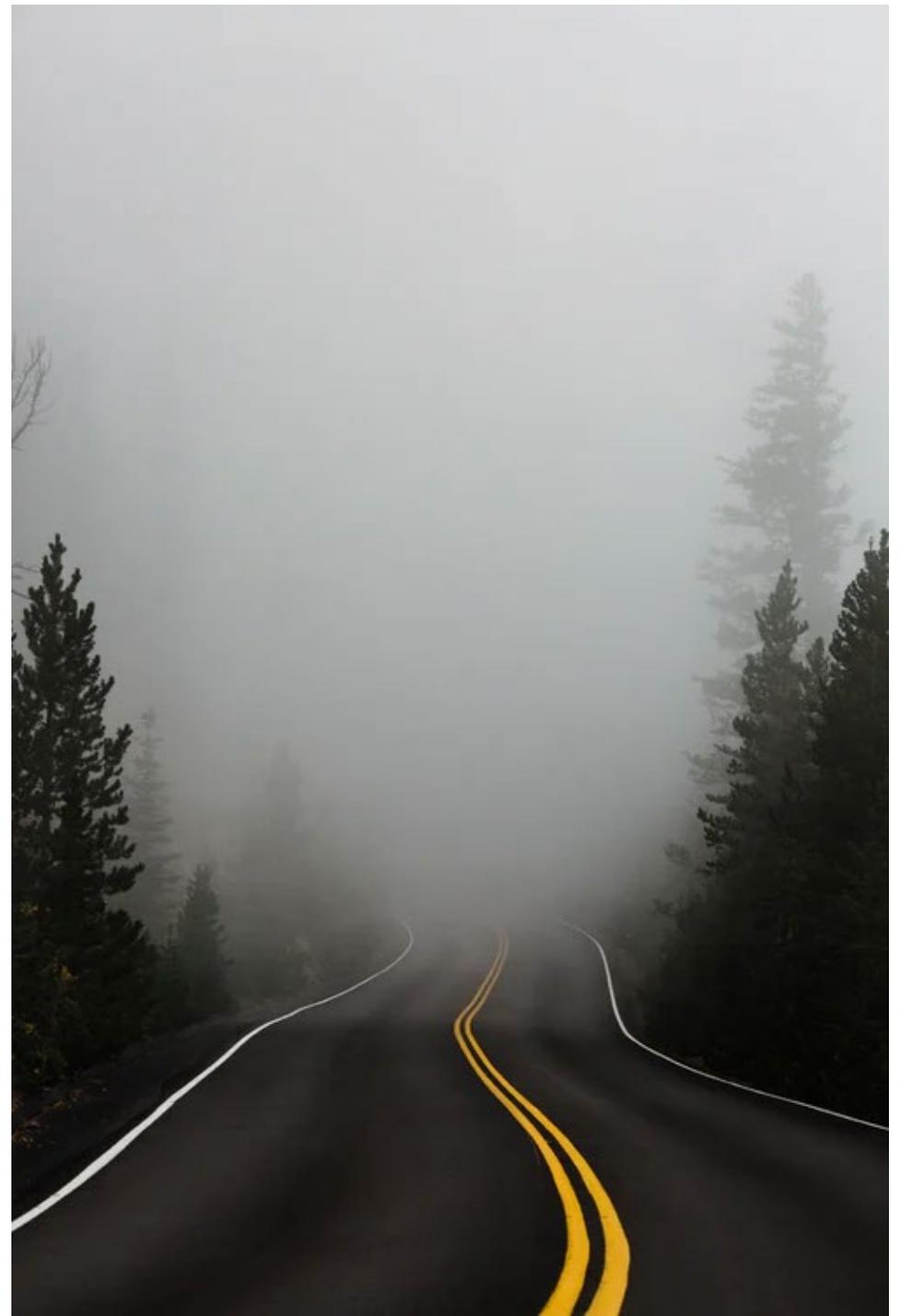


# Victorian Electricity Distribution Draft Decisions

Public Forum – 15 October 2020

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# Recognition of Country



*We acknowledge the Traditional Owners of Country throughout Australia, in this situation the owners of the land hosting the Victorian electricity networks and the lands on which participants are located.*

