

Part 2

CCP30 Reflections

EQ and SAPN regulatory processes for 2025-30 determinations.

In this section we step back from the specifics of the EQ and SAPN reset processes for 2025-30 and provide some observations about broader issues or questions that we have grappled with over the course of these regulatory processes. We think these matters are current and would benefit from some further thinking, outside of dedicated reset processes.

Contents

1. Affordability.....	2
2. Actual Network Performance.....	3
3. What is the ‘right level’ of engagement?	5
4. How much focus on the topics that consumers / stakeholders can meaningfully impact.....	5
5. Early Signal Pathway and the Handbook more generally.....	6
6. Is engagement ‘leading?	7
7. The sensitive nature of safety	7
8. Who is most concerned about reliability?.....	8
9. Productivity and better use of assets MPFP.....	9
10. How AER decisions are presented to TLA members, and others.....	10
11. No such thing as “Average customer”	10
12. Role of EBSS.....	11
13. Tariffs and EV charging.....	11
14. Inter-period progress	11

1. Affordability

Cost of living pressures continue to be substantial, particularly, we suggest for households in the bottom 2 quintiles of the income distribution. Indeed, ever higher power bills is a common reference in advertising by non-energy businesses and news bulletins are replete with cost of electricity 'stories.'

Customer forums in the recent EQL / SAPN resets continued three strong themes, each seen at some time by all distributors:

- a. Customers are keen for any information that would help empower them to have some control over electricity bills;
- b. More than half the customer representatives, notably those without the ability or resources to participate in CER, say that the payment of the electricity bill is a major concern; and
- c. Many owners of rooftop solar express concern at the fall in fed-in tariffs, as the expectation for payment for participating in renewable energy generation formed part of their investment calculation.

Energy affordability has also been a significant driver for recent AER action, including DMO and "Gamechanger" while reporting in State of the Energy Market report continues to include affordability measures.

For network resets, the question of affordability is regularly raised, often passionately by advocates and individual consumers. The 'X' in the original (CPI minus X) of incentive based economic regulation is exclusively negative. Hopes are failing for the changing energy landscape to deliver the falling energy prices that have been promised since Professors Hilmer and then Parer enthused about competition policy being applied to energy businesses to reduce costs for consumer.

A continuing important and not fully resolved question is the appropriate response from network businesses to affordability concerns. Generally, we observe three responses, and this is broader than EQ and SAPN:

- a) Recognise that the issue exists and look to others to respond, e.g. governments through concessions and retailers through hardship programs.
- b) Seek to gain consumer support for specific affordability programs to be provided by the NSP and funded through an opex allowance
- c) Apply internal discipline on costs, minimising them to what is deemed necessary by the network.

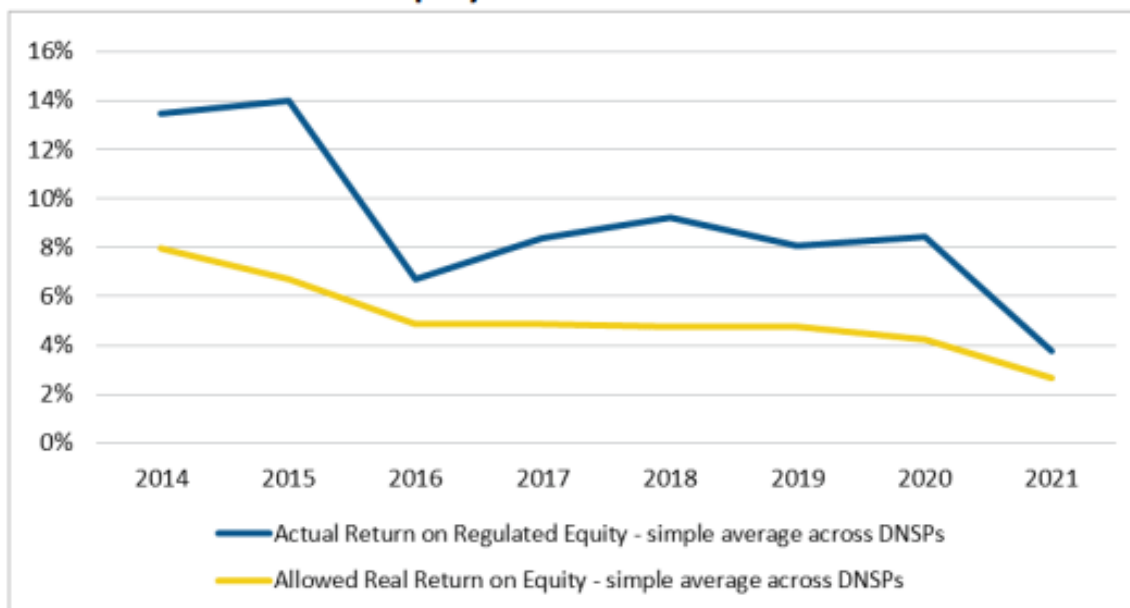
All are valid responses. Perhaps the time is right for the AER to develop an affordability responses guidance note for NSP's, with consumer groups and NSPs, with application to future resets?

