Consumer
Challenge
Panel

Response to the Preliminary Framework and Approach (F&A) for Victorian Distribution Businesses Regulatory control period commencing 1 January 2021

From Consumer Challenge Panel (CCP17)

Summary overview

The following table sets out our understanding of the AER's proposed approach to the 2021-2025 regulatory reset for Victorian electricity distribution businesses as specified in the Preliminary Framework and Approach (F&A) published by the AER on 14th September 2018, together with our response summary. Subsequent sections of this submission provide further explanation of our summary responses.

Preliminary F&A Element – Victorian DBs	CCP17 Response Summary
Issue 1: Classification of distribution services	
Classification of services into groups as: i. Common distribution services ii. Connection services iii. Metering services iv. Network ancillary services v. Public lighting services vi. Unregulated distribution services	CCP17 supports these classification groups as a default, and looks to further discussion with DBs regarding connection charges. CCP17 supports consistency across jurisdictions where possible.
Common distribution services (CDS) to be classified as "Direct Control Services"	Agreed
New classification of activities requested by Victorian distributors - Supply abolishment of basic connection - Bulk supply point metering - Customer initiated asset relocations/rearrangements - Recoverable works - Emergency support for another distributor - Stand-alone power systems	Proposed AER classification: CDS – agreed CDS – agreed CDS – agreed CDS – agreed Standard control, with costs to be recovered – agreed Unclassified – await AEMC review

Preliminary F&A Element – Victorian DBs	CCP17 Response Summary
Network ancillary services classified as Direct Control/Alternative Control Services (ACS) - Network safety services including site visits and line guards classified as ACS - 'Wasted truck visit' not classified as ACS - Change classification of security and watchman lighting from unclassified to ACS	Agreed Agreed Agreed Agreed
Connection Services - Basic connections: ACS - Standard connections: standard control, with financial contribution by DB - Negotiated connections: change to standard control - Connection application and management services including embedded network management, temporary connections: ACS - Enhanced connections: ACS - Community network upgrades: unclassified	Now under chapter 5A of the NER Agreed Agreed Agreed Agreed Agreed Agreed, with further consideration required
Metering Services - Type 1 – 4 metering services: unregulated - Type 5 and 6 metering services: ACS - Type 7 metering services: ACS - Auxiliary metering services where DB is responsible: ACS	 Agreed Specified by Victorian Government Agreed Agreed
Public Lighting: All public lighting services to be ACS	Agreed
Unregulated distribution services – Transmission network support: unclassified	 Disagree – review of Guideline recommended
Issue 2: Control mechanisms	
Revenue cap for standard control services	Agreed. The transfer of demand risk to customers should be reflected in pricing
Revenue cap for types 5 and 6 metering services (including smart meters) classified as ACS	Agreed
Price caps in individual services for alternative control services.	Agreed

Preliminary F&A Element – Victorian DBs	CCP17 Response Summary
Efficient Tariff Structures can operate under all forms of control mechanism, including a revenue cap	Agreed
Issue 3: Incentive schemes	
STPIS: Apply to all Victorian DBs	Agreed
EBSS: Apply to all Victorian DBs	Agreed. Important it is applied to all DBs
CESS: Apply to all Victorian DBs	Agreed
DMIS and DMIAM: Apply to all Victorian DBs	Agreed
Victorian F-factor scheme: Apply to all Victorian DBs	Victorian Government requirement. Needs to be monitored closely to minimise risk of consumers paying more than is necessary.
Small scale incentive scheme: Consider SSIS for AusNet Services only	CCP17 supports the concept of the AusNet Services Customer Forum's proposal for a SSIS to improve customer satisfaction for connections, planned and unplanned outages, and complaint handling
Issue 4: Expenditure forecast assessment guideline	
Expenditure Forecast Assessment Guideline: Have regard to the assessment tools in the Guideline	Supported
Issue 5: Depreciation	
Use forecast depreciation approach to establish value of the RAB as beginning and end of the 2021-25 period	Use of forecast depreciation supported

Source: Compiled by Consumer Challenge Panel using AER Preliminary Framework and Approach, AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021

