the uniqueness of the current situation
3. Use the best available evidence
4. Apply LMR and Federal Court directives, where they exist
5. The process is of transition from inefficient network businesses, to efficient businesses
6. Objective fairness between businesses
7. Sustainable Opex
8. Dealing with “A New Reality”
9. Trust and goodwill are needed to produce outcomes that work for all parties

CCP10 is relieved that each of the remitted decisions for the 4 electricity distribution businesses have been formally finalised or are near finalisation as of early January 2019. All parties, including the AER, are to be congratulated for the reality that these decisions are practically resolved. By moving on from that unconstructive period of regulatory engagement, the 4 businesses can now shift towards making consumers’ interests their focus. It also frees the AER to continue to develop ‘*a more constructive working relationship’* with the regulated businesses and importantly to focus on systemic issues in the NEM of concern to consumers, some of which we have highlighted in the final part of this section of our submission.

Extensions

We also note that the each of the New South Wales electricity distribution businesses sought three-month extensions for the lodgement of their regulatory proposals. In Essential’s case it was so that it could resolve the 2014-19 remittal prior to lodging its initial proposal for the subsequent regulatory period. In Endeavour and Ausgrid’s case the main reason was to enable the businesses to improve their consumer engagement on their initial proposals before lodging them with the AER.

We believe that all parties have made substantial progress in the (under) 18 months since the initiation of “AER 2.0.” The magnitude of this change cannot be underestimated for network businesses, for the AER and its various teams, consumer groups and the CCP. The level of goodwill has grown between all parties and trust is building and was a major factor in the extensions being granted for each of the three NSW businesses, despite some concern by some stakeholders, including the AER, about the capacity of some of the businesses to utilise the time appropriately for improved consumer engagement.

The resolution of the remitted decisions and the goodwill generated in achieving resolution in most cases in an expeditious manner, has been significant in influencing the Revised Revenue Proposals for each business and of improved consumer engagement by each of the four businesses. We observe that each business has engaged using different timeframes and methodologies, but the intent for better outcomes has become more evident as each business has finalised its Revised Proposal.

Ongoing Regulatory Change

Good regulatory practice, like rust, never sleeps. Over the period in which these regulatory proposals were developed through to lodgement of the Revised Revenue Proposals, there have been a series of revisions to guidelines, rules and legislation that business and consumer interests have needed to take into account:

- legislative change has seen the abolition of LMR during 2017
- legislative change has also resulted in a binding rate of return guideline during 2018. The final rate of return Guideline (the 2018 Guideline) was developed with extensive consultation with a broad range of stakeholder interests and considerable expert input
- rule changes have specifically dealt with ring fencing and a range of proposals have dealt with aspects of distributed energy resources (DER) and access to the grid
- the AER has initiated reviews of aspects of the regulatory framework, which has resulted in changes to rate of return, taxation, treatment of inflation, dynamic productivity for operating costs and tariffs. Separate CCP subpanels have dealt with each of these issues and we refer to submissions on each of these issues from the relevant CCP subpanel. Our advice is intended to be consistent with the CCP views expressed in these processes and
- there has also been clear direction from governments and the AER for network businesses to engage much more directly and transparently with consumer interests.

We recognise that regulation is not an exact science, there will always be aspects of ambiguity and issues upon which regulatory judgement will be required. We also observe that each of these processes have led to improved regulatory process and enhanced certainty for both consumers and network businesses. It is our belief that the result of these various changes to Australian network regulatory processes is starting to shift the asymmetry in network regulation between business and consumer interests to improved alignment with consumer interests and the national electricity (and gas) objectives.

Ongoing Market Change

In their submission in response to the original 2014-19 proposals from the ACT and NSW businesses, CCP1 contextualised their submission by saying:

> "*We consider that there is a new reality facing distribution businesses (and indeed, others in the energy sector) and yet we see limited evidence that the submissions from the New South Wales distribution businesses reflect this and move beyond "business as usual".*
>
> *The new reality is a result of changes in demand and changes in customer willingness to pay high electricity bills, leading to a need for businesses to adapt to meet these new circumstances*."

The imperatives of this new reality have accelerated since this CCP1 observation, from less than five years ago. Some argue that the role of network businesses for electricity distribution is less clear cut than it was even five years ago with DER meaning that there is considerably more localised generation occurring, while the locations for larger scale renewable energy generation are likely to be different from those for fossil fuel-based generation. The role and functioning of the future grid is a global question and one that was considered by the ENA, on behalf of its network members, with the CSIRO through their network of the future "Roadmap".

The pace of change in their businesses and in the regulatory framework is now a reality for network businesses to a greater degree than has been in the past, however this reflects more the privileged position that network businesses have had in the past compared to most other business endeavours. Rapid and dynamic change remains relatively new for network businesses and provides opportunities for greater efficiency and cost reduction for customers - it does not need to be a driver for higher costs.

Price, Trust and External Scrutiny

Energy markets across Australia have been the focus of unprecedented public, political and media attention over the last decade. The cost of electricity has been the major driver of these concerns. During this time electricity costs across the country have risen at a much greater rate than CPI and also incomes for both households and business. This reality is demonstrated in the graph given below in **Figure 1** and produced by the ACCC in its interim report on retail electricity pricing.

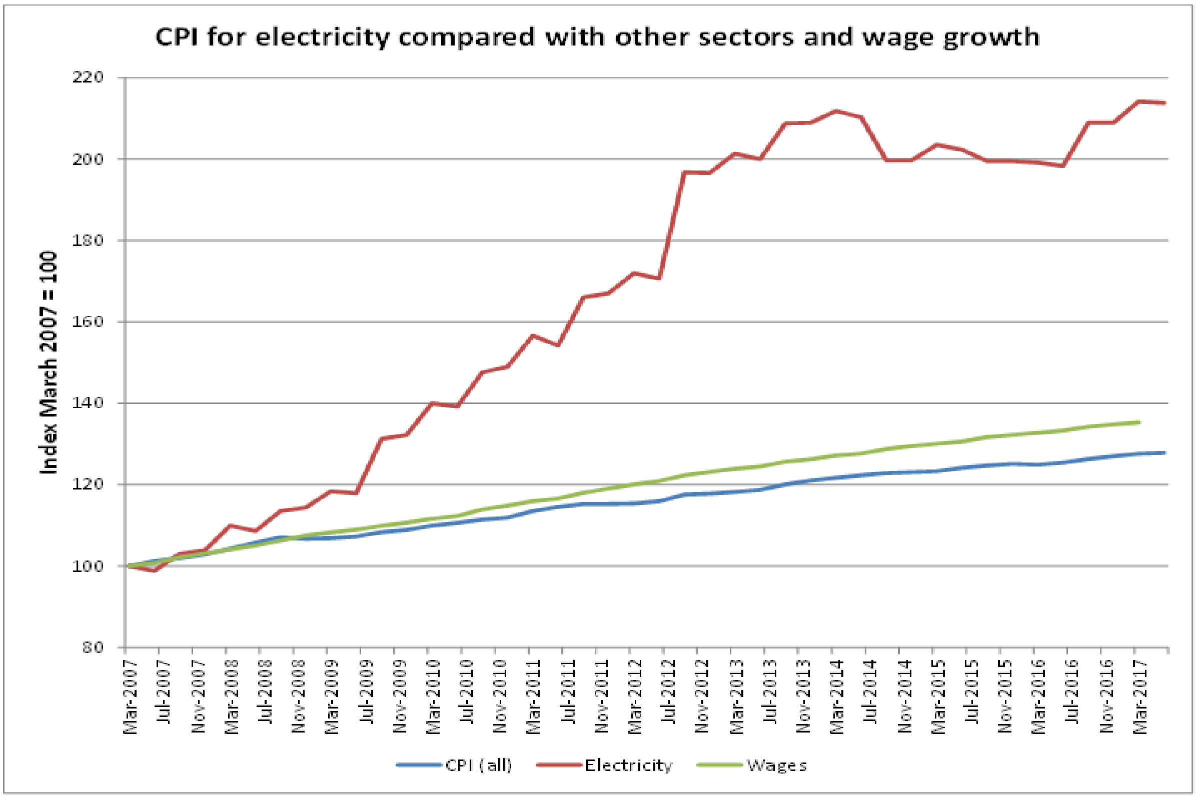


Figure 1: Cost-Price Index and electricity price growth (Source ACCC)

High and rising prices have undermined consumer trust in energy markets.

This is demonstrated through the ECA energy consumer sentiment survey with the December 2018 report presenting the following in response to the question "*How confident do you feel that the overall market is working in your long-term interests*?" For New South Wales, 32% of those surveyed responded positively compared to 15% for the ACT, both of these results were increases on the previous survey six months earlier, up 11% for New South Wales and 4% for the ACT. 28% of people in NSW and 50% in the ACT were negative about the market working in their interests and 40% in New South Wales and 35% in the ACT were neutral. So less than a third of customers feel confident that the market is working for them in the ACT and NSW.

The survey also asked, "*How confident do you feel that the energy market will provide better outcomes for you in five years, in terms of value for money?"* In NSW 34% of people and 19% in the ACT responded positively with 23% in NSW and 38% in the ACT being negative.

We recognise that these survey results refer to energy markets in general and are not specific to network businesses, however the results reflect low levels of trust in all aspects of energy markets, including network businesses and the pressure on every part of the energy supply chain.

Rising prices and low levels of trust in energy markets have attracted sustained political interest with a number of reviews being undertaken including by the Chief Scientist, Prof Alan Finkel and more recently by the ACCC. The ACCC released their report "Restoring electricity affordability and Australia's competitive advantage"[1] in July 2018, this being the final report from their Retail Electricity Pricing Inquiry.

This ACCC final report was published after the initial regulatory proposals from the New South Wales businesses but before their Revised Revenue Proposals. This report also considered areas where consumers could reasonably expect savings in their energy bills, by 2020-21, by jurisdiction. This summary of savings is given in Table 1 below.

[1] https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf

Table A: Achievable average annual residential bill savings by 2020–21

		Achievable savings ($ per annum)						
Region	**2017–18 Bill**	**Networks**	**Wholesale**	**Enviro**	**Retail**	**Reduction**	**2020–21 Bill**	**% Reduction**
Victoria	1457	39	192	34	26	291	1166	20
NSW	1697	174	155	43	37	409	1288	24
South east Queensland	1703	147	192	18	62	419	1284	25
South Australia	1727	13	227	89	42	371	1356	21
Tasmania	1979	113	226	75	—	414	1490	21

For small business customers, similar savings can be made. However, as a larger proportion of small businesses are on standing offers, the recommendation to abolish the standing offer and implement the lower-priced default tariff will have a proportionately greater benefit to small business customers.

The ACCC estimates that small businesses can achieve savings of 24 per cent on 2017-18 prices if ACCC recommendations are adopted (see figure H).[3]

Table 1. Achievable electricity bill savings by jurisdiction (source: ACCC, table A)

Of interest is that the AER concluded that the greatest area for savings for New South Wales customers was from further reductions in network charges, this coming on top of the significant improvements in efficiencies that were achieved by all three businesses over the 2014-19 period.

The achievable savings for NSW customers are summarised below in **Figure 2**.

Figure G: Achievable average residential bill savings in NSW by 2020-21

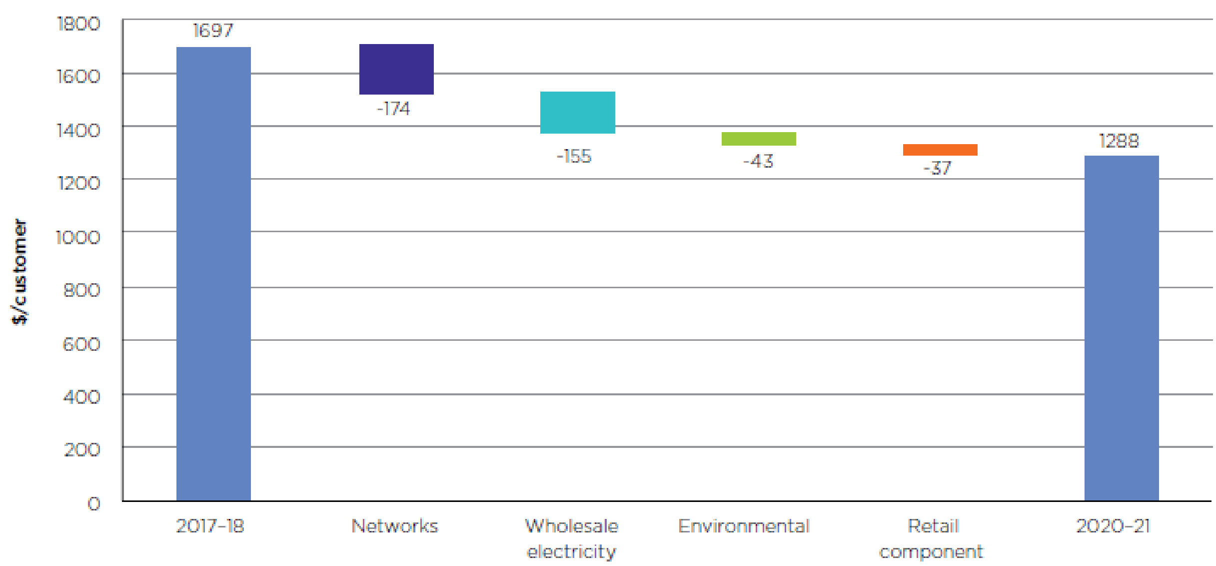


Figure 2. Components of achievable bill savings – New South Wales (Source: ACCC)

OBSERVATIONS OF GOOD ENGAGEMENT

One of the core objectives for the CCP is to provide advice to the AER about the consumer engagement undertaken by network businesses and the effectiveness of this engagement. We were aware of some of the uncertainty that network businesses were reporting about better understanding the expectations and obligations for consumer engagement. So CCP10 met with each of the four businesses as soon as practical after our appointment and highlighted that we would be considering each network's engagement by reference to three broad questions:

- What was tried?
- What was heard?
- What was applied?

