

# AUSTRALIAN ENERGY REGULATOR

## MINUTES

### **Minutes of the AER's public forum on NSW transmission and distribution revenue/regulatory proposals (1 July 2009 to 30 June 2014)**

Location: Swissotel Sydney, 68 Market Street, Sydney

Date: Wednesday, 30 July 2008 (9.00 am to 5.00 pm)

Forum Chair: Steve Edwell, Australian Energy Regulator

Attendees: the meeting commenced with 86 registered attendees and 5 AER staff. Appendix 1 lists the names of attendees.

### **Summary of forum**

A summary of the discussions that occurred at the forum is under each agenda item.

#### **1. Opening remarks by the Chair**

Steve Edwell (Chair) opened the forum.

- Intro and outline of agenda for today and procedural issues of the forum.
- The purpose of today is for businesses to explain their regulatory proposals to the public and facilitate the preparation of public submissions to the AER.
- These are the first resets for electricity distribution undertaken by the AER.
- Transitional provisions have locked in certain aspects of previous regulatory regime e.g. WACC. Incentive schemes – discretionary not mandatory.
- Steve gave a high level generalised summary of common themes in all proposals.
  - Trend towards substantial increases in capex and opex
  - Different drivers for different businesses.
  - AER's opex review focuses on methodologies.
  - Aware that public lighting is an important issue for local government.
- Chair gave a brief outline of the key aspects of each businesses' regulatory proposals as he introduced each businesses' speakers. The slides of these presentations are available on the AER website.

## **2. Presentation by TransGrid**

The Chair invited Kevin Murray (Managing Director) and Peter McIntyre (General Manager Network Development and Regulatory Affairs) to present TransGrid's proposal to the forum. TransGrid's slides can be found in the attached '.pdf' file.

### **Kevin Murray**

- Overview of submission from a business perspective
- Expressed appreciation that the Chair confirmed that WACC parameters are locked in for TransGrid's determination for the 2009–14 period.
- Notes that this is the third regulatory determinations at a federal level and that TransGrid has undertaken. TransGrid has made significant efficiency improvements since last review:

During the last determination, TransGrid received criticism about its capital governance program and insufficient joint planning with its distributor customers. This resulted in a refusal of certain programs. TransGrid recognised a disconnect between the organisation and its board, which lead to degree of uncertainty about its capital program.

During the current regulatory control period, TransGrid has restructured its capital governance program increasing board involvement. There is now a board regulatory committee that has overseen the development of TransGrid's revenue proposal. TransGrid has also formalised its joint planning program with distributors (refer to the major projects in its submission).

- TransGrid's capital program for 2004–09 will be achieved.
- Acknowledges that TransGrid's proposal has a considerable amount of capex spend.
- Opex – TransGrid is benchmarked as leading performer internationally.
- Capex – ageing assets and infrastructure; average age of assets has remained the same because 1995 asset replacement program; proposal maintains consistency with past, therefore, seeking to continue this program. Augmentation – main driver in capex, 3 major projects – maintain grid and reliability standards.

### **Peter McIntyre**

- TransGrid has an extensive network – state wide, connects to Qld and Victoria, most network infrastructure sits outside major loads.
- NSW is centre of NEM and economically important.
- TransGrid is pleased that it has met or exceeded current service standards; however, the capex program in the next period faces challenges.

- ITOMS – international benchmarking of transmission companies – last 10 years, Australian companies have moved from good performers to amongst the best performers in the world – TransGrid has been recognised for its strong performance at a low cost.
- Argues that if the proposal is accepted, TransGrid will remain the lowest cost TNSP in the NEM.
- TransGrid is unique as it allowed the AER to commence review in advance of submission e.g. MMA looked at load forecasting pre-lodgement. This process was useful for both TransGrid and AER. MMA's suggestions were taken up in the 2008 APR.
- Recognises that there has been a strong underlying growth in consumption of electricity, however, suggests that it is not TransGrid's role to implement policies to lower demand. 2008 APR forecasts some softening of growth due to early expert estimates of Carbon Pollution Reduction Scheme price rises.
- NSW is largest net importer in NEM, which leads to network utilisation that varies over different times in the year and different operating conditions.

#### *Capex*

- Notes that the Chair added up the cost of TransGrid's contingent projects. TransGrid hasn't done this calculation because they do not anticipate doing many, if any, of these projects and the value in total is misleading. However, they recognise that unless include contingencies, if they do happen there will be no allowance for them. TransGrid thinks of contingent programs regulatory/commercial insurance.
- Ex ante basket driven by probabilistic planned approach (not all accounted for in projects) balance between form of generation sources (coal, wind, gas); three cases of load growth; water availability; interconnection; CO2 tax.
- Strong focus on asset base – TransGrid only makes investment if economically prudent, explains increase in recent years.
- Capex governance – tighter cost control, approval and delivery process. This has helped improved performance and confidence in capex delivery.
- TransGrid is a blue chip customer in its outsourcing of design and manufacture projects. TransGrid is affected by labour costs, supply margins.
- Community and environment obligations affect line route selection. TransGrid attempts to rebuild lines on existing easements due to difficulty of obtaining planning approval for new line routes (e.g. national parks).