*We recognise the continuing connection to land , waters and culture.*

*We pay our respects to their Elders past, present and emerging.*

# COVID Implications



- COVID-19 = Uncertainty
- Response is
  - Keep engaging (eg. CPU ongoing)
  - Embrace uncertainty
  - Keep calm and carry on
- Demand will change
  - Shorter term
  - Over the full period
  - Impacts Opex trend
- Forecasting methodology, timing and review
- Connections
- Statements of Expectation (future)



# Consumer Engagement

- Newest development: the AER elements table. We are very interested in how it is applied.
- Consistency is important – noting that few precedents currently exist.
- All 5 DNSPs have undertaken high quality engagement processes – all have gaps too.
- Engagement approach needs to be fit for purpose. (NB Scenario planning, Customer Forum, People’s Panel).
- Engagement is crucial in uncertainty and in response to the Draft Decision, then ongoing. We expect to see plans for ongoing consumer engagement in the Revised Proposals.



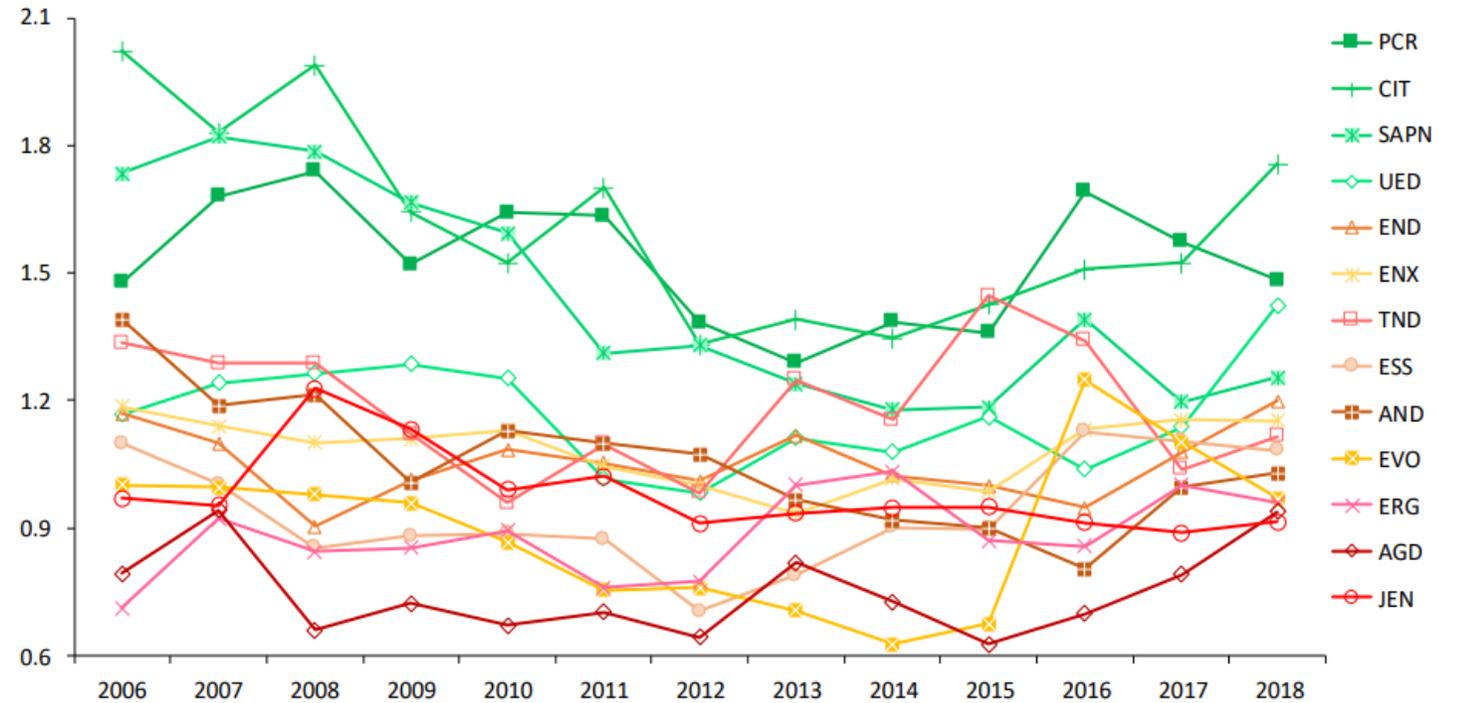
Element	Examples of how this could be assessed
<b>Nature of engagement</b>	<ul style="list-style-type: none"> <li>• Consumers partner in forming the proposal rather than asked for feedback on distributor’s proposal</li> <li>• Relevant skills and experience of the consumers, representatives, and advocates</li> <li>• Consumers provided with impartial support to engage with energy sector issues</li> <li>• Sincerity of engagement with consumers</li> <li>• Independence of consumers and their funding</li> <li>• Multiple channels used to engage with a range of consumers across a distributor’s consumer base</li> </ul>
<b>Breadth and depth</b>	<ul style="list-style-type: none"> <li>• Clear identification of topics for engagement and how these will feed into the regulatory proposal</li> <li>• Consumers consulted on broad range of topics</li> <li>• Consumers able to influence topics for engagement</li> <li>• Consumers encouraged to test the assumptions and strategies underpinning the proposal</li> <li>• Consumers were able to access and resource independent research and engagement</li> </ul>
<b>Clearly evidenced impact</b>	<ul style="list-style-type: none"> <li>• Proposal clearly tied to expressed views of consumers</li> <li>• High level of business engagement, e.g. consumers given access to the distributor’s CEO and/or board</li> <li>• Distributors responding to consumer views rather than just recording them</li> <li>• Impact of engagement can be clearly identified</li> <li>• Submissions on proposal show consumers feel the impact is consistent with their expectations</li> </ul>
<b>Proof point</b>	<ul style="list-style-type: none"> <li>• Reasonable opex and capex allowances proposed               <ul style="list-style-type: none"> <li>○ In line with, or lower than, historical expenditure</li> <li>○ In line with, or lower than, our top down analysis of appropriate expenditure</li> <li>○ If not in line with top down, can be explained through bottom up category analysis</li> </ul> </li> </ul>

