

**Submission to the Australian Energy Regulator (AER)
An overview**

Consumer Challenge Panel Sub Panel 3 (CCP3)

**Response to proposals from Victorian electricity distribution
network service providers for a revenue reset for the 2016-2020
regulatory period**

Sub Panel CCP3

**David Headberry
Beverley Hughson
David Prins**

10 August 2015

1. Introduction

On 5 August 2015, CCP3 provided a detailed assessment of the proposals of the five Victorian electricity distribution network service providers (DNSPs):

- AusNet Services (AusNet);
- CitiPower (CP);
- Jemena Electricity Network (JEN);
- Powercor (PC); and
- United Energy (UE).

The purpose of this document is to provide an **overview** of that detailed assessment.

CCP3 only provided input in passing regarding those aspects of the review where the AER has typically carried out its own detailed assessment. Such issues include the approach to the roll forward of the regulatory asset base, escalation and growth factors.

CCP3 instead focused on aspects of the proposals where there are significant issues to be addressed that will have considerable impact on the outturn assessments made by the AER in its role of establishing a “bucket of money” sufficient for the efficient benchmark DNSP to deliver the services required by consumers.

The DNSPs included in their proposals significant variations to the guidelines developed by the AER as part of the Better Regulation program that arose from changes to the National Electricity Rules. It concerns CCP3 that the DNSPs have not provided clear reasons why the proposed changes will provide an outcome that will be more in the long term interests of consumers than would result from application of the guidelines. Rather, they have tended to relate their proposed changes back to the detailed structure of the Rules. By doing so, they have based their arguments on more legal interpretations of the Rules, rather than how their proposed changes will provide a long term benefit to consumers from the resultant increases in revenues payable to the DNSPs, and/or the reduction in risks faced by the DNSPs.

At a high level, there is internal inconsistency in the overall position adopted by the DNSPs. On the one hand, the DNSPs are pointing to the emerging threats in the market to their previously security monopoly position, threats that they consider warrant (inter alia) higher rates of return. On the other hand, the DNSPs are seeking increases in their capital and operating expenditure allowances. These two positions are inconsistent. A business under market threat of “redundancy” will not seek to expand its investment and cost base, it will seek to consolidate and maximise capital and operating efficiency. This is not seen in the DNSPs’ proposals.

2. Consumer Engagement

CCP3's detailed assessment of the consumer engagement undertaken by the DNSPs raised many issues with the effectiveness of the DNSPs' consumer engagement activities.

The considered view of CCP3 is that consumer engagement can provide some guidance to a DNSP, but cannot be deterministic, due to the many issues that surround the various approaches that are being used.

3. Benchmarking

Benchmarking is designed to "discover" the efficient and prudent costs of providing the standard control services. The key issues raised by CCP3 in its submission are as follows:

- The AER has not properly considered the role of benchmarking in assessing the actual costs of debt of DNSPs as an indication of the range of efficient costs.
- The Victorian DNSPs rate relatively high on historical efficiency of the capital investment. However, given the downward trend in multifactor productivity measures, it is important that the impact of the proposed increases in capital expenditure (capex) on overall productivity is closely monitored.
- Similarly, the historical operating cost efficiency of the Victorian DNSPs is relatively high, but has shown marked decline in recent years commensurate with higher opex allowances.
- The decline cannot be fully explained by exogenous factors such as increased regulatory requirements arising out of the Royal Commission into the Victorian bushfires (for example, CitiPower has seen the most significant decline in efficiency over the 2006-2013 period).
- Declines in other factors such as unserved energy, system reliability (SAIDI and SAIFI) and asset utilisation across the DNSPs, further suggest that expenditures may be excessive. This has implications for future capex investment as well as future operating costs. For instance, lower maintenance costs would be expected, but these are not seen.

An assumption that 2014 expenditures represent an efficient base year level of expenditure may not be appropriate.

Recommendations:

3.1 The AER should conduct a more detailed examination of the trends the benchmark productivity data in order to establish if it should accept 2014 expenditures as the basis for their forecasts of allowed expenditures.

3.2 The AER should undertake further analysis of trends in USE and reliability and asset utilisation as part of its assessment of future expenditure requirements.