In addition, CCP10 encouraged the distributors and the AER to adopt a 'no surprises' approach to engagement and discussion, with the intention of difficult discussions and possibly contentious positions being raised and resolved during the process.

The concept of a proposal that '*is capable of being accepted'* was also generated in our discussions, further reinforcing the approach to resolve key issues as they arise, and have as many issues as possible resolved before the publication and lodgement of the proposals. Such an approach is intended to efficiently reduce the costs for all stakeholders inherent in the preparation and defence of revenue submissions in the propose-respond model, leading to a more understood, engaged and supported outcome for all stakeholders.

We said that we did not expect any particular engagement model to be pursued, rather that the main focus for us would be to consider how consumer views have been applied to regulatory proposals that were lodged.

Each business used different engagement methodologies and worked to very different time frames. Some were infuriatingly tardy in demonstrating what we considered good consumer engagement practice to be. However, we are confident in asserting that all four businesses have dramatically improved their consumer engagement through both the development of their regulatory proposals and in finalising the remitted decisions and we are confident that the expertise acquired and skills applied will have ongoing benefit to the businesses and consumers they serve. Our concern is to ensure that the engagement becomes part of BAU business planning cycles for each business now during the regulatory cycle and that engagement doesn't stop and start up again in 3 years' time.

We congratulate the four businesses for the significant progress they have achieved in developing their consumer engagement practice and in particular the significant internal culture shifts that have been achieved.

At the ENA annual dinner in December 2018 Essential Energy was awarded the ECA/ENA sponsored consumer engagement award, the second year that this award has been offered. CCP10 has been able to observe much of the engagement approaches applied by Essential Energy over the better part of two years and congratulates them on the leadership they have shown in consumer engagement and in being the first business to resolve its remittal process. Their leadership has operated as a benchmark in NSW with wide ranging impact on the other businesses. We believe that Essential's award win is well deserved.

Good practice in consumer engagement

We observe that good consumer engagement practice involves three sets of relationships.

i. *Relationships Internal to the business*

Good practice for consumer engagement starts with the Board and CEO being committed to improving consumer engagement practice including regularly reviewing engagement measures. It involves an internal shift away from primarily relying on engineering plans to a focus that is centred on consumers' needs and a consideration of what consumers are prepared to fund. Essential Energy's CEO along with senior staff demonstrated their commitment through their attendance at a number of regional deliberative forums where it was evident that they were listening closely to their customers.

Staff responsible for consumer engagement need to be closely linked with regulatory staff and other decision-makers so that there is internal consistency in a businesses' commitment to its customers. Another thing we observed was differing levels of feedback from customers being reflected in the Revised Proposals by the businesses. Sometimes, consumer feedback was diligently recorded but led to no changes to the proposal. In other cases the feedback was acknowledged by the business but the inflexible internal processes required to respond to the feedback meant that last minute changes were put to consumer groups who by then had limited resources to respond to the late revisions.

We have seen very clearly over the last two years the importance of businesses being able to be brutally honest with themselves in understanding how they are perceived by customers, consumer groups and stakeholders and to be able to hear the bad news, as well as the good news, and to respond proactively.

Good communication is essential for effective engagement and in particular strategies are needed to inform those consulted about what the business has heard from them and the responses they are making. Consumer engagement is not always about agreeing with a group of customers, it is about taking seriously and looking at all practical measures to address concerns raised.

ii. *Relationships with the regulator*

Old habits die hard and the adversarial relationships that have largely existed between Australian network businesses and the AER needed to change and have changed dramatically over the last couple of years. An important driver is that network businesses and the AER need to be able to talk to each other often and with transparency. Where a problem is identified, it needs to be tested and solutions found to resolve the agreed issues. A recent initiative is the engagement of the AER staff, particularly in the capex team, with the engineers of the 3 NSW businesses. AER staff has engaged prior to the AER making its Draft Decisions and have shared their concerns with proposals and modelling. This has given the businesses an opportunity to respond to those concerns and adapt their proposals. This is also building greater transparency in decision-making and is only possible in an environment where the threat of litigation is largely removed. We congratulate the AER capex team for their responsiveness to our suggestions to be more transparent with their early modelling and any concerns in business cases and for this greater openness. We have specifically encouraged each business to work with the AER repex team to improve the AER's RIN data and repex model as we believe it is critical for consumers and businesses to have confidence in the model as a cross check, given the likely capex investment that will be needed in the future in new technology platforms. We commend Ausgrid, in particular, for embedding this commitment into their Revised Proposal.

iii. Relationships with consumers

Emerging better practice for consumer engagement includes network businesses producing a realistic draft revenue proposal (often referred to as a Draft Plan) at least six months before it is due with the AER and for active consultation with consumer groups, consumers and other relevant stakeholders on the Draft Plan. ElectraNet (the winners of the inaugural ECA/ENA consumer engagement award), Australian Gas Networks and TasNetworks initiated this approach. Each of the ACT /NSW businesses were intending to apply this approach. However, we suggest that for a variety of reasons including their historical adversarial relationships with the AER and consumers which had led to a history of ambit claims, they were not able to implement the approach as smoothly as they would have liked. We note that electricity and gas network businesses submitting regulatory proposals after these four businesses are releasing draft / preliminary plans for consultation. We regard the ACT/NSW distribution businesses as being in transition towards widespread application of draft plan approaches.

Engaging about the Draft Plan for about 18 months before it is released and then allowing about six months for more focused engagement in consultation is good practice and warrants ongoing encouragement and development.

The term "deep dive" became inextricably linked with the New South Wales businesses, particularly as they sought to make best use of the extensions they were granted. The efforts in seeking to gain consumer insight through deep dives were significant and commendable. We observe that some of the learning from the various processes called "deep dives" have included the value of keeping deep dive consultations focused on particular, more difficult issues where the network is genuinely seeking consumer and stakeholder input. It is our observation that deep dives work best when they involve a relatively small number of people, including the relevant AER staff and AER technical advisers and consumer groups, who are able to report back to a broader base. Deep dives need to be about seeking solutions rather than seeking to convince. The main issue we observed in the NSW deep dive processes were that they were far too late in the regulatory process. We commend Endeavour for continuing to engage on both its capital contributions policy and capex proposal prior to the AER publishing its Draft Decision and reducing its capex proposal. We also congratulate Ausgrid for the extensive consumer engagement on many aspects of its Revised Revenue Proposal . More recently Evoenergy had discussions about its IT proposals with CCP10 and its ECRC after the AER's Draft Decision. We note that the timing in all three cases was not ideal. However, CCP10's firm expectation is that such a late extensive, intense deep dive process with extensive revisions so late in the process would not occur next time. It can partly be explained as a feature of the unique need to reset the NSW and ACT businesses' relationships with the AER and consumer groups.

"Deliberative forums" were also developed through the NSW processes and proved to be a very effective approach. The general model is that groups of 60 to about 80 consumers are brought together for about 4 hours, and spend most of the time working in facilitated groups of 8 to 10 people dealing with a maximum of three significant issues of the period. Returning to groups involved with initial deliberative forums has also proved to be very helpful.

Another feature of emerging consumer engagement involves businesses establishing ongoing consultation committees such as TransGrid's Powering Sydney's Future. We commend Ausgrid for initiating its Network Innovation Governance Committee, which embeds consumer input into Ausgrid's technological transition to the smart grid. We would encourage the other distributors to also think of opportunities, which embed ongoing consumer input as part of their planning and innovation for critical areas. We have previously encouraged Endeavour to consider this approach to manage the development of the second airport.

Other examples of innovative consumer engagement practices that we observed included:

- openness to having difficult conversations
- proposals being presented as a decision as a whole
- readiness to engage on capital expenditure plans, risks, drivers and objectives
- more active engagement with the AER on issues such as repex modelling and risk quantification and allocation
- recognition of the importance of productivity improvements
- challenging thinking on the application of capex / opex tradeoffs (e.g. DM)
- review of network risk position, especially for network augmentation and replacement
- much more interactive and conversational relationship with advocates and the AER
- progressive refinement of ideas involving frequent conversation
- cost-effective catering with a broad range of healthy options
- openness to working with other businesses on common issues such as tariff impact modelling and grid innovation
- greater public acceptance (by some of the businesses) of AER decisions on framework changes e.g. WACC, tax review and productivity
- preparedness to establish ongoing consumer / stakeholder oversight framework
- giving up CESS for certain categories of expenditure
- seeking feedback on drafts of Revised Proposals and

- a desire – initially demonstrated by Essential Energy at the initial proposal, then subsequently by Endeavour Energy and Ausgrid in their Revised Proposal – for their proposals to be capable of acceptance by consumers and the AER.

Further development of good regulatory practice

The process in developing the New South Wales and ACT regulatory proposals for 2019-24 and resolving the remitted decisions for 2014-19 has been a sometimes-arduous process dealing with significant change across a number of fronts. As indicated above, the periods of pain and frustration have been justified and significant outcomes achieved for consumers and the businesses through the 'journey'. CCP10 has been told by several stakeholders that the process of resolving the remittals has led to greater trust by internal stakeholders, including investors, which in turn has led to greater transparency in engagement by the businesses with the AER, CCP10 and other consumer groups around the subsequent 2019-24 revenue proposals.

There are important next steps that need to be undertaken to embed the processes, relationships and culture improvements that have been achieved. These include:

- regulatory processes to *reward good practice*. In our first submission, CCP10 encouraged the AER to develop 'signals' for network businesses to encourage ever better consumer engagement practice and to develop rewards / incentives for those businesses that do it well. A regulatory proposal that is lodged following extensive engagement and dialogue with relevant AER teams and is capable of or very close to being capable of acceptance, should be encouraged and rewarded. We understand that steps have been taken to this end, but it remains unfinished business.
- Each network business needs to *further embed their consumer engagement* practices and to retain relationships developed with consumers and consumer groups throughout developing the regulatory proposals and to provide feedback to those who have provided input so far.
- *Review the AER's Better Regulation Consumer Engagement* Guideline for Network Service Providers November 2013 to reflect a more sophisticated understanding of the outcomes of consumer engagement and a consideration of best practice.
- *Resourcing for consumer engagement* continues to be a dilemma with no dedicated resourcing currently available to enable consumer groups to maintain relationships with network businesses. It is hoped that the COAG Energy Council will return to the question of resourcing for consumer engagement in network processes early in 2019.
- Increasingly CCP is being asked about the future of network regulatory processes in Australia, and we consider that the time is ripe for discussion about a rolling network regulatory process where the *focus is on ongoing relationships* rather than it being a major focus once every five years.
- For CCP and the AER, an emerging question is about relationships with network businesses beyond the release of a final determination. On current AER practice CCP10 will cease to exist in April 2019 when the AER publishes its final Decisions in the four 2019-24 processes. Network businesses and their consumer reference groups are increasingly asking about *potential for ongoing CCP engagement*. For

example, CCP members have been asked to participate in TransGrid's Powering Sydney's Future processes and most recently by Ausgrid in its ongoing innovation committee and Pricing Working Group.

CCP members have developed an intimate understanding of the plans and operation of the businesses, and have in many ways grown trusted and informed relationships with senior management of those businesses. Consideration of how ongoing relationships can continue, whilst respecting the fundamental role of consumer challenge, would be helpful.

- Just as a more regular, transparent and cooperative relationship between utilities and their customers is being encouraged and is proving beneficial, CCP10 has observed significant benefit in the *early engagement with the AER* as part of the reset process. Sharing ideas and challenges, understanding the implications of organisational differences and the sharing of common ideas and initiatives has proven valuable and significantly streamlined the processes inherent in the regulatory reset.

We recognise that the AER cannot and should not compromise its 'arms-length' relationship with utilities, nor is the AER the primary channel for information sharing. Resource availability is also a major consideration.

Further development of the interaction with utilities, particularly when approaching revenue resets, will prove valuable in leading to an efficient and transparent process, supporting the submission of proposals that are 'capable of being accepted'.

CHANGING PRIORITIES FOR NETWORK REGULATION

In the past 12 months, most Australian distribution utilities have undertaken some form of community engagement related to their regulatory revenue resets. CCP10 has been heartened to see a marked change in the nature and content of this engagement by a number of progressive distributors, not only in their collaborative approach to engagement, but importantly as a reflection that these companies are embracing changing customer and community expectations in the modern energy environment, and are prepared to share this journey with their customers.

Leading utilities demonstrate a willingness to reconsider electricity supply risks in light of changing consumer expectations around price and productivity, seeking new and innovative ways to engage communities and use new technologies to meet their obligations and community requirements. Volumes of traditional network planning and investment analysis - whilst still important inside the organisation - gives way to a more conversational, relevant, risk-based and innovative attitude to providing network capacity, meeting system performance obligations and optimising customer interactions.

Such an approach is underpinned by three key issues. Firstly, with Australia's energy customers experiencing remarkably high energy prices, every participant in the energy supply chain has a responsibility to take all reasonable steps to minimise the cost of energy distribution - and therefore customers' energy bills - as much as reasonably possible. CCP and other customer advocates look for a clear commitment by the utility to seek every opportunity to reduce the cost of addressing network constraints, through the mantra '*doing more with less'* and '*not a dollar more than necessary, not a day too soon'.*

Secondly, as the growth of the asset base presents a long - term risk to high energy prices for many years to come, consumers expect that every effort is being made to minimise growth in the total value of long-term assets, especially in this environment of rapidly changing energy use and technology uptake by consumers.

Finally, as changing technologies become more available to customers and utilities, meeting network obligations is much more a collegiate and interactive process. A responsibility exists on customers, distributors and new industry participants to collaborate in the effective utilisation of existing assets, and to seek innovative approaches for the safe, reliable and affordable supply of energy.