#### *Opex*

- Zero based maintenance expenditure and forecast
- Similar to support costs

- Asset growth forecast – like for like basis; determines how many more assets to add to functions above, forecast 24% new assets, therefore, need additional resources
- Recognises economies of scale efficiencies – 95% for direct maintenance and lower factors for support functions
- TransGrid has absorbed the cost of maintenance of new assets within allowance in current period.
- TransGrid is unusual because it in-sources maintenance (at low cost). However, it has undertaken studies which demonstrate that there is no relationship between performance and whether businesses in or out source. The key is management effectiveness and TransGrid has observed its efficiency in its proposal.
- TransGrid believes that if its proposal is accepted it will be second to Powerlink as the most efficient TNSP in the NEM according to the AER Opex to RAB indicator.
- *STPIS* – there is a new market impact scheme but will need to wait to see how much control TransGrid has over outcomes.
- In summary, TransGrid’s transmission prices are the lowest in NEM. TransGrid attempts to balance service quality and price.

### 3. Questions and Comments on TransGrid Presentation

**Roman Domanski (EUAA):** Thanked TransGrid for its presentation. Users are facing a critical 5 years ahead likely to be characterised by significant cost pressures (electricity, gas, carbon prices, renewable energy, network pricing reviews showing escalating costs). These are of great concern and EUAA is very worried that at the end of the period users will face a different set of circumstances. This impacts on all of us. These conditions will not be favourable for users and major parts of supply chain. It is very important that both the AER and businesses recognise these pressures. The AER has to do an exceptional job to produce an outcome that is 'reasonable' in all the circumstances. EUAA is looking to contribute to this process.

In terms of TransGrid, EUAA is concerned with its numbers—a 34% increase in opex on average over period and a 90% increase in capex. The end result of all the price increases proposed in NSW, on basis of EUAA's current information, is a 32% in prices, significant concern.

Roman also asked a specific question in relation to the scenario planning exercise undertaken by TransGrid. He is seeking information about TransGrid's sensitivity analysis, particularly in relation to its \$35/ton CO<sub>2</sub> equivalent carbon price? Most information suggests that if the government sets up its Carbon Pollution Reduction Scheme by 2010, it will implement a price cap in the initial few years that will probably result in less than \$35?

**Kevin Murray (TransGrid):** TransGrid is interested in seeing users’ submission and market tests on proposals; in the last review, participants' submissions resulting in an increase in capex in an attempt to maintain service and reliability standards. He agreed that by 2010 there will be large cost increases, but from TransGrid’s point of view, transmission doesn't lead, it

responds. TransGrid is prepared to respond to concerns in submissions; if they want costs to come down, then the submissions should say that the users prefer lower costs to strengthening the grid. Costs are associated with market benefit and reliability benefits. Efficiency is fair game though. At the end of the day, TG is happy not to build the line if customers don't want it (as long as they are prepared to accept lower reliability). TransGrid's proposals result in an increase of \$3.50 a year to domestic consumers.

**Peter McIntyre (TransGrid):** You have raised a valid point and TransGrid recognises that its proposal results in a higher percentage increase for larger users. He suggested that TransGrid's headline figure is reasonably modest, but recognises that there are other pressures. The Carbon Pollution Reduction Scheme is most likely to have the highest impact, driving up prices and affecting all end users. This is the point of the scheme as it requires a genuine price rise (necessary to send a signal to drive alternative technology); this will dwarf the transmission component of the price rise. Price forecasts may lead to deferment of transmission investment that would otherwise have occurred.

In regards to your comment on CO<sub>2</sub> tax—this figure was developed in 2007. You have to realise that the requirements of the NER and the extensive material required to be provided to the AER in our proposals means that businesses have to build their capex and scenario analysis over 6-9 month period. TransGrid used 2007 APR load forecasts to build program, which suggested that, at the time, this figure was reasonable as to various possible futures.

There has been two key changes since TransGrid wrote its submission—the 2008 APR shows a softening of demand and the Government's green paper on the Carbon Pollution Reduction Scheme. Therefore, TransGrid needs to address these issues with AER and PB to review the load forecast impacts on all projects. It may result in the deferral of some projects. The Government seems to be backing away from hard the Carbon Pollution Reduction Scheme to a more transitional framework; therefore, the price path may not be as steep. Unfortunately, it is a fluid position at moment; TransGrid needs to wait for the Government to draft legislation and for the subsequent market response.