3.3 *The AER should make more use of financial benchmark data to assist it in assessing the rate of return parameters such as the cost of debt for the benchmark efficient firm.*

4. Operating Expenditure (opex)

While CCP3 is concerned with any untested assumption that 2014 represents an efficient base year for opex, it is supportive of the general model set out in the AER's Expenditure Forecast Assessment Guideline of establishing a base year expenditure, then "step and trend" adjustments over the forecast period. It would be an excellent outcome if this high level assessment had simplified the regulatory task, but it does not appear to have done so.

With respect to the DNSPs' current regulatory proposals:

- The DNSPs' opex proposals do not adequately reflect the past and planned investments in smart metering, replacement capex, bushfire prevention measures and information system and communication technology enhancements. It is appropriate that consumers begin to see benefits from these investments but that is not seen in the DNSPs' proposals.
- To date, CCP3 does not see the supposed benefits to consumers of the operation of the efficiency benefits sharing scheme (EBSS). Despite Victorian DNSPs' spending less than their opex allowance in earlier regulatory periods, and receiving rewards under the EBSS, the DNSPs' proposals do not include a pass through of these savings; opex still increases.
- The proposals reveal significant changes in capitalisation policies and different service allocations. This has clearly distorted the outcomes and made effective benchmarking considerably more difficult. For example, some 20 per cent of CitiPower's forecast opex includes costs associated with changes to its own capitalisation policies.
- Similarly, the DNSPs have adopted various approaches to reallocating costs that were previously approved under the AMI cost recovery mechanism to standard control services. CCP3 estimates that this involves a reallocation of costs to standard control services worth about \$300 million across the five DNSPs. CCP3 understood that the metering service costs (now classified as alternative control services) included "metering provision, installation, maintenance and reading and data services". There seems no basis for the allocation of \$300 million dollars to standard control services.
- The concept of "step changes" being only new expenditure factors not captured in historical trends appears to be at risk of being abused; there are few step-down changes, despite the much greater investments in the 2011-15 period.
- Similarly, trend changes appear to be overstated by the DNSPs who are still forecasting increases in labour costs above CPI. CCP3 is also concerned with the assumption that there is no increase in productivity over the regulatory period (except

for Jemena). The productivity factor in the “trend” analysis is allowing stagnation in capital and labour efficiency against the trends seen in the economy as a whole.

Recommendations

4.1 *The AER should require the DNSPs to identify explicitly the savings to consumers (and other benefits) from past expenditures on AMI, replacement capex, bushfire related asset augmentation, and IT/communications investments. This should be a prerequisite for assessing future claims.*

4.2 *The EBSS does not appear to be driving lower costs. CCP3 would welcome a comprehensive assessment of the outcomes of the EBSS to ensure that consumers are not funding rewards for lower cost “performance”, yet are not seeing the benefit of these lower costs in subsequent expenditure proposals or approved allowances.*

4.3 *The AER should revisit its 2008 Guidelines on Capitalisation Policies with the aim of progressively adopting a consistent approach across NSPS in the allocation of capitalisation costs.*

4.4 *The AER should examine closely the proposals by the DNSPs to include costs in the standard control services expenditure category that were previously part of the separate AMI cost recovery mechanism.*

4.5 *The AER needs to undertake further examination of the “step” change mechanism as it has become a catchall for any actual or perceived risk of cost increases; it is patently against the principle of a high-level assessment when networks are proposing up to 19 separate step changes.*

4.6 *The AER should reject the proposed increases in labour costs, as they have no relationship to the current labour markets; a firm and consistent methodology is required to replace the extensive use of different consultants working on different forecast assumptions (all untestable).*

4.7 *The AER should review the purpose and application of the productivity factor in the trend analysis. Setting productivity growth to zero sends a poor message to the businesses. The review should include consideration of the impact of the productivity factor with the benchmarking analysis and the EBSS incentives.*

5. Forecasting – customer numbers, peak energy demands, and total energy to be distributed

Customer numbers

The businesses’ proposed growth in customer numbers is broadly in-line with recent historic growth rates, with the exception of CitiPower and Jemena. These two businesses forecast faster growth in customer numbers than has occurred in previous regulatory periods. CCP3 looked in more detail at CitiPower and Jemena’s forecasts, given that those two had been identified as being not in line with recent historic growth rates.