Affordability concerns continue to be a substantial matter for many energy consumers.

2. Actual Network Performance

There is also continuing debate about the level of returns that network owners actually receive, as compared with regulated allowed revenue. The following chart from the AER's 2022 network performance report shows that for the last decade, actual returns to equity for NSP's, in aggregate, have been greater and considerably greater in some years, than allowed real returns.

Figure 3: Distribution Networks — Actual Return on Regulated Equity vs Allowed Real Return on Equity

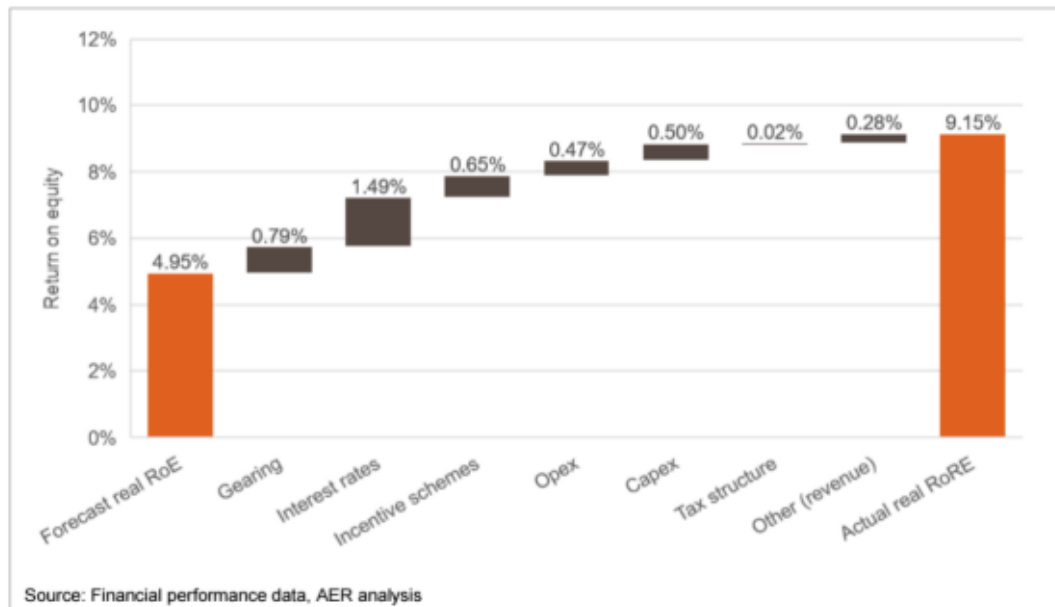


Source: AER data accompanying 2022 network performance report.⁴⁴

While the gap has narrowed in recent years, the level of excess returns for NSP's remains a considerable concern for consumers and is a consideration that the AER needs to consider when making final decisions for the next round of regulatory determinations. The data, we suggest, indicates room still for a greater focus on productivity.

