ENERGY CONSUMERS AUSTRALIA

A Suite 2, Level 14, 1 Castlereagh Street
Sydney NSW 2000
T 02 9220 5500
W energyconsumersaustralia.com.au
@energyvoiceau
in /energyconsumersaustralia
f /energyconsumersaustralia

ABN 96 603 931 326

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[redacted]
Senior Analyst, Distribution Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

VIC EDPR 21-26 - public forum questions

[redacted]

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

Energy Consumers Australia welcomes the questions posed by the Consumer Challenge Panel (CCP) in response to our slide presentation for the determination for the Victorian distribution businesses for 2012-2026. We thank the Australian Energy Regulator (AER) for this opportunity to provide a public response.

Forecast labour costs - Could ECA clarify why they support an averaging of the Deloitte and BIS Oxford forecasts?

Our view is that it is appropriate for the determination to compensate the distribution businesses for reasonable, well justified increases in labour costs over the next regulatory period. We agree with the CCP that it is important that the compensation be of a reasonable amount. That is, neither too low or too high.

In reaching a position as to a reasonable compensation, we were informed by Spencer & Co's review of materials provided by the businesses. Spencer & Co took the approach to using an average of the forecasts provided by two reputable forecasters as this reduces the need to rely on the presumed accuracy of a single forecast, and is therefore more likely to result in a robust picture of future costs. In addition, we consider that this approach is more likely to produce a consistency of outcomes over time within each jurisdiction and also nationally.

The networks presented evidence that of the two forecasters considered by AER in the past, DEA was a more accurate forecaster of costs at a national level in the case of SAPN, but BIS have been more accurate in Victoria. This suggests that the two forecasters vary in their approach and success between the state and national level forecasts. Given that neither forecaster is shown as being more accurate overall, and particularly at a time when economic conditions are very uncertain due to COVID-19, ECA agrees that it is prudent to use two forecasters rather than pick one against the other in different jurisdictions.

We consider that the relevant labour market extends beyond the borders of Victoria. The key technical skills often required by distributors can in many cases be sourced from other jurisdictions. Further, it is our understanding that the businesses, as a matter of course, recruit key technical staff from other jurisdictions as their needs dictate.

We want to stress that this is not a criticism of the CCP and its choice of the source of data. ECA welcomes the attention of the CCP to this area of costs and the potential impacts on consumers given the extraordinary financial pressure many households and small are under. It is important and appropriate to pursue the lowest possible cost of supply by distributors. Of course, consumers also value a reliable and dependable supply. Moreover, it is ECA's view that the businesses which will be subject to this determination should review further their expectation of labour costs and wage pressures. The economic impacts of COVID-19 may be expected to reduce wage pressures in Victoria and in Australia generally. A slowdown in economic activity is likely to result in a softening of the labour market, at least during the early part of the next regulatory period if not beyond.

ECA would welcome further engagement with all stakeholders on the matter of labour costs. We believe it would be helpful for stakeholders to consider the following additional matters:

- Three of the distribution businesses have proposed a higher proportion of costs allocated to labour which means that whichever labour escalator is chosen the impact of changes in labour costs will be greater for consumers serviced by those businesses
- We are unclear whether all the businesses will pass on the change in the superannuation guarantee through higher wages. If consumers are to agree to add the super guarantee change on top of a wage escalator it would be reasonable for the businesses to provide evidence of wages agreements that every increment will be added to total wages in the next period; and
- There is a lack of visibility of in how the businesses allocate costs between labour and materials, particularly when engaging external contractors. We expect that there is a significant variation in the proportion of contracted labour used by each of the businesses. More information would help consumers to understand that businesses are not choosing to allocate costs in favour of components likely to be subject to higher escalations.

Could ECA share their analysis to help understand the different analytical approaches taken by ECA and CCP17?

Comparing DER-related costs between the businesses is challenging. Each of the businesses has several programs that could be included in calculations of total spending on DER. To illustrate, in the case of Jemena, the *Future Grid* project has a cost of $31.75 per customer. However, including Jemena's *Enabling DER* program increases that amount to $98.64 per customer.

For AusNet, the information provided in our presentation slides included a cost of roughly $59 per customer based on its *Future Grid* project. That increases to more than $85 per customer with the inclusion of other DER-related costs and additional LV network capacity.

For Citipower, Powercor and United Energy, including the cost of related IT projects for solar enablement results in figures for costs that are close to those provided by the CCP.

Advice from Spencer & Co is that discretion can be applied to inclusion / exclusion of certain projects like augmentation of LV capacity and power quality, as well as the Digital network Program at Citipower, Powercor and United Energy.

The attached table from Spencer & Co provides updated information for these costs, including all the possible programs that could be included in these calculations.

If there are any further question on this matter, please contact Jim Wellsmore, Associate Director Research, on [redacted] or [redacted]

Yours sincerely,

[redacted]

Lynne Gallagher
Chief Executive Officer (Interim)
Energy Consumers Australia

Programs relating to DER, LV network overloading, PQ

Company	Jemena	AusNet	Citipower	Powercor	United Energy
DER capex	34,800,000	42,850,000	44,600,000	74,300,000	61,800,000
DER capex / customer	98.64	58.14	130.15	88.90	90.22
Future Grid	11,200,000	42,850,000			
Enabling DER - JEN	23,600,000				
Distribution sub augmentation (PQ) - JEN	3,600,000				
DER - Other IT - AUS		8,980,000			
LV Network capacity (due to overloads)		11,400,000			
Customer supply PQ		6,000,000			
Enabling solar			32,500,000	60,700,000	42,400,000
Solar enablement - IT			1,100,000	2,600,000	
Digital network program			11,000,000	11,000,000	19,400,000
Customer enablement			3,500,000	8,100,000	13,300,000
Voltage compliance program					
DER hosting capacity					
Customer numbers	**352,800**	**737,000**	**342,669**	**835,781**	**685,025**