CitiPower's submission seemed to rely on growth rates that were not shown as results in the underlying modelling that CP provided. CCP3 believes that the DNSPs should provide the underlying modelling showing how their projected growth rates are derived, to facilitate checking by AER.

CCP3 was unable to find the underlying Excel models behind the analysis on which Jemena's forecasts were based. These should be provided and referenced.

Energy demands

AEMO's recently published 2015 National Energy Forecasting Report forecasts that Victoria's 10% POE maximum demand is forecast to decrease at an average rate of 0.1% over the next few years. This contrasts with the DNSPs' forecasts of peak demand increasing.

In recent years, for each DNSP the maximum demand was over forecast in all cases. Over the past few years, AEMO has consistently revised downwards its forecast peak demands, increasing concerns about peak energy demand forecasts.

The AER should pay particular attention to the DNSPs' maximum demand forecasts and whether they have been over-estimated, given the facts that:

- The forecasts of maximum demand are key drivers of revenue requirements;
- The DNSP forecasts exceed and contrast with AEMO's forecasts;
- The DNSPs have consistently over-forecast maximum demands in the past.

All aspects of the forecasts should be critically analysed. Further, growth in peak demand will depend, among other things, on the tariff structures chosen by the network businesses. These may change substantially during the next regulatory period. For example, Jemena is proposing to introduce a 'maximum demand charge' for all residential and small business customers. It could be expected that this new tariff structure, if it is passed through to end-customers, may have the effect of moderating further growth in peak demand. It is expected that the other DNSPs will propose similar new tariff structures in their Tariff Structure Statements, which will also serve to moderate their maximum demands.

Total energy

Four of the five DNSPs are forecasting faster rates of growth in the future than has occurred in the past. CitiPower forecasts substantially higher growth in energy delivered in the future compared to the previous regulatory period. The AER needs to consider if these growth rates are appropriate.

Only AusNet Services is forecasting lower demand in the future compared to the past, despite growth in customer numbers. It may be significant that AusNet Services is using interval data from the rollout of Automated Metering Infrastructure in Victoria ("AMI

data”) in ways that other DNSPs may not be doing. The AER should be investigating whether the DNSPs are making use of the AMI data that is available to them to refine and increase the accuracy of their forecasts.

6. Capital Expenditure (capex)

Despite there being low growth forecast for the next period, the DNSPs’ capex proposals all show an increase in capex from the current period. The capex for the current period also was a significant increase on the capex seen in the previous period and this was driven by an assumption that there was significant growth forecast. Whilst most DNSPs did not use the augmentation capex (augex) in the current period, all exceeded the allowance for replacement capex (repex).

There is a stark differentiation between the forecasts for augex by AusNet and all the other DNSPs. AusNet based its forecasts of demand on the data it has generated from the AMI program. As a result, it has sought much less augex than the other DNSPs. It would appear that the AusNet forecasting approach is a major step away from the historic approaches used by all DNSPs and that the other DNSPs have not made as good a use of the AMI data as AusNet. One of the major benefits of the AMI program was better forecasting. It is concerning that most DNSPs have not used this benefit to the extent that AusNet has.

All DNSPs identified there are pockets of growth in their networks that warrant augmentation, even though the average growth is relatively low. The amounts of unserved energy registered by the DNSPs do not clearly support the need for augmentation to the extent identified by the DNSPs (except AusNet). CCP3 is also concerned that although the DNSPs assert they intend to use the tariff structure incentives to increase the amount of demand side participation, this is not reflected in their capex proposals (except perhaps for AusNet).

All DNSPs have sought increased repex on the basis that their assets are ageing, losing reliability, condition based monitoring reveals assets are worse than thought and to implement bushfire prevention requirements. However, a review of the levels of reliability (including SAIDI, SAIFI and unserved energy) and the average residual lives does not support these contentions. Condition based monitoring such as health indices has been used extensively as a tool to identify asset replacement. CCP3 is very concerned that the process is not transparent and is heavily reliant on qualitative assessments and conservatively set trigger points for initiating action.

