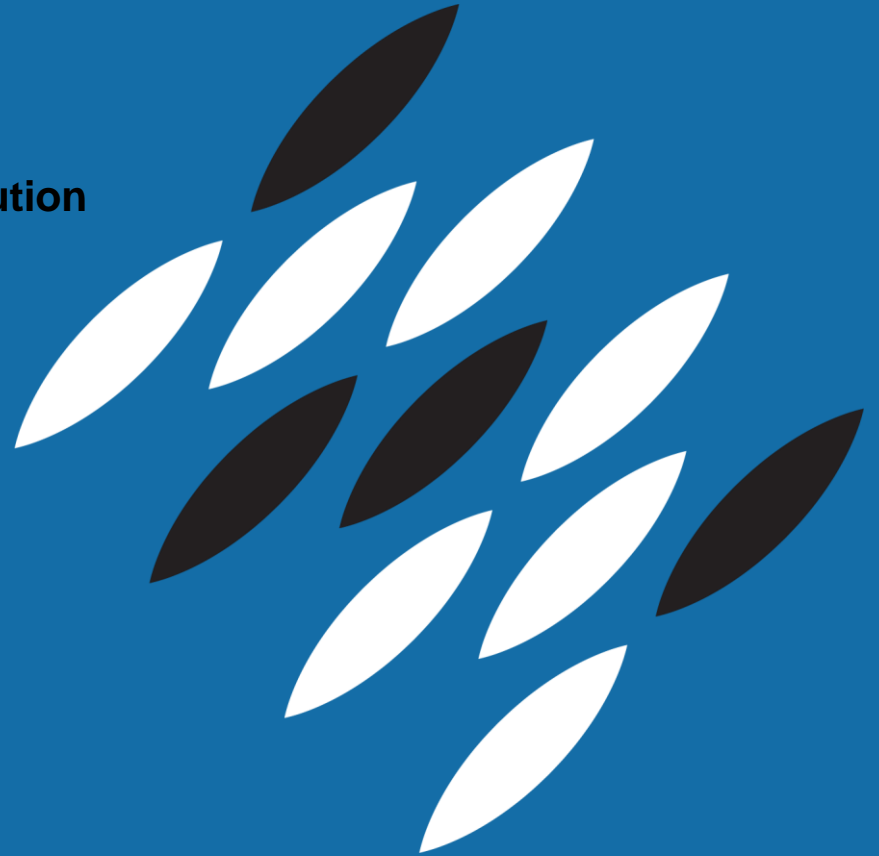


**AER Public Forum – NSW electricity distribution
network draft decisions**

**13 November 2018
Rosemary Sinclair
Chief Executive Officer**



The LTIC task



- The NEO ... *to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.*
- *The long-term interests of consumers are served when current and future consumers pay no more than they need to for the quality of service they require... not one dollar more than necessary; not one day earlier than needed*

The Pub Test – Plain English



- Can we say to consumers:
- “The very best use of your next \$1 is to spend it with xxx Network to deliver the high quality network services you have said you wanted.”

Aligning Interests



- Our preference is to be completely aligned with sector investors and business managers.
- This happens when businesses are demonstrably very careful with consumers \$\$ and investors are earning reasonable returns.
- It does not happen with investors or managers whose incentives are distorted by objectives beyond the regulatory framework – who are not focused on the long-term interests of consumers as the consumers see these interests.

Our regulatory philosophy



1. The network business should be able to demonstrate that it has developed a deep understanding of the preferences of its consumers.
2. The business should be able to talk about its business plans outside of the context of the revenue proposal, including a long-term price path expectation.
3. The business should be able to acknowledge the problems created by decisions made previously – less spending per se is not enough

Open engagement and dialogue ... including on the technical detail



If one party has information that would make the choice between two alternatives clear but won't provide the information, assume the information works against the alternative they are trying to have accepted. Consequently:

1. If we are not provided with information we request, our position is that the expenditure is unjustified.
2. If we cannot see evidence of consumer preference (e.g. repex), our position is that the expenditure is unjustified.
3. If we cannot see clear evidence of ring-fencing integrity, our position is that the expenditure is unjustified.

Setting incentives to drive consumer outcomes



Should be transparently linked to better than planned performance by the business on the projects (capex or opex) specified,

rather than better than planned performance by the regulatory team

Consumers should only be paying incentives when they have been earned by the business for out-performance.

