

Additional points relevant to ActewAGL

ActewAGL's response to the draft determination

“The expenditure allowances proposed in the draft decision do not reflect a realistic expectation of the expenditure required to achieve the opex and capex objectives set out in clauses 6.5.6(a) and 6.5.7(a) respectively of the Rules and would require drastic changes to ActewAGL Distribution's business model within an injudicious period of time, with the consequence that the draft decision, if reflected in the final decision, would deliver a short-term reduction in price but would have potentially dire consequences for reliability, security and safety”

“ActewAGL Distribution cannot fathom how the AER can expect it to deliver safe, secure, reliable and quality electricity distribution services with a 42 per cent reduction in its opex allowance and a resultant allowance set at levels experienced over 15 years ago, in circumstances where there has been an increase in scale, in terms of assets to maintain and customers to service, of approximately 40 per cent.”

Some notable impacts of CAPEX and OPEX reductions

If an appropriate level of OPEX is not granted, ActewAGL would be faced with an unacceptable long-term loss of service to customers affected by cable failures, or a need to transfer funds from another lower priority application (thereby potentially forcing other customers to deal with loss of service).

ActewAGL has calculated that a 42% reduction in opex likely to lead to:

- An increased response time, to more than double current performance, therefore increasing the total customer minutes of service interruption and delivering a reduction in level of service.
- A reduction in ActewAGL's ability to carry out planned maintenance by more than 33%.
- A vicious cycle of increasing numbers of unplanned faults because planned maintenance would not be carried out, causing further increases to response times.
- ActewAGL will be faced with aging assets failing more frequently, an inability to carry out planned maintenance, and steadily worsening response times. The cumulative impact will be a drastically lower level of service for customers, which would in itself lead to an increase in expenditure when responding to unexpected network issues.

Unrealistic nature of proposed opex levels

The AER's draft decision reduces ActewAGL Distribution's opex to levels not seen since before 1999 and capex to levels last seen in 2007/08, despite an approximate 40 per cent increase in customer numbers, and close to a 40 per cent increase in new assets that now form part of ActewAGL Distribution's electricity network. These higher measures of output over the same period necessitate a higher level of opex and capex to provide a safe, reliable and secure supply of electricity.

Differences in low voltage infrastructure

The McKell Institute notes that the placement of low voltage infrastructure is different in the ACT to NSW and Victoria. In NSW and Victoria, electricity infrastructure is predominantly located on the street, whereas in the ACT, the network infrastructure is predominantly either underground or located along the back of residential houses.

In NSW, the replacement of assets at the street level is substantially cheaper because that infrastructure is easier to access. In the ACT, costs are higher because permission is often required to access the infrastructure from residents before work can be undertaken. In addition, replacing a pole at the street level can be done by one individual with a bobcat, whereas few residents are willing to agree to having a bobcat dig up their back yard. Instead, pole replacement is often done much more slowly by shovel, requiring more hours to complete and more staff.

The McKell Institute appreciates that the AER has attempted to account for this, though our firm belief is that the allowance that has been made is not sufficiently large to offset the substantially higher costs of asset replacement in the ACT.

Redundancies

Page 7 – 79 Of the ACTEWagI Attachment 7 contains some contentions about redundancies that are entirely incorrect. The report states that the involuntary package at ACTEWagI drives inefficiency due to the involuntary entitlement being commencing at 31 weeks entitlement & being significantly higher than other service providers EBA's whose minimum severance payments range from three week to six weeks. This is factually wrong.

The comparison is inappropriate in that it seeks to compare ACTEWagI's involuntary package to voluntary packages in other network companies. ACTEWagI's voluntary redundancy payments are a minimum of 3 weeks salary which is comparable with the lower end minimum payment in the industry.

The AER have compared the voluntary redundancy (min 3 weeks or 6 weeks) to an involuntary package. The details of the VR scheme is contained in the EBA at page 64 clause 78.8 (a).

This report also notes that most network companies have EBAs with their workforce that don't contain provisions for involuntary redundancies. In that sense, ActewAGL is actually more flexible than most other network companies.