Asset lives across the NEM show a significant variation between DNSPs and between asset classes (eg why should the median underground cabling life for less than 33 kV have a median life 10% longer than underground cabling of greater than 33 kV?)

| All DBs in NEM | mean | median | SD | Longest | Shortest |
|---|------|--------|------|---------|----------|
| Overhead network assets less than 33kV (wires and poles) | 46 | 49 | 8.3 | 62 | 35 |
| Underground network assets less than 33kV (cables) | 51 | 55 | 6.9 | 60 | 36 |
| Distribution substations including transformers | 45 | 45 | 9.9 | 73 | 36 |
| Overhead network assets 33kV and above (wires and towers / poles etc) | 49 | 53 | 4.7 | 64 | 47 |
| Underground network assets 33kV and above (cables, ducts etc) | 46 | 50 | 6.4 | 60 | 40 |
| Zone substations and transformers | 43 | 46 | 5.8 | 60 | 40 |
| "Other" assets with long lives | 27 | 23 | 13.1 | 50 | 8 |
| "Other" assets with short lives | 6 | 6 | 1.0 | 8 | 5 |

The asset lives between the five Victorian DNSPs also show a similar variation and similar anomalies.

| Life in years | Aus | CP | JEN | PC | UE | avg | med | SD | Longest | Shortest |
|--|-----|----|-----|----|----|-----|-----|------|---------|----------|
| Overhead network assets less than 33kV (wires and poles) | 47 | 49 | 62 | 51 | 36 | 49 | 49 | 9.4 | 62 | 36 |
| Underground network assets less than 33kV (cables) | 55 | 49 | 49 | 51 | 36 | 48 | 49 | 7.3 | 55 | 36 |
| Distribution substations including transformers | 62 | 49 | 48 | 51 | 36 | 49 | 49 | 9.4 | 62 | 36 |
| Overhead network assets 33kV and above (wires and towers / poles etc.) | 54 | 49 | 64 | 51 | 60 | 56 | 54 | 6.2 | 64 | 51 |
| Underground network assets 33kV and above (cables, ducts, etc.) | 55 | 49 | 40 | 51 | 60 | 51 | 51 | 7.4 | 60 | 40 |
| Zone substations and transformers | 57 | 49 | 46 | 51 | 60 | 53 | 51 | 5.9 | 60 | 40 |
| "Other" assets with long lives | 0 | 12 | 30 | 15 | 8 | 13 | 12 | 11.3 | 30 | 8 |
| "Other" assets with short lives | 5 | 6 | 7 | 6 | 5 | 6 | 6 | 1.0 | 7 | 5 |

This variation has quite wide reaching impacts in addition to assessing residual asset lives as it also impacts the rates of depreciation included in the building block. There should be a standard NEM wide approach to asset lives, and all DNSPs should be required to use these.

Although AusNet and PC have already implemented some of the bushfire prevention requirements, the other three DNSPs will include this work during the next period. CCP3 is concerned that the capex to meet bushfire prevention requirements is being "buried" in the overall capex programs, and considers that the bushfire prevention requirements should be separately identified both in the proposals and in the RINs. This will allow better understanding of the impacts of the requirements and allow appropriate benchmarking for all capex exclusive of the bushfire prevention program with DNSPs elsewhere in the NEM.

Customer connections are a major capex element. CCP3 is concerned that despite new connection numbers not exhibiting a significant increase, the connections capex has increased markedly, especially by PC. On this basis there is an expectation that there should be no increase in connection capex from the current period. The customer recoveries for the new connections are quite low, causing all consumers to pay a significant contribution to connect new customers. In particular, CCP3 is concerned that commercial entities are being subsidised by existing customers.

Non-network IT allowed in the current period was a significant increase from the previous period and benefits were supposed to flow from this. Non-network IT appears to be consistent across all DNSPs as in the current period except for CP and PC. After an expansion in capex, it would be expected that non-network IT would revert to previous levels.

CP and PC have sought a significant increase in non-network IT to enable their proposed "new customer relationship and billing system" which has identified significant benefits for consumers. What is absent from the CP/PC proposal is that the bulk of the benefits come from innovative tariffs. However, the capex proposals do not deliver this benefit.