**Peter Tang (Delta Electricity):** Would it be prudent to revisit your comments on contingent projects given the fact that 2008 demand may not be softening as expected?

**Peter McIntyre (TransGrid):** The 2008 APR is the latest statewide load forecasts, it is used for planning and NEMMCO. Other consultants have forecast more aggressively. It is possible that the 2009 APR may have a steadying effect on forecasts. A number of contingent projects are there for unexpected load growth. TransGrid's proposed ex ante capex regime has a range of forecasting scenarios. Capex is appropriate for that range of forecasts. If there is a higher load growth then there may be a case to revisit capex and require a contingent project. This is a troubling time for TNSP to do a revenue proposal because of the degree of uncertainty. TransGrid is trying to find an appropriate balance with the AER. The most uncertain project is the southern 500Kv development program that is sensitive to major load growth and the balance between sources of generation. It is up to the AER whether this project remains in the ex ante program. One possibility is to treat it as a contingent project.

#### **4. Presentation by EnergyAustralia**

The Chair invited George Maltabarow (Managing Director) and Geoff Lilliss (Executive General Manager—Network) to address the forum. EnergyAustralia’s slides can be found in the attached ‘.pdf’ file.

##### **George Maltabarow**

- The network is not about selling energy but providing an energised connection to customers.
- All growth driven capital is driven by peak demand (rather than energy).
- EnergyAustralia works together with TransGrid’s transmission network.
- You can’t rely just on condition assessment for replacement—need to consider resource constraints and system access and plan to deliver work in long term.
- Previous regulatory periods have not appropriately regarded long term improvements or service outcomes (although there was capacity). Now it has been recognised that service standards were at risk, hence the reason for government imposed standards.
- Community concern centres on demand management (DM)—it is peak demand not energy that drives capital (e.g. aircons). This results in a system where 15% of asset base sits there and is used for 1% of time. DM can responsibly manage this; however, network DM is more limited in effect. It is better to influence behaviour patterns of consumers. EnergyAustralia has 3 key strategies: large-scale deployment of interval meters and time of use tariffs, advance metering infrastructure (AMI). So far tariff based DM has produced encouraging results. EnergyAustralia has also engaged in energy efficiency DM – distributed shower timers, fridges, pool pumps. \$3M energy efficiency centre.
- Pricing—important to realise that over the last decade, real prices have actually declined. Currently, capex is not reflected in pricing. EnergyAustralia’s proposal results typically \$2/week increase for domestic consumers.
- Recognises that this is the first AER determination under the transitional rules; AER does not have unfettered discretion as it must determine the efficient costs of prudent DNSP in all circumstances.
- This is also the first time that DNSPs have merits review available resulting in a balanced approach to regulation. EnergyAustralia will be very keen observers of how this process unfolds.

##### **Geoff Lilliss**

###### *Capex*

- There is a step change from previous regulatory determinations when compared with current proposal. He suggests that this step change is not that great but largely ‘the die has been cast’ in terms of the opening X factors based on expenditure in the current period.

- This proposal touches a relatively small amount of network but attempts to make inroads to a major system renewal.
- There are certain windows of opportunity for connecting new work (i.e. non-peak times). The consequences of delaying work means that EnergyAustralia won't be able to properly integrate its works. If the windows close then EnergyAustralia will have to adopt an inefficient solution and build overlay networks to meet customers' needs and increase access to system. Therefore, timing is important.
- EnergyAustralia has ensured that there is no overlap in its numerous plans and programs.
- This year sees the lowest ever new customer connection numbers.
- DNSPs face the problem that their tariff structures are built around energy growth but their costs are driven by demand.
- A long term investment view affects EnergyAustralia's priorities. There is a commitment to select lowest cost options and to take existing infrastructure or geographic issues into account in planning. EnergyAustralia has a preference for Greenfield projects than brownfield work.
- The replacement requirement identified by EnergyAustralia through its planning will not be addressed solely by this proposal. A significant amount of replacement expenditure will be required in future periods to address ongoing replacement needs. If investment in replacement is deferred, the result will be higher ongoing operating and maintenance costs.
- Every growth related project built has a DM assessment.

#### *Opex*

- EA aims to be compliant, and invest capital on a continuing basis as it is required. It suggests it is not over investing. Recommends the SAHA study which undertook a detailed assessment of system maintenance costs.

### **5. Questions and Comments on EnergyAustralia's Presentation**

**Bob Lim (MEU/EMRF):** EnergyAustralia's capex numbers are large when compared with the previous determination. You may be looking at \$30–50 million in infrastructure over the next regulatory cycle, if you include generation assets. He also pointed to the very substantial increases in capex already provided to ElectraNet, Powerlink and SP AusNet in the current regulatory cycle. He raised concerns about the capability of implementing large capex against the background of (1) constraints on equipment supply capability and (2) constraints on skilled labour. He expressed strong doubts as to ability of the industry to actually build these projects. In light of this, can you implement your capex proposals?

