Ethnic Communities' Council of NSW Inc.

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19 September 2013

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Roberts,

RE: Better Regulation: Draft Expenditure Incentives and the Expenditure Forecast Assessment guidelines

This submission is made on behalf of the Ethnic Communities Council of NSW (ECC) and the Federation of Ethnic Communities Councils of Australia. We welcome the opportunity to comment on the draft ***AER Draft Expenditure Incentives.***

Since its formation 36 years ago the ECC has been the peak body for culturally and linguistically diverse (CALD) community members and representative organisations in NSW. The ECC's main activities are advocacy, education and community development. It is a member of the Federation of Ethnic Communities Councils of Australia (FECCA).

Background

The Australian Energy Market Commission (AEMC) made a number of important changes to the rules governing electricity distribution pricing regulation in November 2012. As a result of this, the Australian Energy Regulator (AER) commenced the Better Regulation program in December 2012.

A key aspect of the new regulatory program is the Draft ***AER Expenditure Incentives.*** The incentive mechanisms are designed to

- incentivise businesses to spend more efficiently on capex and opex
- protect consumers from paying prices that reflect inefficient capex
- share efficiency improvements and losses between businesses and consumers.

To achieve the above aims the AER has developed in draft **capital** expenditure incentives guidelines that outline the new capital expenditure sharing scheme (CESS) and has reviewed the existing Efficiency benefit sharing scheme (EBSS) which is already in operation to incentivise businesses to spend efficiently on opex, and share any efficiency gains with consumers.

ECC's position

The ECC due to resource constraints was unable to take an active role in the development of these guidelines. Our role has been one of listening to both the AER Community Reference Group (CRG) forums and to other more active participants who are also members of the CRG. As a result of these activities, the ECC has concluded that it supports the position taken by the NSW Public Interest Advocacy Centre (PIAC) on both the **Expenditure Incentives and the Expenditure Forecast Assessment guidleines.**

The ECC is particularly concerned that the:

- **CESS** reward businesses and the consumers equally for becoming more efficient with capex or underspending and a penalty for becoming less efficient or overspending. Overspending has business benefits already as it is included in the future regulated assets base. The ECC recommends that the penalty for overspending would be more effective if there was a stronger penalty of 50% for overspending. It is recommended that the reward for the businesses underspending is 30%.

- **EBSS** rewards businesses for both overspending and underspending on opex. It is symmetrical with 30% for overspend and 30% for underspend. The ECC supports this arrangement but believes it will need close monitoring.

If you have any questions about this submission, please do not hesitate to contact Helen Scott on 02 9319 0288 or 0425 833 892.

Sincerely yours,

Mark Franklin
Executive Officer
Ethnic Communities' Council of NSW Inc.