



AER Consumer Reference Group

**CRG response to the
AER's December 2022 Draft Decision**

**CRG presentation to Public Forum II
(A focus on consumers)**

7 September 2022

Agenda

- Our role
- Our engagement with consumers
- What did we want to learn?
 - Some examples
- Our key messages
- A RoRI without consumers

Over the last 2.5 years, the CRG has acted in an independent advisory capacity to help inform the AER's decisions with regard to the interests of consumers in the AER's Inflation Review 202 and Rate of Return Instrument 2022

Over the last 2.5 years, with support from Energy Consumers Australia we gathered evidence of consumer perspectives by:

- **Broadly** engaging with consumers to understand what matters to them and how they might respond to different scenarios, that could result from the AER's rate of return decision
- **Deeply** engaging with a range of consumer representatives, and independent investors to:
 - Understand what matters to consumers and
 - Seek their views on technical aspects of the rate of return

We have used this evidence, alongside our technical assessments to inform our views on consumer interests and subsequent advice to the AER

We engaged by informing, consulting and involving

We consulted with more than 4,500 energy consumers in the NEM in our three online consumer surveys

- June 2021, 1,008 residential and 307 commercial¹ consumers
- August 2021, 997 residential and 200 commercial consumers
- August 2022, 1500 residential and 501 commercial consumers

We informed, consulted with and involved a diversity of consumer representatives through interviews, masterclasses and workshops, with (for example):

- Energy consumers experiencing financial hardship (older consumers, fixed incomes and other vulnerabilities)
- Small and large businesses, primary producers and industrial energy users
- Environmental interests and consumer energy resources
- We engaged with 33 consumer organisations and 4 independent consumers representatives
- We conducted 42 interviews, 4 workshops and 2 Masterclasses

We also consulted with independent investors on technical matters

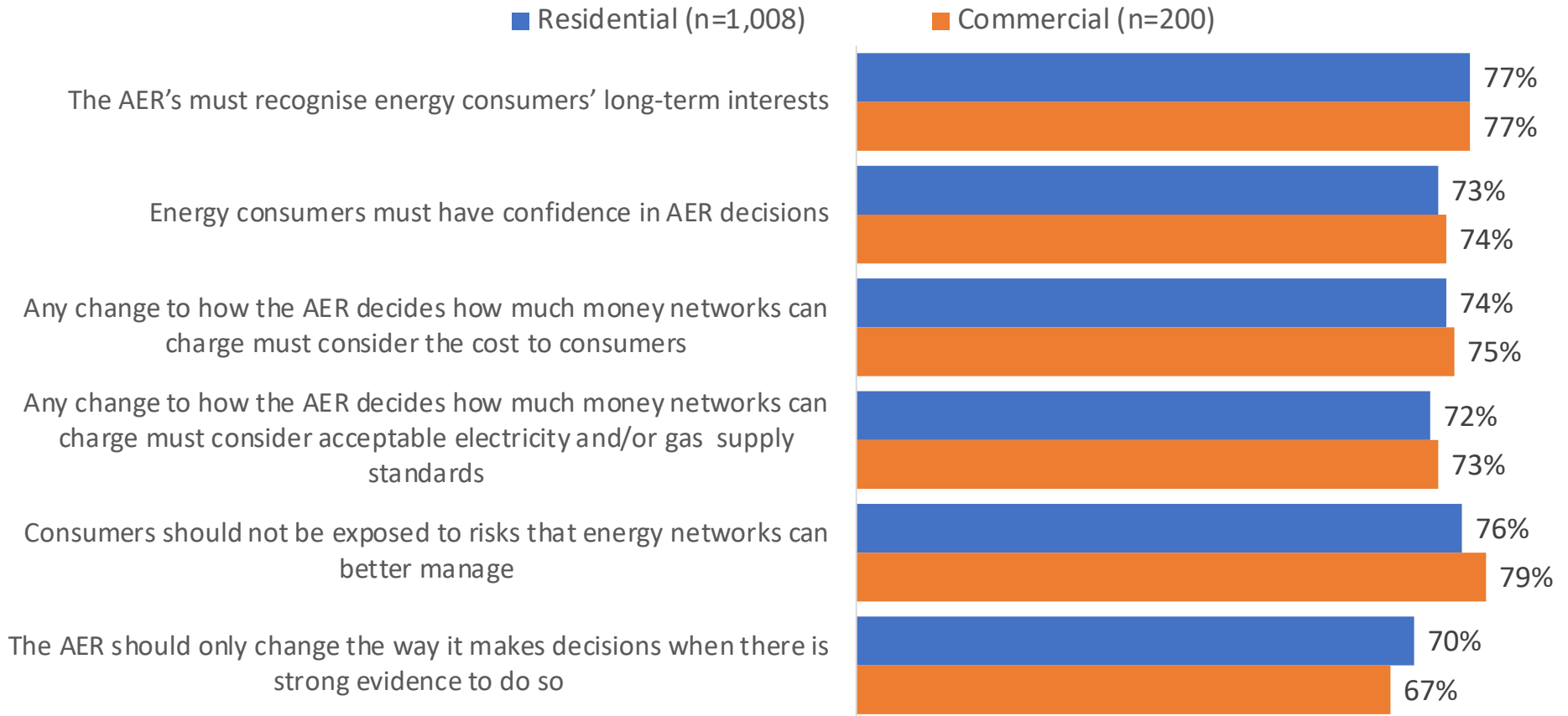
1. Businesses that employ up to 20 people