**George Malabarow (EnergyAustralia):** It will be very challenging. So far we have delivered all our programs, every year. This year our \$900 million program was very large and able to be delivered. To the extent we need to further expand, we have in place alliance contracting arrangements to increase our capability of capital delivery and our contractors are

confident that they can deliver. EnergyAustralia has thought carefully about these implementation issues, George said he can not speak for whole of industry but believes EnergyAustralia can deliver its proposed capital program.

**Bob Lim (MEU/EMRF):** Does not doubt that EnergyAustralia has delivered its current capex program, but on top of the competition from increased building of infrastructure for ports, roads, telecommunications, it appears that a paradigm shift is required given the hyper inflationary outlook where everyone is in the market at same time looking to implementing programs. Therefore, he put the question to the AER about whether it will look at this shift in market place and whether the AER frankly thinks that businesses can deliver these programs. He noted that merits review in the NEL now allows consumer organisations to have standing and he will also be holding AER accountable through this process.

**Bill Woodcock (Rockdale City Council):** Raised the issue of public lighting. Councils have grave concerns as is evident by the number of Councils represented at the forum today. There are a number of aspects of concern—the submissions from EnergyAustralia do not reveal the details of the actual cost that the Councils need to make a reasonably informed decision and assist in their submissions. It is recognised that twin 20 flouros are still in existence and replacement needs to occur to move towards energy efficient substitutes but Councils are confronted with huge 35-80% price increases. There is a huge difference when EnergyAustralia is compared with its peer group across the industry (for example, Integral Energy) and Councils do not understand the reason behind this. Local Government has a limited ability to pay. Councils are part of state government who determines rate pegging, which means that Councils cannot raise rates unless the government agrees (currently increases are below CPI). Councils have little ability to pay these extra amounts, especially when they don't know why. We need time to write submissions and to find out exactly what is driving the actual rate increases.

**George Maltabarow (EnergyAustralia):** I can explain your key concern about the magnitude of price increases. The key reason for the increase is the change in regulatory strategy, which has resulted in a conscious decision to separate out the public lighting asset base and eliminate cross-subsidy between the general network and users of public lighting. A policy decision has been made that it is unfair that the broader users should have to fund public lighting. The elimination of this cross subsidy is the reason for large pricing increases. IPART has looked at the increases and the asset base and agreed to the gradual phasing out of the cross-subsidy. He appreciates councils' concern about rate pegging but there is nothing EnergyAustralia can do about that. He understands councils' concern about large increases, but this is due to an unwinding of a cross-subsidy that has previously been implemented by the jurisdictional regulator.

**Geoff Lilliss (EnergyAustralia):** EnergyAustralia has taken a bottom line hit to smooth the price impact, an \$8.8million hit compared with a pricing structure that could have been allowed. EnergyAustralia is seeking around 11% initially but this is an issue for AER going forward. Obviously there is some variability in individual lighting categories; the twin 20 light has been on the asset base for many years. EnergyAustralia is happy to support the move to energy efficiency lighting and has written to all local councils informing them about the move to energy efficiency lighting and seeking views about how to roll out these lights. It's about cost and the individual profile of the light. There are a number of choices. Trialling by EnergyAustralia suggests favouring one technology over another, but it's ultimately the council's choice. Pricing only seeks to reflect our costs in this category. The costs covered are



only associated with the lighting themselves (not the main supplied which is covered in low voltage investment plan). Prices are highly variable due to the type of light. If councils want new capital investment (i.e. energy efficiency), this comes at some cost. EnergyAustralia believes its proposal is cost reflective but it is clearly for AER to make that determination. EnergyAustralia is happy to give information to help councils understand those inputs.

**Steve Edwell (AER):** All these issues are all in the mix. Bob's question about the ability of capex to be spent is a key issue, as is the issue of public lighting. Cost reflectivity is one thing but the AER also needs to consider cost efficiency and ensure that the base for public lighting is efficient. IPART did comprehensive work with external consultants on public lighting; AER is in the process of understanding all of these issues. He encouraged local councils to talk to the AER and EA and all parties to adopt an open and transparent sharing of information in terms of costs. Obviously an asymmetrical issue here, therefore, to help the process an open exchange of information is required, regardless AER will be doing its best to look comprehensively at the proposals.

**Graham Mawer (Next Energy on behalf of several local councils):** We need a sharing of information. In the 2004–05 pricing review, EnergyAustralia shared its underlying Cost-to-Serve pricing model with councils. David Lewis, GM of SSROC, recently sent a letter requesting disclosure of this model for the current period. It is absolutely vital in this area where there is discomfort with pricing claims.