Context for EDPR 2021

There are several drivers for regulatory change that impact on the forthcoming electricity distribution regulatory process for 2021-2025 (EDPR 2021) for Victorian electricity distribution businesses, which are reflected in the Preliminary F&A. These regulatory drivers include:

- Application of the Contestability of Energy Services rule change;
- Ring fencing arrangements which changed during 2017;
- The recently released Distribution Service Classification Guideline;
- The introduction of a Demand Management Incentive Scheme (DMIS);
- Increasing consumer engagement by network businesses, and the associated expectation of continual improvement in processes of consumer engagement and in application of consumer feedback and advice; and

- Application of chapter 5A of the National Electricity Rules (NER) for Victorian network businesses covering connections and charges.

In addition to these drivers of change, there is a broader socio-political context whereby electricity costs are a regular news item, and electricity policy has become a highly divisive political issue at Federal and State level.

A recent report by the ACCC into retail electricity prices identified network costs as an area where significant savings could be made for consumers, though we observe that these comments are less relevant to Victoria (and South Australia) than to other jurisdictions.

The findings of the 2009 Victorian Bushfires Royal Commission pertaining to electricity network businesses also continue to have significant impact on the context in which the Victorian network service providers (NSPs) operate.

Further to these change issues, there are also the issues relating to transition to more renewable generation, which at the moment is more intermittent and less amenable to dispatch than traditional generation sources. For the Victorian distribution businesses, this relates particularly to grid scale solar and wind generation, as well as the increasing uptake of small-scale rooftop solar PV.

It is also worth noting that levels of trust in energy businesses by consumers are low in general, and so maintaining and/or rebuilding trust by consumers is a significant matter for all energy businesses. This includes network businesses, even though they can be less directly engaged with customers than retailers.

Before making some more specific comments on some of the key issues highlighted by the Preliminary F&A for EDPR 2021, we recognise that there are many elements of the final decision that are still in development and that will apply to the AER assessment of the regulatory proposals from the five Victorian electricity distribution network businesses. The pending issues include:

- Rate of Return. The AER is currently completing a separate process that will set rate of return parameters that will apply to the Victorian process. It is most likely that these parameters will be binding. An extensive process was conducted during 2018 to ensure that detailed input was received from network businesses, consumer groups and a range of stakeholders with particular expertise, to ensure that all perspectives were canvassed in setting this binding rate of return. As rate of return has been a separate process to the F&A, we recognise that it is not an issue that will be covered by considerations of the F&A.
- Tax. A separate process is underway and being conducted by the AER to review ex-post tax allowances provided for previous network determinations, and consequently to consider appropriate tax allowances for future regulated revenues.
- Opex Productivity. It is understood that at about the time that responses to the Preliminary F&A are lodged with the AER a discussion paper will be released to

consider the question of whether opex productivity expectations should be built into regulatory decisions. This process is also separate from the F&A process

- Tariffs. The AER is currently considering tariffs arrangements for Australian network businesses, and a separate CCP subpanel (CCP21) has been established to specifically consider issues associated with network tariffs.
- A new Distribution Services Classification Guideline has been developed by the AER after extensive consultation with network businesses. This Classification Guideline will apply to EDPR 2021, and has been built into the F&A.
- There is a possibility that profitability will be considered by a separate process outside of the framework and approach, and this may impact on EDPR 2021.
- The AER is currently undertaking a review of the Service Target Performance Incentive Scheme (STPIS), with an expectation that the review will be completed in 2018. If the review is completed in time, the new scheme will be applied to Victorian distribution businesses for the 2021-25 regulatory control period.
- The AER has recently commenced a review of the Values of Customer Reliability (VCR). VCR studies estimate how willing customers are to pay for improved service reliability as a monetary amount per unit of unserved energy during a supply interruption. Estimates of VCR are incorporated in STPIS calculations. If the review is completed in time, the new VCR will be also used for Victorian distribution businesses for the 2021-25 regulatory control period.

Victorian and Federal elections will both occur before the Victorian network businesses lodge their regulatory proposals in July 2019. This variability in political climate and high political sensitivity on energy affordability issues means that there is a chance that political commitments at either State or Federal level could impact on aspects of the F&A as applied. While we recognise that political decisions could impact on EDPR 2021, we do not factor in any changes due to new political commitments in this consideration of the F&A.