The following chart from the same report shows that there are a number of factors, including opex and capex allowances and application of incentive schemes that all contribute to actual financial returns being greater than forecasts from regulated allowances.

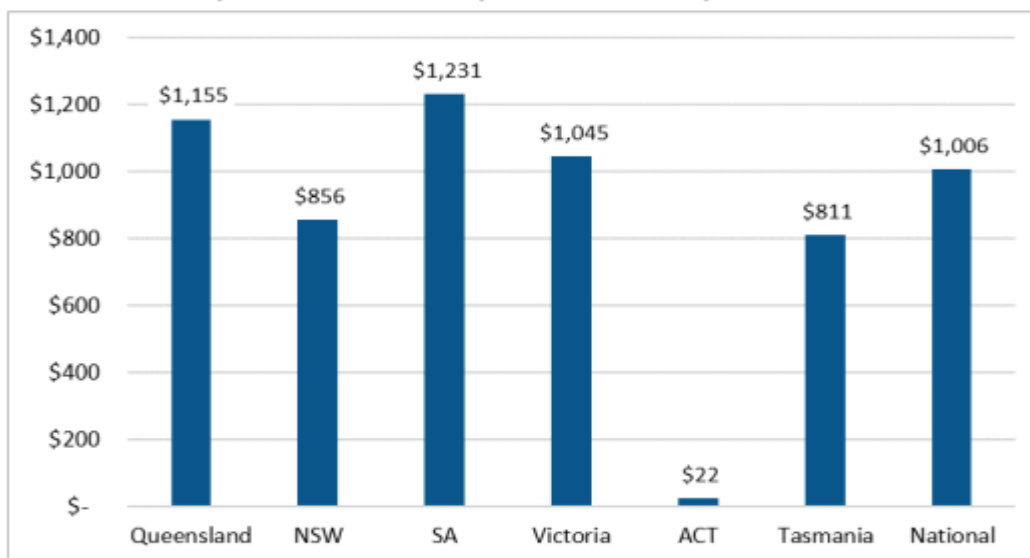
Figure 6: Incremental Contributions to Returns on Regulated Equity — Simple Average of All NSPs Over 2014-2021



Source: AER. *Electricity network performance report 2022*, p. 32.

IEEFA’s¹ report “Regulated Electricity Network Prices Are Higher than Necessary An Assessment of the Economic Regulation of Australia’s Electricity Networks” provides detail about what they describe as supernormal profits.

Cumulative Supernormal Profits per Customer by Jurisdiction, 2014-2021



Source: AER data,¹⁵ IEEFA analysis.

Note: Western Australia is not part of the National Electricity Market and is excluded from this analysis. AER data for the Northern Territory is not available for the entire period.

These above regulated returns are of increasing concern to customers, we suggest, and cannot be ignored.

¹ [Regulated Electricity Network Prices Are Higher than Necessary](#)

3. What is the ‘right level’ of engagement?

Both EQ and SAPN undertook substantial levels of engagement with thousands of hours of stakeholder and consumer time, some reimbursed, being sought and provided. Similarly, for the networks, substantial staff and consultant time has also been applied. While the argument that this cost in money and time is likely substantially less than the previous situation of hiring SC’s for “Limited Merits Review” hearings, it is appropriate to ask what an effective and efficient level of consumer engagement activity might look like, and how it might change over time.

We are very clear that a measure like ‘hours of engagement’ is not an appropriate indicator, impact of engagement is the sort of measures required, we suggest that some shared thinking about what appropriate levels for engagement might be, would be useful, recognising that different levels are going to be optimal for different businesses and different times.

What is also clear to us is that particularly in times of substantial uncertainty, deep, respectful engagement that is focussed on shared problem solving must be ongoing.

4. How much focus on the topics that consumers / stakeholders can meaningfully impact?

A part of the response to this question is ensuring that engagement is focussed on matters that consumers, including consumer groups, can meaningfully impact.