**George Maltabarow (EnergyAustralia):** He is not aware of the letter but if it was made available as part of the previous IPART determination he cannot see why this information should not be made available .

**Roman Domanski (EUAA):** Has a question relating to the capex proposal. He professed significant concerns about the step increase and made the comment that one of the significant drivers is the costs involved in delivering the capex program (i.e. escalating material and labour costs). This is pretty typical across the whole economy and is a symptom of the point in the economic cycle. To what extent have you undertaken a cost/benefit analysis to take into account the ability you have to defer the timing of capex. How much more would it cost to undertake this capex now than if you waited for a different, more normal point in cycle where costs are lower? He also raised a second issue relating to pass throughs. There is a strong concern about pass through provisions as part of determinations as they are asymmetrical and pass through applications only ever go one way that is they result in an increase in costs rather than a decrease.

**George Maltabarow (EnergyAustralia):** In terms of the scope of deferral of capex, as I understand it, your proposition is whether we have looked at the scenario that we could take the pressure off by waiting until economic conditions are more favourable to spending capital. There are two key issues. Firstly, if we did defer capital, then it is not entirely clear when the next desirable window of economic conditions will occur. Secondly, in a physical sense, if capex is deferred then we will call even more on our resources at that time and even less likely to be able to access the system to deliver the work. We have looked at this carefully and do not spend any capital until we need to in terms of our risk analysis and licence requirements. It is also about deliverability; we have looked at the economic conditions but see no basis to defer based on economic conditions.

In relation to your comment about pass throughs; that is a regulatory question. From EnergyAustralia's perspective these are hypothetical; there is no pass through that we would flag at the moment other than AMI. For all other issues, they are possible contingencies, right now none of them can be identified as likely to occur. These regulatory issues are a matter for the AER.

**Steve Edwell (AER):** The regulatory framework provides for businesses to put forward pass throughs. Pass throughs need to be tightly defined in the first instance so there is a proper sharing of risk between business and consumers. Businesses should not use pass throughs to remove all risk. We do not operate in risk free environments. But the trick is to make sure that where there are exogenous factors that affect the business, there is an ability to pass through. It is all about the definitions.

**Bob Lim (MEU/EMRF):** Queried the prudence of past capex and whether proper deferral is being undertaken. He noted some capital projects are being deferred and asked for the criteria used by EnergyAustralia.

**Geoff Lilliss (EnergyAustralia):** This question largely centres around the blue dots [on the table in the slides], which show the threshold where capex becomes a compliance issue. EnergyAustralia has looked at whenever we can defer capex and still comply—if it is possible then we will defer even if planning suggests we should spend the capital.

## **6. Presentation by Integral Energy**

The Chair invited Vince Graham (Chief Executive Officer) and Rod Howard (General Manager Network Development and Control) to address the forum. Integral Energy's slides can be found in the attached '.pdf' file.

### **Vince Graham**

- Common themes for each DNSP – share same trifecta of challenges in capex program driven by growth, asset renewal and licence conditions.
- He understands that ultimately customers are footing capex bill – approximately \$1.70/week for typical residential customer. Recognises that this is in an environment where they recognise other impacts on future electricity pricing—petrol, Carbon Pollution Reduction Scheme—that makes it difficult for customers. There are arrangements for customers who are unable to manage e.g. tailored payment arrangements.

### **Rod Howard**

*Drivers for the proposal:*

- Growth in new and air conditioning loads
- Rural customers now have the same reliability expectations as urban customers.
- Network age and condition.
- Licence conditions.

### *Capex*

- Integral Energy has smoothed capex to better balance resourcing but they are conscious that they must comply with licensing conditions by June 2014.

### *Opex*

- No additional maintenance costs have been included for new assets installed during the 2009–14 period..
- Productivity savings:
  - 2% per year compound labour productivity savings—this has been built into resourcing plan to ensure that outcome is achieved.
  - Cost savings with associated capex/opex trade offs.
  - Fundamental change in maintenance philosophy—moved from time-based to risk-condition based replacement philosophy.
- *Demand Management* — DM is considered for every major project; although not always possible on every project; DM programs have delivered savings resulting in deferral or avoidance of capex.

## **7. Questions and Comments on Integral Energy's Presentation**

**Bob Lim (MEU/EMRF):** Congratulates Integral Energy as it is refreshing for a presentation to refer to efficiency savings, capex/opex trade off and benefits from DM and hopefully asset replacement. This is something that he didn't hear in other presentations that greatly interests him. In terms of capex spend, the proposal appears reasonable but he will have a closer look. He asked a question as to whether there are areas where that capex deferral could occur in Integral Energy's program.