Changes from the last F&A

In this F&A, there are several changes, when compared to the previous regulatory period, EDPR 2016. These changes are mainly about aligning Victoria with other jurisdictions in the NEM, with regard to service classifications, as well as some standardisation of language.

For example, the term 'network services' becomes 'common distribution service', in line with the more recent F&A statements for regulatory proposals in other NEM jurisdictions.

The language changes fairly significantly regarding connection services, now that Chapter 5A of the NER applies in Victoria, bringing it into line with other states. The terms from Chapter 5A - 'basic, standard and negotiated' now feature in Victoria, and are simpler than present arrangements. Connection services and how they are classified, defined and applied is a major component of the new Classification Guideline that was released in September 2018. The actual classifications of the work are not changing significantly; it's much more about the wording and language.

The second noticeable change is that all public lighting has moved into ACS, consistent with other jurisdictions, due to ring fencing complications. We understand that some councils are not happy with that change, preferring to keep public lighting in the contestable area; other councils are neutral about the change.

Two additional activities, emergency recoverable works and mutual support in emergencies, have also been classified to Standard Control Service (SCS), having previously been unclassified, this change is mainly because of ring fencing. In common with CCP subpanels in other jurisdictions (New South Wales, Queensland and South Australia), CCP17 highlights the importance of vigilance to ensure that the network businesses maintain a commitment for cost recovery from the causer party.

Ring fencing is also driving other changes in classification for small items such as issuing property services, sale of materials, clearance notices, security lighting and the like – all moving from unclassified to ACS. This has occurred in all jurisdictions.

Apart from applying the new Demand Management Incentive Scheme and Demand Management Innovation Allowance Mechanism to Victoria, no change is proposed to incentive schemes or depreciation.

When all these contextual changes are put together, is clearly evident that the context for EDPR 2021 is one of significant change, with a greater degree of uncertainty about the future than has been historically the case for electricity network businesses.

Issues particular to Victoria

While considerable effort has been made in the Preliminary F&A to standardise arrangements and language across Australia, we recognise that some Victoria specific issues remain, and are pertinent to the F&A.

Supply abolishment (removal of service) remains an SCS in Victoria, based on the agreement that to charge a fee will discourage demolishers from doing the right thing. It's an ACS elsewhere.

Customer initiated asset relocations. In Victoria, this is covered by Victorian Essential Services Commission (ESC) guidelines, and works a lot like a contributed new connection with a revenue test to determine any capital contribution. Hence AER will keep it as an SCS. It's an ACS (fee for service, actual cost charged) in other states.

F-factor scheme under the *National Electricity (Victoria)* Act 2005. This Order confers functions and powers on the AER to regulate the f-factor scheme. It specifies $25,000 reward or penalty per fire (similar to STPIS), based on 'Ignition Risk Units (IRUs)'.

The way AMI meters are treated under Victorian legislation differs from other states. AMI meters are classed as type 5 (remote read) and are revenue-capped. In other states, the service is price capped or contestable.

Preliminary F&A: Key points

The following list provides an overview of key elements of the Preliminary F&A.

1. This is the first F&A to embrace the Distribution Service Classification Guideline & Exempt Asset Guideline (published 30 September 2018 – required by NER rule change in December 2017).
2. A recent change to Victorian legislation (National Electricity (Victoria) Act 2005) means that Chapter 5A of the National Electricity Rules now applies to connection services language and classifications.
3. Incentive schemes are retained – STPIS, EBSS, CESS, DMIS, Victorian F-factor (bushfire response).
4. Application of the Expenditure Forecast Assessment Guideline reporting framework continues.
5. Depreciation remains based on forecast Capex to establish the Regulated Asset Base (RAB) at 1 January 2026. With CESS, it encourages Capex efficiencies.
6. There are no dual-function assets in Victoria.
7. New incentive schemes are incorporated – mainly the December 2017 DMIS change.
8. There is a change to connection costs and particularly the movement of these costs to ACS coupled with application of "user/causer pays", which has particular implications in rural communities.
9. There are also some particular issues raised by Victorian DBs that are a little different to other states.

