

21 December 2018

Mr Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator
GPO Box 520
Melbourne, VIC, 3001

Draft Decision Paper – Forecasting productivity growth for electricity distributors

Dear Mr Roberts,

Thank you for the opportunity to comment on the Australian Energy Regulator's Draft Decision Paper *Forecasting productivity growth for electricity distributors* released on 9 November.

Energy Networks Australia (ENA) is the peak national body representing Australia's gas distribution and electricity transmission and distribution companies. With more than 16 million customer connections across the nation, Australia's energy networks provide the final step in the safe, reliable delivery of gas and electricity to virtually every home, business and industry in the country.

Network businesses strongly support an effective incentive-based regulatory framework that promotes strong ongoing signals for investments in operational efficiency improvements that benefit all network customers.

The improved industry-wide productivity outcomes AER has noted in its recent annual benchmarking reports clearly demonstrate the significant capacity of incentive benchmark approaches to drive efficiency growth across the sector.

Movement to Draft Decision Paper without effective consultation

Energy Networks Australia has significant concerns around the timing, process and limited substantive opportunity for analysis of this review.

These are reinforced by the accelerated movement to a draft decision as the first step in the review without any significant preceding consultation, and a proposal to incorporate materially different productivity adjustment factors in pending final decisions for a number of electricity distribution networks than were adopted in the previous draft determinations.

These proposed adjustments have important implications for the development of each network's regulatory proposal, that do not appear to be adequately able to be considered in the timelines and processes proposed. The inability of the process to accommodate fuller data analysis and testing risks poor outcomes for consumers.

Need for holistic review approach

A further concern with the current review approach that is connected to it occurring within other determination constraints is the narrow scope and lack of capacity to assess interactions with the wider incentive package.

As the Draft Decision Paper and stakeholders at the public workshop have identified, issues raised in this review are central to the coherent operation of the entire incentive-based regulatory framework. Pursuit of narrowly-based adjustments to single elements of the incentive framework through an accelerated and analytically incomplete process is therefore not appropriate.

The recent review of regulatory taxation is another example of an increasing reliance on narrow subject-based reviews which lack both the timelines, scope and resourcing to properly evaluate the full impacts of proposed changes to the implementation of the incentive-based regulatory model, based on the evidence of the consumer benefits delivered to date.

Reliance on inadequate subset of relevant data to inform future estimate

Energy Network Australia members have raised a broad range of concerns with the use of operational productivity-related data in the review, and its capacity to support the conclusions reached by the AER in its draft decision.

ENA supports further detailed work to explore these data issues prior to substantial reliance being placed on available data to alter any electricity distribution proposed productivity adjustment factors. Further matters of significant concern around the use of data in this review are:

- » **Exclusion of 2006-2012 period** – ENA does not understand the basis of the AER conclusion that the 2006-2012 period is entirely separable and different in kind from the potential operating environment going forward.

Similarly, the basis for the judgment that data from this period contains no information that should influence future productivity trend estimates appears unclear. This approach is inconsistent with estimation approaches routinely adopted by the AER in other areas of network revenue regulation, where typically the AER seeks to utilise longer data series where possible;

- » **Comparability of electricity and gas productivity trends** - There seems little empirical basis for an assumption that the productivity trends implicit in past gas distributor operating expenditure trends would be in any reliable way related to future electricity distribution operating expenditure productivity.

Suggested way forward

For the reasons set out above, ENA supports a highly cautious approach being adopted by the AER in any proposed changes to productivity assumptions contained in revised regulatory proposals from New South Wales, Tasmanian and ACT electricity network businesses.

In its upcoming network determinations relating to these matters, it will be critical for clear weight to be given by the AER to all relevant data, with stakeholders able to understand the reasons for exercises of AER discretion and likely future approaches.

As raised by a number of stakeholders in the recent AER public forum, the AER may also wish to consider more comprehensive reviews able to 'step back' and carefully consider the overall operation and linkages between incentives in the current building blocks model on scheduled regular cycle. This would allow for development of improved longer-term data sets, AER reliance on these improved data sets, and enhance the stability and predictability of regulatory approach and implementation in this area.

If you have any queries on this matter, please feel free to contact Garth Crawford, General Manager - Economic Regulation on 02 6272 1555 (or gcrawford@energynetworks.com.au).

Yours sincerely,



Andrew Dillon
Chief Executive