

Summary of Meeting

Consumer Reference Group (CRG) Meeting No. 2

14 March 2013

Held via video conference between AER offices in Adelaide, Melbourne, Canberra, Sydney, Brisbane

Apologies: Carolyn Hodge, Sue Fraser, Helen Scott, Alexandra Geddes, Peter Strong, Angus Nardi, Carly Allen, Ro Evans

On 14 March 2013, the AER held the second meeting of the CRG. The meeting was chaired by AER Chairman, Andrew Reeves, and was attended by AER staff members and CRG members who represent various customer groups.

This summary broadly covers the key topics and themes that were discussed. The outline follows that of the agenda.

1 Introduction

The Chairman welcomed everyone to the second CRG meeting and provided an update on some of the Better regulation project work streams:

- Expenditure forecast assessment – exploring a range of potential approaches including revealed costs and benchmarking, but still need to refine the approach and details of how benchmarking will work
- Shared assets – this is the use of network assets for other business such as the use of poles in NBN rollout. This is not a big cost category for network businesses by comparison to their other services
- Confidentiality – the AER’s starting position is that all documents should be published. It is a privilege to be a monopoly business, and it comes with obligations – particularly to be accountable to the regulator and the public. However, the AER does respect business confidentiality on market sensitive information and so in some cases, and some exceptions will be considered.

The Chairman acknowledged the concern of customers of the level of network business involvement in the development of the AER guidelines. The Chairman noted that this was anticipated by the AER, which is why the CRG was established so that the views of the network businesses were counterbalanced by a strong consumer perspective. The Chairman emphasised that policy decisions are made by AER Board

members at AER Board meetings, not at workshops. The workshops are designed to discuss the technical details and implementation of AER policy.

2 Overview on subgroups

- **Role of subgroups**

Tanja Warre presented on the role of subgroups in the Better Regulation project. Subgroups are a forum to engage in in-depth discussion, target member organisation's contribution to areas of interest that matter to them the most and to complement the working groups. Working groups are where more technical aspects and options are considered; subgroups give feedback on how various policies will affect customers.

- **Feedback – how are we going?**

CRG members noted that overall the AER has been doing a good job and appreciated the effort that has been made to involve consumer representatives.

CRG members and the AER acknowledged how quickly the Better Regulation process has picked up speed and the difficulties of keeping abreast of all that is happening. Clearer time maps including subgroup and key working group details were requested. CRG members feel it is important that at least one consumer representative attend key working groups in order to feed back to relevant subgroups and the CRG.

3 Presentation: Expenditure Incentives

AER director, Blair Burkitt, gave a short presentation and answered questions on the topic of expenditure incentives.

The aim of the expenditure incentive scheme is to get network businesses to reveal their true efficiencies. Regulation is the substitute for the market in providing discipline.

It was noted that service delivery remains the key element – and that efficiency gains should be genuine improvement in doing business, not cutting necessary costs to deliver good service.

The group expressed concern that there are not strong enough incentives for network businesses to stop overspending capital expenditure (capex). In a competitive market, a business must absorb all overspend – whereas under the current framework, network businesses are able to pass on a proportion of their overspend to their customers.

The Chairman noted that there will be future work that will report on the actual risks faced by network businesses.

The group discussed the difficulties in setting the efficient base year. The general idea is that businesses should become more efficient over time. However, there is concern that network businesses spend more in their penultimate year which inflates their costs (which result in them receiving a higher expenditure allowance than is actually necessary for efficient operation). The AER has discretion to choose between year 3 and the penultimate year (year 4), and that the choice should be considered seriously.

Some members of the group expressed a concern that defending a project on the grounds that it is in the long run interest of consumers is just an excuse to give network businesses extra revenue.

The group also discussed how to use the information gained in ex-post reviews and annual benchmarking reports. Consumers will be part of the ex-post review process and be able to make submissions as they consider appropriate.