Throughout the process of the NSW and ACT 2019-24 regulatory determinations, a number of common matters arose that were of concern to CCP10, energy consumers, utilities or both. Many of these matters represented significant expenditure and therefore impact on consumer bills. We summarised 9 issues in our presentation on the NSW Proposals at the Stakeholder Forum on 13 November 2018[2]. CCP10 is very pleased that the 2018 rate of return Guideline and changes to the PTRM to reflect the issues in the tax review have been resolved in a timely way so that they can be incorporated in each of the NSW and ACT Final Decisions.

We are also pleased that both opex productivity and tariff reform are currently being progressed by the AER.

Opex, Productivity and Benchmarking

CCP10 argued consistently throughout these revenue resets for the AER to review its zero assumption when forecasting productivity. The issue was given prominence by Essential on 9 February 2018 when Essential launched its draft Proposal, which included a significant opex productivity dividend for consumers. In fact, Essential included forecast declining opex, forecasting savings from its IT initiatives, as its opex forecast thereby giving consumers 100% of the savings from that IT investment rather than sharing those efficiencies through the EBSS.

CCP10 and the CCP as a whole are very supportive of the AER's draft decision to revise its assumption from zero to 1% per annum in its recent Draft decision paper – Forecasting productivity growth for electricity distributors dated November 2018. We see the AER's Draft decision as a positive start.

We strongly support the CCP sub panel's submission dated 21 December 2018 to the AER's review, which concluded:

[2] https://www.aer.gov.au/system/files/Consumer%20Challenge%20Panel%20%28CCP10%29%20-%20Presentation%20to%20AER%20public%20forum%20-%20November%202018.pdf at slide 41

> "*The objective in forecasting opex for the revenue resets is to establish the* ***best available unbiased estimate of the opex for a prudent and efficient operator***."
>
> And........ "*In the CCP's view the current assumption of zero trend productivity improvement does not meet these requirements and* ***we consider that the data supports an assumption of a trend productivity improvement for the DNSPs of at least 1.5-2.0% pa****.*"

We commend Essential Energy for its approach in offering a productivity dividend even before the AER had launched this review.

We also congratulate Ausgrid as the first privately owned DNSP to include a 1% per annum opex productivity improvement from FY 21 for consumers. We commend Ausgrid for listening to its customers' consistent submissions that zero productivity is unacceptable. We will leave it to our CCP colleagues to respond in detail to the various DNSP submissions arguing against the AER's Draft Decision. We note that both Essential Energy and Ausgrid have offered productivity dividends and we urge the AER to also apply its Final Decision from its review to the 4 businesses.

As we discussed above the use by the AER of benchmarking as part of its consideration in the original Final 2014-19 decisions was keenly contested. In our Response dated 30 November 2017 to the AER Issues Paper: *Remitted decisions for NSW/ACT 2014-19 electricity distribution determinations operating expenditure*, CCP10 emphasised that we remain strongly in favour of the AER using benchmarking as an assurance tool to cross check forecasts of the distributors.

We are concerned now the 4 businesses will have transitioned to the efficient base year for 17/18 originally determined by the AER, that the AER may reduce its ongoing investment in and reliance on benchmarking as one tool to promote efficient operating expenditure. In our submission from November 2017 we went to some length to discuss the critical ongoing importance of benchmarking. This was set out in Appendix A to our submission entitled "*Incentive Based Regulation and the role of benchmarking*."

We concluded that CCP10:

- is strongly in favour of the AER using benchmarking as an assurance tool to cross check forecasts of the distributors
- supports the AER's annual benchmark publication and strong incentive-based regulation (IBR) as discussed in the attached "*Incentive Based Regulation and the role of benchmarking*" and
- favours stronger, future incentives than the EBSS and encourages the AER to do an international review to check world's 'best practice' for IBR mechanisms.

We urge the AER to commence a thorough review of all its incentive schemes. We also encourage the businesses to continue to work with the AER on refining RIN data and the benchmarking model as it remains an important cross-check tool.

Tariff reform

Evoenergy remains one of the stand out businesses in the NEM on its transition to cost reflective tariffs. By contrast during the current regulatory period and TSS 1 we observed of "*the three New South Wales distribution networks:*

- *to date, reform has been slow and fragmented;*
- *there has been no single consumer perspective; and*
- *there has been remarkably little dialogue between retailers and network businesses about the incidence of tariffs.*

The CCP view is that retailers should be much more actively involved in network tariff debates and indeed the primary audience for network tariff price signals should be retailers rather than customers. CCP10 has been instrumental in encouraging consumer groups to develop Pricing Directions that have been developed to provide cohesive consumer perspective to assist networks, retailers and AER to accelerate reform".[3]

Our observation is that the development of a cohesive position by customer stakeholders in the Pricing Directions made it easier for stakeholders to respond. For example, Endeavour responded to customer feedback and the Pricing Directions by introducing a TSS as part of its Initial Proposal that met tariff reform objectives by including a transitional demand tariff. The ACCC favourably referred to the Pricing Directions in its Final Decision in the Electricity Inquiry and recommendation 14 in the ACCC's Final Report on Electricity Pricing endorsed many of our recommendations[4]. The AER has since responded to the progress made in NSW by creating a dedicated CCP subpanel 21 to assist in driving tariff reform. Subject to sufficient resourcing the aim of CCP21 is to:

- engage with retailers on their role in working with consumers. CCP believes that it is critical for all stakeholders to understand how the retailers will flow though network tariffs into retail prices and what products/price structures they will offer
- work with ECA, DNSPs, and the AER on impact analysis at the household level and
- develop complimentary measures. CCP intends to work with customer advocates, networks, retailers and AER on these.

The work in tariffs driven by the CCP and the AER TSS team will have greatest impact if it is progressed on a NEM wide basis involving all stakeholders.

The revised Tariff Structure Statements of the three NSW businesses have responded further to consumer feedback about the need to shift more rapidly to cost reflective pricing

[3] CCP10 Response to AER Issues paper and revenue Proposals for NSW Electricity Distribution Businesses 2019-24: August 2018 at page 77. See https://www.aer.gov.au/system/files/CCP10%20-%20Submission%20-%208%20August%202018_0.pdf

[4] https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf

and CCP10 commends the three distributors for engaging in detail with stakeholders and the AER TSS team to progress tariff reform. This will be an important focus in the NEM during the next decade.

A shifting focus in consumer priorities

In the environment of a more active and engaged revenue reset process, it is clear that the influence of new technologies, customer choice, price awareness and sustainability imperatives is changing the way utilities approach their obligations.

Network augmentation and capacity investment is now much more influenced by new customer technologies and market developments. As asset replacement requirements mature and demand growth slows, the key variables in assessing prudent investment are changing. The focus on demand management is now matched by the importance of utilisation of existing assets. Traditional network control has given way to Distribution System Operation. Information and data in real time is the cornerstone of optimal network investment. New connections incorporate a wide range of energy and demand control options available to the customer, many of which are not yet understood. The market influence of embedded generation and storage, or more importantly the variable influences on those who seek to control that new equipment is yet to be established and understood.

Significantly, the robustness of traditional engineering planning and network development now incorporates the approach of 'least regrets', where risks inherent in rapidly changing network requirements cannot be quantified with certainty.

As the relationship between CCP10 and both the AER and the network businesses developed over this regulatory period, it has become clear to CCP10 that there are aspects of the engagement and proposals that would benefit from further consideration by the AER to apply on a broader NEM wide basis. The intent is to foster work practices, language and behaviours that will encourage utilities to present information to consumers and the AER in a more effective way, by using common language, more standard definitions and a format that makes the impact and benefit to consumers more obvious and measurable.

The areas that we have identified as highest priority in delivering significant value are listed below.

i. *Consider the prudency of Information and Communication Technology (ICT) investments*

The ICT investment by utilities is growing rapidly as the role of corporate support systems, real-time control systems, data gathering, and data analysis plays a much greater role in delivering business efficiencies; both in the operation of the business itself and the optimal investment, operation and risk management of the distribution network. CCP10 acknowledges that ICT expenditure will genuinely be an item of increasing expenditure over the next twenty years. However, utilities need to be held accountable for these significant and growing-investments in Information and Communication Technologies.

Similarly, consumers need to be more informed of the requirements, benefit, prudency and risk implications of investment in ICT and related assets, as they gain an increasing influence on business performance and efficiency (and hence operating cost), depreciation (again, influencing price to customers), data risk, service delivery, customer choice and network supply risk and performance.

We recognise that each utility is encouraged to seek new and innovative ways to work with customers, the community, the regulator and other stakeholders. However, a number of significant matters are arising in the industry generally that lack transparency and clarity of definition and approach. Unless addressed in a common and effective way, the risk continues that this growing area of investment may not be fully in the interests of consumers.

A number of specific concerns exist regarding ICT spend, both as operating costs and the return of investment in new capability.

1. The quantum and impact of significant ICT expenditure by all utilities affects all customers
2. A single provider, SAP is emerging as almost a monopoly provider of utility enterprise systems, and the accountability and influence this provider has on the cost of ICT operation and regular investment is not at all transparent.
3. The efficiencies that businesses gain through ICT investment, the cost of which is largely recovered from customers, should not recovered again through the incentive schemes.

In their regulatory proposal, Essential Energy is commended for linking the increased investment in ICT capability with performance improvements that are specific and measurable. Whilst we expect that there will be significant challenges in demonstrating the performance change resulting from the technology investment, the commitment to visible benefits for customers sets a new benchmark for ICT investment in the regulatory proposals.

In response to CCP's ongoing concerns about IT expenditure we are pleased that Ausgrid has committed in its Revised Proposal to share further granularity of customer benefits derived from IT expenditure and to support an industry wide review into IT forecasting to improve expenditure assessment.

CCP10 recommends that the AER and community advocates take a stronger role in the understanding of the prudency of ICT investment by utilities. We support the recent advice by the AER to consider the establishment of greater skills in this area, and encourage the AER to work with utilities to present the value and risks of ICT investment to consumers in the form of transparent, measurable and specific performance improvement.

ii. Clarify the value of the transition to the Distribution System Operator role

A combination of high retail electricity prices, falling prices for customer technologies and continued subsidies for embedded generation and energy storage has created a confused, crowded and rapidly-changing environment for utilities to respond to.

Supported by a range of largely independent approaches from the AEMC, AEMO and governments, utilities are attempting to embrace the growth in DER in different ways.

Common to this challenge, utilities are proposing expenditure to expand monitoring and control of distribution networks, enhanced centralised network control systems (ADMS) and speculative capability to work with demand aggregators and AEMO as the need arises. Most of this investment is under the banner of 'least regrets'. It is unclear just whose regrets are being minimised – those of the distributor who remains largely capable of recovering the expenditure; or those of the customer (generally, all customers) who it is suggested Is not in a position to understand just what it is that they are regretting.

There is a significant risk that investment in transmission systems under the ISP will address some of the concerns that are planned to be subject to investment by distributors, leading to stranded assets in the area of data gathering and local network control, as well as restrictive connection requirements affecting customers.

Missing also in this planning is the 'customer view' and where the customer impacts and the expected role of customers in any solution are considered and tested through public and specialised engagement. Issues such as direct and indirect costs to customers to participate, technical requirements, contractual matters and similar are to be addressed.

At the risk of entering an already crowded space, CCP10 recommends that the AER assist in clarifying the problem statement, range of solutions and form of cost–benefit analyses that are expected from distributors. This information can form the basis of further consumer engagement.

As part of the analysis of the impact of the growth of DER, the wider market of aggregators, retailers and new market service providers should be actively considered to determine what role these market entities can undertake as the uptake of DER continues.

iii. Support greater pace of the adoption of Advanced Metering

A number of times throughout the regulatory reset process, the issue of a better understanding of a customer's energy use arose. This came up in a number of contexts, including tariff design and adoption, the optimal integration of DER and improving the assessment of supply risk associated with network development.

At all times, the obstacle was that the AMI rollout is largely set in priority and location by energy retailers who have a different set of priorities and drivers for promoting the growth of smart metering and AMI.

CCP10 believes the AER can investigate the claims by the distributors of missed opportunities for prudent and effective investment in networks arising from the implications of the Power of Choice (metering) framework.

iv. Explore opportunities for more efficient engagement on network development

In concert with the work undertaken by CCP20 (Regulatory Investment Test), it is becoming clear that the engagement by the community, customers and potential solution providers in the capital investment process is not effective.

Significant in this situation is the resource commitment by utilities and potential respondents to prepare, consider and implement plans that can assist the reduction in investment in the traditional network assets of poles and wires, cables and substations.

Consumer and industry representatives highlight the disincentive as a result of the large investment in time and resources to consider not only the capital investment plans of each utility, but their voluminous Distribution Annual Planning Reports (DAPR) and required information under the Regulatory Investment Test – Distribution.

As network investment opportunities shift to considering more cost-effective customer options, there is a powerful incentive to improve the application and effectiveness of the intent of demand management and network efficiency through a more coordinated, and seamless process to engage the community on network growth matters.

CCP10 acknowledges the work done by Endeavour Energy in developing an online and interactive DAPR, which is a useful step in enhancing the effectiveness to deliver non-network solutions to demand growth.

v. Form a common view on the cost to address cybersecurity risk

CCP10 has observed each distribution business taking a different approach to cybersecurity risk, leading to varying impacts on the cost to consumers through both operating expenses and capital investment.

Against the background of an increasing reliance on technology for the efficient operation of the network and the businesses themselves, the establishment of standards and a measured assessment of the businesses' response to those standards – much in the way other significant investments in assets are considered – will be of value in maintaining a focus on the long-term interest of electricity consumers.

CCP10 recommends further engagement and skill development by the AER in the area of cybersecurity and its cost and risk impact to customers and the wider community.

SECTION 2

CCP10's specific response to Evoenergy's revised regulatory proposal of November 2018

This section considers responses to the Evoenergy Revised Revenue Proposal and the AER draft decision. The approach we have taken is to only consider those issues that we raised at the public forum that considered the draft decision and matters of particular interest from the Revised Revenue Proposal . Matters that are not covered have either been dealt with previously or we are satisfied with the Evoenergy position.