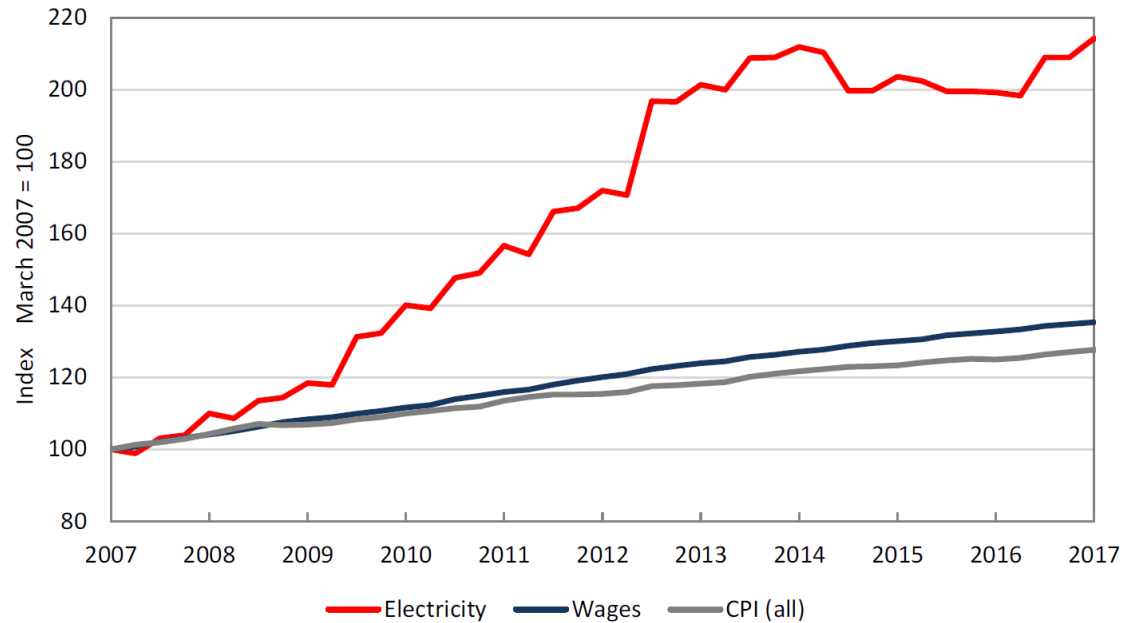
What matters is *the Decision as a Whole*



- Inflation Guideline (final position).
- Rate of Return guideline (draft decision).
- Regulatory Tax Approach (consultation open).
- Productivity Review – particularly important during a transformation phase (draft decision).

Electricity prices have raced ahead of CPI and wages

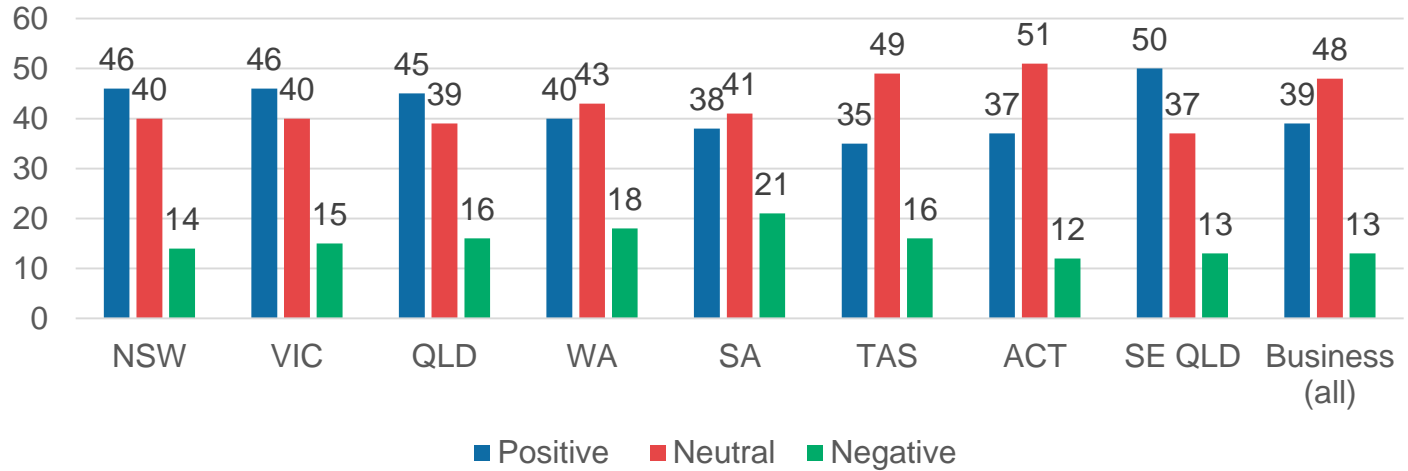
Figure 1.3: CPI for electricity compared with other sectors and wage growth