What did we want to learn?

- Awareness, and perceptions of energy regulation
 - Expectations associated with regulatory processes and decisions, and risk
 - Confidence in the regulatory framework
- Views about the CRG's consumer-oriented principles
- The relative importance of price and reliability of energy
 - Views on “long-term”
- Consumers' perceptions of energy prices and trade offs especially stability
- Consumer likely responses to increases in energy prices
 - Do nothing
 - Demand side
 - Reduce energy use
 - Invest to become more energy efficient/reduce dependence on networks
- [From consumer representatives] their views on rate of return technical issues

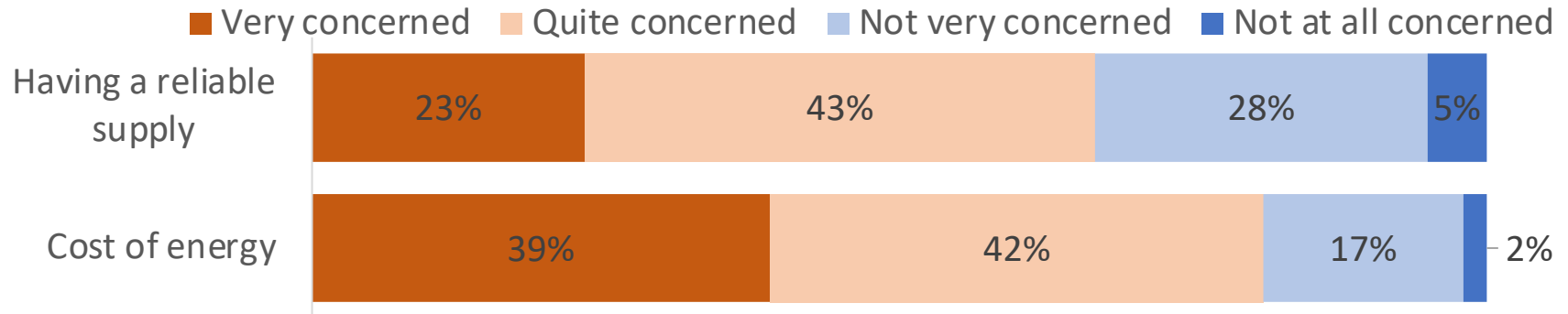
Consumer support for our principles

Survey 1: The CRG has a set of principles as the basis of its advice to the AER. To what extent do you agree or disagree with each? (Pct agree/strongly agree)