In our response to the original Evoenergy proposal we recognised that "*Evoenergy has made significant cost reductions in many aspects of the business during 2014-19, in significant part as response to the AER's final decision 2014 to 19. The reality is that Evoenergy's cost structures are different now than they were at the start of the previous regulatory period.*"

We now add to this observation the perspective that in the unique circumstances mentioned above, Evoenergy has been proactive in seeking consumer input to the key aspects of their regulatory proposal, in seeking to resolve the outstanding matters from 2014-19 and has demonstrated significant goodwill with both consumers and the Regulator and the processes culminated in their Revised Revenue Proposal . CCP10 has enjoyed working with Evoenergy staff and their ECRC and commends the various consumer groups and stakeholders who have been part of discussions and consultations and negotiations.

Our response to the original Evoenergy proposal was relatively positive overall, and identified some aspects of the proposal that we thought could be improved from a consumer perspective, including:

- some surprise that reliability and network performance, and not price, were top of the key issues for consumers; and
- further Interest in Evo's response to recent trends in network performance, and how that relates to the expenditure proposal.

We presented these comments in a spirit of constructive debate, and we retained our commitment to 'no surprises.' We also asked:

- is the price / reliability trade-off reflecting consumer views? NB Theme 2, "Price …BUT …"
- whether Community engagement on the proposal was a little 'closed', therefore limited in depth in feedback
- Is an annual price increase of 5.66% (nominal) "cost reflective and stable?"
- Are capex proposals, particularly for augex and ICT, too high?
- Can the Evoenergy network be used more efficiently?
- Is the Rate of Return with an MRP of 7% too high?
- To what extent have non-network options been considered?

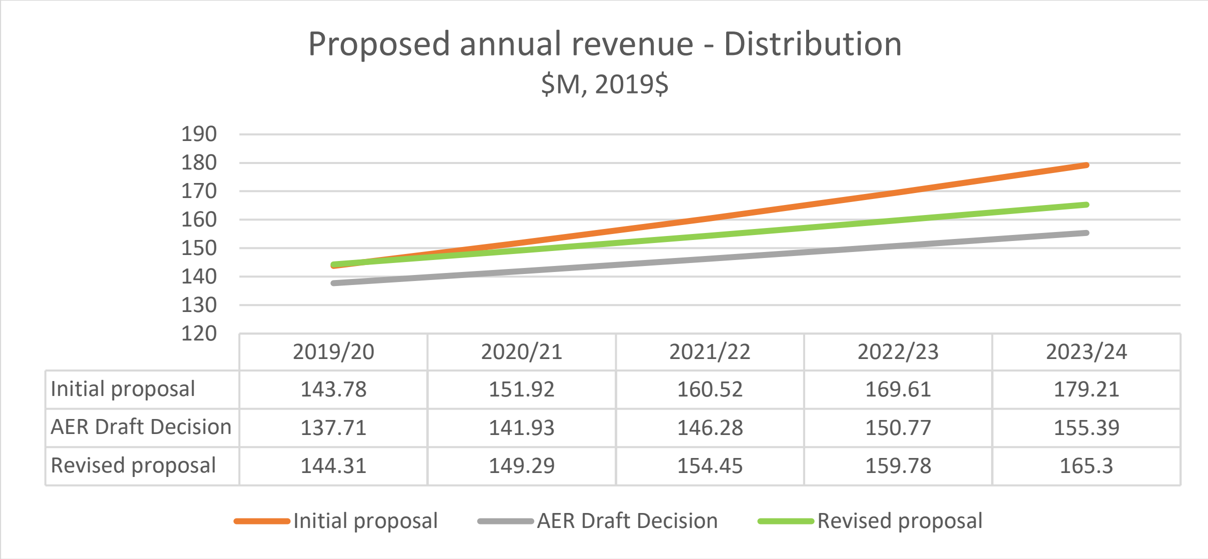
- Is a “step change” for increased vegetation management costs warranted?
- AER’s growth trends have been applied but are they appropriate, considering zero productivity? Are there labour productivity gains to offset forecast wages growth?
- How realistic are the growth forecasts, for example, Molonglo ?
- How effective was consumer engagement? What was heard and applied?

At the October 2018 public forum, we actively encouraged Evoenergy to seek consumer views, particularly on expenditures that were reduced by the AER in its Draft Decision and we urged the business to better “tell their narrative,” to explain areas where costs were being challenged.

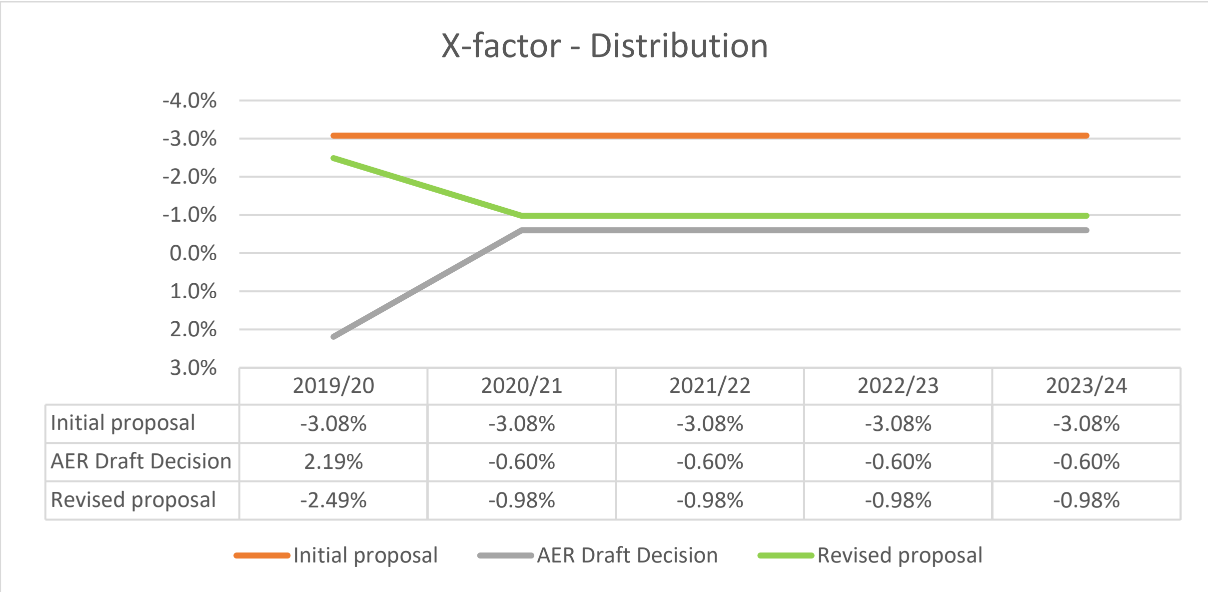
REVENUE AND REVISED PROPOSALS 2019-24

The set of graphs below, drawing from information from the Evoenergy proposals and CCP10 analysis, summarises the revenue proposals for both distribution and transmission components of Evoenergy’s activity showing the original Evoenergy proposal, the AER Draft Decision and the Evoenergy Revised Revenue Proposal .

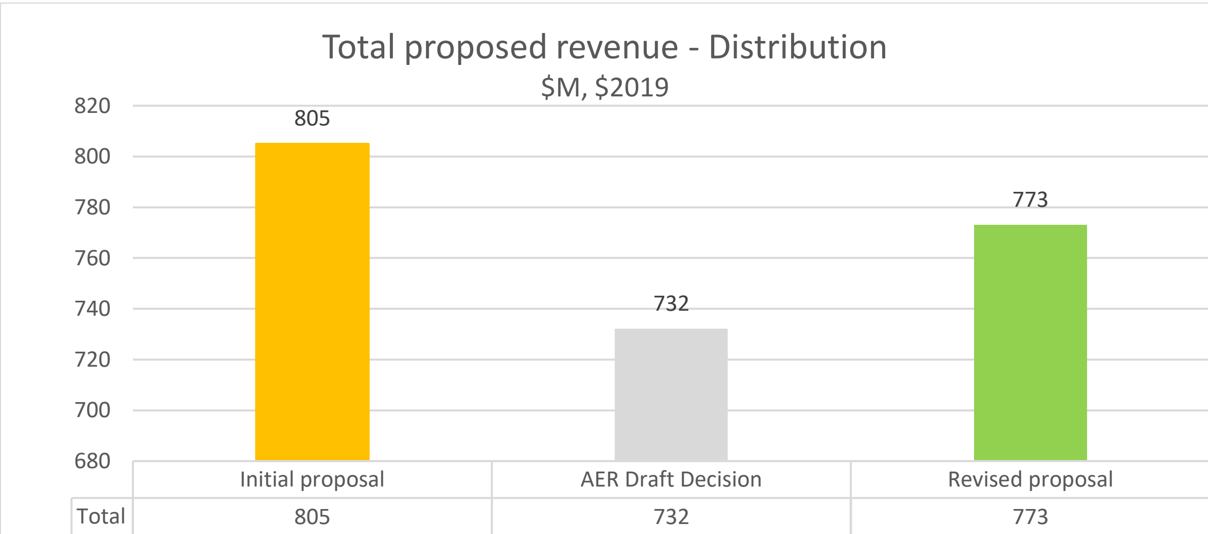
In summary Evoenergy originally sought $805 million for distribution assets, the AER draft decision was for $732 million a reduction of 9%. Evoenergy’s Revised Proposal is for $773 million, a 4% reduction on the original revenue proposal.



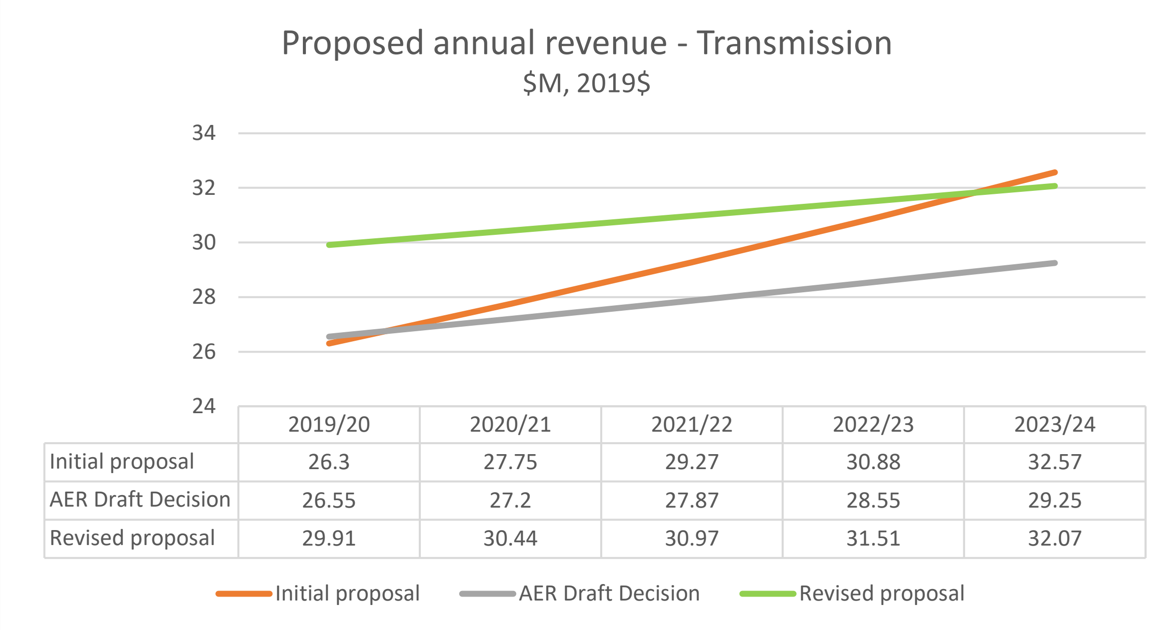
	2019/20	2020/21	2021/22	2022/23	2023/24
Initial proposal	143.78	151.92	160.52	169.61	179.21
AER Draft Decision	137.71	141.93	146.28	150.77	155.39
Revised proposal	144.31	149.29	154.45	159.78	165.3



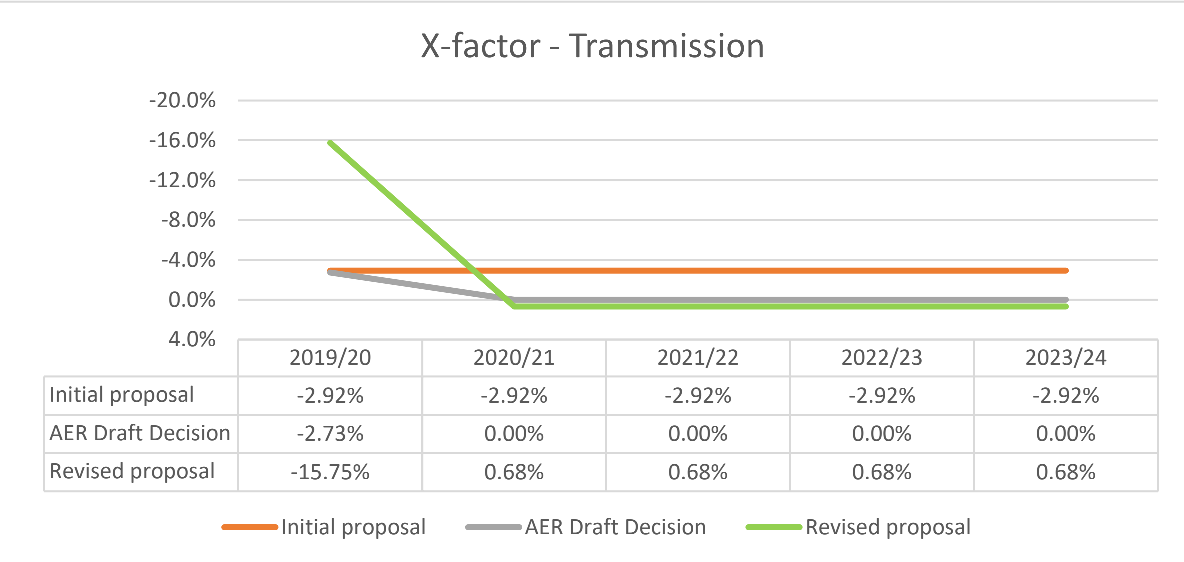
	2019/20	2020/21	2021/22	2022/23	2023/24
Initial proposal	-3.08%	-3.08%	-3.08%	-3.08%	-3.08%
AER Draft Decision	2.19%	-0.60%	-0.60%	-0.60%	-0.60%
Revised proposal	-2.49%	-0.98%	-0.98%	-0.98%	-0.98%