Form of control (binding)

In the Preliminary F&A, the AER proposes to retain existing forms of control, specifically:

- Standard control (SCS) = revenue cap (applies in all jurisdictions except Evoenergy ACT)
- Metering (type 5 & 6, includes AMI smart meters) = revenue cap
- Alternative control services = caps on prices of individual services.

In the Queensland distribution businesses F&A process, QCOSS raised concerns about a revenue cap incentives regime encouraging the overstating of demand and required capex. Similar questions are being asked by other consumer groups. CCP10 (NSW and ACT DNSPs 2019-24) opined that in the foreseeable future, the merits of revenue caps compared with price cap regulation warrant re-consideration. For EDPR 2021, CCP17 accepts the maintenance of a revenue cap regulatory regime, and retention of the forms of control as proposed in the Preliminary F&A.

Issues specific to this Preliminary F&A

Network ancillary services

Application of the new Classification Guideline raises some specific questions concerning implementation, including:

- Stand-alone power systems which are under review by AEMC. There is a question as to whether these are distribution services. AusNet Services has raised the allocation of 'Stand-alone Power Systems' as an SCS. A rule change initiated in Western Australia is currently being considered. The AER will hold this over until further advice. As with the argument for a negotiated connection being a Standard Control Service because the network business has direct and significant influence on the outcome, so too stand-alone systems should be regarded as an SCS where the network business has a significant role in establishing, maintaining or playing both roles for the stand-alone power system. We accept that waiting for the outcome of the rule change proposal is germane to this aspect of the F&A.
- There was a proposal to charge for "wasted truck visits." The Preliminary F&A says *"A wasted truck visit is not a service in itself, but is rather an activity that may take place in the course of delivering a distribution service. We therefore propose not to classify this as a service, but consider that it should be listed as a chargeable item, it in the context of delivering other classified services."* This approach is supported. We also note that charging for a 'wasted truck visit' might create the risk of outages not being reported. Non-reporting of outages by the public is likely to be of lower importance as monitoring of networks becomes ever more sophisticated.
- Community network upgrades and application of the guideline when addressing congestion problems

Transmission support services. AusNet has raised the question of new service 'transmission network support.' The AER is proposing that these services be regarded as 'unclassified' and is asking for comments.

Network transmission support is a contestable service, and it is our opinion that a network should be entitled to earn revenue from providing the service. Under current arrangements, AusNet Services consumers are paying for the service to be provided (under standard control services), free of charge to AEMO. In addition, the service potentially benefits all Victorian consumers, not just AusNet consumers. This is not an equitable arrangement.
It is apparent that provision of this type of service which potentially uses regulated distribution system assets to earn unregulated revenues is increasing. We also note that the AER states that application of the Shared Asset Guideline in these instances does not equate to adequate cost allocation pertaining to contestable services in a way that would satisfy the Ring-fencing Guideline. As a result, there is a risk that the benefits of providing the services are not being returned to consumers.

We encourage the AER to consider an urgent review of the Shared Asset Guideline, to consider the treatment of frequency control services and other ancillary services that are called for by AEMO, and which networks are consequently required to provide. Until that work is completed, we consider that classification as an alternate control service (ACS) is more appropriate than the alternatives. This would allow the DNSP to earn revenue for providing the service, and the DNSP's consumers to realise the benefits.

CCP17 does not agree that this service should be unclassified and unregulated; it is appropriately classified as ACS under current settings.

Connection services

The matter of connection services is one of the more significant aspects of this Preliminary F&A, with a 'bigger picture' question being that of when metering arrangements for Victoria are fully integrated into the National Electricity Market, as a whole. Advanced meters (smart meters) have been the point of difference between Victoria and the rest of Australia since the mandatory roll out commenced in Victoria in 2009. Other jurisdictions now have increasing numbers of advanced meters, and many Tariff Structure Statements from non-Victorian distribution businesses foreshadow more substantial roll-outs in the near future. National changes to metering rules that came into effect in December 2017 are also significant.

CCP17 suggests that analysis should be undertaken to determine whether net benefits would result from harmonising the Victorian metering arrangements with the rest of the NEM.