# Base year consideration

## Opex – Base

- JEN / AND similar
- CP/PC/UE 3 of the top 4
- Concern re 2018 as a base year for mid 2021
- Productivity

Figure 4.3 DNSP opex multilateral partial factor productivity indexes, 2006–18



From the Draft Decisions:

**Relatively Inefficient, JEN**

**Relatively Efficient:  
AND/CP/PC/UE**

CCP17 will be exploring the nuance between relatively inefficient and relatively efficient assessments

# Opex – Step Changes

- HBRA, EPA, transitional debt return - withdrawn
- Insurance, DM etc – doors ajar for Revised Proposals
- Uncertainty and Materiality – balance about right
- Category Specific adjustments too – Similar to Step Changes
- Generally happy with AER DD

Step Change	PC	PC	CP	CP	UE	UE	JEN	JEN	ANS	ANS
	Revised	AER	Revised	AER	Revised	AER	Revised	AER	Revised	AER
Security Inf'tructure / cyber	14.5	13.4	14.4	13.4	45.9	32.5	2.9	2.9	4.7	0
REFCL opex	13.3	10.8								
REFCL test							1.3	1.3	5.9	5.8
EDO fuses	11.2	0								
Solar able	6.2	0	1.3	0	4.2	0				
IT Cloud	5.9	5.5	2.3	2.2	4.7	4.5			2.6	0
Insurance	5.0	5.0			2.2	0				
Bushfire Insurance							28.8	28.2		
5 Min Set'l	4.9	4.5	1.9	1.8	3.9	3.7			3.6	3.5
ESV Levy	4.0	0	1.5	0	2.5	0				
FinRiN	1.8	0	1.8	0	1.8	0	0.5	0		
Yarra trams			14.4	0						
Demand Managem't					8.6	0				
Future Grid							3.8	0		