Source: ABS, Consumer Price Index 6401.0 and ABS, Wages Price index 6345.0, Australia.

What consumers are telling us

Satisfaction with electricity value for money



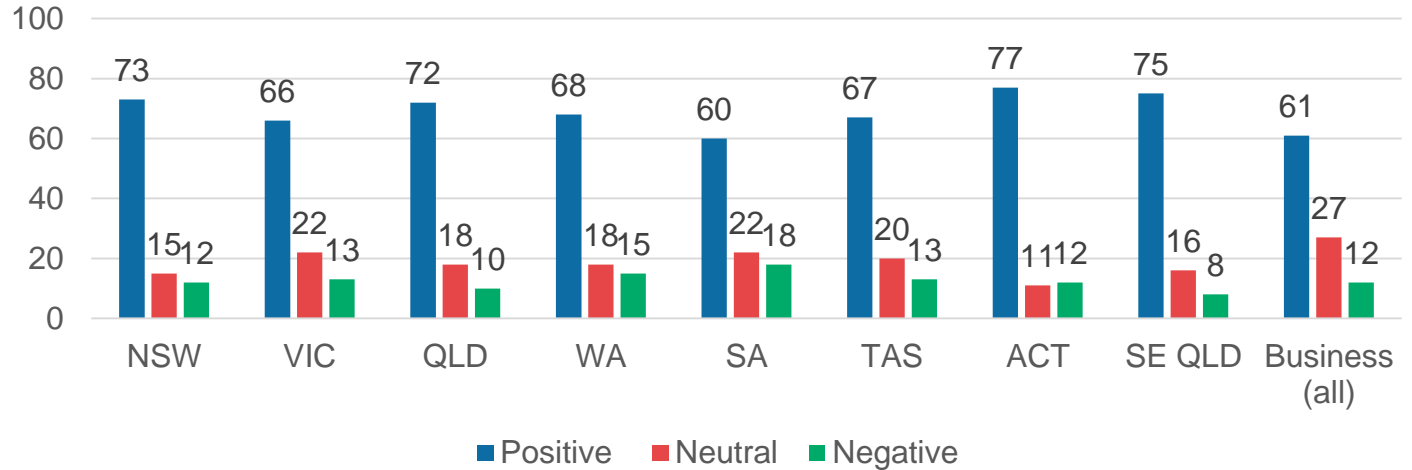
Energy
Consumer
Sentiment
Survey
June 2018