The DNSPs seek to change the AER approach to setting cost escalators, particularly by applying EBAs as the driver for wage growth. CCP3 does not agree with this approach, and considers that a consistent approach for escalation of costs and growth, based on the notional efficient entity, is very much in the long term interests of consumers. The AER has established a sound method for making reasonable adjustments for forecast capex (and opex), and CCP3 considers that the AER approach meets the needs of consumers in this regard.

Recommendations:

6.1 Better use of the AMI data would result in a lower need for augmentation than is forecast by all DNSPs. In contrast, it would appear that AusNet has used the AMI data and tariff based incentives to inform on its approach to augmentation and this is a model for the other DNSPs. On this basis, CCP3 does not consider the augmentation proposals from the DNSPs (other than AusNet) are reasonable.

6.2 The arguments for initiating repex based on age of the assets and reliability measures (including unserved energy) do not support the need for increased repex. Condition based

monitoring processes and generation of "health indices" need to be made more transparent.

6.3 There should be a NEM wide standard life for each asset class rather than using depreciation rates proposed by each DNSP.

6.4 The bushfire prevention capex should be separately identified in the proposals and in the RINs.

6.5 CCP3 is concerned that connections capex is higher than for the current period despite growth being much the same. New customers are being significantly subsidised by existing customers.

6.6 The capex for IT and communications should reflect a reduction from the current levels (following the pattern proposed by AusNet) in order to bring the amounts of capex back to reasonable levels. If CP and PC want to increase capex for non-network IT, then the benefits have to be incorporated in other elements such as augmentation capex.

6.7 The AER should apply its standard approach to cost escalation.

7. Incentive Schemes

CCP3 sees the incentive schemes developed by the AER as a suite where incentives are reasonably balanced. Any variation to one scheme will impact the incentives not only of the scheme where the change is made, but has the potential to vary the power of the incentive in another scheme. On this basis, CCP3 does not support any changes to the schemes despite requests from the DNSPs to implement changes.

The change in the values for the Value of Customer Reliability (VCR) will impact the assessments made for replacements and augmentations to the networks. Over the long term this will result in changes to actual reliability measurements. Equally, it is recognised that such changes will occur very slowly as the bulk of the networks were built to higher levels of VCR and these assets are still in place. This means that the changes in investments that occur under the new VCRs that occur in the next period will have at most only a marginal impact on the network wide measures.

CCP3 is concerned at the large amounts that are included for demand management projects under the DMIA. The AER should implement an overall assessment of all the DMIA projects to ensure there is no duplication and that the projects will provide benefits to consumers.

Recommendations:

7.1 No changes to the incentive schemes should be allowed.

7.2 There should be no discounting of reliability set points for the STPIS as a result of the changes to VCR.

7.3 The AER should carry out an overall assessment of the DMIA to ensure that there is no duplication of projects across the NEM, and that all projects provide a benefit to consumers.

8. Weighted Average Cost of Capital

The rate of return attachment to CCP3's analysis was prepared to address in considerably more detail CCP3's very great concerns with the approach that has been adopted by the Victorian DNSPs to assessing the rate of return. The proposed approach would result in significant increase in costs that are not in the long-term interests of consumers or the industry as a whole.

The approach to assessing the rate of return by the Victorian DNSPs shares much in common with the approach put forward by many other network service providers. It marks a significant variation from the AER's Rate of Return Guideline that was developed after a very comprehensive consultation process. Moreover, the AER's approach is currently being challenged by the NSW DNSPs in the Australian Competition Tribunal.

CCP3 therefore thought it valuable to undertake a more comprehensive analysis of the DNSPs' and the AER's rate of return approach in the hope that this will contribute more broadly to the AER's determinations.

The Victorian DNSPs have all adopted an approach to the WACC that in large part replicates the approach adopted by the NSW, Queensland and South Australian DNSPs. As a result, the Victorian DNSPs are proposing an overall WACC of 7.3 per cent based on a return on equity of 9.95 per cent and a return on debt of 5.67 per cent. This outcome is substantially above the most recent WACC decisions by the AER using an approach as set out in the AER's Rate of Return Guideline.