# Future Network

- There are so many influences under way in parallel – VADER, AEMC sprint and rule changes, technical standard changes, working from home, which add to uncertainty. Need frequent engagement
- We support the AER approach that recognises DER growth will occur, and a more staged implementation ('plan-do-check-act') is valuable over more than 1 period.
- We continue to advocate for DNSPs to look beyond 'solar enablement' to a 'future operating model' that considers utilisation, tariff signals, changing energy mix, EV's, 'smart' demand response.
- AER has approved proposals in digital network expenditure despite consumer and consultant concerns. It would help if the AER better explains why consumer concerns appear to have been discounted. We acknowledge that there has been a lot of 'post proposal' work between AER and the DBs, and in many ways these findings need to be included into the public arena.



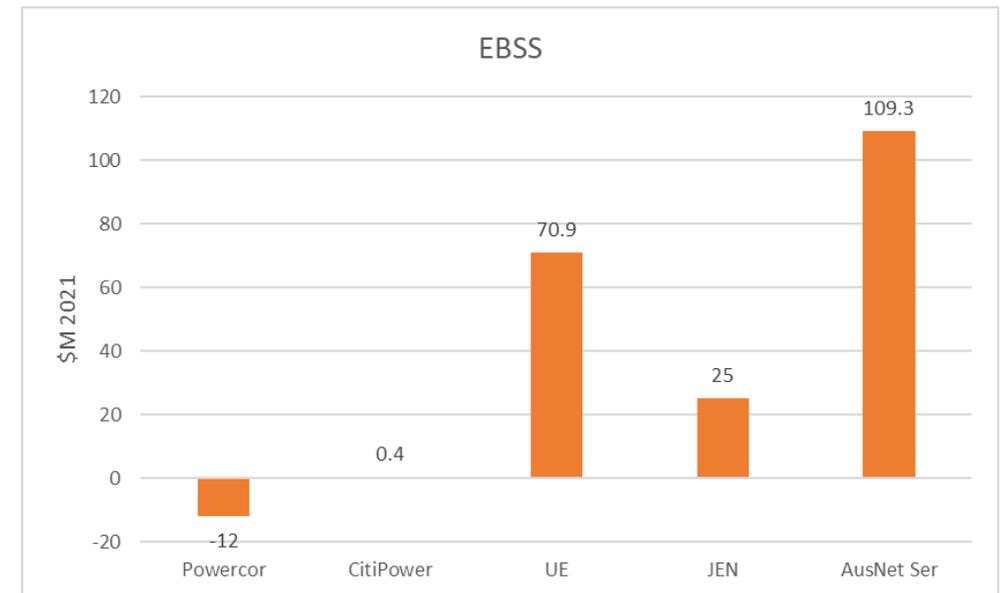
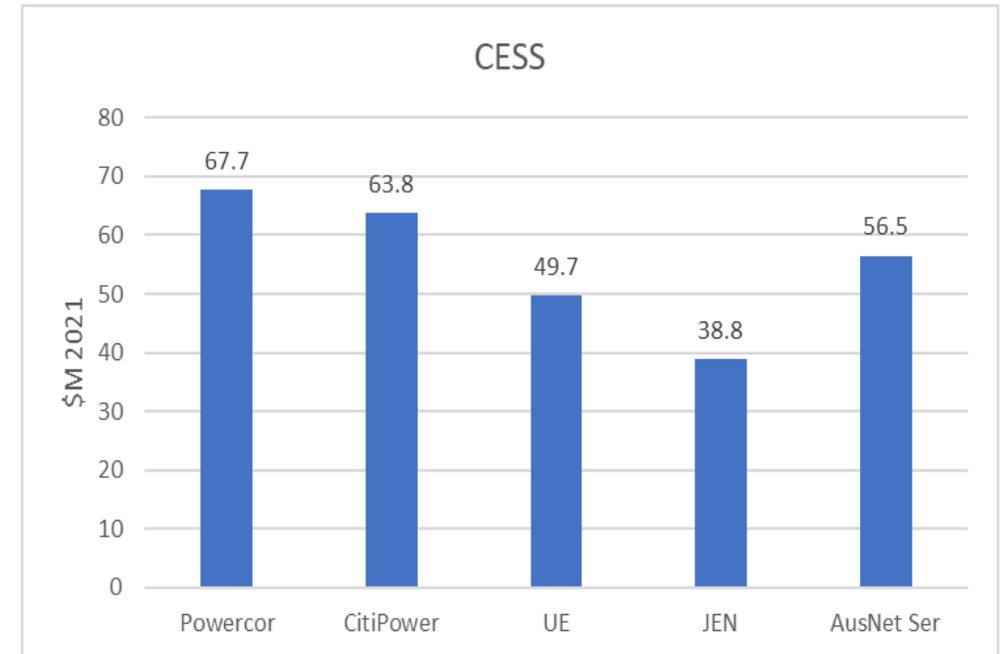
# Capex

