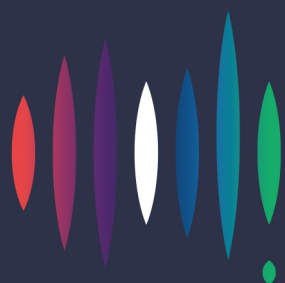


Draft Better Resets Handbook – Towards consumer-centric network proposals

Submission

October 2021



**ENERGY
CONSUMERS
AUSTRALIA**

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Energy Consumers Australia support the Handbook's aim to incentivise networks to develop high quality proposals that are driven by genuine engagement with consumers.

Energy Consumers Australia (ECA) welcomes the opportunity to comment on the Australian Energy Regulator's (AER) Draft Better Resets Handbook (the Handbook).

Energy Consumers Australia is the independent, national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety, and security of supply.

We support the Handbook's aim to incentivise networks to develop high quality proposals that are driven by genuine engagement with consumers.

It is essential consumers are at the forefront of the regulatory decision process and treated as partners in developing the proposal, as we enter the second major energy transition that is being driven by consumer investment in generation, storage and smart appliances.

Context

In recent years there have been significant improvements in the level of consumer engagement by energy network businesses (networks). We commend the work undertaken by the AER, Energy Networks Australia (ENA), and the networks in increasing this level of engagement, resulting in important insights evident through the ENA / ECA Consumer Engagement Award and the NewReg initiative. The learnings from this hard work can be shared across the industry to build on what is considered best practice.

The coming years represent a period of rapid transition in the energy sector as generation becomes more decentralised, local storage becomes more ubiquitous, and consumer behaviour correspondingly changes. Consumers who wish to do so, are becoming more actively involved in the energy market through their distributed energy resource investments, resulting in new needs and expectations. Understanding these needs and expectations should be the foundation of regulatory proposal design during this transition, to ensure that the outcomes consumers value are delivered by networks.

There is therefore a strong need to develop guidelines for best practice consumer engagement. We support the Handbook as a significant step for an improved regulatory process, and ultimately improved consumer outcomes. We have further feedback on the Guidelines below.

The focus must be on consumer outcomes, not only consumer engagement

High quality consumer engagement is essential for ensuring that networks provide services that meet the needs of their consumers. However, the fact that consumer engagement occurred does not guarantee that regulatory outcomes will better reflect the long-term interests of consumers.

We strongly consider that best practice consumer engagement is about how networks engage with their consumers, and support the Handbook's expectations that reflect a focus on outcomes it wants to see from engagement processes. Crucially, networks must sincerely partner and empower consumers in a collaborative process and equip them to effectively engage in the development of their proposals. Consumer engagement should become a continuous business-as-usual process.

Indeed, outstanding network projects nominated for the ENA / ECA Consumer Engagement Award in recent years all demonstrated:

- Genuine executive participation,
- A willingness to be vulnerable in the engagement process, and
- An ability to explicate how their project evolved through the consumer engagement process.

We recommend that the Handbook includes an explicit expectation that engagement is iterative both between and during regulatory periods. This will ensure feedback and learnings are implemented, and increase the likelihood of outcomes that are valued by consumers.

An early example of this was the Transgrid Stakeholder Monitoring Project for the replacement of 50-year-old high voltage cables servicing the CBD and inner suburbs. Prior to its approval, the costs had been highly contested by consumer advocates. Transgrid's commitment to monitoring and transparency over the life of the project was a significant factor in gaining stakeholder acceptance of the proposal. Recently, at the conclusion of the project, stakeholders and Transgrid agreed there were significant benefits of this engagement, and have committed to continue the approach for all major projects in the future.

Consumer independence and diversity must be guaranteed

The Handbook correctly identifies that the integrity of the AER undertaking a targeted review of networks proposals rests on the independence of the consumers and/or organisations engaged. Consumers' ability to advocate for their interests is predicated on their independence from the networks and their access to independent resources. Otherwise, we risk a situation where consumers are engaged to 'tick a box' expressing support for a proposal.