What consumers are telling us



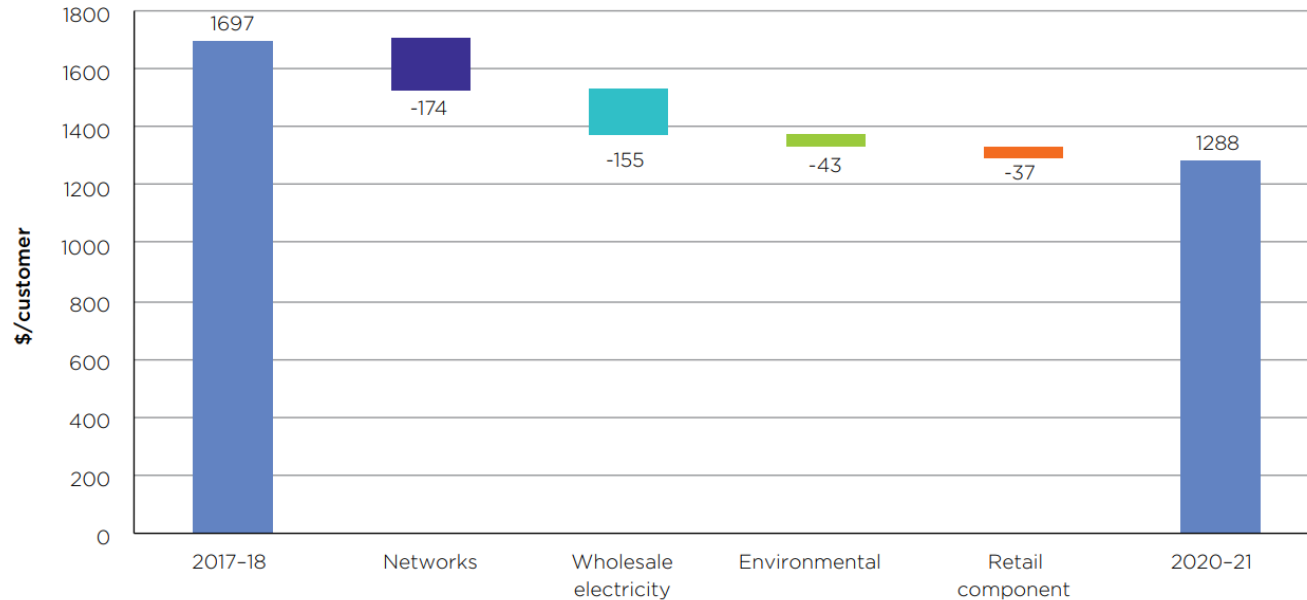
Energy
Consumer
Sentiment
Survey
June 2018

Satisfaction with electricity reliability



Network costs need to come down to bring bills down

Figure G: Achievable average residential bill savings in NSW by 2020-21

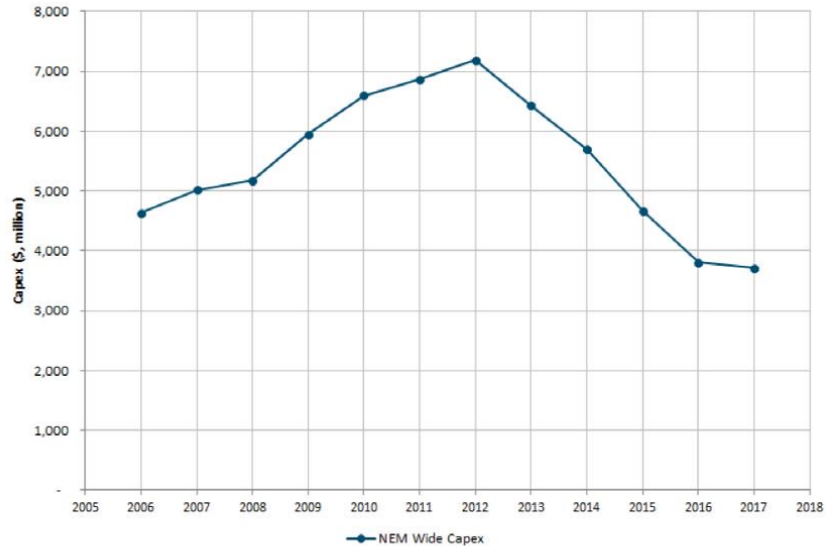


Source: www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage

Networks: its under control



Figure 3.3: Combined distribution NSPs Capex in NEM



Source: AER

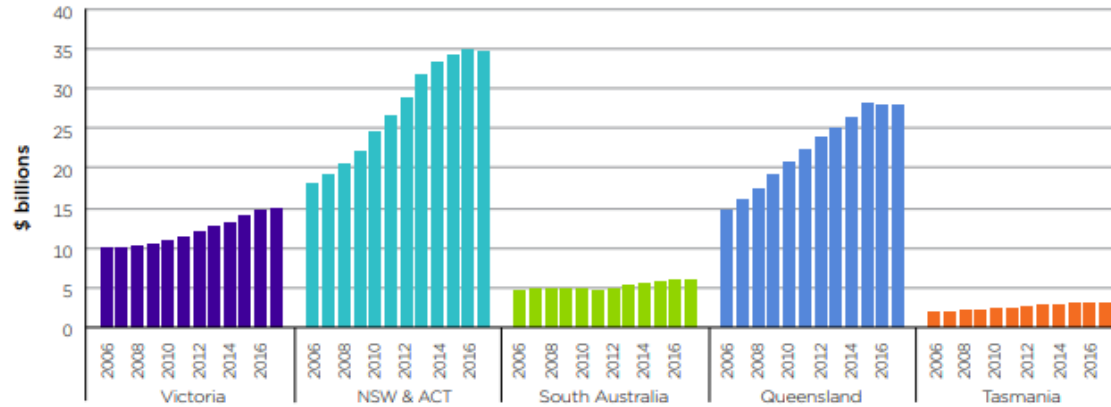
Note: values in 2017 real dollar terms.