The proposed classification of connection services from the Preliminary F&A is:

- Basic connections: ACS
- Standard connections, with financial contribution by DB: standard control
- Negotiated connection, changed to: standard control
- Connection application and management services including embedded network management, temporary connections: ACS
- Enhanced connections: ACS
- Community network upgrades: unclassified

These classifications are supported by CCP17, with the observation that some more discussion between now and the final F&A could lead to some changes in classification, particularly regarding 'Community Networks' and potentially 'Enhanced Connections.' Standardisation of language across the NEM jurisdictions is valuable for all stakeholders, as it makes communication easier.

Regarding connection application and management services, we agree that connection management services, including embedded network management and temporary connections, should be included under 'connection management and application services' and classified as ACS

We consider it a strong argument that negotiated connections should be standard control because "Distributors retain some market power as they have control over whether or not a particular connection is contestable."

Community network upgrades

AusNet Services has proposed a new connection service relating to 'community network upgrades.' This is an important aspect of connection services for two reasons, the first is the likely growing importance of a community being a customer, as opposed to single household or corporate entity, Secondly the notion of community connection is likely to become much more commonplace as local scale generation and 'micro-grids' that are operated by local community energy groups, developers or other corporate entities become more commonplace. AusNet Services is right to identify this emerging issue and to propose a classification.

The Preliminary F&A states *"AusNet Services proposed that these community groups should be treated as a single, large connection, rather than multiple basic connections. Where connection of new behind the meter solar PV necessitates network augmentation, AusNet Services has proposed that the cost of network augmentation could be spread over all connecting parties within the community group."*

The AER has proposed not classifying "community network upgrades" for the short term and has said *"The capability of the regulatory framework to address this issue is actively being considered outside of this preliminary F&A."*

It is recognised that like other distributors, AusNet Services faces a challenge in relation to integration and management of the growing numbers of behind-the-meter distributed energy resources, and the need to manage any resulting network constraints. The CCP17 view is that a long-term whole-of-industry approach is required. Consistent with the rationale laid out by the AER in the Preliminary Framework & Approach, we do not consider that the solution proposed by AusNet is appropriate at this point of time. CCP17 appreciates that the matter is being considered elsewhere but also suggests that this is a topic that needs to be discussed further with consumer groups and network businesses prior to the final F&A being released.

Public lighting

Public lighting is defined under the Victorian Public Lighting Code which is administered by the AER. The term 'emerging public lighting' is becoming common. AER proposes bringing all lighting under ACS.

Watchman and security lighting has been included in this F&A, and recognises that in many instances this lighting can be attached to network business poles, so network businesses have an additional stake, as well as delivering the electricity for public (and safety) lighting. The AER is proposing that this aspect of lighting also be classed as ACS. Given the public safety aspect of watchman and security lighting and the oft stated commitment to safety by network businesses, we would expect network businesses to feel a strong commitment to providing 'safety lighting' to communities as efficiently as possible. A classification of ACS enables network businesses to be active providers of public lighting while also partnering with others and enabling third parties to also provide public and 'safety' lighting.

CCP17 agrees with the classification of all public lighting services (including emerging public lighting technology) as ACS, and supports the move towards consistency across jurisdictions.

Incentive schemes

The Consumer Challenge Panel has actively supported the application of incentive schemes that both provide incentive for businesses to operate more effectively and which fairly share benefits with consumers. This approach is maintained by CCP17. We recognise the current incentive schemes that will apply to all Victorian distribution business for 2021-25:

- STIPIS at +/- 5%.
- EBSS, provided improved efficiency changes are fairly shared with customers. We also note that the productivity review discussion paper released 9th November 2018, by the AER, has the potential to impact on EBSS.
- CESS to apply.
- DMIS (Demand Management Incentive Scheme) and DMIAM (Demand Management Innovation Allowance Mechanism) both to apply.
- F-Factor. This is legislated by the Victorian Parliament and overseen by the AER, it must The AER says *"The new f-factor scheme targets incentives towards fire ignitions that pose the greatest risk of harm via ignition risk units (IRUs). … By applying these weighting factors to each fire, the fire will have a score called an "IRU". These factors and their inputs are all prescribed by the Order. We intend to continue to apply the Victoria f-factor scheme as set out in the 2016 Order to the Victorian distributors in the 2021−25 regulatory control period."*

Each of these incentive schemes and their application for Victorian distribution businesses 2021-25 is supported.