4 Subgroup report: Rate of return

Mark Henley, the spokesperson for this subgroup, and Bev Hughson, a consultant for PIAC provided this report. Bev's report included a summary of the two day forum on rate of return held in February.

Two key consumer issues in this area are:

- *How to choose amongst many tools and models?* There is concern that the guidelines are not absolute requirements and that the network businesses can propose other models. There needs to be an objective way for the AER to evaluate what should be the best approach, rather than allowing network businesses to cherry pick at each determination
- *How to keep the long run interests of consumers as the key focus?* The AER principles will sit under the National Electricity Objective, but it was felt that the objective to promote the long run interest of consumers should still be stated clearly in the principles as well.

The group discussed the issue of different rate of returns for government and private-owned network businesses. The AER currently supports the AEMC rule change which states that they should not be considered separately. Some members did not find this satisfactory and strongly feel that government businesses have an inherently lower finance costs than private businesses. Given the interest in this area, a separate meeting with the rate of return subgroup will be held on this topic.

5 Presentation: NSP Customer Engagement

AER staff have been conducting a consumer road show on this topic. It has been a useful process.

Following the roadshow, AER staff, working on this work stream, will speak to network businesses. A draft guideline is expected to be released in May.

The proposed approach is to have a guideline that is aspirational. The group acknowledged that it will take time for businesses to implement and build up their capacity.

A suggestion was the use of key performance indicators measuring consumer engagement. The data could be used to compare across network businesses.

6 Presentation: Power of Choice

Back in 2008, policy makers realised that there were barriers to effective demand side management as there were not proper incentives to deal with peak demand.

The AEMC released a comprehensive *Power of Choice* report on this topic and made, amongst other things, the following recommendations:

- introduce efficiency and flexible network tariffs across the three main consumer segments (large residential/business consumers, medium residential/small business consumers and small consumers)
- a phased and contestable roll out of smart metres to provide effective price signals
- increase incentives to improved demand side participation
- demand management and embedded generation incentive scheme (DMEGSIS)
- Improve consumer access to information and education.

The Standing Council on Energy and Resources (SCER) met in December to progress the recommendations made in the *Power of Choice* report. It differed from the *Power of Choice* report in a couple of areas – that smart meter roll out should not be mandated but left to each jurisdiction, and that instead of requiring large residential and small businesses to have efficient/flexible pricing, it should be optional.

This work stream also considers RIT-D (the regulatory investment test for distribution network service providers).

7 What's next?

- **Proposed CRG meeting dates**

In response to a suggestion made at the first CRG meeting, two CRG meetings (in May and August) will now be held face-to-face instead of via VCU.

A proposal was also made to extend the length of CRG meetings. In future, 4 hours will be blocked for CRG meetings to allow for adequate discussion time.

Proposed dates are 24 April, 23 May, 27 June, 22 August, 17 October and a final meeting in November or December. The CRG will not meet in July, as the focus will be on subgroup meetings.

- **Training – 4 April**

Given the technical content of issues being discussed by the CRG, there is an optional training session open for members being held on April 4th. The training session will cover four topics:

- 1) An overview of the AER and its role
- 2) Capital and operating expenditure and the interaction with price
- 3) Introduction to incentives in monopoly price regulation
- 4) Rate of return

Approximately 10 CRG members have expressed an interest in training. If anyone else would like to attend, please RSVP to Kurt Stevens or Tanja Warre.

- **Consumer Challenge Panel update**

The Consumer Challenge Panel will be an expert panel representing consumer interests that will challenge the AER during network determinations.

Expressions of interest will open around Easter. Following submissions, applications will be reviewed and shortlisted candidates will be interviewed. The Consumer Challenge Panel is expected to begin from 1 July.

- **Next steps – updated time map**

Upcoming working groups and subgroup meetings were outlined (see time map for specific dates).

Action items:

- Clearer time maps to be distributed
- Further discussion with rate of return subgroup meeting on the topic of public vs private ownership
- Proposed CRG dates to be finalised