The AEMC's rule changes anticipated that the AER would not vary from its Rate of Return Guideline unless there is a substantive reason to do so. To do otherwise would be to undermine the principles of transparency and certainty that was sought by stakeholders as the trade off to the rules giving greater flexibility and discretion to the AER to determine the best approach to achieve the rate of return objectives.

The Attachment therefore provides a detailed rebuttal of the claims made by the DNSPs that the AER should make its decisions using a very different approach than the approach set out in the AER's Rate of Return Guideline. In particular, the DNSPs instruct that the AER should:

- Adopt a multi-model approach to assessing the return on equity; and
- Adopt a hybrid approach to assessing the cost of debt during the 10-year transition period to the historical averaging approach.

CCP3 is very strongly opposed to the AER moving from its Rate of Return Guideline as instructed by the DNSPs. The AER followed a very comprehensive engagement process in developing the Guidelines and the DNSPs had ample opportunity to outline their preferred approach.

The AER and consumer representatives found the multi-model approach wanting. The approach introduced a level of unpredictability that was unacceptable to stakeholders. Moreover, it was complex, lacked transparency, was untested in a regulatory setting and was open to the introduction of bias in the outcomes. The NSPs have since made no attempt to explain their proposed variation to consumers or demonstrate why it is in consumers' long-term interests to allow a significantly higher rate of return.

CCP3 also comprehensively rejects the assertions by the DNSPs that:

- The Rules require the AER to use all the models presented to them in its assessment;
- The AER is obliged to vary the NSPS approach to the minimum extent necessary and is not able to use its discretion to establish its own approach;
- The multi-model approach improves the accuracy of the return on equity assessment because it uses more data; as Associate Professor Partington said in his recent assessment, “garbage in, garbage out”;
- The NSPs are facing new challenges that increase their systematic risk; an assessment that continuously ignores the reduction in risk that is uniquely afforded the NSPs by the regulatory framework; and
- The AER’s transition approach to the cost of debt represents an “illegal” attempt to “claw back”, the previous high WACC allowance.

CCP3 not only finds the multi-model approach highly problematic. The individual models included by the DNSPs in the multi-model are equally problematic, and the process of weighting the models is arbitrary, and lacking any theoretical foundation. Similarly, CCP3 agrees with the AER’s transition approach for the cost of debt. The DNSPs’ hybrid approach to the cost of debt violates the NPV=0 requirement, and effectively requires consumers to pay twice for the very high commercial bond rates seen during the GFC.

CCP3 generally supports the AER’s application of its Rate of Return Guideline, but also highlights that:

- The Guideline is essentially conservative in that the AER consistently adopts the higher end of the range of possible outcomes such as the MRP and equity beta, and assumed BBB credit rating for assessing debt costs;
- The equity beta is particularly problematic given the wealth of empirical analysis that suggests a beta below the 0.7 adopted in the Guideline; and

- The AER could benefit from making greater use of market information; particularly in terms of (a) benchmarking its own decisions against those of other regulators and (b) refuting the claims by the DNSPs that they will not be able to recover efficient costs. CCP3 provides a range of data that the AER might find useful in its decision-making.

Beyond these concerns, CCP3 considers that the whole regulatory approach has become distorted and is alienating for consumers contrary to the reform objectives. The many thousands of pages devoted to “proving” the value of arcane models with multiple assumptions and many alternative specifications is making a travesty of the rule changes initiated by the AER to provide it with more discretion and flexibility; and by customers to deliver better outcomes in the long term interests of consumers.

The issue of regulatory overload must be addressed in the coming years even if the trade-off is a return to more prescription in the rules.

Recommendations

8.1 The AER must continue to apply the methodology set out in its Rate of Return Guideline given that it was developed after extensive consultation and expert review of the various methodologies;

8.2 The AER should give consideration to the arguments by CCP3 and others that while the AER’s methodology is sound, the specific parameters taken together are resulting in an overly conservative assessment of the rate of return;

8.3 The AER should commence the process of developing a “library” of real world data including market data and the decisions by regulators in Australia and overseas in order to critically analyse its own decisions (pre and post a determination) and to assess the claims of the NSPs (including the Victorian DNSPs);

8.4 The AER should consider how the regulatory process can be made more transparent and accessible to consumers, including the possibility of further rule changes to clarify the extent of the AER’s discretion and if necessary, reintroduce more prescription into the rules.