- Overall we are comfortable with the principle underlying the AER position – fairly much ‘steady as she goes’.
- ‘Top down challenges’ and ‘long-term capex trend’ now feature as a key issue.
- AusNet’s reasoning and decision analysis is different, and it is harder for consumers to do ‘apples with apples’ comparisons.
- We expect forecast adjustments, including connections may be challenged.
- Powercor pole strategy remains a complex discussion, however we see some merit in the AER position that includes increased funding for poles compared with the current period.
- There may be value in greater clarity in considering past and proposed ‘non-recurrent’ capex (eg RECFL) separately from other works (esp AusNet).
- The way ICT is considered now seems to be an improvement on past determinations



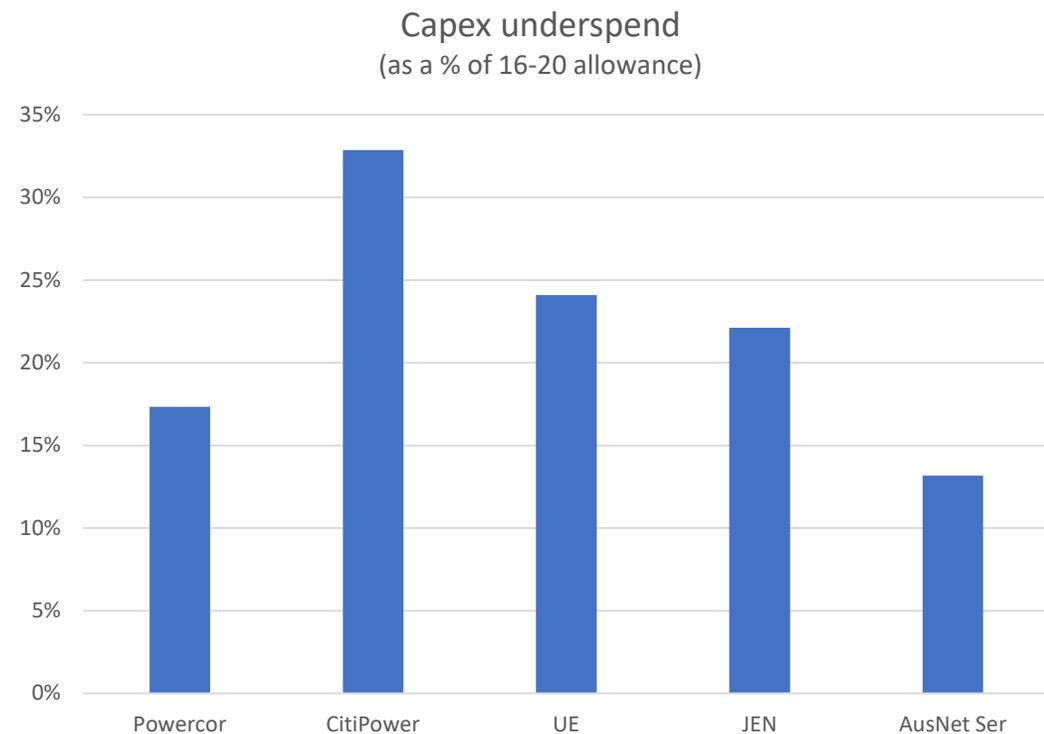
# Incentive schemes

- Strongly support the proposed broad review of incentive schemes (EBSS totals \$194M, CESS \$276M)
- Welcome adjustments to CESS for inefficient capex deferrals, but question whether it's enough
- Note the draft decision to apply CESS but not EBSS for Jemena in 2021-26. Interested to examine the rationale, and potential implications.
- Seeking clarity on how the CSIS trial will be evaluated.
- Nature of demand management incentive schemes are generally unclear - looking for businesses to include integrated DM plans in 'future operating model'.



# Incentive schemes

- Is a 10% - 30% underspend of CAPEX becoming the norm ?



# Tariffs

*“For small users, we advise the distributors to explore reassigning customers on legacy cost reflective tariffs to the new time of use and demand tariffs.”*

- Could discounting residential complex tariffs mean those remaining on flat tariffs pay more than their fair share of network costs ?
- Should the TSS do more for vulnerable customers, other than to note that role of the Victorian government ?
- The shape and price of retail tariffs remains unclear, especially “insurance style flat rate retail offers”.
- The Victorian Default Offer (VDO) is set by the Vic government, and how it delivers for consumers is outside the control of the AER.
- We support a stronger view on “a statement on how tariff proposals are integrated with demand management and other initiatives”.
- Submissions that consider customer well-being considerations appear not to be well reflected in the draft decisions.



