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By email: AERInquiry@aer.gov.au

ETU Submission – Forecasting productivity growth for electricity distributors

The Electrical Trades Union of Australia (ETU) is the Electrical, energy and Services Division of the Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia (CEPU). The ETU represents approximately 61,000 electrical and electronic workers around the country and the CEPU, as a whole, represents approximately 100,000 workers nationally, making us one of the largest trade unions in Australia.

Whilst the ETU welcomes the opportunity to make a submission on the AER – Forecasting productivity growth for electricity distributors we would once again reiterate our concerns with the lack of genuine consultation and engagement with industry stakeholders. The effort and resource allocated to engaging business interests sits in stark contrast to the lack of effort in meaningfully engaging other stakeholders such as workers representatives.

By continuing the AER's trend of simply analysing every component of Australia's energy industry through an accountancy lens means that the regulator is continuing to shape the industry to favour business interests over consumers, workers and the community.

Financial Indicators of Productivity

The AER's processes for measuring productivity are deeply flawed, focussing simply on volume instead of value. With no assessment conducted on the actual overall benefit to consumers, the deferral of risks to the network or the impacts on workers.

The benchmarking exercise somehow attempts to compare network companies against each other under some kind of false proposition that they are all the same and therefore can be compared to some arbitrary lead participant.

Worse still, the cost to regulate and comply with a ridiculously bureaucratic and artificial market environment far outweighs any benefit derived, another area that doesn't appear to be assessed or considered in any meaningful way.

The lack of credibility of this approach by the AER can be demonstrated in showing how the regulator accepts company proposals to introduce efficiency measures with no material evidence of what the measures are or how they will be achieved. A recent example of this would be the regulatory proposal by Power and Water in the Northern Territory which claimed a 10% efficiency improvement over time with absolutely zero evidence of how it could or would be delivered.

The reality is that productivity improvement targets of either the blindly accepted company proposals or arbitrarily imposed cuts by the AER are simply deferred liabilities that customers ultimately pay for anyway in the form of increased cost pass through applications resultant from a less reliable network or from internal financial manipulation by the private network companies clawing back their profits.

Benchmarking – Fatally Flawed

To not recognise the inherent flaws with the current benchmarking framework is simply irresponsible. The ETU is aware that the AER has only just recently started the work of understanding the massive differences faced by network businesses across the country. Despite this work having only just begun, the AER still makes decisions absent this information.

The current regulatory decision-making process is absent the necessary rigour required to make value-based judgments on network businesses for a range of factors, including

- Geographical differences
- Climatic differences
- Environmental differences
- Jurisdictional legislative differences
- Differences in work practices
- Differences to network construction / voltages / engineering

Absent this rigour, it is not surprising how many times regulatory decisions were challenged successfully under the previous limited merits review processes.

Unintended Consequences

The reality of the AER issuing operational expenditure determinations based on arbitrary formulae simply creates financial pressures on network service providers to effectively cut corners on safety and / or to simply manipulate the funding pool in an effort to achieve paper compliance. Either outcome is completely unacceptable.

The unintended consequences of a unilaterally imposed productivity growth requirement include;

- Managers attempting to utilise assets against manufacturer guidelines;
- Managers introducing unsafe work practices for workers operating equipment;
- Adoption of control measures with a focus on the lowest form of control first instead of the highest i.e. administrative controls instead of elimination/substitution;
- Assets being utilised beyond their operational life;
- Asset maintenance cycles being extended for purely monetary reasons, without regard for the safety consequences;
- Removing workers from having any meaningful input into the safe operation of electrical apparatus;
- Introduction of less safe work practices; and
- The introduction of suboptimal and often dangerous ‘lowest cost’ asset maintenance and life extension practices.

Also absent from the paper is any process or requirement or even acknowledgement of the need to consult with workers in determining the most appropriate approaches, another fundamental tenet of Australia’s work, health and safety framework.

Identifying credible options must be qualitative not quantitative and must include both a direction to NSP’s to consult with workers in accordance with safety and industrial legislation and a requirement for the regulator to not undermine the outcomes of that consultation in its decision making.

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Conclusion

Overall the architecture of the draft decision paper is deficient. Our assessment to date maintains our view that the AER's singular focus on financial regulation is driving poor practices and inefficiencies in the energy sector which will lead to a deterioration in network assets, less safe workplaces and increased risks to the community.

This paper, in its current form, will drive unsafe behaviors in network service providers with the very real likelihood of increased injuries and fatalities.