Source: <https://www.energynetworks.com.au/news/energy-insider/rate-return-can-we-avoid-extreme-regulation>

The RAB legacy

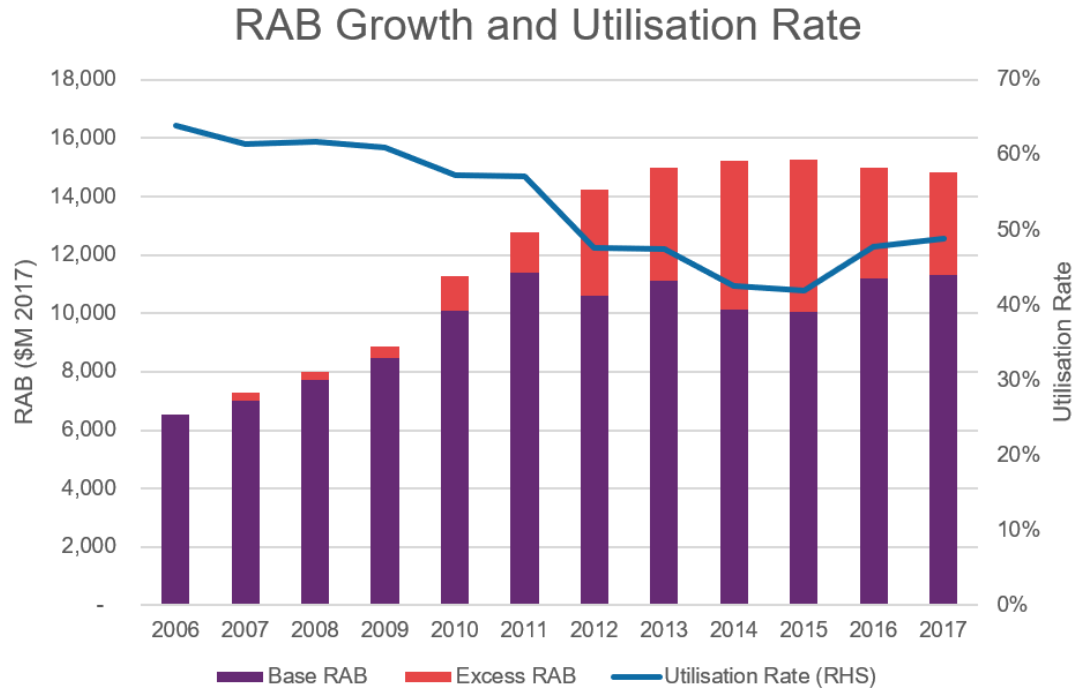


Figure D: Regulatory asset base from 2006 to 2017, by NEM region, real \$2016-17



Source: www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage

A network case study



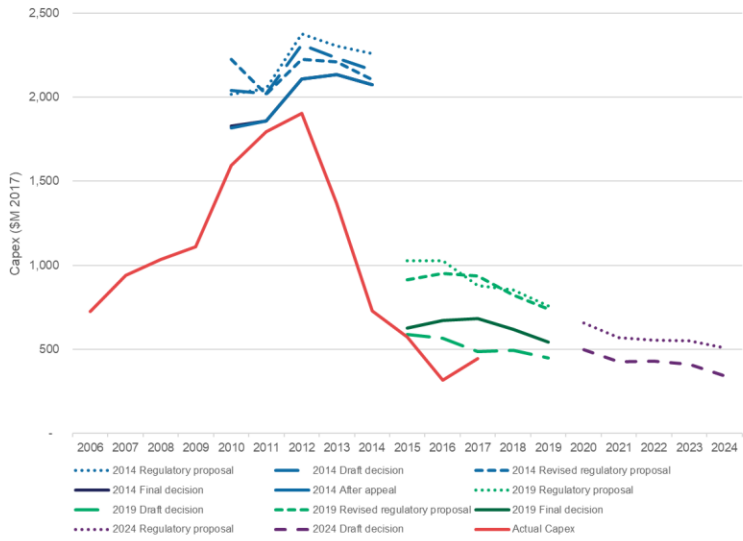
Source: ECA analysis based on AER RIN data

