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13 December 2017

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Dear Sebastian

**Ausgrid request for extension of lodgment of 2019-24 revenue allowance proposal**

On 10 November 2017, CCP 10 and Slavko Jovanoski attended meetings with each of the NSW electricity distribution businesses as part of CCP 10’s general process relating to development of regulatory proposals for the 2019-24 period. We met with ActewAGL for the same purpose on 30 November 2017.

The purpose of the pre-lodgement discussions was to ensure that the NSW and ACT businesses would not be ‘surprised’ by CCP advice to the AER in response to their draft 2019-24 regulatory proposal. We agreed with the AER and the businesses that we would provide an individual ‘progress report’ to the AER for each business. The AER intends to make our progress reports public. We anticipate that pre-lodgement discussions with businesses and progress reports by the CCP is likely to become standard CCP practice.

As part of this process, CCP 10 met with Ausgrid at the AER’s Sydney offices on 10 November to discuss Ausgrid’s consumer engagement on its draft 2019-24 revenue allowance proposal. At that meeting, CCP 10 expressed concerns about Ausgrid’s draft proposal, its consumer engagement to date and in particular the decision of Ausgrid’s board to withdraw its draft Five Year Plan from further consumer engagement before lodging its draft revenue allowance proposal with the AER at the end of January 2018.

We will be providing the AER with a separate written ‘progress report’ about the views we expressed in that meeting in the near future.

During the meeting with Ausgrid, CCP 10 and Ausgrid discussed the possibility of Ausgrid requesting the AER to agree to an extension of the date for lodgement of its draft 2019-24 proposal beyond 30 January 2018. We indicated that if Ausgrid made such a request to the AER, CCP 10’s advice to the AER about the request could only be supportive if Ausgrid presented a proposal that was:

* as far as possible, consistent with the AER’s framework (including WACC) and the reasonable expectations of consumers and
* supported by a substantive and collaborative consumer engagement program.

The rationale behind our suggestion was, if granted, an extension would give Ausgrid time to publish a draft proposal prior to submission and to undertake detailed consumer engagement on that draft revenue proposal. Consumers would also benefit from greater certainty on future prices, a reduction in the risk of adverse outcomes, and a less contentious process. We expressed the opinion that if the AER was involved in the engagement it need not be disadvantaged by the reduced time between lodgement of the draft proposal and the publication by the AER of its draft decision, the timing of which is determined by the rules.

**Ausgrid engagement**

Through our involvement with Ausgrid’s consumer engagement to date, it has become clear that a major issue for Ausgrid in its engagement with consumers regarding its proposed regulatory submission is the withdrawal of the *5-year Draft Plan for Ausgrid’s Network 2019-24*. The 5-year Draft Plan (now withdrawn) provided a significant opportunity for consumers to consider the proposals to be included in the draft regulatory proposal. Ausgrid’s Customer Consultative Committee (CCC) expressed profound disappointment at the decision to withdraw given that Ausgrid had been taking positive steps to improve its engagement with consumers. CCC members were concerned that this could be perceived as a signal of a partial return to the days of limited perfunctory engagement under Networks NSW.

Similarly, the opportunity for the Ausgrid Regulatory Working Group (RWG) to fully consider the nature and impact of the aspects of the proposal has not been optimum. We note that the major focus of the deliberative forums as part of the engagement has been and continues to be on the proposed framework for network pricing. Therefore, operating costs and proposed capital investment have not been considered or discussed. CCP 10 is aware that several members of the RWG have recently expressed disappointment to Ausgrid that it is not using the RWG meeting on 15 December 2017 to engage with consumers on the building blocks of the revenue by discussing its opex and capex investment plans. Instead the RWG agenda appears to continue the focus on technical presentations such as long run marginal cost methodology and tariff structure

The little information provided to date on Ausgrid’s investment plans indicates a proposed 10% increase in capital investment from the previous period to $3.5B. Our particular focus consequentially in our discussions with Ausgrid since 10 November was to provide consumer groups with a more in-depth understanding and response to the proposed capital expenditure in a deep dive engagement process.

On 20 November, you asked us to provide our preliminary view to you on how any extension would affect the interests of consumers and we provided that advice to you on 26 November. On 7 December, you asked our advice on Ausgrid’s proposed consumer engagement plan to support its request for an extension and we expressed our concerns to you about that initial program on 8 December 2017. On 8 December, you advised Ausgrid to consult with each of CCP 10, ECA and PIAC about the consumer engagement plan underpinning their request for an extension. We welcome the fact that Ausgrid has sought input from CCP 10, ECA and PIAC in preparing its revised consumer engagement plan.

On 13 December 2017, Arek Gulbenkoglu sought our views on the updated consumer engagement plan sent by Simon Camroux by email. The views in this letter are informed by the discussions between Ausgrid and CCP 10 between 20 November and 12 December, statements made by Ausgrid management to its CCC on 22 August 2017 and to the RWG on 12 September 2017 and the proposed agenda for the RWG meeting on 15 December 2017. Our observations expressed in the 10 November meeting and in our advice on 8 December about Ausgrid’s consumer engagement to date underpin the views in this letter.

