



Ethnic Communities' Council of NSW Inc.

221 Cope Street Waterloo NSW 2017

Tel: (02)9319 0288 Fax: (02)9319 4229 Email: energy@eccnsw.org.au

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Submission concerning the NSW Distribution Networks Revised Revenue Proposal 2014-19 Submission to AER January 2015

The Ethnic Communities Council of NSW (ECC NSW) welcomes the opportunity to provide input into the **Revised Regulatory Proposals 2014-19 by Ausgrid, Endeavour and Essential Energy to the AER Draft Decision on their revenue proposals** published in December 2014.^{1 2 3 4}

Since its formation 40 years ago the ECC NSW has been the peak body for culturally and linguistically diverse (CALD) community members and representative organisations in NSW. The Ethnic Communities' Council of NSW main activities are advocacy, education and community development. It is a member of the Federation of Ethnic Communities Councils of Australia (FECCA) and the Energy Advocacy role represents FECCA in the NEM.

The ECC NSW thanks the Australian Energy Regulator (AER) for the opportunity to contribute to the discussion on its draft revenue proposal for Ausgrid, Endeavour and Essential and their subsequent response to this draft determination. The ECC NSW supports the AER in its determination to lower electricity prices to consumers and ensure electricity distribution businesses operate in an efficient manner. We would like to provide comments focusing on the potential impacts for CALD energy consumers on some aspects of the response by networks to the draft revenue proposal, including observations and recommendations relating to:

- **Regulated Rate of Return**
- **Consumer Engagement and Consultation**
- **Demand Management initiatives and incentive schemes**

Rate of Return

The regulated rate of return (ROR) calculated by the use of a weighted average cost of capital (WACC) proposed by NSW networks in their initial proposals of 8.83%^{5 6 7} were judged too high by the AER in its Draft decision and reduced to 7.15%.⁸ The three networks, in their

¹ Ausgrid Revised Regulatory Proposal and Preliminary Submission 2014-2019

² Endeavour Revised Regulatory Proposal 2014-2019

³ Essential Revised Regulatory Proposal 2014-2019

⁴ AER Draft Decisions (distribution) for Ausgrid, Endeavour and Essential 2015 - 19 overview

⁵ Ausgrid Revenue Proposal 2015 - 2019 page 68

⁶ Endeavour Revenue Proposal 2015 - 2019 page 101

⁷ Essential Revenue Proposal 2015 - 2019 page 88

⁸ AER Draft Decision overviews op cit page 2

responses to the draft decision, suggested a minor revision upward of their respective RORs to 8.85%^{9 10 11}

The last regulatory period (2009-2014) saw a massive increase in the networks capital program, and hence a concomitant increase in the Regulated Asset Base (RAB) brought forward to the new regulatory period. A high ROR, coupled with a high RAB, indexed annually for CPI increases, serves to put considerable upwards pressure on distribution prices, and consequentially the retail prices paid by consumers. Given predictions of continued reduction in both peak and average demand, there are convincing arguments that large asset write-downs in transmission and distribution businesses would be to the financial advantage of both businesses and consumers.¹² In the case of businesses, to provide realistic market evaluation to potential purchasers of any partial network sales/leases. For consumers, a large reduction in the return on capital costs of networks has the potential to lower the retail cost of electricity markedly.

While we support AER's proposal to set a (considerably) lower ROR than the previous regulatory period, we consider the AER's suggested ROR of 7.15 % to still be too high, given current financial conditions and the relatively risk free nature of the investment process involving Government-owned distribution businesses such as Ausgrid, Endeavour and Essential.

Discussion and agreement about the risk parameters of distribution and network businesses seems to hinge on definitions of how 'risky' such investment remains. Quite large gaps appear between rates when businesses are evaluated on a AAA-, BBB+ or BBB basis.^{13 14} AER guidelines suggest that the ROR should be established on the basis of a BBB+ risk profile.¹⁵ It does not appear from the networks' initial or revised proposals that this has been the process used.¹⁶

The ECC NSW supports the Consumer Challenge panel's recommendation that the ROR should be considerably lower.¹⁷

Recommendations:

- 1. The allowed ROR should be based on the efficient operation of an AAA- business and should reflect more accurately the risk parameters of a State owned business in a essential service, monopoly setting. We consider that the ROR should be considerably lower than either that proposed by the networks in their revised proposals or the draft determination by the AER.*
- 2. The RAB for each network should be re-evaluated to take into account the possibility of stranded assets and inflated valuations of the capital base of networks, given falling average demand and projections of continued weakening of peak demand. An analysis should be made*

⁹ Ausgrid Revised Regulatory Proposal and Preliminary Submission 2014-2019 op cit page

