EUAA – AER FORUM NSW DISTRIBUTORS 2019-24 REVENUE DETERMINATION

EUAA
Energy Users Association of Australia

Mark Grenning

13th November 2018

COMMENTS FOCUS ON AUSGRID

1. Overall support for the AER's draft decision
2. Price path is dominated by impact of lower WACC?
3. Support opex – with comments on "not materially inefficient" and productivity
4. Support capex – while awaiting further details on ECA's review; ICT and CESS comments
5. Green shoots on improved consumer engagement

PRICE PATH IS DOMINATED BY LOWER WACC, NOT WHAT AUSGRID HAS DONE?

EUAA
Energy Users Association of Australia

- Changes in WACC appear to have been the main contributor to the fall in prices from current period to AER Draft decision:
  - From current period to Ausgrid's proposal, and
  - From Ausgrid's proposal to AER Draft Decision
- Without WACC changes – that Ausgrid's shareholders oppose - the price decreases would have been price increases?

	Nominal change in average annual electricity bill in 2023-24 vs 2018-19		
Customer class	Ausgrid proposal (WACC 6.74%)	AER Draft (WACC 5.96%)	
		Total	Contribution of lower WACC to total
Average residential	+$47/+2.8%	-$44/-2.6%	??/??
Average small business	+$110/+2.8%	-$104/-2.6%	??/??
Average large business	??/??	??/??	??/??

- What happens when the interest rate cycle turns?
- Support Ausgrid in its revised TSS with work towards demand tariffs – await further detail on business tariffs

SUPPORT THE AER DRAFT ON OPEX

EUAA
Energy Users Association of Australia

- Recognise the large improvement that Ausgrid has achieved in the current period - significant change for the organisation and its staff
- Opex costs that were rejected 5 years ago as unachievable are now achievable
- While opex is now converging to the opex target set by the AER in 2015, this reflects what was regarded in 2015 as efficient, not what would be regarded as efficient today
  - Recognise the impact of the remittal decision
  - The difference is the level of productivity that Ausgrid should have achieved over the current period
  - “catching up” to what might be regarded as an “efficient level” of opex is not productivity that we and the AER are talking about
- We agree with the AER’s substitute alternative estimate opex 4% lower than proposed before applying the productivity improvement
  - Support their decisions on step changes (demand management and tariff research are part of the normal course of business) and labour cost assumption
  - Look forward to proposed Innovation Working Group to discuss DM projects

WE DO NOT AGREE WITH AUSGRID BEING BEST PRACTICE

EUAA
Energy Users Association of Australia

- The AER opex attachment (p. 6-33) notes is a way suggesting approval:

“Ausgrid's proposal includes additional benchmarking analysis which it says supports the efficiency of its proposed base year:

> “The analysis and comparisons … show that the AER and our customers can have confidence that our transformation program has achieved levels of opex that are consistent with best practice in our industry, promoting our objective of keeping network bills affordable without compromising network safety or reliability.”

Our members would disagree; we suggest performance is still some distance from best practice:

- Best practice is not 20-25% below the frontier networks – Citipower and Powercor which have many similarities to Ausgrid
- Best practice has productivity improvement - Ausgrid has proposed none
  - Unlike Essential, Tasnetworks and Energex

COMMENTS ON OPEX PRODUCTIVITY

EUAA
Energy Users Association of Australia

- We have been encouraging the AER to review opex productivity so we welcome the draft decision released last week
- Opex productivity has two aspects:
    1. The decision rule to assess base year efficiency of 0.75 as being How does the efficiency in the base year compare with the 0.75 “not materially inefficient” adopted by the AER following its benchmarking analysis?
    2. How the level of productivity change over time ie how much the frontier moves out
- It is about how much of efficiency gains should go to consumers and how much should be shared under the EBSS between the network and consumers
- The opex productivity review is about 2, not 1
    - Support CCP10 comments around 1% AER recommendation eg when labour is 0.9% and that is ~60% of inputs – suggests base of at least 1.6% before the wonders of ICT which Essential has as a foundation for its opex productivity commitment
- The EUAA encouraging the AER to review the 0.75 level following completion of the frontier review

WE SUPPORT THE AER ALTERNATIVE CAPEX FORECASTS AND AWAIT FURTHER ECA ANALYSIS

- We do not accept the Ausgrid argument that "we cut capex before we submitted our proposal so we cannot cut further"
  - If so then Ausgrid should have presented a much more compelling justification
- We are not surprised that the AER concluded Ausgrid failed to justify the expenditure proposed as this was the case in some of the deep dives we participated in (counterfactual?)
- Look forward to further AER/Ausgrid discussions on capex justification
- We agree with the AER comment on non-network capex (Draft Decision p.25):

  > *"A key concern we share with stakeholders is the lack of clear explanation from Ausgrid as to how the ex-ante benefits of the program have been incorporated into the overall expenditure proposal. Our review has found no evidence that this has been undertaken in developing its forecast."*

- We await the outcome of the ECA review of capex to assist in deciding if further cuts are justified

A COUPLE OF CAPEX ISSUES

EUAA
Energy Users Association of Australia

ICT

- Networks love spending on ICT but the consumer benefits seem to be "trust us to deliver a better service" without consumers understanding the specific benefits of this "better service"
  - A number of so-called innovation programmes were poorly justified or seeking funds for trials (eg battery) that have been undertaken many times elsewhere
- Support the CCP call for a major AER network wide review of ICT capex
  - Not benchmarking (all spending too much?) but a more fundamental review – counterfactual?

CESS – a case for review of the rules?

- Ausgrid has a $89m CESS benefit due to underspend in the current period
- Ausgrid noted in CE that one reason for underspend in the current period was that management's attention was on the privatisation process
- Yet the rules governing adjustments to CESS payments require all three reasons to be met for the AER to make any adjustment – they did not so no adjustment was made
- Encourage the AER to reconsider the rules under which adjustments to CESS payments can be made for reasons not related to improved benefits to consumers

GREEN SHOOTS FOR IMPROVED CONSUMER ENGAGEMENT

EUAA
Energy Users Association of Australia

- In our submission on the proposal we said:

  "Consumer engagement was reasonable but not good"
- We commented on the lost opportunities in 2017, the extension tsunami of information, and, of course, the 239 page submission on WACC…
- We also talked about evidence of a brighter future as Ausgrid realised it had to radically change the way it was engaging
- Encouraging to see more evidence of that change – the recent presentation of the engagement principles is welcome evidence of this change eg
  - Be collaborative – don't be defensive
  - Be quantitative, provide data from the perspective of the customer
  - Be prepared to change based on feedback
- Now half glass full! Will it be sustainable in BAU CE?