

20 December 2018

Sebastian Roberts
Australian Energy Regulator
Level 20, 175 Pitt Street Sydney NSW 2000

By email: AusgridRemittal2014-19@aer.gov.au

Dear Sebastian,

Ausgrid 2014-19 revenue allowance remittal proposal, Draft Decision

CCP10 is supportive of the AER's Draft Decision regarding the remitted 2014-19 revenue decision for Ausgrid, which *"will result in a revenue allowance of \$341.1 million (\$ nominal) above the revenue we approved in our 2015 final decision that was set aside by the Tribunal. This will lead to an estimated \$310.9 million (\$ nominal) at 30 June 2019 being returned to consumers in the 2019-24 regulatory control period."*

The background to this decision is important context for our support for the Ausgrid proposal and the AER's Draft Decision.

On 15 August 2018, Ausgrid provided a proposal to the AER for the remaking of its revenue determination for the 2014–19 regulatory control period. The proposal comprised a 4-page letter to the AER and an infographic.

CCP10 worked closely with Ausgrid and consumer groups observing the process that was undertaken to produce the revised revenue proposal. CCP10 had the following involvement during this engagement process:

- we gave feedback to Ausgrid on the draft proposal generally between November 2017 and July 2018
- we had discussions with the AER about Ausgrid's transformation costs in April-June 2018
- we participated in preliminary feedback given to Ausgrid on 6 June and 31 July 2018 on the draft proposal and subsequently discussed with Ausgrid how it would incorporate that further feedback into its proposal
- we participated in the CCC meeting on the final draft proposal on 7 August and reviewed the revised proposal and infographic prior to lodgement with the AER and
- CCP10 confirms that Ausgrid made the changes requested by consumer groups in July and August 2018 and that it took steps to incorporate the feedback in the final

proposal and the infographic.

The AER's Draft Decision means that Ausgrid will recover total revenue of \$9,126.3 million (\$ nominal) over the 2014–19 regulatory control period. This results in a nominal increase of \$341.1 million above the appealed decision by the AER from 2015. This draft decision also means that about \$310.9 (at 30th June 2019 estimate), will be returned to customers over the 2019-24 regulatory period.

Consumer Benefit

We note that a significant component of the increase in nominal allowance for the remitted decision compared to the 2015 final decision relates to the impact of the redundancy and other one-off career costs incurred as a result of the NSW Electricity Network Assets (Authorised Transactions) Act 2015 (ENA Act). We accept that these costs were necessary to enable Ausgrid to continue its transformation to a more efficient workforce. CCP agrees that since 2015 Ausgrid has made substantial changes to its underlying cost structure, becoming more efficient and that the one-off costs in achieving this were necessary and prudent. We are further satisfied that consumers will benefit from the efficiency actions both in the forthcoming regulatory period and beyond.

In our view consumers will benefit from:

- the certainty provided by the resolution of the proposed price path
- the removal of the risk for consumers from the reopening of the contentious issues from the Federal Court decision, particularly in regard to debt costs
- on an ongoing basis from the reductions in operating expenditure that Ausgrid has achieved
- the continuation of reduction in network prices into 2019-24 once the ENA Act ceases to apply to Ausgrid and
- improved consumer engagement processes.

Unique Circumstances

In the draft decision the AER notes that there are “novel circumstances” in reaching the remitted draft decision. The AER said:

"Specifically, we are making this remade draft decision at a time:

- *that is more than four years into the applicable five-year 2014-19 regulatory control period*
- *when we have applied interim pricing measures for the 2016-17, 2017-18 and 2018-19 regulatory years by accepting enforceable undertakings to address pricing uncertainties arising from the limited merits and judicial review processes*
- *when we have had a number of Tribunal and Federal Court processes, since the Tribunal's decision on Ausgrid, that have considered and clarified the law in relation to 'efficient financing costs' and the determination of the cost of debt, as well as opex redundancy costs*
- *when we have information on Ausgrid's actual performance for the first three years of the five-year 2014–19 regulatory control period and updated forecasts for the remaining two years*
- *when our decision has the potential to create significant retail price fluctuations if it*

differs materially from our 2015 final decision

- *when we have released our draft decision in response to Ausgrid's revenue proposal for the forthcoming (2019-24) regulatory control period and*
- *when there is support from a range of consumer groups that Ausgrid's Proposal is in the long-term interests of consumers."*

We agree that this unique set of circumstances is highly unlikely to occur again and so this Draft Decision cannot be seen to be creating any precedent for future regulatory process. However, learnings from having significant consumer group involvement at all key stages in exploring and considering solutions has considerable future application.

Process / AER 2.0

Ausgrid is the last of the 3 NSW electricity distribution businesses to make a proposal to resolve the 2014-19 remittals. Essential, Endeavour, Ausgrid and Evoenergy each participated in the AER's roundtable on 16 August 2017. The summary note that the AER published on its website about this meeting included the following statement: "*All participants support a consultative process and see the remittal process as a good opportunity to put AER 2.0 into practice.*"

Whilst we are relieved that the process for the Ausgrid remitted decision for the 2014-19 determinations is now well advanced, CCP10 is disappointed, along with consumer groups that it took Ausgrid 12 months following the AER roundtable to be in this position. One of the key benefits discussed at the roundtable meeting 16 months ago was to achieve an expedited process and a quicker resolution for the remittal. CCP10 does not believe that the Ausgrid proposal can be described as 'putting AER 2.0 into practice' in the same way as the other NSW businesses.

We note that recently CCP10 and consumer groups have been actively involved in very constructive discussions with Ausgrid regarding the details of their revised 2019-24 revenue proposal. These discussions have been productive and are helping to rebuild trust between Ausgrid and consumer groups.

We commend Ausgrid and its new shareholders for taking the opportunity to finally resolve the 2014-19 revenue determinations. Consumers were not well served by the regulatory impasse between the AER and the NSW/ACT businesses around the 2014-19 determinations. We encourage Ausgrid to continue to develop more transparent and embedded consumer engagement, not just as part of its 2019-24 proposal, but into the future as part of its 'business as usual' business planning.

Yours sincerely

CCP10: Louise Benjamin, Mike Swanston, Mark Henley

Note. CCP10 affirms that to the best of our knowledge this submission does not contain any confidential material.