Ausgrid proposal



- Welcomed decreases in average annual network prices for households and small businesses.
- However, significant concerns and outstanding issues, including:
 - RAB \uparrow capacity utilisation \downarrow
 - CAPEX ... lack of evidence that business managing risk to deliver efficient costs
 - Growth CAPEX e.g. more info needed on Macquarie Park, Rozelle, Alexandria, White Bay and Pyrmont
 - REPEX e.g. project justifications for underground cable replacement program weak (qualitative rather than contemporary risk assessment).
- The way forward...demonstrate link from business strategy to proposal

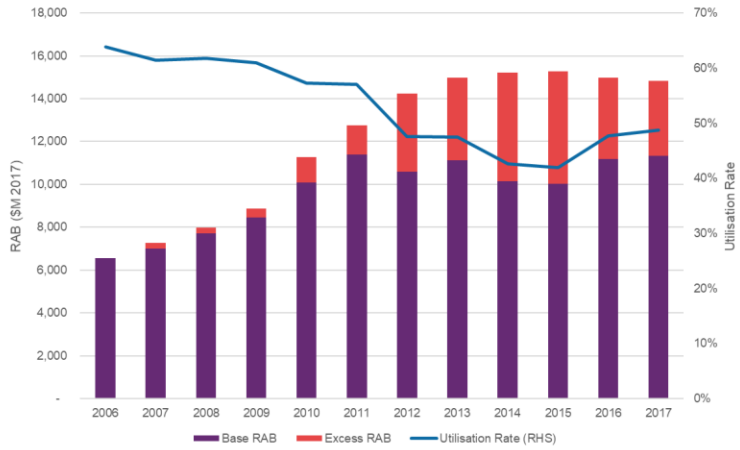
Ausgrid Proposed and Actual Capex



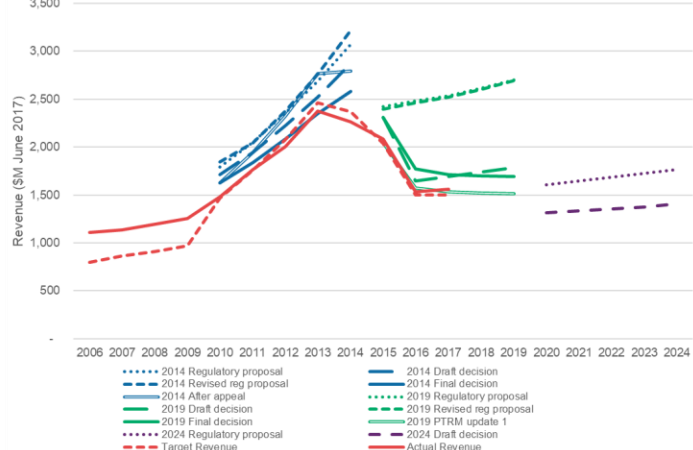
Ausgrid Proposed and Actual Opex



Ausgrid RAB Growth and Utilisation Rate



Ausgrid Revenue Allowed and Actual



Essential Energy proposal



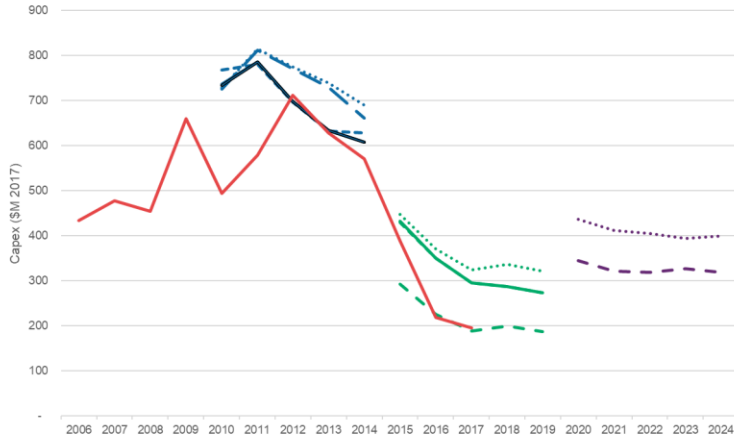
- Proposal capable of acceptance – good engagement through process, and willingness to adjust proposal in response to feedback.
 - Revised RoR Guideline should apply.
 - Despite move to probabilistic planning, conservative failure rates and times to repair still being applied.
 - RABxWACC is overwhelming good work to reduce future costs – a transparent and considered response needed.