The AER states "it is important that the networks and engagement parties are able to demonstrate independence through different metrics." We request further information as to what independence means and what these metrics are, so there is clarity on the AER's expectations for the networks electing to use the *Targeted review stream* process. For example, we suggest that there are hard requirements on what a consumer representative committee is, such as an independent chair with an independent charter.

Further, when highlighting the expectation that networks undertake multiple channels of engagement, it would be appropriate to differentiate between indirect versus direct engagement. That is, engaging with consumer advocates versus directly with consumers. While both have value, it is important for networks to demonstrate their understanding of the differences between these two forms of engagement. This may impact what avenues of engagement the networks deem necessary to ensure a comprehensive understanding of its consumer cohorts.

We note it is also important business networks seek out a diversity of consumer segments during the engagement process, representative of their consumer cohort. This may include consumers in vulnerable situations, renters and home owners, urban, rural regional or remote consumers, and culturally and linguistically diverse consumers.

There is a need to increase the capability of stakeholders

Under the proposed *Targeted review stream* approach, consumers will directly engage with networks in the *pre-lodgement period*. In many ways, the success of the *Targeted review stream* depends upon the ability of consumers or organisations to understand and effectively engage with the network's proposal.

This process will likely include consumers or organisations that are new to the process who may not have detailed technical knowledge of the network's strategy, business model and the building blocks approach to regulatory proposals. Despite their potentially limited knowledge, to be a success the AER is relying on them to signal consumer acceptance of a revenue proposal, or its

elements. While the AER has provided clear information that describes its own processes for assessing each building blocks component, there is a need for consumer-focused materials to build consumer knowledge and capacity to investigate proposals.

We acknowledge that this information may be included in the various work listed by the AER in the Handbook. However, even if so, some consumers may not have time to review all these materials to determine what information they require. We therefore suggest that targeted materials are prepared by the AER to equip consumers before consulting with the network businesses.

For example, a brief document that outlines in plain English the terminology, typical forecasting methodologies, key questions to ask, and consumer impacts of the various building blocks. This information would be targeted at equipping consumers with low knowledge and limited resources, to give them the ability to ask questions and come to a position on proposed central components.

For some consumers and organisations a webinar or other public presentation – or series of presentations -- may be the preferred learning style. Live (and recorded) capacity building sessions with the opportunity for Q&A may increase engagement on a given topic.

In our experience, visualisation tools have played a valuable role in a network communicating the entirety of its revenue proposal, and the interdependencies of the more granular components. Far too frequently, the process of engagement has been to engage on the detail of the parts, without a perspective on what the sum of those parts means for changing costs for consumers.

Examining the specifics of the streamlined assessment project can be helpful in thinking through the potential challenges consumers and organisations might have. For example, the Handbook states that the first step for assessing total capital expenditure is to compare the total capex forecast to actual spend over the current regulatory period.¹ Where the forecast is found to be materially above the current period spend, it is expected that the business should “demonstrate that forecast total capital expenditure is not materially above current period actual spend”. A novice participant may not know what to ask to determine whether this has been demonstrated, and in our own experience this information has not routinely been provided. Further we would also add:

- that past underspends have been as much a question as overspends, and the implications for the benefits sharing arrangements; and
- it is uncommon for networks to report on their trends in capacity utilisation, but in our experience, this is a key factor in constraining future network costs. In other words, the default should be that networks should be more efficiently utilising existing capacity across the whole of their “footprint” before investing in additional capacity.

Therefore, having guidance for consumers on assessing trend analysis will result in more valuable consumer engagement.

Capacity building becomes even more important for consumers tasked with reviewing aspects of the forecast from a bottom-up perspective (if it is decided that they would do so). Components of a network’s revenue can be highly technical, have their own specific jargon, and are forecast based on methodologies that may not be commonly known. For example, it is well known that opex is

¹ It is worth noting that during the pre-lodgement period, there may be only two years of actual expenditure from the current period available. We suggest clarification as to if the AER considers two years of actual expenditure acceptable for the purposes of trend analysis for both total expenditure, but any individual categories of expenditure. Given that the CESS has been applied to networks for two consecutive regulatory control periods, we see no reason why trend analysis cannot be done across periods if there is a limited amount of actual expenditure available from the current period.

forecast using a base-step-trend methodology. If networks are transparent as to the step-changes and any adjustments applied to the forecast, there is potentially limited background information needed for consumers to adequately review the proposal.