9. Pricing

The NER requires the DNSPs to propose their tariff structures as part of their Tariff Structure Statements, and to submit their first TSS by 25 September 2015.

Jemena chose to submit its TSS earlier, with its 2016 regulatory proposal. A key element of Jemena’s TSS is to introduce maximum demand-based prices to the existing tariff structure for residential and small business customers.

Jemena’s stated rationale for its proposal to update its network tariff structures is to encourage more informed customer decision making, and to put downward pressure on

its costs and average prices over the long term. The new ‘maximum demand charge’ for all residential and small business customers is to signal more clearly the higher costs of using the network during periods of peak demand, and thus encourage these customers to reduce or spread out consumption. The impact on individual customers’ bills will depend on how and when they use the network, and how they respond to new price signals.

CCP3 is concerned that if there is a move to peak demand based tariffs, that the peak demand for each consumer should be related to the times of expected peak network demand as this is the driver for augmentation. If the new demand tariff is an "anytime" peak demand tariff, this will do little to drive change. If the peak demand tariff is based on usage at peak times in the network (e.g. between 3 pm and 7 pm on summer work days or similar to that used by AEMO for transmission pricing), then this will result in a more equitable arrangement for allocation of costs.

The other DNSPs are to prepare their TSSs later in the year.

10. Pass through events

The following table summarises the different pass through events sought by the DNSPs and those that the AER has previously accepted in addition to those specifically noted in the NER.

| Event | Past AER practice | AusNet | CP/PC | JEN | United |
|------------------------------------|-------------------|--------|-------|-----|--------|
| Insurance cap | X | X | x | x | x |
| Natural disaster | X | X | x | x | x |
| Terrorism | X | X | x | x | x |
| Insurer credit risk | | | x | x | x |
| Retailer insolvency (redefinition) | | | x | x | x |
| End of metering derogation | | | x | x | |
| Power of Choice | | X | | | |
| Multiple trading relationships | | | x | | |
| Carbon cost | | | | x | |
| NECF | | | | | x |
| To apply to SCS and ACS | | | x | x | |

There is little consistency between the DNSPs as to what should constitute a pass through event, although all agree that the currently approved AER pass through events should continue. As a matter of principle, CCP3 considers that fewer pass through events should be allowed than more and recommends the AER examine those previously approved to identify if there is reason to exclude them in future.

A review of the proposed additional pass through events does not exhibit consistency across all of the DNSPs indicating that there is no general consensus on what should be added as accepted pass through events.

Recommendations

10.1 The only pass-through events that should be included are those that have been previously allowed by the AER, and no new pass through events should be allowed

10.2 Some DNSPs propose changes to the wordings of what constitutes a pass through event. The AER should not vary the wordings of previously approved pass through events.

11. Metering

The DNSPs have reclassified at least some ongoing costs associated with the Advanced Metering Infrastructure (AMI) 'smart meter' program under standard control services, although the AER's Framework and Approach paper classified AMI as an alternative control service. This has been discussed in sections 4 and 8.

12. Public lighting

There is a groundswell of view by the councils that public lighting should not be a negotiated service and should continue to be an Alternative Control Service (ACS). CCP3 agrees with the councils.

CCP3 is concerned that the proposed negotiated service approach is open to abuse as councils have fewer resources and suffer from asymmetry of information – both of which favour the DNSPs and lead to the conclusion that public lighting should be an ACS.

New technology proposals should be a negotiated service as included in the F&A but LED lighting is no longer a new technology and should be included with other conventional lighting approaches.

The rates used by DNSPs in the past for public lighting have not been transparent in their derivation, and some seem not to reflect the actual costs for carrying out the tasks. DNSPs should be required to demonstrate that the rates included in the ACS for public lighting (indeed for all ACS rates) should be demonstrably reflective of the costs involved for providing the service.

Recommendations

12.1 Public lighting should be an ACS rather than a negotiated service and should include LED lighting.

12.2 DNSPs should be required to demonstrate that the rates for ACS are reflective of the costs that are incurred in providing the service.