Endeavour Energy proposal

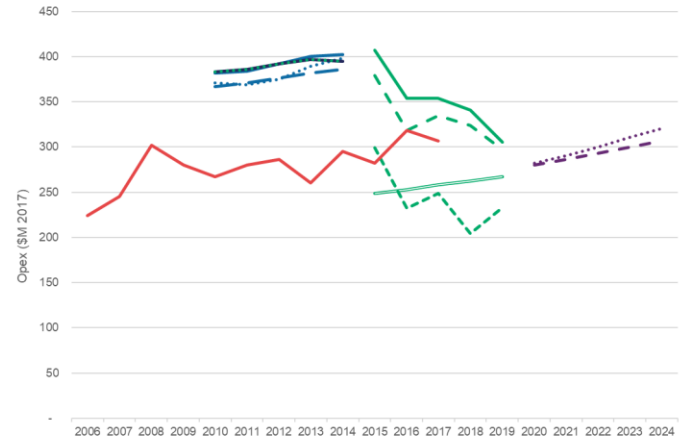


- Positive, open engagement however original proposal not capable of acceptance because CAPEX too high (\$2.16 billion)
 - E.g. only one of the 13 largest growth CAPEX project committed
- Amended proposal, which reduced CAPEX by 21%, better aligned with LTIC and closer to being capable of acceptance.
 - OPEX productivity improvements needed to reduce costs.