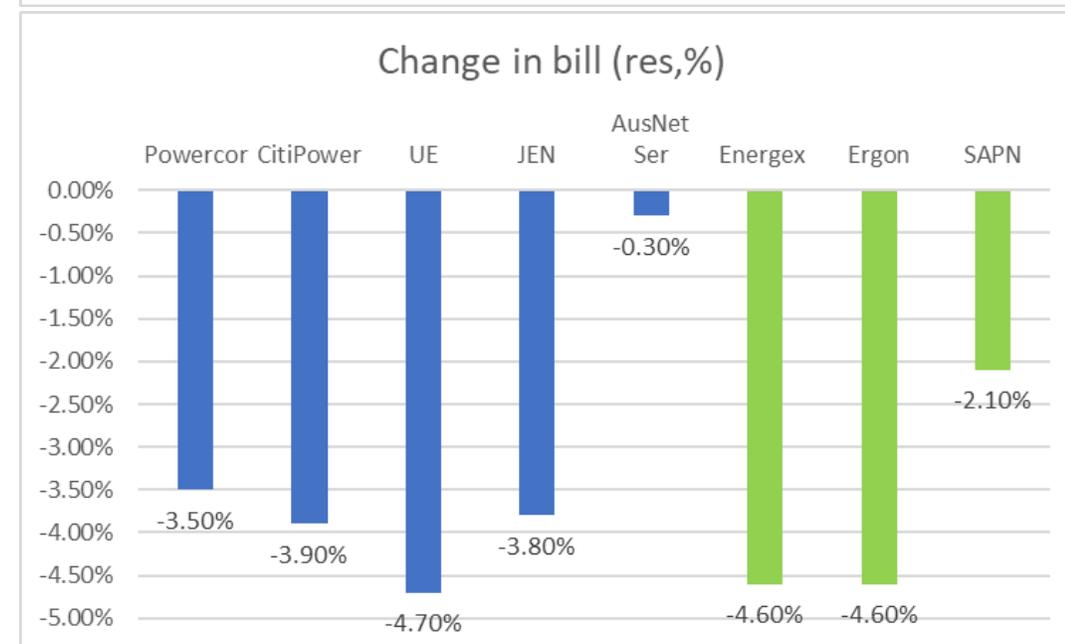
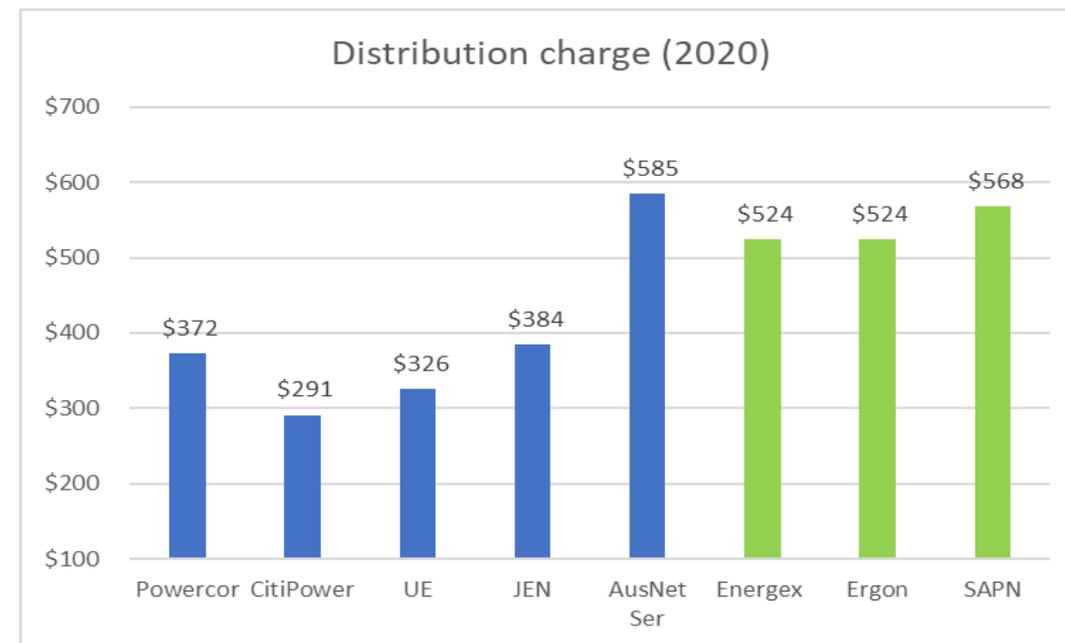