We observed SAPN’s Reset Reference Group members being very surprised at the answer they received to the question of how much of the maximum allowed revenue request they could realistically influence. SAPN answered honestly and directly saying about 7-8%. This led to discussion about whether all of the hours of engagement activities that had been participated in by consumers and stakeholders represented reasonable return for effort.

EQ engagement also involved considerable time commitment from consumers and stakeholders involved, with no capacity to influence the ‘building blocks’ of capex or opex proposals.

We have previously said that an ‘engagement arms race’ where NSP’s considered that the more they spent on engagement the more of what they wanted was approved, would be very unhelpful.

The time is probably right for some signalling from the AER about the focus and extent of engagement that is most helpful. We’d hope that this would also include how engagement is more continuous and able to respond to a much less ‘lumpy’ network regulation process.

5. Early Signal Pathway and the Handbook more generally

Energy Queensland did not apply to the AER to have their 2025-30 regulatory proposals conserved under the Early Signal Pathway process. SAPN was accepted onto the ESP process, as described by the Better Resets handbook². They are the third network business accepted onto the ESP process, summarised as:

“This offers an alternative process for networks to engage with us, allowing them to get earlier formal feedback on aspects of their regulatory proposal – such as at the issues paper stage, in exchange for certain commitments. While this process is currently optional, our aim is that the early signal pathway approach eventually becomes part of the business-as-usual approach to regulation.” – Better Resets Handbook, page 5

CCP30 opines that the Early Signal Pathway process was developed to both reduce the time and cost of undertaking the 5-year regulatory resets and to reward sound, applied consumer engagement. The measures that this had occurred were independent assessment of effectiveness of engagement and a next period regulatory proposal that was within ‘tram tracks’ aligned with next period’s revenue bid being this period’s revealed costs plus CPI and minus productivity savings. (Not quite CPI-X, but in that direction)

The reality is that recent regulatory proposals from DNSP’s, including SAPN and EQ are seeking significantly more allowance for capex than (current + CPI). The AER has used the term “A wall of capex” to say this. This is counter to some of the intent of the Early Signal Pathway process while reflecting the reality of uncertainty, greater levels of government policy announcements and implementing the transition.

Consequently, we support the AER’s approach to move from ESP for future resets, moving to the Structured Engagement Pathway, while retaining a great benefit of ESP, the early check-in’s with businesses and the expectation of a draft plan being produced for consultation well before the proposal is lodged.

² [Better Reset Handbook - December 2021.pdf \(aer.gov.au\)](#)

6. Is engagement 'leading'?

How to engage on what consumers really want to impact is not straightforward, in large part due to the massive information imbalance between network businesses and consumers / people who are part of engagement programs. We have sensed on occasions that engagement is constructed to mainly focussing on getting approval for what the NSP really wants. For example: 'forced choice' scenarios where 3 (usually) options are presented but only one is probably realistic, and in line with NSP preferences.

The tension between strong, ongoing returns for business owners and lower costs for consumers is a vexed issue where fully understanding the 'other side' perspective is very difficult.

The risk of 'leading' engagement is not something that can readily be mitigated by regulation, however the AER could develop, with a group of consumers, a guide to identify approaches that are more likely to be 'leading.'

7. The sensitive nature of safety

There is no doubt that electricity is dangerous when managed without due care. We know that electricity networks have worked diligently to instil a safety culture in their teams and have outstanding safety records over recent years.

Having observed dozens of presentations by network businesses to consumer and / or stakeholder groups we wonder whether safety, generically expressed, is sometimes presented as more of a 'variable' for network businesses than it really is. We ask how do consumers know when 'safety' is a rationale for upping the RAB and ongoing revenue stream rather than genuinely ensuring that a safe network operation is also cost effective?

Of course any responsible network will not regard safety as a 'variable.' Safety also cannot be let to slip into the lexicon of network language to seek to justify inefficient or excessive spending.