**CCP support for an extension to submit the 19-24 proposal**

CCP 10 supports Ausgrid’s request for an extension on the basis that:

1. we believe it is in consumers’ interests. Consumers best interests are specifically understood in the current context to be sustainable price reductions in real terms, (assuming safety and reliability of supply). We welcome Ausgrid’s Draft Stakeholder and Consumer Consultation Program proposal and acknowledge that it includes commitments to a more transparent and interactive engagement process with Ausgrid’s stakeholders
2. we believe that the extension will provide an opportunity for Ausgrid to release its draft proposal for scrutiny by stakeholders and consumers prior to lodgement with the AER. Without an extension, consumers will have had no opportunity to meaningfully engage on the building blocks and the opex and capex priorities for Ausgrid’s 2019-24 revenue proposal
3. in recent discussions with CCP 10, ECA and PIAC we have shared with Ausgrid our observations about strategies other businesses have used in their consumer engagement programs and we note that some of these have been referred to in Ausgrid’s Draft Stakeholder and Consumer Consultation Program proposal. We also note that Ausgrid will be seeking feedback from members of the RWG on its Draft Stakeholder and Consumer Consultation Program proposal which is a positive step
4. Ausgrid has committed to releasing its draft revenue proposal on 27 January 2018 prior to the series of deep dives. We believe that it would be advantageous for Ausgrid to release a more detailed overview of its capex program before 27 January2018 to ensure that the AER and stakeholders have the opportunity to identify issues of concern to be included in its deep dive consultation process. Ausgrid refers to stakeholders accessing information in a timely manner and in CCP 10s view this would be an important step towards meaningful engagement
5. we believe that the experience of engaging with the AER, CCP 10 and consumer representative groups and consumers generally in a transparent and collaborative engagement program in 2018 will lead to Ausgrid developing a longer-term engagement strategy underpinned by transparency and earlier engagement as part of its business as usual as referred to in section 3 of the draft Stakeholder and Consumer Consultation Program proposal
6. in the period leading up to the proposed new date for submission of Ausgrid’s regulatory proposal, CCP10 would strongly support the early provision of key data from the submission, even in draft form or with caveats, to assist the AER to carry out preliminary analysis of the proposal. A process to support the ‘deep dive’ work that includes data provision, analysis and a feedback mechanism prior to submission is being developed at the moment to support a bilateral goal of ‘no surprises’
7. the commitment by Ausgrid to the AER’s building blocks combined with the engagement program means the AER should not be disadvantaged by the reduced time between lodgement of the draft proposal and the publication by the AER of its draft decision and
8. we recognise that the context for this extension request is the post LMR environment with the AER’s commitment to collaborative regulation processes known as “AER 2.0” in which the AER has committed to trialling more collaborative approaches. CCP 10 believes that granting Ausgrid’s request for an extension is consistent with our understanding of AER 2.0.

**Key Issues**

**Price**

We rely on Ausgrid’s assurances both verbal and in the extension request that Ausgrid is planning for prices below inflation in 2019-24. Consumer and stakeholder groups, including CCP 10, would be looking for prices below inflation for the period especially given Ausgrid’s relative efficiency in the AER’s 2017 benchmarking report.

**Capital requirements**

We remain very concerned about the reference to historical capex averages in the extension request and we rely on Ausgrid’s verbal assurance that the current capex discussions with stakeholders that are referred to in the email are within a $3-3.4B range. We also rely on Ausgrid’s assurance to release its proposed capex investment plans as soon as possible.

Information provided to date indicates a proposed 10% increase in capital investment from the previous period to $3.5B, with 60% to meet the increasing challenge of the replacement of ageing assets and $320M planned to meet new demand, in particular new point loads of transport infrastructure. Another ongoing issue is the interaction with Transgrid in the Powering Sydney project.

We rely on Ausgrid’s commitment to undertake a collaborative consultation ‘deep dive’ on the capital requirement in conjunction with the AER, consumers and other stakeholders, including identifying aspects for a deep dive once Ausgrid releases its draft regulatory proposal in early 2018.

In our view, important objectives of this ‘deep dive’ process include:

1. clarity as to the impact of the ‘Powering Sydney’ proposal
2. evidence of a high-level of capital efficiency - preferably drawing on information from other utilities as well - in meeting demand;
3. evidence of efficient investment and improvements in business performance related to the non-system capital expenditure;
4. clear evidence of informed support from the wider community on these expenditure plans; and
5. a demonstrated commitment to Demand Management and its impact on augmentation through customer engagement, Demand Management and Demand Response plans. The accelerated application of the Network Transformation Roadmap initiatives is expected to support the further development of embedded generation, complementary tariff signals and innovative customer connection processes that support energy efficiency and the reduction in peak demand.

**Conclusion**

We believe that consumers, Ausgrid and the AER have the potential to gain from the opportunity to participate and provide feedback to Ausgrid in the Draft Stakeholder and Consumer Consultation Program. We believe that this process will provide an opportunity for consumers to have greater visibility and understanding of the benefits they will receive as a result of Ausgrid’s opex and capex proposals in a way that they haven’t to date. This is particularly important given consumers' number one objective is affordability of their electricity supply in a safe and reliable manner.

We appreciate that Ausgrid has requested that CCP10 members participate in any future engagement process including in any opex and capex deep dives.

We also acknowledge that this would be a new process for all parties and could only deliver the full benefits to consumers, Ausgrid and the AER if all parties engaged in the process transparently and in good faith. CCP10 would commit to the AER to engage with Ausgrid and the other parties in good faith in this process.

We are aware that the AER will give a copy of this letter to Ausgrid.

Yours sincerely

Mark Henley, Louise Benjamin, Eric Groom and Mike Swanston