¹⁰ Endeavour Revised Regulatory Proposal 2014-2019 op cit page

¹¹ Essential Revised Regulatory Proposal 2014-2019 op cit page

¹² Bruce Mountain 'Why the power networks are wrong about writedowns' Business Spectator August 2014 and 'Time to write down the value of NSW Networks' Business Spectator October 2014

¹³ PricewaterhouseCoopers, *Estimatng a debt risk premium*, Report to Essential Services Commission of Victoria March 2013 page 3

¹⁴ Dr T Hird, Competition Economists Group, Memorandum to ActewAGL Distribution May 2014

¹⁵ AER Rate of Return Guidelines December 2013

¹⁶ Ausgrid, Endeavour and Essential Revised Regulatory Proposals op cit

¹⁷ AER Consumer Challenge Panel, *CCP Submission on NSW DNSP Regulatory Proposals*, August 2014, pages 18-20

of the differences between the regulatory value and the economic value of network assets and suitable adjustments made in the interests of consumers..

Consumer Engagement and Consultation

Ausgrid, Endeavour and Essential have undertaken engagement with stakeholders, to varying degrees, as part of their consumer engagement strategy during 2014.

AER noted that the guidelines were only presented in November 2013¹⁸ and that the consumer engagement processes reflected the practices that network service providers already had in place.¹⁹

The Ethnic Communities' Council NSW was active in supporting the requirement by the AER that the energy networks engage with their consumers when preparing their proposals. ECC NSW participated in the development of the consumer engagement guidelines that were prepared to assist the networks in this activity.

One of the major criticisms of the process of consumer consultation and engagement by network businesses is that it has been, and continues to be, largely a process of one-way information transfer. There is little indication or transparency of how, if at all, such consultation and communication has been used to shape the networks' initial proposals and their subsequent revised proposals.

The ECC places great value on any **authentic** opportunity to provide feedback on CALD communities' needs and views. We would strongly support the continuation of **genuine** consultation with consumers groups and advocates. In regard to CALD communities in particular, we reiterate our comments on CALD consumer engagement put forward in our response to the initial networks proposals,²⁰ which included:

- *Research by ECC NSW indicates that some consumers from culturally and linguistically diverse backgrounds have limited internet access or capacity to understand English when asked to read complex questions.*
- *Although older members of the general community are increasingly able to use the internet they do not involve themselves in interactive activities, according to the Australian Communications and Media Authority research 2010. This is compounded among CALD older consumers in that many revert to their first language which makes their access to and interaction with internet, written in English, even lower.*
- *Internet use is also lower in low-income households. In 2011, 67% of low-income (earning less than \$30,000 per year) used the internet. Similarly Australians with lower levels of basic education and those living outside capital cities were less likely to use the internet.*
- *Newly arrived and refugee consumers have difficulty engaging with internet due to all of the above reasons: language difficulties, low income and often a low level of basic education. When this group of energy consumers can access the internet at libraries etc*

¹⁸ AER Draft decision Ausgrid distribution 2015-16 to 2018-9 Overview, page 69

¹⁹ *ibid* page 69

²⁰ ECC NSW submission to AER Issues paper NSW electricity distribution regulatory proposals 2014-15 to 2018-19, August 2014, pages 1-2

they encourage their children to use the facility so that their children can keep up with their peers. If the adults gain access to internet, they will use it to contact family or find out news of their country of origin. These groups are unlikely to visit an energy website to complete an interactive survey promoted by energy networks.

- *The networks in their planning proposals outline their future consumer engagement plans. The proposals all rely on social media and the internet to 'have your say'. The proposals include some minimal face-to-face activities.*
- *There are 1.7 million people living in NSW who speak a language other than English at home. This would indicate that there are a large number of CALD energy consumers who are unable to access or interact with any social media or internet based engagement methodology.*

We agree with the AER's view that '[w]hile acknowledging efforts from Ausgrid to improve its engagement with its consumers, we consider that Ausgrid has significant work to do to give consumers more say in the services it provides.' and that '[u]ltimately, [the AER] expect[s] service providers to undertake systematic, consistent and strategic engagement with consumers on issues significant to both parties.

The AER's assessment of how successful, for example, Ausgrid, had been in meeting the objectives of:

- equipping consumers to participate in consultation
- making issues tangible to consumers
- obtaining a cross section of views
- considering and responding to consumer views²¹

was not encouraging, and questions 'whether Ausgrid's regulatory proposal aligns with, and has taken into account, consumer expectations and preferences'.²²

The ECC NSW has more recently had valuable consultation with Networks NSW,²³ among others, about its draft guidelines on 'Engaging CALD Energy Consumers'.²⁴ Such guidelines have the potential to inform the provision of authentic and productive consumer engagement with CALD communities, and as such, deserve to be fully explored by NSW networks in their consumer engagement strategies.