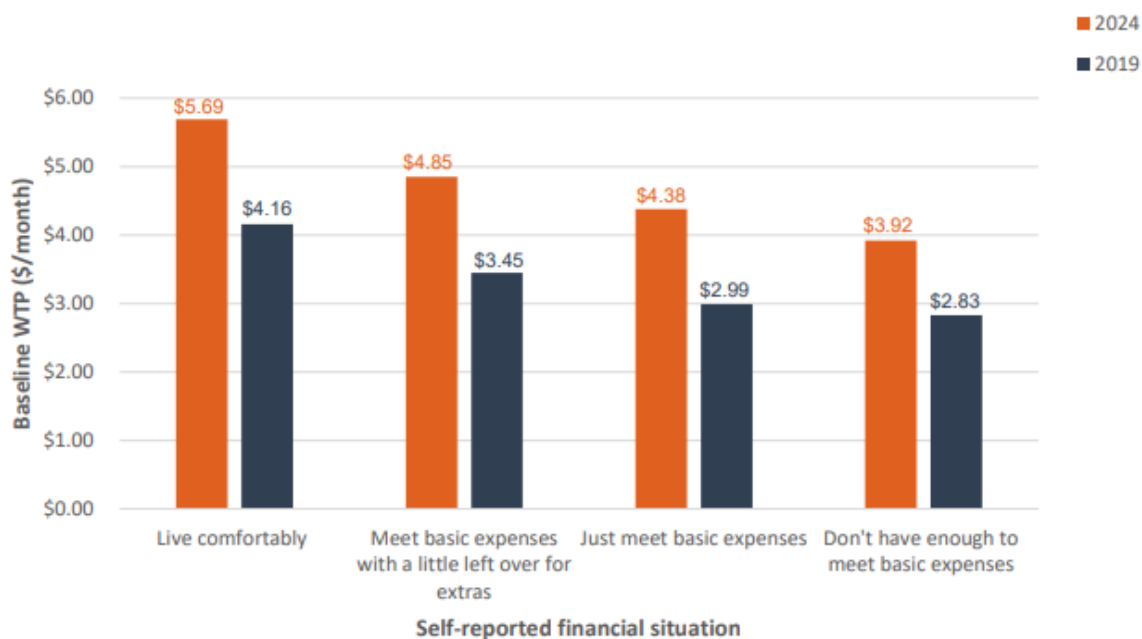
8. Who is most concerned about reliability?

Similarly we have observed dozens of presentations by network businesses presenting that consumers want reliable, safe and affordable energy, often backed up by reference to the Finkel energy ‘trilemma’: decarbonised, reliable and affordable electricity. What is rarely presented, in our observations, is clear, factual information about current reliability levels, the message is invariably that consumers want more reliability – and are prepared to pay for this. What is less carefully explored is the substantial differences in reliability – cost trade-offs that different groups of people have. The reality that there are many households (lower income) who would willingly accept reduced reliability for lower bills is very rarely contemplated.

We suggest that some caution needs to be applied to NSP claims that ever greater levels of reliability (in aggregate) are sought by consumers in their diversity.

We suggest that evidence for this view is found in the AER’s 2024 Values of Customer Reliability report³

Figure 24 Current financial situation (residential customers) willingness to pay (\$/month, nominal)



This table indicates that lower income people (‘don’t have enough to meet basic expenses) have a significantly lower willingness to pay, a basis for VCR calculations, than higher income people, who on average are prepared to pay about 45% more.

