

Ms Paula Conboy
Chair
Australian Energy Regulator

Level 4, 341 George Street
Sydney NSW 2000

paula.conboy@aer.gov.au

PO Box A2258, Sydney South, NSW 1235
ACN: 603 931 326

Dear Ms Conboy

I am writing to provide a high-level view from the new consumer advocacy body, Energy Consumers Australia Ltd, established by the COAG Energy Ministers to provide a stronger voice for consumers in the energy markets and energy regulatory space.

ECA, as you may be aware, is only just being established and as of the writing of this letter to you, has only just been registered as a company limited by guarantee. Nevertheless, at its first meeting on February 13, 2015, the Board of ECA noted the current Draft Determination of the AER with respect to the network businesses in NSW and ACT, and also noted the important *in principle* issues attached to this decision.

ECA wishes to put on the record its support for the AER decision to reduce significantly the proposed charges of these businesses over the next five years. In light of the points below, we believe that the AER's proposed decision is justified.

We note that the AER's Draft Determination proposes an approximate 30% reduction to the amounts contained in the submissions of the natural monopoly businesses. We would also note that over the past five year regulatory period, these businesses have reaped significant - and one might argue windfall - profits from consumers, including small business and residential consumers, as a result of the increased prices that they were enabled to charge. We also note the striking differences in the NEM between: the capex per customer; the capex per customer by customer density; the RAB per customer by consumer density; and the value of regulated assets per customer connection. It is clear that the costs of some of these businesses - interestingly, the businesses owned by governments - are significantly higher comparatively.

Even allowing for different network characteristics, this significant variation naturally raises issues of business efficiency. At a policy level, it also raises issues about the incentives inherent in capex projections, particularly in relation to projected peak demand, that determine revenue allowances in the regulated energy market. The allowances to these businesses have been a major contributor to the significant increases in electricity prices paid by households and small businesses.

To put the matter simply, the new regulatory framework was designed to allow the benchmarking of businesses in order to improve efficiency across the NEM. It is time for the NSW and ACT network businesses to accept that reality and operate within the resulting constraints.

The Board took cognisance of the public view of the NSW Minister for Energy and his media release of November 27 2014 which “welcomed” the Draft Determination since it “may reduce household electricity bills...” However, we also observed the reports of the subsequent submission of the NSW Government. In that submission, issues of reliability and safety are apparently raised. It is important to note that the AER sets an overall allowance for the businesses - it does not apportion these between business costs. We considered that the revenue allowed by the AER in its Draft Determination is adequate for the companies and avoids overpayment by consumers.

In conclusion, the businesses’ proposals to simply continue with business as usual - after what is colloquially called ‘gold plating’ the network - appears not to be well justified and would place significant and unacceptable burdens on users.

Quite apart from the indefensible costs to residential consumers, unnecessarily high electricity prices contribute to uncompetitive outcomes for both large and small businesses, affecting both jurisdictional and international competitiveness of Australian-based industries.

Yours sincerely,

Louise Sylvan

Chair

18 February 2015