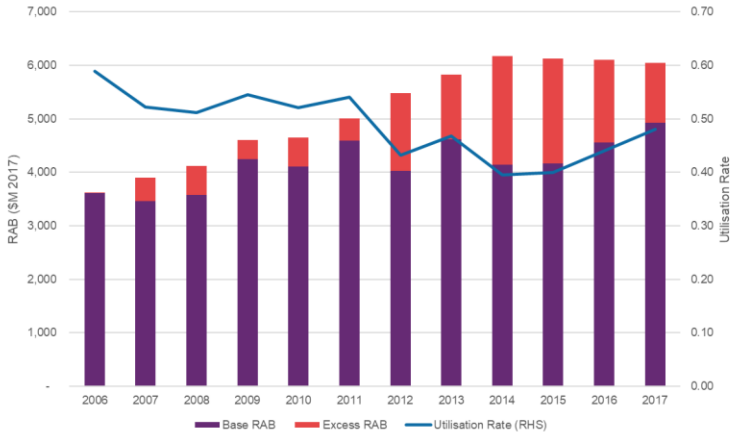
Endeavour Proposed and Actual Capex



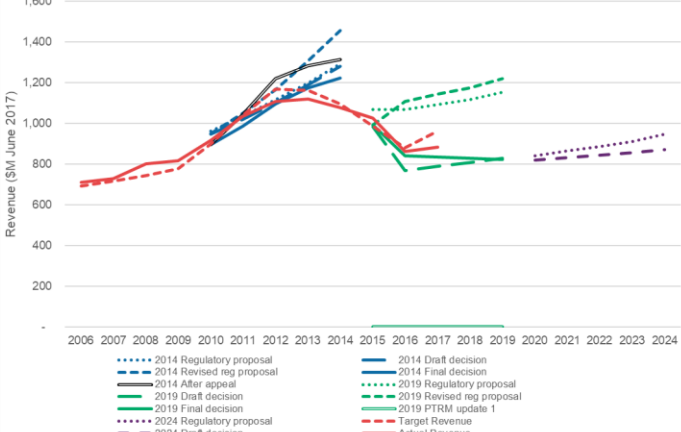
Endeavour Proposed and Actual Opex



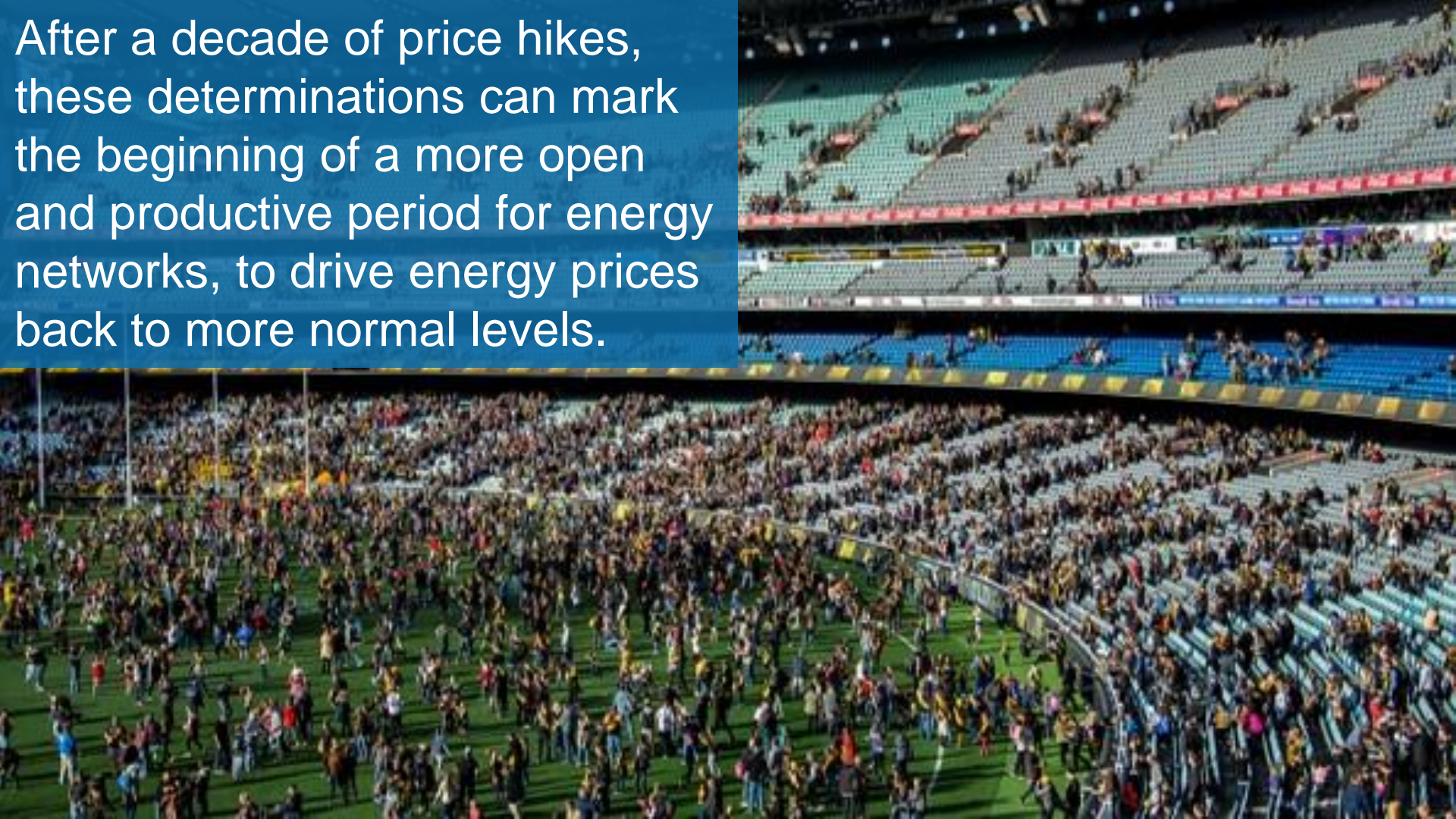
Endeavour RAB Growth and Utilisation Rate

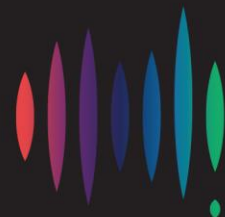


Endeavour Revenue Allowed and Actual



After a decade of price hikes, these determinations can mark the beginning of a more open and productive period for energy networks, to drive energy prices back to more normal levels.





**ENERGY
CONSUMERS
AUSTRALIA**