Recommendations:

3. *The three NSW network businesses, Ausgrid, Endeavour and Essential work with the ECC NSW in the finalisation of the guidelines for 'Engaging CALD Energy Consumers - what works' and incorporate these guidelines into their consumer engagement and consultation strategies.*

²¹ AER, Consumer engagement guideline for network service providers, November 2013

²² AER, Draft decision Ausgrid, op cit page 70

²³ Meeting, *Engaging CALD communities*, with Networks NSW 30 October 2014

²⁴ ECC NSW, guidelines for *Engaging CALD energy consumers - what works*, draft 2015

Demand Management initiatives and incentives schemes

The ECC NSW agrees with a number of the comments of the Consumer Challenge Panel (CCP) in its response to the networks initial regulatory proposals concerning demand management (DM), notably:

'Peak and overall demand....could and should continue to fall if better managed - the network businesses should not be passive recipients of such changes but actively looking for scope to manage demand better and to collaborate with others such as retailers and customers to achieve this....[and] [t]hese changes should be achieved wherever possible through re-allocating expenditure - they should not be viewed in general as providing a case for more revenue'²⁵

In addition, '[t]here may also be a case for the regulator to look at using rewards/penalties to encourage new approaches to demand management.'²⁶

We believe that innovative demand management initiatives have the potential to significantly lower peak demand and hence prices for consumers. Demand management initiatives need to be seriously considered in relation to capex alternatives, as well as in relation to augex or repex. This would necessitate demand management initiatives to be spelled out in revenue proposals in a great deal more detail than to date and form part of the revenue proposal from its outset.

In its draft determination, the AER rejected Ausgrid's broad-based DM program in part on the basis that they did not wish to pre-empt consultation on the rule change process arising from the AEMC's Power of Choice review, set down for early 2015, after a 15 month wait.²⁷ We believe that DM is important enough for interim proposals be initiated in preparation for a decision on the proposed AEMC rule change.

In addition, it has been argued that proposed network tariff reform²⁸ would deliver significant effects on how consumers use electricity at peak times and that such price signals would change consumer behaviour. There is a growing body of evidence that cost-reflective pricing may have little effect on changing consumer behaviour, especially in households with children.²⁹

In addition, in order to respond to price signals, consumers would need to have smart meters (or at the very least, interval metering). NSW domestic consumers largely do not currently have access to these metering systems, and so responding to cost reflective price signals is not available to them.

The ECC NSW recognises that a review of demand management is about to be undertaken as part of a rule change by the AEMC under the Power of Choice review. The ECC NSW supports submissions by the Public Interest Advocacy Centre (PIAC)³⁰ on the value of Ausgrid's Demand Management Benefit Sharing Scheme (DMBSS) as an interim measure prior to the introduction of a revised Demand Management Incentive Scheme (DMIS). The ECC NSW also

²⁵ CCP op cit page 33

²⁶ loc cit

²⁷ AER, Draft decision Ausgrid, Attachment 12, page 9

²⁸ AEMC Draft Rule Determination, National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014

²⁹ Nicholls, L and Strengers, Y, *Changing Demand: Flexibility of energy practices in households with children*, Final Report 2015, Centre for Urban Research, RMIT 2015

³⁰ PIAC Submission to AER NSW electricity distribution regulatory proposals 2014 to 2019, August 2014 page 104

supports PIAC's contention that the AER should ensure that a new DMIS be instituted so that DM becomes central to distribution networks' activities in this determination period.

Recommendations:

4. *The ECC NSW recommends that the AER accepts Ausgrid's DMBSS proposal as an interim measure prior to the introduction of a revised DMIS.*
5. *The ECC NSW recommends that the development of a revised DMIS arising from the AEMC Rule Change process currently under consideration should be expedited and that it should include provisions that make DM central to DNSP's activities and included in the current regulatory period.*
6. *The ECC NSW proposes that network businesses be required to set specific targets as part of any revenue determination for DM as a facet of reducing both peak demand and hence energy bills for consumers.
We suggest that networks be required to report progress on meeting those targets on a regular basis and that specific incentives be provided to network businesses so that demand management reduction is no less profitable than new capex, augex and repex.*
7. *The ECC NSW agrees with several other submissions³¹ that it may be advisable to institute a 'rewards and penalties' approach to ensure that DM happens in a suitable timeframe.*

If you require additional information please contact Iain Maitland, Energy Advocate on 02 9319 0288 or email energy2@eccnsw.org.au .

Sincerely yours,

Mary Karras



Executive Officer
Ethnic Communities' Council of NSW Inc.

³¹ CCP op cit, PIAC op cit, TEC and others, in their submissions to this revenue proposal