**Vince Graham (Integral Energy):** repeats the trifecta of issues—growth, licence conditions and asset renewal. The percentage of contribution to capex program was included in the presentation. There are two areas where there are fixed points—licence conditions must be met by June 2014, otherwise Integral Energy will be in breach of NSW law. The second point is the issue about growth in residences, businesses and peak demand; again, these are driven by broader economic factors beyond the control of Integral Energy. The third issue is the 'baby boomer' assets and the appropriate rate of asset renewal; many organisations produce a better return to shareholders by deferring asset renewal. In this industry and other infrastructure industries, there are examples where deferring renewal was not a good idea. Reinforce EnergyAustralia's point that when to renew is a point of flexibility but need to be careful that the bow wave of asset renewal does not become a tsunami with all of the consequential impacts on customer and service reliability. Integral Energy has tried to take a reasonably balanced approach. It has done smoothing in this area, but has kept the end game within constant reach to ensure that tsunami does not overwhelm the outcomes Integral Energy is hoping to achieve.

**Bob Lim (MEU/EMRF):** draws the AER's attention to ESCV's examination; the literature doesn't seem to support the 'bow effect' furphy; the jury is still out on that issue.

**Roman Domanski (EUAA):** we would be happy to participate in DM. Encouraged by the good work Integral Energy is doing in terms of DM and that it has managed to achieve useful results in terms of trials and D factor projects. Can you outline specifically what you have in mind for DM going forward? Going beyond trials to actual participation? Have you given any thought to demand side response aggregation options?

**Rod Howard (Integral Energy):** DM in the current period is a combination of projects being implemented and trials. Projects actually installed include power factor correction at customers' premises to improve the power factor which in turn allows management of demand; these are real initiatives. In addition, there are examples of customers with interruptible of supply, some of these are rolled out, some are still current e.g. customers receive favourable tariffs subject to them receiving interruptions during demand events. Trials are things like Blacktown Solar City, dynamic peak pricing in Western Sydney; these are more residential projects, to see what opportunities exist and flexibility in tolerance of residential customers to change behaviour e.g. air conditioning and pool pumps. There is similar level of funding in the current proposal, therefore, we are not proposing a mass roll out. There is no guarantee that what applies to a trial with 3000 participants will translate to a broad customer base.

**Bob Lim (MEU/EMRF):** you mentioned in presentation that ongoing tariff reform program, what it is? From what I can see you haven't achieved much.

**Rod Howard (Integral Energy):** The inclining block tariff means that there is a differential between customers who use certain amount of energy i.e. customers who use energy above a certain threshold pay more for their energy than customers below the threshold. Dynamic peak pricing trials are trying to get sense of changing customer behaviour by significant pricing signals. This is all part of Integral Energy learning about what opportunities exist to become more cost reflective and at the same time take the top off demand.

**Bob Lim (MEU/EMRF):** The best way of coping with a huge capex program is sending pricing signals to users during peak demand and particular days of year. Presumably, now the regulation arrangements are not subject to the side constraints that applied in IPART regime? [N.B. Side constraints do apply under the Transitional Rules]. Therefore, businesses can use more pricing signals rather than relying on capex.

**Steve Edwell (AER):** We have no control over the end result the customer sees due to retail tariffs. We only look at price signals at the distribution end. The AER is interested in, lopping off 3.2% peak load and redundant assets for 3-4 days use. That much is obvious. At end of day, we need to provide incentives for customers, and, in my personal view, this means getting [prices] in face of the end consumer. It's all about prices. However, the AER is still constrained as the regulatory arrangement does not include retail pricing.

**Bob Lim (MEU/EMRF):** You can provide incentives though.

**Steve Edwell (AER):** The AER is interested in innovative pricing arrangements. There are some fairly broad rules in breaking down revenues to prices, but these are fairly broad.

**Roman Domanski (EUAA):** Asked a question relating to Service Target Performance Incentive Schemes (STPIS). He was unclear as to what extent the proposals carry through to reliability and quality of supply type issues. His members prefer quality to reliability.

**Rod Howard (Integral Energy):** There is no STPIS for the upcoming regulatory control period, but we do have to comply with licence conditions. The incentive is to satisfy these conditions so that they provide performance to customer so that the lights do not go out so often. There is no financial element. The only other element is for certain types of customers i.e. smaller ones, if they have a number of physical outages per year, a consumer can make application to the DNSPs and get compensation. Similarly, if they have longer outage durations. This is built into the licence conditions.

**Roman Domanski (EUAA):** do these conditions extend to quality of supply and reliability?

**Rod Howard (Integral Energy):** No, except for Australian Standards and other similar measures.

**Roman Domanski (EUAA):** does the AER have any powers to look at that? The Victorian scheme goes further and looks at quality of supply issues albeit fairly limited in terms of business users.