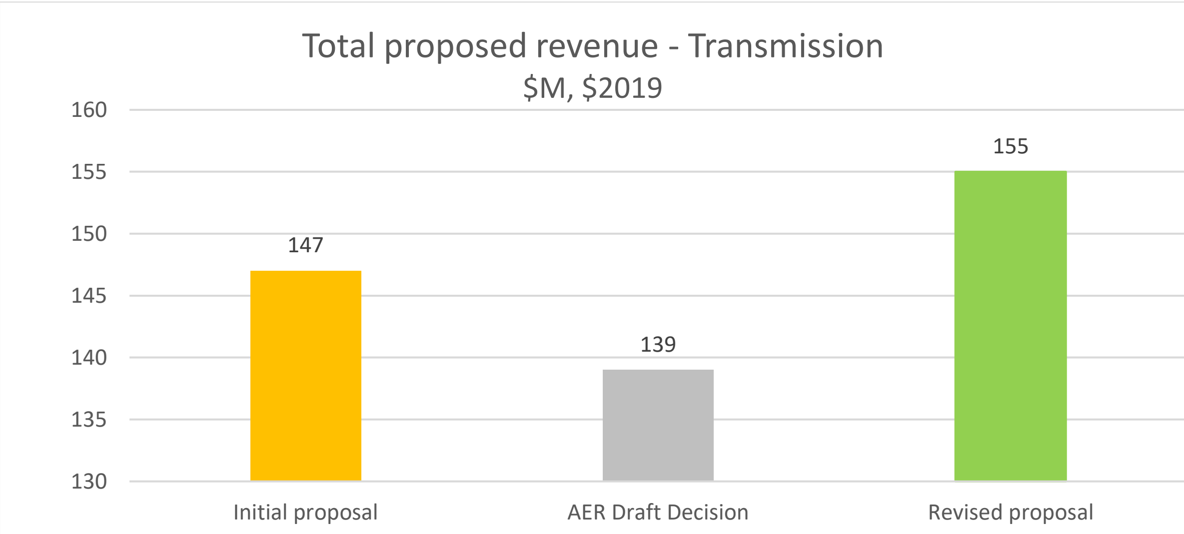
	Initial proposal	AER Draft Decision	Revised proposal
Total	805	732	773



	2019/20	2020/21	2021/22	2022/23	2023/24
Initial proposal	26.3	27.75	29.27	30.88	32.57
AER Draft Decision	26.55	27.2	27.87	28.55	29.25
Revised proposal	29.91	30.44	30.97	31.51	32.07



	2019/20	2020/21	2021/22	2022/23	2023/24
Initial proposal	-2.92%	-2.92%	-2.92%	-2.92%	-2.92%
AER Draft Decision	-2.73%	0.00%	0.00%	0.00%	0.00%
Revised proposal	-15.75%	0.68%	0.68%	0.68%	0.68%



We note that the most significant factor in the AER's Draft Decision reduction from the original Evoenergy proposal was for a reduced rate of return, resulting from the revised rate of return guideline, accounting for 48% of the reduction. Capital cost and operating expenditure reductions both accounted for about 20% of the reduction from the regulatory proposal to the AER Draft Decision.

At the Public forum to consider the Draft Decision held on 10th October, we summarised the Draft Decision as follows:

Positives (for Evoenergy and their customers)

- Consumer Engagement
- RAB trend decline
- TSS
- Openness to discuss issues

Concerns

- 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

CONSUMER ENGAGEMENT

In his final presentation to the Evoenergy ECRC (Energy Consumer Reference Council), outgoing CEO, Michael Costello said that the establishment of the ECRC from December 2014 had been "a great development" and that the organisation had learnt considerably from input and perspective from this consumer-focused group. Mr Costello also said that the organisation needs to continue to think much harder about the customer, including the trade-offs between price and reliability emphasising that "Evoenergy is the most reliable network in the country."

CCP10 agrees that we have seen a considerable improvement in the attention given to consumer related issues and to consumer engagement by Evoenergy during the period leading up to the lodgement of the original revenue Proposal and the Revised Revenue Proposal , and the value to Evoenergy of their ECRC. Our submission in response to the initial revenue Proposal documented the consumer engagement approach undertaken by Evoenergy in some detail, which we take as 'read.' Consumer engagement undertaken in finalising the remitted decision was also documented in that submission. The following brief comments consequently relate only to more recent engagement activities.

In our comments to the public forum held on 10th October we said "*CCP had limited opportunity to observe consumer engagement*" in the development of their initial revenue proposal for the period 2019-24. Subsequent to this process we have been able to observe enhanced consumer engagement in resolving the remitted decision for 2014-19 and have observed sound consumer engagement through the ECRC directly and there were impressive Information and Communications Technology Deep Dives held on the 8th and 16th August 2018. A "Deep Dive Annex" was conducted on 7th November to consider "Outcomes of Distribution Substation Monitoring and Reliability" and this in part a response to a consumer workshop about power quality, reliability and the case for distribution substation monitoring. The November workshop included participants from the ECRC, major customers and the ACT Utilities Technical Regulator.

We are consequently surprised that this consumer input is not directly reflected in the Revised Revenue Proposal from Evoenergy.

When considering our initial three questions for assessing consumer engagement, we observed that Evoenergy has become more confident in trying a range of consumer engagement approaches, they recognise the value of hearing what consumers say and have heard a considerable amount of what consumers told them. However, their practice in applying consumer engagement into the day-to-day operation of the business is still work in progress.

We also note in the ECA consumer sentiment report that is mentioned in section 1 that in response to the question "*How confident do you feel that the overall market is working in your long-term interests*?" only 15% of ACT customers were positive and 50% in the ACT were negative with 35% neutral. So only 15% of customers feel confident that the market is working for them in the ACT. In response to the question; "*How confident do you feel that the energy market will provide better outcomes for you in five years, in terms of value for money?"* 19% in the ACT responded positively and 38% in the ACT were negative. These are low rates compared to the rest of Australia. We repeat that the survey questions relate to the ACT electricity market overall, but the results are still disappointing and suggest an urgent need for Evoenergy, as with all other ACT energy businesses, to better understand the poor consumer sentiment in the ACT.

We acknowledge that consumer engagement can be more difficult in smaller jurisdictions where there is nobody with consumer perspective resourced to enable ongoing engagement and those community-based members with an interest are stretched in many directions. Noting the challenges of engagement in smaller jurisdictions, Evoenergy has done very well to encourage and facilitate the level of engagement that has occurred. We also observe that the ECRC is a significant asset for Evoenergy and provides an excellent platform for ongoing engagement.

REGULATED ASSET BASE GROWTH

The regulated asset base (RAB) is critically important for consumers as it is the basis for return on capital, which represents the largest component of the revenue allowed for providing network services. Given the long-term nature of the electricity industry, RAB also means that care needs to be taken in the shorter term to not excessively burden future generations with unnecessarily high costs. The initial and Revised Proposals from Evoenergy have almost identical total RAB values, as shown in Figure below. This is of concern to CCP10, both for future customers and also because the RAB proposed in the Revised Revenue Proposal is higher than that proposed by the AER's Draft Decision.

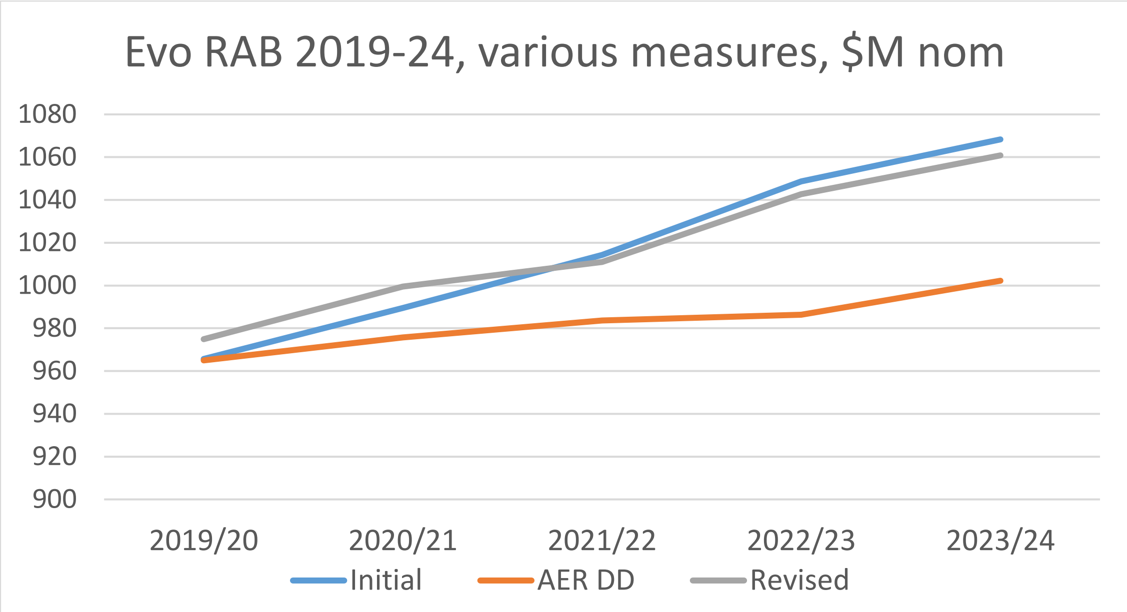


Figure 3: Growth in the Regulated Asset Base – proposed (Source: Evoenergy, CCP10 analysis)

We recognise the Evoenergy commentary saying that in real terms "*By the end of the 2019–24 regulatory period, Evoenergy forecasts a real decline in the total RAB of 2.6 per cent. On a per customer basis, the RAB is forecast to decline by 9 per cent in real terms over the 2019–24 period, slightly below Evoenergy's regulatory proposal but higher than the AER's draft decision*." This is shown in figure 4 below.

The drivers of RAB are considered in more detail under our discussion about capital expenditure which is consistent with our view that the final approved value of Evoenergy's RAB by 2024 should be lower than what they have proposed.

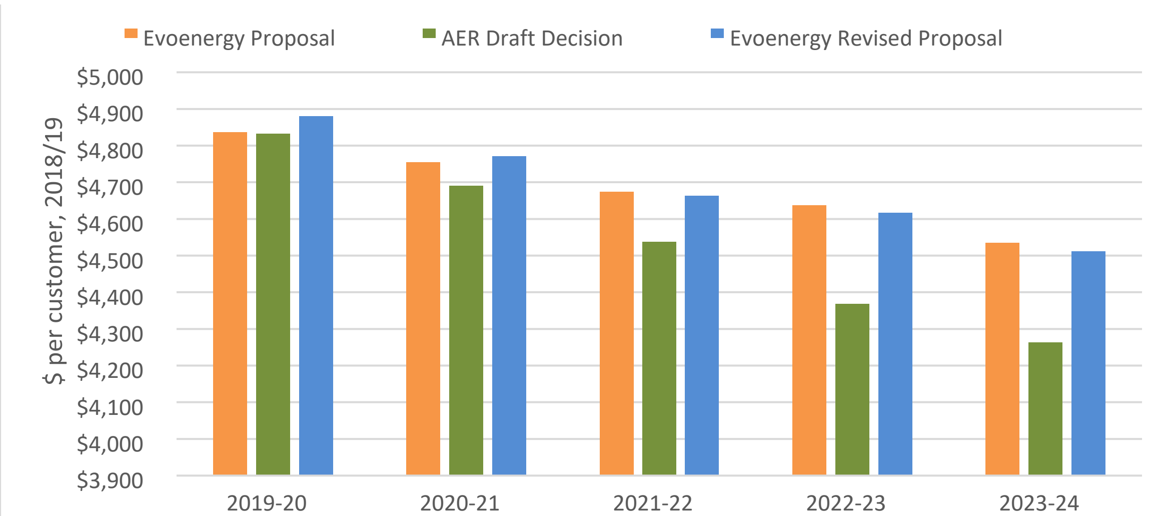


Figure 4: Value of RAB per customer (Source: Evoenergy revised proposal table 6.1)

CAPITAL INVESTMENT (CAPEX)

Introduction

In the modern environment of energy distribution, new technologies and energy use options have become more available to both consumers and utilities.

Against a growing imperative for sustainability, customer empowerment and energy choice, energy customers and industry stakeholders expect utilities to meet network obligations through a much more efficient, collegiate and interactive process than has been the case in the past. A responsibility exists for customers, distributors and new industry participants to collaborate in the effective utilisation of existing assets, and to seek innovative approaches for the safe, reliable and affordable supply of energy.