Small Scale Incentive Scheme (SSIS)

The Small Scale Incentive Scheme has been proposed by the AusNet Services Customer forum and we are drawn to their thinking. The scheme is to "*provide for incentives not already covered by the existing incentive schemes under the NER and to test innovative approaches to incentives. For example, a SSIS can provide rewards for NSPs which engage more effectively with consumers."*

The AER says "*We would be open to developing a SSIS to apply in the 2021-25 regulatory control period if the scheme meets the requirements of the NER. We may trial a SSIS without penalties or rewards. At this stage we do not consider that a SSIS should apply to Citipower, Jemena, Powercor or United Energy."*

The SSIS concept is warmly supported by CCP17 and we commend the AusNet Service Customer Forum for their thinking and for proposing this scheme as providing a useful mechanism to encourage innovation in a rapidly changing industry and to provide tangible incentive for effective consumer engagement, noting that effective consumer engagement does not mean expensive consumer engagement.

AusNet's proposal to work towards introduction of a SSIS is supported, to improve customer satisfaction for connections, planned and unplanned outages and complaint handling.

We encourage AusNet and the Customer Forum to provide a business case underpinned by broad consumer engagement to support introduction of an SSIS. We also encourage AusNet and the AER to start working towards development of a formal SSIS.

If it is possible for a robust new scheme to be developed in time to be accommodated in the final decision (i.e. October 2020), we support application of the scheme to CitiPower, Jemena, Powercor and United Energy, should they express interest in application of the scheme.

If it is not possible to develop a robust, compliant new scheme in the timeframe, we support application of a paper trial for AusNet for the next regulatory period.

Consumer engagement

We recognise that this is one of the first framework and approach documents that specifically mentions consumer engagement, and we applaud the AER for including consumer engagement as part of the framework and approach for network proposals. This inclusion recognises the progress that networks and consumer groups have made in implementing consumer engagement strategies since the Consumer Engagement Guideline was first developed under the 2013 Better Regulation process.

Having been meeting with the Victorian DNSPs for about a year, CCP17 recognises that three quite different approaches to consumer engagement are being undertaken by prospective businesses. This is as it should be because we are adamant that there is no “correct” or “best” methodology for undertaking engagement. We are also aware that a part of the consumer engagement story for EDPR 2021 is the regulatory innovation project which is being trialled by AusNet Services, specifically through the appointment of a Customer Forum and subsequent engagement between AusNet Services and the Customer Forum. This particular project (“NewReg”) is being managed as a collaboration between AER, ENA and ECA.

CCP17 will be providing separate observations and advice to the AER about consumer engagement so far by the Victorian DNSPs, however the question for the final framework and approach is whether the AER should go further than recognising consumer engagement and provide some high-level objectives that consumer engagement should meet. The final framework and approach, for example, could specify the expectation that regulatory proposals identify and describe the consumer engagement that was applied, and include commentary about the extent to which input from consumers has been heard and applied in the regulatory proposal.

We also believe that by EDPR 2026, the AER should be identifying specific benefits for network businesses and consumers where good-quality consumer engagement has been undertaken. Ofgem, the UK regulator, for example through its revised regulatory process that is the RIIO model has the opportunity to fast track regulatory proposals that satisfy stakeholder engagement criteria and meets customer expectations, reducing transaction costs for networks and consumers and likely providing other benefits as well. We anticipate that consideration of the regulatory benefits that can accrue to robust consumer engagement will be discussed as part of consideration of the regulatory innovation project.

Concluding comments

The Preliminary F&A for EDPR 2021 make a number of proposals that help to standardise language and approach across the NEM, this is welcome. While we are satisfied with most of the proposals in this F&A, there are still some issues which would benefit from further detail and / or further engagement with consumers before the final decision is made concerning this F&A. These topics include aspects of connection services, particularly Community network upgrades and negotiated services; the proposed Small Scale Incentive Scheme and Transmission network support where we suggest that an urgent review of the Shared Asset Guideline would be beneficial.

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