However, this is not the case for other central components. Potential knowledge gaps include:

- Do stakeholders know what assets are included in repex forecasts and what are standard industry practices for replacing/refurbishing them?
- Is there knowledge of the average depreciation of assets so consumers can understand longer term RAB impacts of investments?
- Do stakeholders understand how network tariffs are ultimately reflected in retail bills so they can assess the average and distributional impacts of any changes?
- Do consumers know of the potential non-network solutions available and the potential long-term RAB impacts of these opportunities?

Addressing these potential knowledge gaps through capacity building will be important to ensuring that consumers can rigorously assess a proposal in the new streamlined engagement process. For the process to be successful, consumers must have the tools available to confidently determine if a proposal is in their best interests or not.

Considering these issues, we are considering how our Grants Program may need to be adapted to add value to the need to build consumer capabilities to effectively engage with networks. We are willing to aid the AER in increasing capability of consumers where needed.

Further scope for the Handbook to include guidance on how information is presented to consumers

The AER should make it clear how certain information is presented to consumers through the engagement process. Doing so can help ensure that consumers have the important information and analysis required to make an informed recommendation to the AER.

In particular, we recommend that the AER clarify that it considers good practice engagement to:

- exclude any forecast expenditure from the current regulatory control period from high-level trend analysis,
- identify which components of forecasts are based on modelling,
- require that the models used for forecasting be made open and available with explanatory information on important inputs and assumptions, and
- include making project costs and business cases as public as possible, clearly indicating if project costs or scope are likely subject to change.

We also support the AER being more direct with networks about how best to communicate information to consumers and organisations in other ways than those bulleted above. We explain these recommendations in more detail below.

Trend analysis best practice

The Handbook has a necessary strong emphasis on the use of trend analysis to justify expenditure forecasts. Such analysis is insightful and straightforward for informed consumers to understand and should be used in engagement between networks and consumers. However, in the past there have been differences in how trend analysis has been undertaken by networks in their engagement, and the AER in its formal documents.

For example, the AER generally has not included any years of forecast expenditure from the current period to compare to the forecast. In contrast, in the past some networks have included these forecasts for high-level comparisons across regulatory periods.

We also suggest that the AER state that when showing trends in chart form, any forecasts are labelled or distinguished from actual audited expenditure levels. It should also be clear where any historical figures have come from², so consumers can do such analysis themselves. This aligns with how the AER has assessed expenditure previously and how the AER undertakes its analysis in formal decision documents.

Another useful tool for assessing the likely prudence and efficiency of a forecast is to compare actual expenditure to previous forecasts of expenditure. Such analysis allows for an assessment of the historical forecasting accuracy of the business and can identify any biases. This is important, as a forecasting methodology that is likely inaccurate, is unlikely to reflect the costs likely incurred. We recommend that such analysis is presented to consumers for this reason.

Commonly the practice by networks has been to compare previous expenditure to the indicative AER allowance. However, we consider that historical expenditures should be instead compared to the businesses' initial forecast, as overall, it is the forecast and their forecasting techniques that are to be assessed. Again, this aligns with how the AER has undertaken such analysis in decision documents previously.

In some instances, the analysis outlined above may find material differences between what the network had forecast and what it actually incurred. We suggest that the business must explain to its consumers the reasons for such differences at a high level. For example, the business should refer to its previous proposal, and list the projects included in the total forecast. It could then discuss whether the projects were delivered or not, delivered to the time and cost forecast, or delivered any benefits forecast to be achieved.

Such analysis would likely be already undertaken as part of good governance, and we see no reason why it cannot be shared with consumers. Ultimately by doing so, the networks demonstrate their commitment to transparency, and intention to partner with consumers during the engagement process and learn from their feedback.