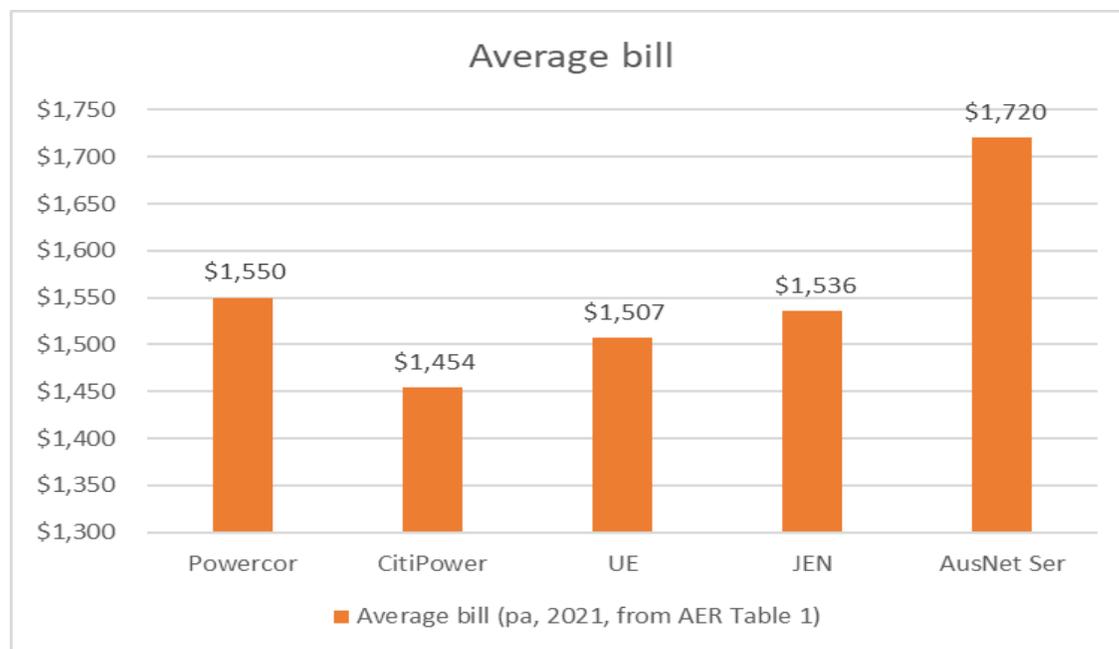
Does it pass  
the pub  
test?



