

15 August 2018

Slavko Jovanoski
Assistant Director
Australian Energy Regulator
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By email: slavko.jovanoski@aer.gov.au

Dear Slavko

Ausgrid 2014-19 revenue allowance remittal proposal

On 7 August 2017, Sebastian Roberts requested CCP10 to provide advice to the AER on a draft of Ausgrid's proposed 2014-19 revenue allowance remittal proposal that Ausgrid intends to lodge with the AER.

The proposal comprises a draft 4-page letter to the AER and a draft infographic.

Ausgrid has engaged with consumer groups about its proposal. The proposal has been disclosed by Ausgrid to and discussed with consumer groups in the following meetings:

Stakeholder Group	Dates
Bilateral discussions CCP10, ECA and PIAC	November 2017- July 2018
CCP10, ECA and PIAC	6 June 2018
CCP10, ECA, PIAC and EUAA	31 July 2018
Ausgrid's Customer Consultative Committee and CCP10	7 August 2018

CCP10 had the following involvement during this engagement process:

- we gave feedback to Ausgrid on the draft proposal generally between November 2017 and July 2018;
- we had discussions with the AER about Ausgrid's transformation costs in April-June 2018;
- we participated in preliminary feedback given to Ausgrid on 6 June and 31 July 2018 on the draft proposal and subsequently discussed with Ausgrid how it would

incorporate that further feedback into its proposal; and

- we participated in the CCC meeting on the final draft proposal on 7 August and reviewed the revised proposal and infographic prior to lodgement with the AER.

CCP10 confirms that Ausgrid made the changes requested by consumer groups in July and August and that it has taken steps to incorporate the feedback in the final proposal and the infographic.

Ausgrid is the last of the 3 NSW businesses to make a proposal to resolve the 2014-19 remittals. Essential Energy, Endeavour Energy, Ausgrid and Evoenergy each participated in the AER's roundtable on 16 August 2017. The summary note that the AER published on its website about this meeting included the following statement:

"All participants support a consultative process and see the remittal process as a good opportunity to put AER 2.0 into practice."

Whilst we are relieved that when Ausgrid lodges this proposal with the AER the very difficult period of the 2014-19 determinations will be closer to being resolved, CCP10 is disappointed that it has taken Ausgrid 12 months to be in this position. One of the key benefits discussed at the roundtable meeting 12 months ago was to achieve an expedited process and a quicker resolution for the remittal. CCP10 does not believe that the Ausgrid proposal can be described as 'putting AER 2.0 into practice' in the same way as the other NSW businesses.

CCP10 acknowledges that Ausgrid has proposed to the AER a revenue allowance in accordance with the AER's set aside 2015 determination and that Ausgrid will retain approximately \$519 million that has been collected by it due to variations in demand forecasting and the enforceable undertakings for the 2014-19 period. A feature of the proposal is that the revenue effects will lead to a 3.2% price reduction for customers from 1 July 2019. In order to achieve this proposal, Ausgrid has chosen not to re-open contentious matters following the Federal Court decision.

CCP10 supports Ausgrid's proposal for resolving its regulatory allowance for 2014-19, following the remittal of that determination to the AER by the Federal Court. CCP10 believes that on balance, the Ausgrid proposal is in the long-term interests of Ausgrid's customers. We understand that this involves Ausgrid retaining up to \$519m in revenue, some of which would otherwise be returned to consumers, but this needs to be considered in the context of the overall proposal and the specific circumstances of the NSW Electricity Network Assets (Authorised Transactions) Act 2015 (ENA Act) and Ausgrid's Enterprise Bargaining Agreement (EBA).

In our view consumers will benefit:

- from the certainty provided by the resolution of the proposed price path
- from the removal of the risk for consumers from the reopening of the contentious issues from the Federal Court decision, particularly in regard to debt costs
- on an ongoing basis from the reductions in operating expenditure that Ausgrid has achieved and
- from the continuation of reduction in network prices into 2019-24 once the ENA Act ceases to apply to Ausgrid.

The Ausgrid proposal notes that \$438 million of the \$519 million it proposes to retain were costs it incurred as part of a business wide transformation program. In order to reach our decision we have relied on information from the AER that it believes the \$438 million transformation costs were efficiently incurred by Ausgrid and were consistent with the obligations imposed on Ausgrid by the ENA Act and its EBA. On this basis it is our opinion that the benefits outweigh the costs, in aggregate, for consumers from this proposal.

We commend Ausgrid and its new shareholders for taking this opportunity to finally resolve the 2014-19 revenue determinations. Consumers were not well served by the regulatory impasse between the AER and the NSW/ACT businesses around the 2014-19 determinations. We encourage Ausgrid to continue to develop a more transparent and embedded consumer engagement program as part of its 2019-24 proposal and into the future.

Yours sincerely

Mark Henley, Louise Benjamin, Eric Groom and Mike Swanston