Notable in the Evoenergy context is the focus by the ACT government in new thinking in sustainability and the active exploration of new energy-related opportunities. The ACT is well advanced in progressing the *ACT Sustainable Energy Policy*. In this policy, we note the ACT Government's priorities such as lowering power prices and improving choice for energy customers, delivering a range of energy efficiency policies and programs, and implementing a renewable energy local investment framework. [5]

CCP10 assessment

Our response in May 2018 to the initial Capex proposal by Evoenergy included a comment that *"The proposal is reasonable, and tends to address the contemporary concerns of customers, as well as recognising Evoenergy's efforts to ensure that the total proposed capex envelope is relatively stable compared with … Evoenergy's actual spend during the same period."*

Our initial position reflected an assessment that Evoenergy's proposal was largely based on risk-adverse, traditional engineering analysis that would reasonably address the community's expectation of a safe and reliable supply of energy. The proposal to invest a similar amount in total as the current period would not in itself result in a price shock or noticeable change to supply conditions.

We are pleased to see that in the Revised Revenue Proposal that "*Evoenergy can demonstrate that the proposed demand-driven augex is justified on a probabilistic basis"* though we note that *"deterministic planning (is still) playing a role only in identifying areas of capacity constraint.*"

In the intervening period since those remarks, significant steps forward have been made in the way progressive and innovative distributors approach network investment, in the way they embrace new customer technology and engage with consumers to mitigate supply risks.

Given the environmentally-aware position taken by policy makers and developers in the ACT, along with the progressive position, which we have observed being taken by Evoenergy's commendable ECRC, CCP10 believes that Evoenergy can be at the forefront of reflecting modern community expectations and initiatives regarding network investment.

[5] ACT Government Environment, Planning and Sustainable Development Directorate – website 2018

With much of Evoenergy's new demand coming from developments that embrace new technologies and energy efficiency, cautious yet innovative and customer-centric approaches are justified. We have highlighted this perspective at both public forums conducted by the AER in considering the initial revenue Proposal and the AER's Draft Decision, highlighting the Ginninderry joint venture as a model for future focussed network development that aims to reduce costs to future households and hence reduced network costs

The majority of Evoenergy's Revised Revenue Proposal submitted in November 2018 (the *Revised Proposal*) seeks to re-justify the original funding needs in its initial Revenue Proposal of 31 January 2018 (the *Initial Proposal*).

The Revised Proposal tends to rebut perceived shortcomings in the AER's analysis and provide additional supporting detail regarding the initial Proposal. Whilst it is clear that further information was requested as part of the Draft Decision, we see little recognition of the spirit and intent of the feedback provided in the AER's Draft Decision and the issues raised by consumer groups in the period since the Initial Proposal was lodged. CCP10 was keen to see how Evoenergy, in response to the feedback to the Initial Proposal and subsequent workshops, as well as considering other contemporary asset investment strategies, would demonstrate innovative approaches, including a re-assessment of risk or the embracing of the spirit of new and emerging expectations by stakeholders.

For example, in our response to the Initial Proposal, we highlighted the significant over-expenditure in ICT investment (42% above allowance) in the current regulatory period, looking for a 'sustained customer dividend' in the form of improved service, enhanced productivity and more targeted capital investment. Despite the issue being discussed at length in workshops hosted by Evoenergy in August 2018, the Revised Proposal makes little reference to any past improvements from this significant investment, with the Revised Proposal itself largely reiterating the need to further invest in ICT to deliver largely generic and unquantified productivity improvements and network flexibility.

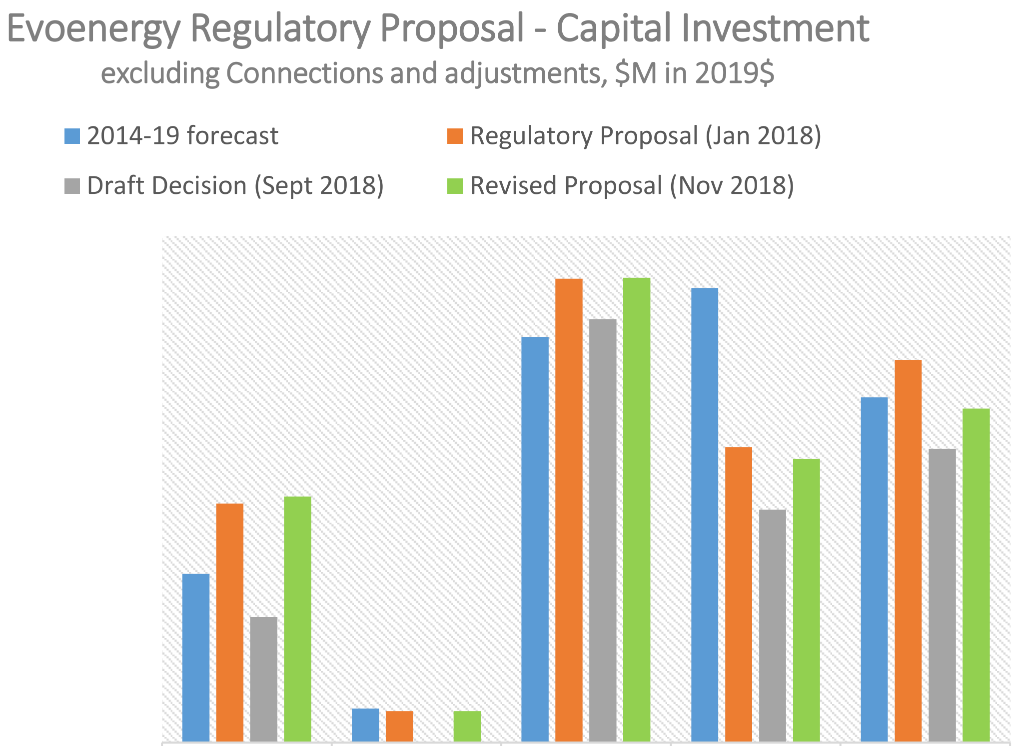
Progressive distributors clearly and effectively demonstrate a commitment to minimising the level of investment in network assets through an engaged and integrated approach with their energy customers.

As such, CCP10 regards the Revised Proposal as a missed opportunity by Evoenergy.

Evoenergy's Proposal

Evoenergy has proposed in its Revised Proposal a capital investment (net of capital contributions and adjustments) of $316.5M. This is $13M (4%) less than the Initial Proposal and $55M (21%) higher than that proposed by the AER in their Draft Decision.

The forecast Capex is presented by category in Figure 5 below.



	Network Augmentation	Reliability	Asset Replacement	Non-Network	Capitalised overheads
2014-19 forecast	33.3	6.7	80.1	89.8	68.2
Regulatory Proposal (Jan 2018)	47.2	6.2	91.6	58.3	75.6
Draft Decision (Sept 2018)	24.8	0	83.6	46	58
Revised Proposal (Nov 2018)	48.6	6.2	91.8	56	66

Graph 1

Figure 5 – Evoenergy capital expenditure proposal ***(Source: Evoenergy , AER, CCP10 analysis)***

Notable in the data above is:

- Other than for Capitalised Overheads, in its Revised Proposal Evoenergy is largely reiterating the expenditure requirements presented in the Initial Proposal (orange bar, green bar), tending to focus on refuting the Draft Decision by the AER;
- This is despite the AER Draft Decision considering that reduced investment is justified in all Capex categories (grey bar);
- The proposed investment in network augmentation remains significantly higher than that of the current period, contradictory to the AER Draft Decision. In fact, the proposed investment includes a further increase in network augmentation expenditure ($1.4M, 3%) from that of the Initial Proposal, based on more recent information;
- A moderate increase from current expenditure in the investment in the replacement of assets is planned, and is generally supported by the AER in its Draft Decision;
- Non-network investment, largely in Information technologies, continues, although at a level much lower than that of the current period (which is noted to be almost 40% above the current-period allowance); and

- A moderate reduction in the cost of capitalised overheads from the original proposal, remaining largely consistent with the overhead expenses of the current period.

Customer Connections

CCP10 notes the addition to the customer connections plans to accommodate a new data centre[6], and is supportive of the proposed approach, including the related increase to Capital Contributions.

Consumer Engagement on capital investment

The active engagement undertaken by parts of Evoenergy during the proposal process is acknowledged by CCP10 along with the involvement of the ECRC, discussed earlier in this section.

A landmark point of discussion was the Information and Communications Technology Deep Dives held by Evoenergy on the 8th and 16th August 2018. This workshop programme was well resourced and attended, and provided a powerful opportunity for Evoenergy to identify and consider many of the issues and concerns raised after the Initial Proposal.

Unfortunately, the Revised Proposal makes no reference to these workshops, and it is very difficult to identify where the important and useful community feedback has been reflected in the Revised Proposal itself.

A number of issues related to the ADMS upgrade and its role in facilitating new customer energy initiatives were presented and discussed under the banner of '*Stabilise, Drive and Thrive*'. CCP10 notes these priorities appear not to be mentioned anywhere in the Revised Regulatory Proposal or its attachments, suggesting a disconnect between the proposal and the way the issues have been presented to community representatives for consideration.

The Outcomes Report from the workshop of the 8th August provides significant insight into customers' concerns as to the value of the enhanced ADMS functionality and the costs involved. In contrast, the Revised Proposal focuses on the justification of the ADMS largely in terms of operational functionality and risk of failure of ageing hardware. There is little alignment between the issues raised at the workshops and the discussion in the Revised Proposal.

At the same workshop, the development of the rapidly-growing West Belconnen area was discussed in a very useful presentation. Issues such as mandatory rooftop PV, residential energy storage including heat pump water heating and home energy management were presented. Again, a number of matters were raised by the attendees, including incentives for energy efficiency and the access that ADMS may or may not have in an area that tends towards operation as a microgrid.

Evoenergy may have already considered or discounted some of these approaches in their planning, however it is not evident where these matters have been meaningfully incorporated in the Revised Proposal. CCP10 believes that Evoenergy listened to the issues raised by these stakeholders but it is not evident. For example, has Evoenergy relied on a

[6] Evoenergy Revised Proposal, section 4.5.4.1

pre-existing and therefore perhaps inaccurate understanding of customer energy behaviour and how that may apply to new developments that include significant caveats regarding rooftop solar and energy efficiency – and sought to investigate and validate these assumptions?

We accept that Evoenergy may in fact have undertaken this research as part of their planning, however it is not evident in the information presented as part of the regulatory proposal.

Other issues raised by consumers but not evident in the Revised Proposal are:

- Customers want to know the upfront and ongoing costs and benefits of Evoenergy ICT decisions
- The impact of caveats for new developments that may not have gas connected
- How the capability of the ADMS will lead to lower bills for customers, and which customers
- How Evoenergy is considering how a customer may make use of energy storage
- Will data from smart meters impact energy use patterns?
- Is Evoenergy seeking a Rolls Royce or a Hyundai solution?
- How is Evoenergy approaching the concern of increasing connection charges?

Asset Replacement

Asset Replacement capital expenditure (repex) is the largest single item of expenditure, forecast to be 14% higher than the forecast expenditure for this category in the current period, which in turn is 20% below the allowed replacement expenditure for this period.

This pattern of under-expenditure followed by a proposed increase in requirements tends to concern consumer groups. The increase in funding proposed for the following period can be seen by some as recovering those unspent funds to do work that was planned yet not delivered, and carried forward into the next period for some reason. Important in this discussion is the confirmation by the distributor that the deferral of the work was due to unambiguous efficiencies in costs or life extension, and not due to inattention or poor work management.

Evoenergy has addressed this concern to some extent in its early consumer engagement.

CCP10 is generally satisfied with the replacement expenditure forecast and the way it has been presented to stakeholders. We observe that as a percentage of total capital expenditure the repex proposal is lower for Evoenergy than for other network businesses. We expect that this can be explained by the higher amount of network that is underground for Evoenergy and by the fact it is a somewhat younger network than some others.

Following the Initial Proposal and Draft Decision, an opportunity to refine the data and improve analysis regarding the replacement programme of aged 11KV cables was identified. CCP10 is pleased to note that Evoenergy has provided further data, including addressing some errors, that has clarified the situation regarding this area of investment.

The Revised Proposal has employed some language that can be construed as being critical of the assessment modelling that is taken as part of the assessment of the proposal. Consistent with CCP responses in other jurisdictions, we encourage Evoenergy to commit to supporting the modelling as a part of the replacement capital assessment process, with a programme to improve data quality and the robustness of the model.

Overall, CCP10 is generally supportive of the expenditure of $92M proposed by Evoenergy regarding the replacement of their network assets. We encourage Evoenergy to continually seek to lower costs through efficiencies, adopting non-network alternatives and through innovative risk management techniques in an effort to reduce asset holdings and ultimately long-term prices to customers.

Network Augmentation

Evoenergy is proposing expenditure of $48.6M for Network Augmentation (new network capacity) for 2019-24. This is considerably higher (by 41%) than the forecast expenditure for the current period. In addition, Evoenergy has escalated the requirement by 3% (1.4M) over the Initial Proposal, citing renewed data showing higher demand growth.

This significant increase in augmentation expenditure above the 2014-19 forecast spend is in contrast with that of many other distributors, who are seeing falling or stable expenditure for new capacity year on year.

Analysis of this expenditure from the point of view of an informed and engaged consumer can be undertaken from two angles.

Firstly, taking a 'top down' approach, Evoenergy's analysis does not seem to support the 41% increase in augmentation expenditure from the current regulatory period to the next, on the basis that:

a) customer number growth is slowing for residential growth, and rising moderately for commercial and industrial customers; and
b) system-wide energy demand is also forecast to be stable or falling.

Data provided in the Revised Revenue Proposal [7] notes, for residential customers:

> *"This level of growth (to 2023/24) implies an average annual growth rate in customer connections of around 1.5 per cent. Over the 10 years to 2017/18, the number of Residential customer connections grew by an average 2.6 per cent a year."*

Similarly, for commercial customers,

> *"This level of growth implies an average annual growth rate in customer connections of 2.5 per cent, which is comparable with historical growth rates. Over the 10 years to 2017/18, the number of LV Commercial customer connections grew by an average 2.2 per cent a year."*

Evoenergy is forecasting stable or falling overall system demand growth, as published in December 2018 in the Evoenergy Annual Planning Report, and shown in Figure 1 below.