Consumers can consider this information in conjunction with trend analysis and feel confidence that the proposal at a total level is likely to be achieved or delivered by the business. This will also determine whether a top-down challenge is required to the overall program to reflect any previous forecasting biases.³

Transparency of modelling inputs and assumptions

If stakeholders are to review expenditure programs at the bottom-up level, then we recommend the AER develop further guidance as to how each component should be explained to consumers. For example, forecasts are often based on modelling that is determined by a certain set of input parameters (e.g., opex, repex, non-network capex).

However, previously it has not been transparent that certain forecasts are based on modelling or some methodology. Consumers in some instances have only become aware of after the AER has sent information requests after the regulatory proposal has been submitted.⁴

² For example, Regulatory Information Notices published on the AER website.

³ Such a similar top-down adjustment was a result of AusNet's engagement with its customer forum.

⁴ For example, we are aware that fleet capex forecasts are essentially based on simple models. We have not seen such information available at the time of submitting the proposal for stakeholders to review. We see no reason why this information, which is used to determine the forecast, cannot be provided for transparency.

We recommend that it is made clear which components of forecasts are based on modelling and that this modelling is made available if consumers request it. Where based on modelling, the key inputs to these models should be identified (e.g., assumed unit cost, assumed replacement life, etc.). Where the network has been decided to change any inputs from previous models, the changes should be transparent with the impact of this change quantified.

Best practice for consumer-focussed business cases

In other instances, bottom-up forecasts are developed through business case analysis. We do not suggest that consumers review these cases, as the AER has the technical expertise to do so if requested. However, we recommend guidelines are provided as to what could be included in a simplified consumer-focused “executive summary” type document.

Such a document should use simple language and explain:

- the problem that has been identified, and framed from the consumer perspective, i.e., increased costs, risk of outages, etc;
- why this problem needs to be solved in the forthcoming regulatory control period, i.e., why does it not need to be solved now, or why cannot be delayed;
- what options there are to solve this problem, and where relevant, what non-network options might be available; and
- what the chosen solution is and why it was chosen, i.e., least cost, or highest NPV.

By setting this out clearly, consumers can quickly agree on terms of engagement for reviewing these projects, making it clear to the AER what has or has not been considered. For example, consumers may be satisfied with the need and proposed timing of the project but would like a review of the cost. In this scenario, the AER would only undertake a review of the cost component of the forecast.

We also recommend an expectation in the Handbook that network businesses make a genuine attempt for transparency of business information, notably project costs and scope. Similarly, it should be clearly indicated where project costs or scope is likely subject to change.

Tariff Structure Statements (TSS)

Our submission on the AER’s export tariff guidelines provides details on our views on the expectations of engagement between networks and consumers on tariffs. The TSS process allows for networks to propose their own tariff structures based on their specific circumstances and customer needs, which we support. However, we should be mindful that this can lead to confusion for some consumers, who may lose the ability to share knowledge with relatives or friends who reside in different networks. Therefore, we suggest that where possible, there is knowledge sharing between networks as to their approaches to tariffs.

We also note that the interrelationships between tariffs and expenditure will increase in the future. Any proposed tariff change will likely have a desired effect of reducing peak consumption or peak exports which would be expected to remove the need for future investment in the network to accommodate this consumption or export. It is therefore important that expenditure proposals are aligned with tariff proposals to ensure that costs are not double recovered.

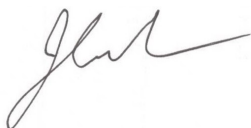
Final recommendations

To this end, we recommend that consumers are notified in addition to the AER of a network’s intention to access the targeted review stream in the early stages of its engagement with consumers. Similarly, we suggest that the terms and scope of the proposed engagement is made clear early. This can aid stakeholders in preparing for these processes, given the limited resources and specialist expertise they may likely require.

We also request that the AER undertake an evaluation of the outcomes of the new process at some stage in the future. Such an assessment of the new process would determine if better consumer outcomes were achieved, and ensure that the learnings can be implemented to improve and refine the process through subsequent iterations.

If you would like to discuss this submission further, please do not hesitate to contact Ashley Bradshaw by email, ashley.b@energyconsumersaustralia.com.au.

Yours sincerely,



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