**Steve Edwell (AER):** The framework in the Code does not mandate a STPIS; although the AER wants to incorporate one. The issue with NSW is that there is no STPIS there now, therefore, the AER needs data to put a scheme together. The AER looked at it seriously and felt that there was a risk that a rushed scheme may be suboptimal therefore, for this regulatory period, the AER has decided to collect quality performance data so there is public reporting but no financial incentives. In five years time, there will be a better NSW database. We are keen to have STPIS, when we have data in place. The AER is also examining STPIS for Qld and SA.

**Mike Buckley (AER):** under transitional rules, the AER has a discretion to implement the STPIS because there is no existing scheme in ACT and NSW. We did have SCONRRR data and were starting to move towards collection of uniform data. IPART conducted a paper trial but the AER was not satisfied about all aspects of data, therefore, the AER was uncertain about implementing an STPIS particularly given that licence conditions represented a 'moving target'. The AER has just released guideline on STPIS for SA and Qld.

**Roman Domanski (EUAA):** are you thinking about the possibility for larger customers to move to negotiated arrangements as part of a connection agreement?

**Steve Edwell (AER):** The AER likes negotiated arrangements. He believes the problem with regime is that there are services that could be negotiated instead of under a regulatory determination. It certainly is something to think about.

## **8. Presentation by Country Energy**

The Chair invited Craig Murray (Managing Director), Ken Stonestreet (Group General Manager Networks and Infrastructure), Bill Frewen (Group General Manager External Relations) to address the forum. Country Energy's slides can be found in the attached '.pdf' file.

## **Craig Murray**

- Country Energy had a close relationship with the previous regulator. One of more rewarding parts of the new regime is developing a relationship with the AER. AER staff have worked closely with the Country Energy team, not to prove one is more right or wrong but come to the most appropriate conclusion.
- Country Energy faces unique challenges in both a physical and financial sense and had to structure its submission around these points.
- Country Energy is supportive of Indigenous apprentices in both a social responsibility and a business sense.
- There is no one set growth pattern other than perhaps for the North Coast.
- Had to balance safety with employees' 'can do' culture.
- Had to deal with physical decentralisation e.g. taking board meetings to regional areas.
- Like other businesses, the increase in capex is due to growth in peak demand—people in regional areas now expect higher standards; most of the work is outsourced therefore subject to market conditions.
- There are lots of inputs beyond Country Energy's control. He would love to stand up here and say that there has been a decrease in capex but the economic cycle is not there at the moment. The first year increase will represent about \$1.96 to the domestic consumer.

## **Ken Stonestreet**

- Radial network poses interesting challenges in terms of reliability.
- Country Energy has to meet the connection requirements of renewable energies; this usually occurs at the most inconvenient part of network.
- His presentation highlighted the difference between transmission/distribution; rural/urban businesses.
- There are similar trends to other DNSPs – summer peak demand; replacement of assets; licensing (reflects customer expectations).
- Country Energy is increasing its role in facilitating non-network solutions.
- Network investment is driven by peak demand e.g. higher growth in coast.
- Country Energy uses the Weibull model to assess the validity of its asset condition replacement programs.

- Now undertaking organised maintenance as opposed to unplanned therefore more efficient.

### **Bill Frewen**

- Talked about support services, this spans capex and opex but there is no great increase as Country Energy is starting to benefit from economies of scale. The only exception is IT capex as its IT systems are at end of useful life. Looking at long term strategies to integrate asset, customer, and financial management systems.
- Fleet is affected by petrol prices, although there has been an attempt to mitigate through fuel efficient vehicles.
- Country Energy intends to continue its decentralised operation (in accordance with its statutory obligations).
- Notes Bob Lim's observation about the deliverability of large capex program. Country Energy has obtained expert advice from PB to find out how best to acquire the human resources it requires. A lot of the investment program is outsourced, although more opportunities exist for outsourcing e.g. disconnection/reconnection of customers can be undertaken by qualified electricians. Also looking at productivity gains and apprentices.

## **9. Questions and Comments on Country Energy's Presentation**

**Bob Lim (MEU/EMRF):** A question for the AER: From a consumers' point of view, the exposure to capex numbers is quite frightening for current regulatory control period and it could be frightening for the next one. The AEMC has developed a rule which allows businesses to be awarded capex proposals in the regulatory period and if they don't spend their capex proposals in the way originally intended (i.e. they spend it elsewhere), it is automatically rolled into the RAB for the next reset. The AEMC in its infinite wisdom said that it would not expose DNSPs to an ex post audit to ascertain whether the capex rolled into the RAB was efficient or even prudent. This means that the AER does a rigorous job in ascertaining that capex proposals in the current period are able to be implemented, we will see escalation in RAB in the next period and consumers will have to pay and keep on paying. The AER has a significant task and is not just looking at the cost to consumers for the next 5 years but also for the next 10 years.