[7] Evoenergy Revised Revenue Proposal , Attachment 3, p 3-8

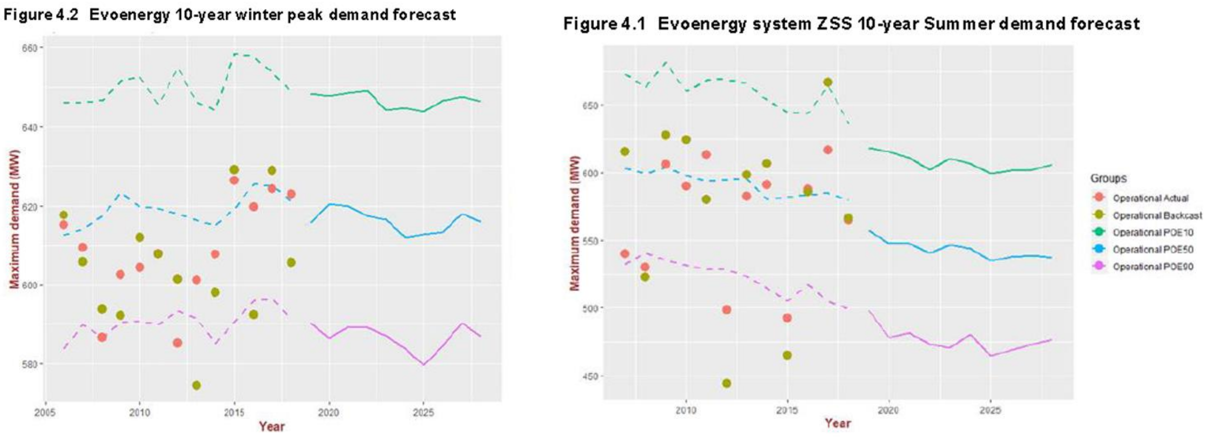


Figure 1 – Evoenergy Demand Forecasts *(source: Evoenergy Annual Planning Report 2018)*

Therefore, in a macro sense, Evoenergy has not made it clear to its customers why the previous investment levels of $33M to meet growth is now insufficient, and why such an increase in network augmentation investment is needed. Information showing a decrease in 'spare network capacity' would go a long way to assisting consumers understand the reasons for the required increase. Such information is not evident in the proposal nor in the Evoenergy Annual Planning Report.

A second approach to help to understand Evoenergy's requirements may be to take a feeder-by-feeder analysis to consider the many specific changes to customer demand occurring within the Evoenergy network.

This approach is supported by the voluminous amount of detailed network planning data provided as part of Evoenergy's Proposal.

It is clear that much of Evoenergy's network demand growth is driven largely by new subdivisions and greenfield load centres. Our observation is that many of these new developments have embraced new technologies as part of the ACT Government commitment to sustainability and energy efficiency, with initiatives such as the ecological and efficient 'light footprint' residential developments in the Molonglo Valley, and mandated high penetrations of rooftop solar and support from the ACT government for battery installations through its Next Generation Energy Storage Grants elsewhere.

CCP10 recognises the level of technical detail and engineering analysis that has been dedicated by both Evoenergy and the AER to analyse these new loads and the required investment in capacity augmentation. We are also understanding of the risks that may be inherent in these new developments that may not be immediately evident, and respect the care Evoenergy needs to take in this new environment.

However, it is very hard to see where Evoenergy has meaningfully and reasonably considered the impact of a customer's changing approach to energy. We would expect that Evoenergy would be actively and very publicly pursuing non-network initiatives targeted at demand management, network utilisation and customer engagement to promote all alternatives to traditional network development, taking a 'partnering' approach to these sustainability initiatives. Such an approach would reasonably be expected to include:

- Innovative connection agreements for subdivisions with rooftop solar to encourage appropriate system sizing and self-consumption;
- Matching of the subsidised household energy storage to address demand peaks;
- Tariff solutions for new customers to reduce peak demand; including mitigating the supply risks inherent in the growth in uptake of electric vehicles; and
- Encouraging new commercial loads to take up advanced demand management through embedded generation and enhanced building management systems.

It is not to say that Evoenergy has not been active in this area; our issue is that such actions have not been 'headlined' by Evoenergy and clearly incorporated in the augmentation plans to give consumers some level of reassurance that Evoenergy is taking all steps to meet changing customer energy needs through innovation, engagement and new technologies before reverting to traditional network capacity augmentation methods. The Regulatory Investment Test (RIT-D) process should support a more integrated response to new capacity requirements.

Therefore, whilst CCP10 recognises that Evoenergy does have a valid requirement for continued investment in network capacity, we cannot support the full amount proposed of $48.6M. On the basis of how the situation has been presented to consumers, we believe a lesser amount, between the current level of investment of $33M and that included in the Revised Regulatory Proposal of $48.6M, is appropriate.

Network Reliability and Quality Improvements

Evoenergy proposes an expenditure of $6.2M to address network reliability and supply quality centre on a proposal to install monitoring devices in 200 distribution substations per year, including plans to invest $1.5M to implement SCADA facilities in a number of chamber substations.

The proposal is presented to customers and community stakeholders as having benefits in employee safety (arc flash exposure), opex reduction and network performance improvement (remote switching capability) and the ability to efficiently incorporate higher levels of DER embedded in the Evoenergy network.

CCP10 does not believe Evoenergy has made a strong case that this investment will be of benefit to customers, without a clear commitment to reliability improvement targets, cost reductions or the greater penetration of customer generation. The consumer engagement refers largely to generic benefits for incremental cost.

Much of the justification related to monitoring relay power supplies or hazard reduction does not include meaningful discussion regarding possible alternative risk mitigation measures.

That being said, CCP10 notes that these initiatives and intended customer benefits are not unlike those proposed by most electricity distribution utilities, including the widespread rollout of low-voltage metering in Energex and the proposed data monitoring programme flagged by SA Power Networks. As the level of embedded generation increases, better knowledge of the performance of the low voltage network will be of assistance.

In the area of power quality, with the increase in the penetration of solar PV, Evoenergy has recorded 238 customer complaints of high voltage, yet only 4 of low voltage. This strongly supports investigation into the adjustment of distribution transformer tap settings to lower the distribution float voltage. This relatively low-cost opportunity is becoming evident in a number of distribution jurisdictions.

Overall, CCP10 acknowledges initiatives that support DER growth and public and employee safety.

Despite the lack of clear quantitative benefits to consumers, CCP10 supports Evoenergy's proposal.

We also note a comment that the remote-control facilities will reduce the requirement of 2-person switching crews and asset replacements, estimated at $647,000 over the 2019-24 period [8]. We trust savings such as this will contribute to reduced operating costs and therefore benefits to consumers.

Capitalised Overheads

In the Revised Proposal, Evoenergy has proposed a slight reduction in capitalised overheads when compared to existing costs. The proposal notes some efficiencies in data management as a result of improved ICT facilities.

CCP10 would like to see a more aggressive approach to reducing 'back-office' costs, especially as a clear incentive to Evoenergy to deliver operational benefits from the significant ICT investments of the current period and that proposed in 2019-24. We note and support Evoenergy's position of using technology to deliver a '*smaller, lighter, faster and cheaper approach to network management*' [9], and expect that approach will result in further reduced overhead costs.

Therefore, we support a further reduction in the proposed expenditure for capitalised overheads below that of $66M.

Non-network capital investment

The predominant component of the Evoenergy non-network capital proposal relates to expenditure on information systems.

CCP10 accepts and supports the other items within this category, including the proposed expenditure on facilities and property assets.

We recognise the $2M reduction in the planned non-network expenditure as a result of better applying contingency costs to the overall ICT programme.

Whilst the proposed investment in IT is less than that forecast in the current period (which we note overspends the allowance) the level of expenditure is still significant. All CCP subpanels have been observing increased IT expenditure and CCP as a whole has been keen

[8] Evoenergy – Project Justification Report, Chamber Substation SCADA, p11
[9] Evoenergy Revised Proposal, Table 4.1, p10

to see a clear commitment by utilities to identify and make transparent the benefits to customers that emerge from that expenditure.

We look forward to working with the AER on a review of IT expenditure NEM-wide and we encourage EVO and the ACT Government to participate in the review which will need to focus on the role of new technologies, what benefits will be delivered to customers, what efficiencies will be delivered to utilities and customers and how the cost benefits of each proposal should be quantified.

Following Evoenergy's consumer engagement in August however, it is not clear in the Revised Proposal where Evoenergy has heard and meaningfully responded to the issues and concerns raised by the stakeholders at that workshop regarding the clear benefits to consumers of the current and proposed ICT expenditure.

Across all CCPs, we have been keen to see a clear commitment by utilities to identify and make transparent the benefits to customers that emerge from that expenditure. We recognise that IT is a significant component of non-network costs and that there are additional requirements with cybersecurity and improved monitoring capability. With higher costs in the capital budget it is reasonable to expect that there will be efficiencies elsewhere for example in reduced operating costs such as lower maintenance costs or somewhere elsewhere. We remain unclear about the benefits to consumers of the high non-network cost expenditure particularly over the 10 years 2014-2024

Inherent in the proposal is the suggestion that the ICT investment will improve network reliability, reduce overhead costs, improve customer services and permit a greater penetration of DER. However, these benefits are poorly articulated, largely as a result of the volume of technical information presented as part of the proposal and a lack of clarity around the performance measures and customer outcomes that will flow from the investment.

On that basis, it is difficult to support the full amount of the proposed expenditure on ICT and therefore non-network capital expenditure as being prudent and in customers' interests. Our expectation is that a prudent level of expenditure will be an amount less than the proposed $56M.

OPERATING EXPENDITURE (OPEX)

Evoenergy states in their Revised Proposal that their "*revised proposal includes a revised forecast for SCS opex of $299.5 million (excluding debt raising costs)*." This is $9.3 million (or 3.0 per cent) below Evoenergy's original proposal and $4.9 million (or 1.6 per cent) above the AER's Draft Decision. Evoenergy has adopted the AER's Draft Decision for opex and has updated the base year.

The following table from the AER Draft Decision shows the Evoenergy and AER Draft Decision estimates for opex categories with minimal changes except for "price growth" and "step changes", specifically relating to the increased vegetation management responsibilities.

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**

The Evoenergy approach is not unreasonable, we however suggest that there are three aspects of the Evoenergy approach to opex that can be improved:

1. Labour costs
2. Step change – vegetation management and
3. Dynamic Opex productivity

Labour costs

Figure 6 below, from a report prepared for the AER by Deloitte, compares the ACT wage price index (WPI) with the national WPI and shows that the index is below 100 now and is forecast to remain below 100 for the duration of the 2019-24 regulatory period.

This has led the AER to conclude in the Draft Decision "*Our forecast of expected increase in real labour prices in the ACT ('labour price growth) is lower than proposed by Evoenergy.*" A view that we continue to support, meaning that there is capacity for modest savings in labour components of opex by applying an ACT specific wage price index.

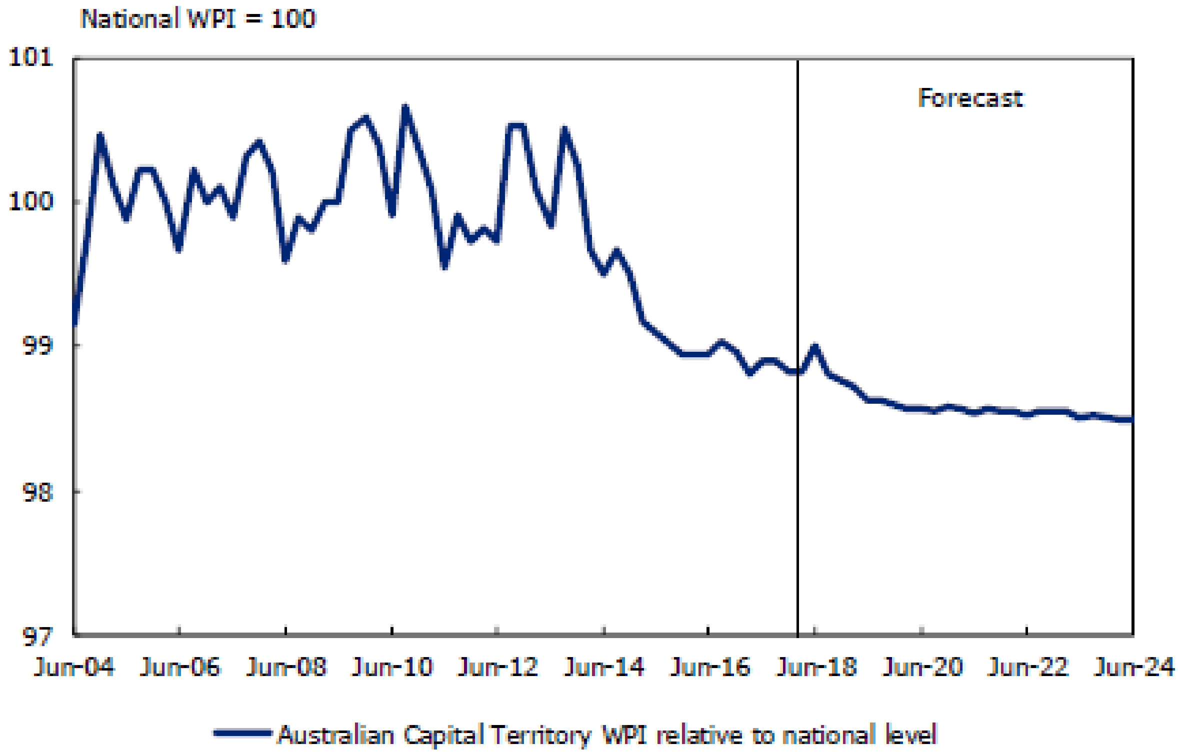


Figure 6: ACT Wage Price Index (Source: AER draft decision from Deloitte report for AER WPI)

Step Change

This step change relates to additional vegetation management responsibilities that the ACT Government has passed on to Evoenergy. In our response to the Initial Proposal we accepted that this was a legitimate step change, a view that the AER has supported. The AER however has said that "*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.*" CCP10 accepts the AER position, approving $13.8M rather than the $20.6m sought.

