

13 February 2015

Mr W. Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Dear Mr Anderson

**Submission from the Master Builders Association of the ACT
Essential Energy – Determination 2014-19**

Master Builders Australia has been operating for over 100 years, representing the interests of up to 30,000 members Australia-wide, with over 1,200 members in the ACT. The Master Builders Association of the ACT (MBA) represents the interests of commercial builders, residential builders, civil contractors, suppliers/subcontractors and professionals. The MBA is also a Registered Training Organisation and a Group Training Organisation. In preparing this submission, we have canvassed the views of our members for their input and their comments have been incorporated into this submission.

The MBA supports a competitive environment for the provision of Essential Services such as electricity, gas and water and the MBA acknowledges that the objective of any utility should be to deliver price reductions based on well-founded rationale and analysis. The MBA does not support, in principle, the Draft Electricity Determination for the 2015-2019 period as the proposal almost imposes a scorched earth policy on the utility.

The AER in its draft determination has proposed a 42% reduction, equating to \$160M, in operating expenditure over five years and a 34% reduction, equating to \$128M, over five years to capital expenditure.

The MBA and its members, as key users of services provided by ActewAGL, are extremely concerned that if such cuts are implemented, that ActewAGL will not be able to deliver the service that our members expect and require, as such cuts are likely to have a dramatic impact on staffing levels and ActewAGL's ultimate ability to deliver its key services.

The MBA and especially its developer members, are also concerned that the drastic cuts proposed to capital expenditure will mean that ActewAGL will be unable to provide the critical infrastructure required for new estate subdivisions and new works associated with Canberra's Urban Renewal Program.

There are also other issues that have impacted since the release of this Draft Determination and this is the imposition and additional strain placed on utility resources relating to the demolition of 1,020 asbestos-affected residences over the next five years. At a recent meeting with the Director-General of the ACT Economic Development Directorate, it was stated there is a keen desire to have these residences demolished in a shorter time period, to minimise the cost impacts to the Territory associated with the management of these vacated residences.

There are also other factors associated with the demolition and remediation of these properties and it is likely to include subdivision of the land following demolition and remediation of the site. This will place further strain on the utilities to provide new infrastructure to service these sites and further emphasises that any reduction in capital expenditure will have a dramatic impact on the ACT's stated policy that maximum uplift must be achieved to compensate the cost of this demolition process.

The AER has invited businesses and entities such as ours to put forward proposals on whether transitioning to an efficient level of operating expenditure is allowed. If the AER adopts its draft decision as final, the unjustified cuts in expenditure allowances, without a suitable transition to a justifiable and realistic expenditure level, would have negative impacts on service reliability and safety. The MBA asserts that the AER therefore has an obligation to establish a transition approach to properly assess expenditure levels and the benchmarking adopted by the AER. The MBA believes that the AER's benchmarking is not sufficiently reliable to draw any robust conclusions on relative levels of efficiency.

In the AER making its decision, it is the view of the MBA that the regulator must identify and fully evaluate all consequences there may be for customers and investors in the long-term. The role and effectiveness of the regulator is undermined if the decisions it makes have no regard to legislative and rule requirements to consider safety, reliability and security of supply.

Adoption of the draft decision in its current form would have dramatic outcomes for consumers of electricity services in the ACT, as it will negatively impact reliability and security of supply, as well as the safety of the public. Adoption of the draft decision would have dramatic consequences for consumers, including our members and would also have a negative impact on those considering investing in the ACT. The draft decision warrants a very detailed analysis to ensure that it is in the long-term interests of consumers and the industry that it must continue to serve to maintain a robust and viable construction and development industry in the ACT.

In concluding, the MBA and its members have had a long association with ActewAGL. Reliability of supply and the provision of critical infrastructure is paramount to ensure a profitable and viable construction and development sector, which is a key contributor to the wellbeing of the ACT economy. The MBA is certainly of the view that the Draft AER, in its current form, if implemented, will no doubt have a dramatic impact on the viability of our industry.

Yours sincerely



Jerry Howard
Deputy Executive Director