**Steve Edwell (AER):** We are aware of the significant capex and opex proposals; this was the reason for our presentation's focus on the 70-100% capex increases. The AER have to be satisfied that what is proposed is reasonable (in this regard we are governed by the rules). Reasonable really means what is efficient and prudent. In the context of the numbers put forward by providers, we will look at this rigorously. We do not come from the point of view of seeking to generate a particular outcome; we will come up with whatever number prudent and efficient. The AER is conscious of the pressure on consumers.

**Julie Briggs (REROC):** Country Energy's submission talks about 'price shocks'; this is of great concern to councils. We are having trouble determining from the information in the submission what the prices are and the economic basis for costing public lighting proposals. Can we get hard and fast numbers through this process so we can respond appropriate?

**Ken Stonestreet (Country Energy):** Yes, we can provide additional information as requested. We have a meeting set up and can discuss. [n.b. these meeting are scheduled for after close of submissions close].

**Julie Briggs (REROC):** We need to get information before 8 August so we can make submissions. [It appears that the parties arrived at some agreement to provide these documents at an earlier date].

**Steve Edwell (AER):** Emphasised again that public lighting is an important issue.

## **10. Concluding comments**

The Chair reminded that submissions close on 8 August.

The AER will complete its assessment with the view of making draft decision. After the draft decision there will be another public forum before the AER's final determination in April.

The Chair expressed his appreciation to the presenters and attendees for their participation.

The forum closed at approximately 4.00 pm.



## Appendix 1: List of Registered Attendees

<b>NAME</b>	<b>ORGANISATION</b>
George Maltabarow	Energy Australia
Geoff Lilliss	Energy Australia
Trevor Armstrong	Energy Australia
Catherine O'Neill	Energy Australia
Terry Fagan	Energy Australia
Anthony O'Brien	Energy Australia
Brandon Crown	Energy Australia
David Bentley	ElectraNet
Carmel Price	Ergon
Troy McKay-Lowndes	Ergon
Tony Pfeiffer	Ergon
Kevin Kehl	Energex
Maria Ceresa Alati	Energex
Sue Lee	Energex
Natalie Banicevic	Country Energy
Jason Cooke	Country Energy
Ken Stonestreet	Country Energy
Craig Murray	Country Energy
Bill Frewen	Country Energy
Col Ussher	Country Energy
Jennifer Sai	Country Energy
Kirstan Hoppitt	Transend
David Terthewey	TransGrid
John Howland	TransGrid
Michael Gatt	TransGrid
Norman Jip	TransGrid
Peter McIntyre	TransGrid
Tony Meehan	TransGrid
Kevin Murray	TransGrid
David Conroy	TransGrid
Vince Graham	Integral Energy
Alan Flett	Integral Energy
Frank Nevill	Integral Energy
Karen Waldman	Integral Energy
Mike Martinson	Integral Energy
Matt Webb	Integral Energy

<b>NAME</b>	<b>ORGANISATION</b>
Ty Christopher	Integral Energy
Rod Howard	Integral Energy
Graham Mawer	Next Energy
Alex McPherson	ActewAGL
David Graham	ActewAGL
Bob Lim	MEU/EMRF
Malcolm Tadgell	NAS
Peter Williams	PB
John Thompson	PB
Alan Smith	PB
Jacqui Bridge	PB
Victor Petrovski	PB
Lem Robson	AREVA
Christian Gillies	McConnell Dowell
Mark Ludbrooke	Public Interest Advocacy Centre
Mark Stephenson	ABB Australia
David Toogood	ABB Australia
Wayne Rylands	Lane Cove Council
Rowan Morrison	Bankstown City Council
Sayed Chowdhury	Bankstown City Council
Chris Bourke	Port Stephens Council
John Maretich	Port Stephens Council
Anthony Ogle	Ashfield Council
Roger Guerin	Ku-ring-gai Council
Mike McGowan	City of Canterbury
Daya Nammuni	City of Sydney Council
Peter Donley	City of Sydney Council
Malcom Ackerman	Penrith City Council
Maria Coyne	North Sydney Council
Graham Macpherson	Burwood Council
Katherine Lustig	Paramatta City Council
Gary Shipp	Charles Sturt University
Jan Hudson	Charles Sturt University
Jan Brill AM	Community Board Rep
David Mills	Salvation Army

<b>NAME</b>	<b>ORGANISATION</b>
Bill Woodcock	Rockdale City Council
Roman Domanski	EUAA
Peter Tang	Delta Electricity
Graham Hiham	NSW Treasury
Jodie Krakowski	NSW Treasury
Mark Della	NSW Treasury
Mark Vincent	ETSA
Scott Mawes	MMA
Jennifer Harris	Powerlink
Mal Park	NSW Treasury
Johnson Mariswamy	AVERA
Julie Briggs	REROC
James Abercromby	Country Energy
Pat Lielieure	Isolated Rural Advisory Group – Country Energy