

VCOSS Submission to AER Distribution Price Review Draft Determination

August 2010

Authorised by: Cath Smith, Chief Executive Officer

**For further information regarding this submission,
contact: Sarah Toohey**

T: 9654 5050 E: sarah.toohey@vcoss.org.au



VCOSS AER Distribution Price Review Draft Determination August 2010

The Victorian Council of Social Service (VCOSS) is the peak body of the social and community sector in Victoria. VCOSS works to ensure that all Victorians have access to and a fair share of the community's resources and services, through advocating for the development of a sustainable, fair and equitable society. VCOSS members reflect a wide diversity, with members ranging from large charities, sector peak organisations, small community services, advocacy groups and individuals involved in social policy debates.

Introduction

VCOSS welcomes the opportunity to comment on the AER's distribution price review draft determination and the Victorian distribution network service providers' revised proposals. VCOSS strongly supports the approach taken by the AER in its draft decision and we provide further detail below.

1. Historical expenditure approach

Over the last two pricing determinations, distribution businesses have consistently overestimated revenue requirements and underspent funds recovered. Given the past discrepancies in forecasting, VCOSS strongly supports the approach taken by the AER in reviewing the proposed expenditure by the Victorian Distribution Network Service Providers.

2. Demand and energy forecasting

VCOSS is pleased to see that the distribution businesses have revised their expected energy use forecasts for population growth, gross state product, the cessation of the insulation program, and delay of a Carbon Pollution Reduction Scheme (CPRS).

However, the future impact of the CPRS remains uncertain. Even if it is introduced in 2013, it will not take effect until at least 12 to 18 months later. In addition, due to a proposed soft start to a carbon price it is unlikely that the CPRS will have a significant impact on energy use in this regulatory period and therefore should not be included in the energy forecasts.

3. Bushfires Royal Commission and other cost pass through events

The outcomes of the Victorian Bushfire Royal Commission and the State Government's response may have significant impacts on distribution business expenditure. While the AER has advised that the recommendations in and of themselves do not constitute a pass through event, a change in government requirement or regulation would do so under the National Energy Rules.

In the event of the Bushfire Royal Commission findings being adopted, the AER must scrutinise any pass through of costs very carefully to ensure that the work undertaken

has not already been compensated for in the 2011-15 regulatory period as part of good asset management and line clearance, particularly in the case of Powercor where work has already commenced on bushfire mitigation for high risk towns. The pass through arrangements within the NER allow for this appropriate scrutiny to occur.

It is also important to note that, in the current regulatory period, many distributors deferred planned works (for example Citipower and Powercor's IT upgrades) to enable them to comply with the AMI roll out. For this reason VCOSS strongly supports the AER's proposal for a 1 per cent materiality threshold for pass through events.

VCOSS also considers that the recommendations for the Bushfire Royal Commission may prove a similar challenge for Powercor and SP Ausnet and the potential deferral of other projects must be taken into account when considering future pass through of costs.

Similarly VCOSS believes that the business tax changes proposed by the distribution businesses are not yet clear and these should be dealt with as a tax change event pass through rather than factored in to the current decision.

4. AMI

VCOSS notes that SP Ausnet has resubmitted its claim for a step change in operating expenditure for increased quality of supply enquiries due to the introduction of AMI. SP Ausnet claims that these queries will increase 600 per cent when consumers receive greater information about their quality of supply¹.

It is not clear how consumers may actually receive notification of quality of supply issues in order to generate this call centre activity. Neither the current Energy Retail Code nor the Distribution Code require this information to be provided to consumers on their bills or in other notices and the ESC's draft determination on its regulatory review of smart meters did not propose any additional requirements in this area.

VCOSS strongly supports the AER's initial decision.

5. Market Risk Premium

VCOSS supports the Consumer Action Law Centre's proposal that the AER should consider reducing the Market Risk Premium from 6.5 to 6.0 per cent. Economic conditions have continued to improve since the AER's initial decision. Australian distribution businesses supply essential services to the Victorian community and economy and are an extremely stable investment with low risk and a guaranteed rate of return. This is an attractive investment in an uncertain international financial environment and, as noted by Treasury: "Australia is well placed to ride out increased global uncertainties"².

Contact details

For further information regarding the VCOSS submission to the AER Distribution Price Review Draft Determination, contact:

Sarah Toohey

T: 03 9654 5050

E: sarah.toohey@vcoss.org.au

References

¹ Australian Energy Regulator, *Draft Determination Victorian electricity distribution network service providers Distribution determination 2011–2015 Appendix L*, <http://www.aer.gov.au/content/item.phtml?itemId=736993&nodeId=ee472e1591d97f45d6646c4aa1d74cbb&fn=Victorian%20distribution%20draft%20decision%202011-2015%20-%20Appendices.pdf> Australian Competition and Consumer Authority, June 2010

² Swan, W and Tanner L, *Economic Statement* http://www.budget.gov.au/2010-11/content/economic_statement/html/economic_statement-02.htm Department of Treasury and Finance, Canberra, July 2010