## Just askin' ...

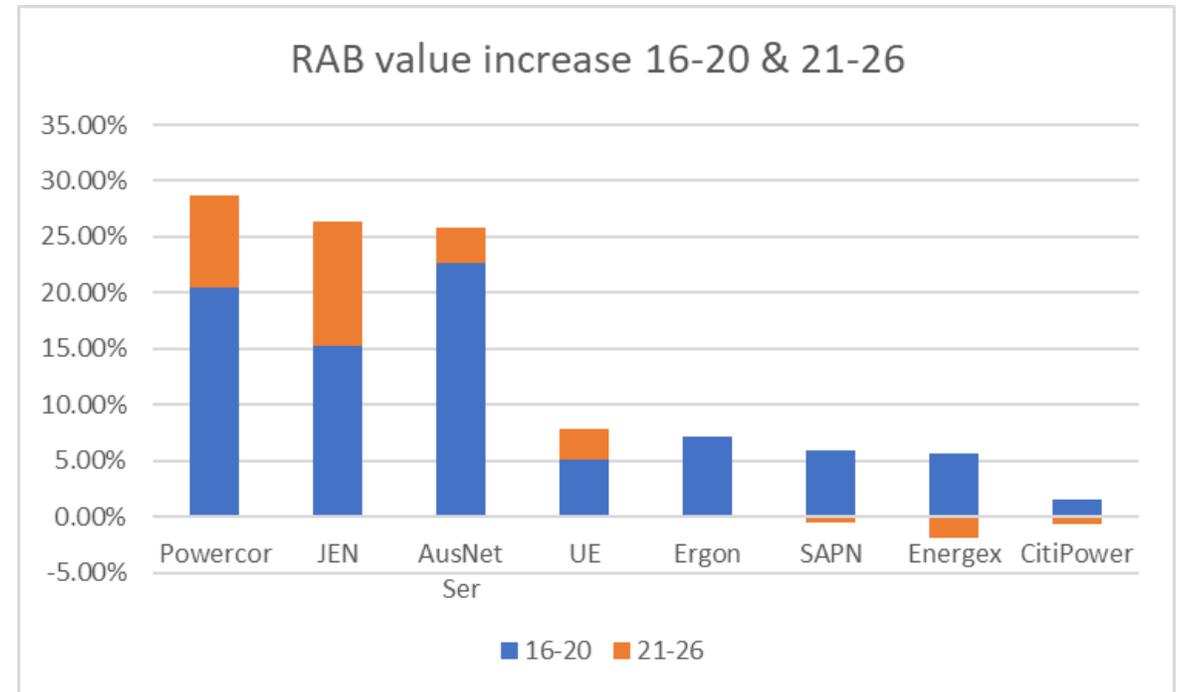
As we look more towards 'top down' outcomes, ... does the spread of average bills reasonably reflect the varying drivers of cost?

... with WACC down from early 6s to mid 4s, have the resulting savings been delivered to consumers?



Source: Draft decision overviews, AER

Do those with large RAB increases demonstrate better outcomes or service for consumers (broad definition of service)?



Source: Draft decision overviews, AER

# Light assessment is ok, but ...



We accept that there is a better way - especially for Capex – to more consumer-centric, lighter-handed regulation, and support the AER’s direction.

Consumers drew confidence in the way the AER and other experts considered the details – tested assumptions, required meaningful counterfactuals, took an industry context.

Valuing the top-down assessment of plans *in toto* is an important step, and we advocate the development of better guidelines on how to approach such action.

Thank you