Dynamic Opex Productivity

Evoenergy summarised the process so far in the consideration of requiring annual (dynamic) productivity growth for opex expenditure, by network businesses saying;

"On 9 November 2018, the AER published a draft decision paper on forecasting productivity growth for electricity distributors.[10] *The AER invites submissions on its draft decision paper by 21 December 2018.*

[10] AER 2018, Draft decision paper, Forecasting productivity growth for electricity distributors, November

In the paper, the AER indicates its intention to apply the productivity growth forecast it arrives at through this consultation process to the opex estimates of electricity distribution businesses, including Evoenergy, for whom the AER will publish a final distribution determination in April 2019."

We accept that Evoenergy has needed to finalise its Revised Revenue Proposal before the AER's final decision on any opex productivity is released.

CCP members, separate from CCP10 have engaged in this process and said in the CCP submission to the review of opex productivity:

> *"Opex productivity is important because opex is important. Table 1, drawn from the AER DNSP data base 3, shows that, on average, opex accounts for around a third of total network charges paid by consumers over the last decade. It is a cost that is immediately paid by consumers and not, like capex, spread over current and future generations. Today's consumers' wallets feel the impact of inefficiency immediately."*

Reporting that for Evoenergy, opex costs as a percentage of total revenue were 32% of total costs through the period 2006-17. This being in line with opex : total revenue ratios for other network businesses. This level of opex expenditure also highlights its significance in impacting bills paid by customers.

The CCP submission concluded:

> *"Opex is a key component of the overall revenue requirements. Consumers expect that, like businesses facing competition, the regulated business should continually seek to improve their efficiency and that consumers should benefit from this. Consumers also expect the regulator to deliver this outcome. Indeed, this is a necessary requirement for the regulatory framework and individual decisions if they are to meet the requirements of the NEO/NGO and be consistent with long-term interests of consumers (LTIC). …*
>
> *The objective in forecasting opex for the revenue resets is to establish the best available unbiased estimate of the opex for a prudent and efficient operator. The estimate for trend productivity must be consistent with this overall objective and the framework used for the determination of the efficient opex. To be consistent with the base-step-trend approach, the allowance for trend productivity should exclude the effect of past significant step changes and 'catch-up' efficiency gains as these are separately included in the estimation of the efficient opex.*
>
> ***In the CCP's view the current assumption of zero trend productivity improvement does not meet these requirements and we consider that the data supports an assumption of a trend productivity improvement for the DNSPs of at least 1.5-2.0% pa."***

CCP10 supports the views presented by our CCP colleagues, that it is reasonable for customers to expect improving efficiency over time. We also acknowledge that Evoenergy (initial trading as ActewAGL) has delivered significant productivity improvement during the 2014-19 period, particularly during the earlier years of this regulatory period and they have been able to consolidate the improvements over the past couple of years. Previous submissions from CCP10 have congratulated Evoenergy on achieving productivity improvements for their customers and we maintain our recognition of their efforts.

The opex productivity measures being proposed by CCP are dynamic, meaning that productivity cannot be considered as a one-off action, no matter how significant the one-off improvement. If we accept that a majority of the last round of productivity improvement for Evoenergy was achieved by 2016/17, then it is not reasonable to expect no further improvement before 2025, the start of the next regulatory period. We strongly believe that an opex productivity improvement is both reasonable and prudent during the 2019-24 regulatory period.

Evoenergy says in their Revised Proposal that it "*welcomes the opportunity to make a submission in response to the draft decision paper and the additional opportunity, foreshadowed by the AER in the draft decision paper, to submit its views on how the AER should apply its final decision on productivity growth to its specific circumstances in making its final determination for Evoenergy for 2019–24. Evoenergy intends to make submissions in each of those processes, and foreshadows its intention to rely on those submissions in the present reset process for 2019–24*." We are concerned that this response can be interpreted as being confrontational.

We are aware that other network businesses, including 2 of the 3 NSW businesses have accepted the concept of opex productivity improvement as imminent, announcing their agreement to accept any productivity improvement determined by the AER after appropriate consultation. Evoenergy could have also taken this approach.

RATE OF RETURN

We are disappointed that Evoenergy continues to resist the binding rate of return guideline that has now been legislated, in terms of it being binding and finalised by the AER after an extensive process with input from a diversity of stakeholders and with a range of expert input also actively sought, and provided. A separate CCP subpanel was actively engaged with the rate of return review process during 2018 and CCP10 supports the extensive submissions and the positions that they have presented throughout the process.

We note that at the time Evoenergy lodged their Revised Proposal the AER had not yet finalised the 2018 Guideline. However the Draft 2018 Guideline had been published and Evoenergy did not adopt the parameters from the Draft Guideline in its Revised Proposal. By contrast Evoenergy in their Revised Revenue Proposal argued against the variations in the parameters instead proposing a MRP (market risk premium) of 6.5 instead of the finalised guideline value of 6.1. (the Draft proposed 6.0). They are also maintaining an argument for an equity beta value of 0.7, as compared with the draft and finalised, binding guideline value of 0.6. The AER has determined that gamma will be increased from 0.4 to 0.585 (originally 0.5 in the Draft Guideline) and Evoenergy continues to press for 0.4. We consider that continuing to rail against the finalised binding rate of return is counterproductive for Evoenergy and their customers and completely misunderstand the importance of affordability issues for their customers. It also is reflective of a previous adversarial relationship with the AER and customers and CCP10 views this as old thinking.

TAX

At the time of lodging its Revised Proposal, the AER had not yet published its Final Report in the Review of regulatory tax approach. That decision was published on the same day as the Final WACC Guideline on 16 December 2018. We note that the AER's Final report is not recommending rule changes rather it is focussed on the introduction of changes to the PTRM.

The AER's Final Report recommends three depreciation related changes. In order for two of the three recommended changes (immediate expensing and diminishing value) to be implemented the AER requires a formal model change process. The third recommendation around depreciation (capping gas asset lives) does not require a model change to implement.

The AER has set out in the Report the process it intends to follow to implement the changes. Briefly it will produce an explanatory statement that includes the proposed model changes and the reasons for those changes in late January 2019 and consult with stakeholders. Consistent with the AER's initial report and discussion paper, its intention is to apply the model changes to the group of revenue determinations with final reset decisions due in April 2019 which includes Evoenergy.

We welcome the AER's Final Decision on its approach to tax. We support the submission from the specialist CCP subpanel on tax that agreed with the AER that model changes should apply to the ACT and NSW regulatory Determinations to be decided in April 2019. We encourage Evoenergy to engage constructively with the AER to make the changes to the PTRM between January and April and not to resist the changes in the AER's tax decision.

DMIA

In the earlier capex section, we highlighted that strong position that Evoenergy is in by being able to deal proactively with demand management and related opportunities. We repeat the comments that we made at the public forum of October 10, 2018 about the capacity for Evoenergy to utilise the Demand Management Incentive Allowance (DMIA) more purposefully. Figure 7 shows that Evoenergy (listed as Actew AGL) has considerably underutilised their DMIA allowance.

DMIA – comparison of regulatory period allowance vs expenditure to date

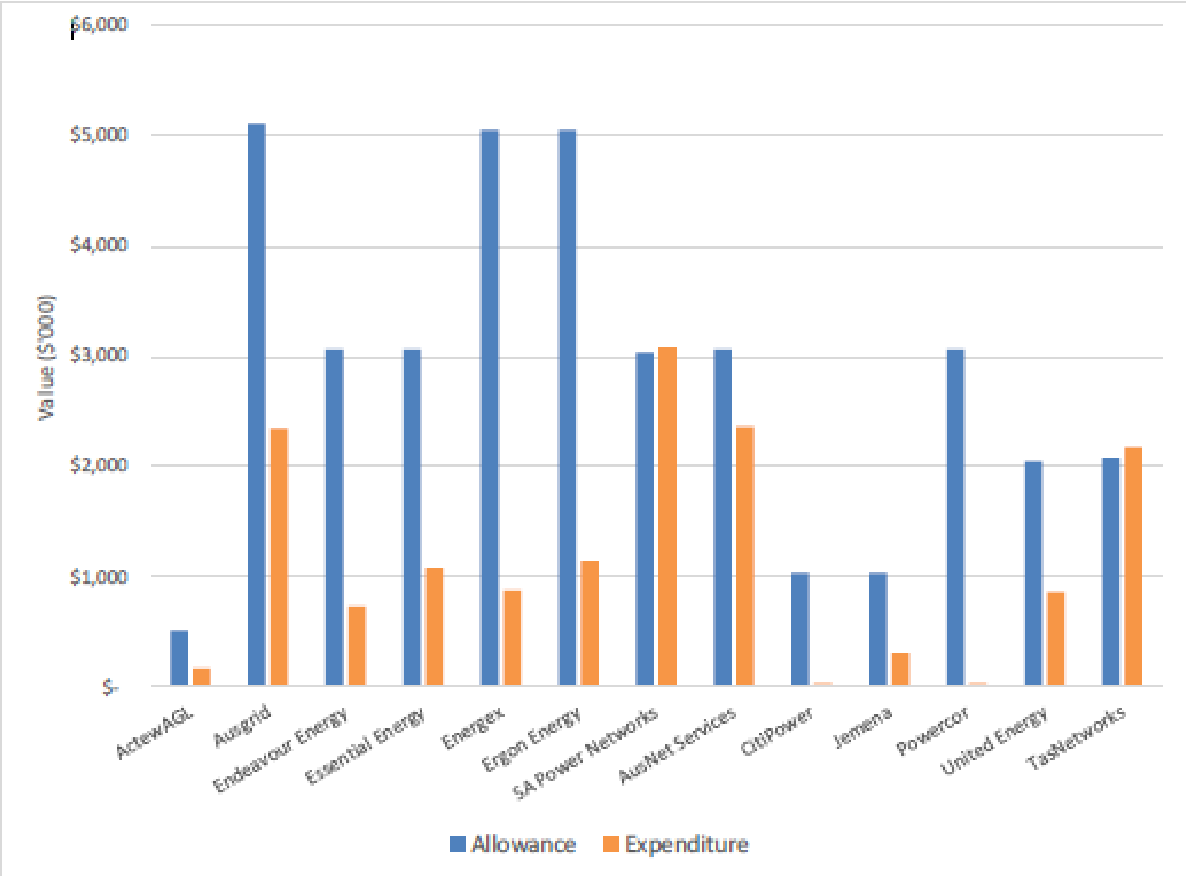


Figure 7: Expenditure of Demand Management Allowance (Source: AER)

The Revised Revenue Proposal does not adequately 'tell the story' about how the DMIA will be utilised by Evoenergy during 2019-24. We noted at the public forum that the ACT has a penchant for innovation, so Evoenergy can be much more proactive in utilising this allowance.

TARIFF STRUCTURE STATEMENT

In section 1 we said "*Evoenergy remains one of the stand out businesses in the NEM on its transition to cost reflective tariffs*." We note that Evoenergy has adopted the AER's Draft Decision on Evoenergy's TSS. We are consequently satisfied with the Evoenergy TSS. CCP21 is currently engaged with the AER TSS team, networks, retailers, ECA and other consumer advocates in building momentum for tariff reform and identifying and removing obstacles to timely reform. A key issue of focus is customer impact modelling. As a leader in tariff reform we encourage Evoenergy (and ActewAGL) to work with those stakeholders in modelling the impact of Evoenergy's tariffs on its customers as well as behavioural responses that affected customers can engage in to lessen any impact. CCP looks forward to working with Evoenergy in assisting in tariff reform in the ACT.

Conclusions

The AER draft decision says:

> *"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."*

The AER also encouraged Evoenergy to respond to the concerns that were raised in the Draft Decision, prompting us to encourage Evoenergy to 'tell the narrative'.

AER also commented favourably on consumer engagement in the Draft Decision:

> *"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."*
>
> *We also said "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*".

Against this background, we have a sense that Evoenergy has 'gone off the boil' in their Revised Revenue Proposal . Despite strong engagement with CCP10, its ECRC and other stakeholders before lodging the Revised Proposal – strong consumer engagement is not reflected in those plans.

The Revised Proposal is not capable of acceptance. Opportunities to show leadership with opex productivity and Demand management have been missed and the approaches to rate of return and tax 'go against the grain.'

Once the AER applies the binding 2018 rate of return guideline, the changes from the Final Report in the Tax Report and an opex productivity of no less than 1% per annum we encourage the AER to reduce the allowed capex, particularly in the areas of augex, ICT and capitalised overheads.

At its recent best, Evoenergy's consumer engagement has been of a high standard and the ECRC provides a very sound base for ongoing engagement. There have been many improvements in Evoenergy''s efficiency and relationships with its customers since the 2014-19 Original decision and remittal. We encourage Evoenergy to reflect on the material we have set out in section 1 of this response and to strive to embed consumer engagement within its business planning. Evoenergy is also well placed to contribute to the development of innovation in IT, DM, DER and cyber security if it chooses to. We look forward to Evoenergy seizing the opportunities that they have to continue their transition to a strongly consumer orientated business.

Glossary

AMI	Advanced metering infrastructure
CCP	Consumer Challenge Panel
CCP10	The sub-panel of the Consumer Challenge Panel appointed to consider ACT and NSW electricity distribution business regulatory proposals for 2019-24
ECA	Energy Consumers Australia
ENA	Energy Networks Australia
EUAA	Energy Users Association of Australia
LMR	Limited Merits Review
NCOSS	New South Wales Council of Social Services
NEM	National Electricity Market
PIAC	Public Interest Advocacy Centre (NSW)
PTRM	Post-tax revenue model
RIN	Regulatory Information Notice
TSS	Tariff Structure Statement