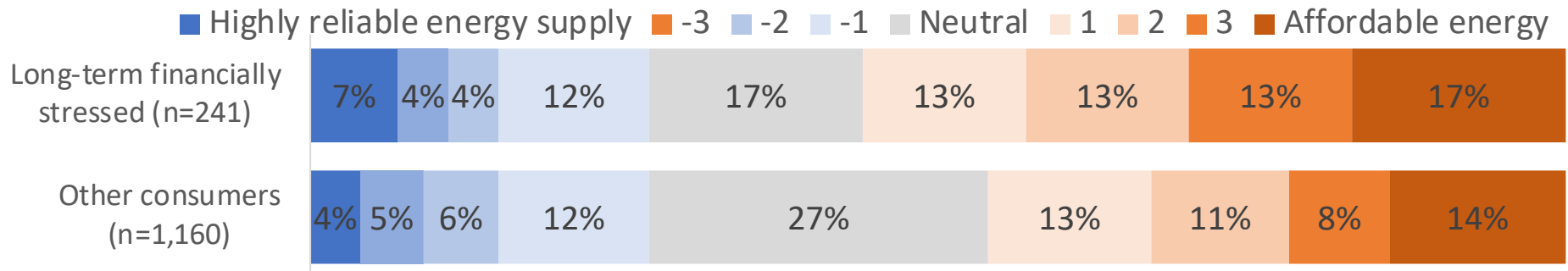


Energy costs vs reliability

Residential consumers' concerns about reliability and energy costs, August 2022, n=1,500



Residential consumers' trade of between affordability of energy and reliability of service, long-term financially stressed and others, August 2022



In their own words...

Consumer representatives told us:

Early on (August 2020)

*“**Trust** in the **current price** is not so much there”*

As time progressed (September 2021)

*“Look, in the decades that I’ve been involved in some capacity or another in the energy industry, **affordability just gets more and more important**, affecting more and more people ... [the] large commercial industrial sector is saying you know ‘we have to compete in international markets quite frequently; **our energy prices have gone up far more than many of our competitors in other countries**, and that’s hurting us.’ And in the residential sector there are just **more and more people experiencing hardship**. COVID hasn’t helped at all. So, across the board there’s an increase in concern about affordability.”*

In their own words ... (continued)

At the end, consumers told us (August 2022)

*“I have always lived frugally ... I don’t know if I could cut back. **I could get rid of my fridge**”*

*“Cut back on heating and **basically freeze to death due to energy costs.**”*

And Energy Consumers Australia is hearing the same ... (ABC News, 30 August 2022)

*“**Consumer confidence in Australia’s energy system suffers the steepest-ever plunge**”.*

The diminished confidence is further described as *“**not a blip but a serious and ongoing concern**”*

And on the RoRI's technical aspects ...

For example, consumer representatives (CR) / Independent Investors (II) told us:

Exercise of judgement

“The AER needs to recognise the cost pressures that are going on everywhere in the community in energy and outside of energy and use that as a factor driving that exercise of discretion.” (CR)

Beta/systematic risk

Consumer and independent investor representatives considered network assets were low risk; investors saw this as attractive feature of their portfolio management, noting:

“I would expect to earn a third of the return on that book compared to the risk assets so 3%-4% rather than 12%” (II)

“[We] treat [network investments] as a sovereign security” (II)

MRP

- The DGM should **NOT** be used to inform the relationship between the MRP and risk-free rate (CR)

Use of EICSI to set the return on debt

- Consumer representatives support the use of the EICSI
 - They are not overly concerned about the lack of transparency in relation to this index

Overall, what did we hear - our key messages

- Consumers **value stability in process and price** – but not at any cost
- Reliability of the network is important but, in **current market conditions, the price of network services is a priority**
- Significant proportions of business and residential consumers are already having difficulty managing their energy bills, and face the risk of closure (for businesses) and **significant financial distress** (all consumers)
- **Consumers expect their energy prices will increase**, and increasingly they anticipate being in financial distress, particularly those on fixed incomes
- **Many consumers are at a point of ‘despair’**. They feel helpless to take further actions to reduce their energy bills and instead are cutting back on basic health and well-being expenses - including energy use of basic human needs such as heating and lighting
- Some consumers have the capacity to take more action and continue to **look at ways to accelerate reductions in their dependency on grid electricity**
- Consumers **need to have confidence in Australia’s energy system**; however, their **confidence is rapidly declining**, and this is a serious concern relevant to the AER’s exercise of judgement

A RoRI without consumers?

Consumer behaviour and preferences matter

- LTIC requires it, & energy objectives and law say so
 - The laws (RPP'S) say operation and use must each be considered
 - A biased RoRI can close businesses and slash consumer welfare
 - The AER has focused on network investment needs
 - The AER has not assessed the risk of over/under network utilisation by consumers
 - Dynamic interaction in the market a crucial consideration missed by AER
 - Rapid growth in potential for 'behind the meter' investment makes this gap even more an issue
- *
- CRG commissioned the University of Wollongong to consider how the AER could improve its assessment of consumption efficiency
 - AER needs to rethink and explain why it did not consider this in the Draft RoRI