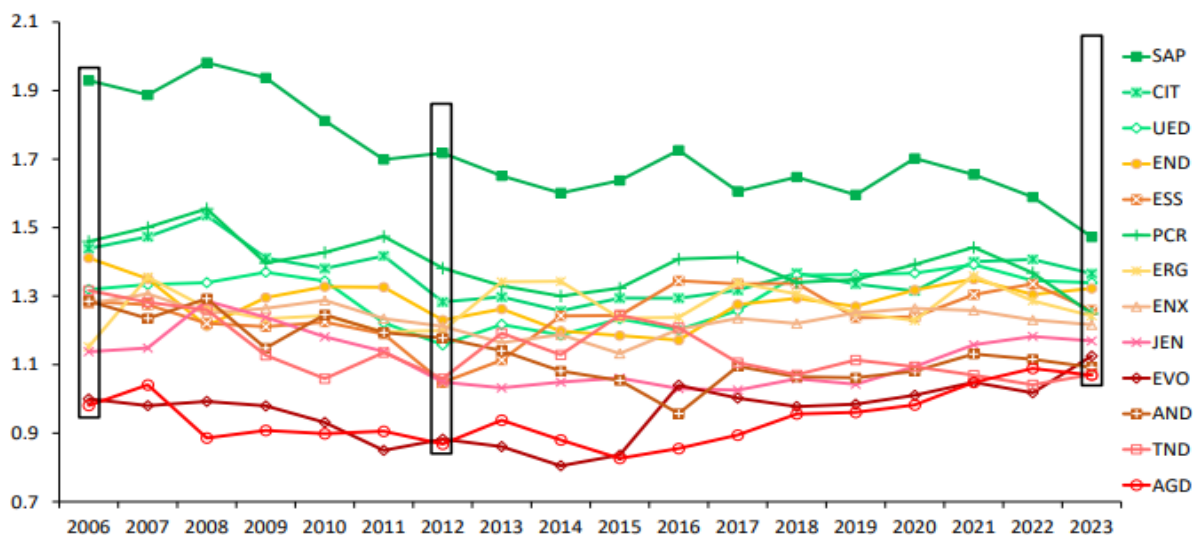
Reliability expectations along with both willingness to pay and capacity to pay for greater reliability vary considerably between customer groups and their income. Any consideration of reliability needs to be nuanced enough to reflect this diversity.

³ [Values of customer reliability - final report](#)

9. Productivity and better use of assets MTFP.

AER's Chair, Clare Savage has said on a number of recent occasions that a primary challenge for network businesses in Australia is to "use it better." This is supported by declining or 'flat' MTFP for most NSP's over a nearly 2-decade period, from 2006 as presented in the 2024 Benchmarking report.

Figure 11 Individual DNSP MTFP indexes, 2006–23



Source: Quantonomics; AER analysis.

The only DNSP's to improve MTFP over the 2 decades have been the worst performing networks, and their improvement has not been as substantial as it should have been.

This view is supported by the energy networks peak body, Energy Network Australia who released a report on 6th August 2024, prepared for them by consultants LEK: "The Time is Now Getting smarter with the grid"⁴ In the Executive Summary LEK says:

"L.E.K. has modelled an 'All Levers Pulled' scenario, which can deliver \$7 billion of annual benefits to consumers by 2030 through distribution-connected resources playing a more significant role in the energy transition. This would allow the energy system to still deliver the consumer cost benefits and emissions reductions that are built into the current energy transition plans¹ in the event that the build of large-scale generation is prolonged."

Yet, we continue observe that when NSP's engage with consumers there is generally an implied, or sometimes explicit dictum about a linearity of relationship between cost and reward / reliability. In other words, the opportunities to find 'productivity' improvements that benefit both network owners and consumers are not actively considered. The 'efficiency frontier' of economics is implied as fixed over time, rather than productivity being an ongoing pursuit.

Noting that ENA's consultant has identified billions of dollars of consumer benefit and that network MTFP is at best static, we think that consumers can realistically be expecting networks to be more focussed on finding productivity improvements and committing themselves to be finding improvements in the next regulatory periods. (We note that Powerlink is an exception to our observations about limited application of productivity opportunities by NSP's. For their 2022-27 determination decided to commit themselves to ongoing focus on achieving productivity improvements.)

⁴ [Leveraging the Distribution Grid in support of the Energy Transition](#)

10. How AER decisions are presented to NSP reference / advisory group members, and others.

We have also observed that often network businesses present AER decisions or even roles to consumers and their consumer reference / advisory groups in a manner that is not fully factual nor balanced. This is disappointing. Draft decisions are a key area where the presentation of regulator decisions is poor. This not only skews attitudes of those engaged towards a business's perspective, it also undermines the integrity of the regulatory system.

While determination conferences provide an opportunity for the regulator to explain aspects of their decision in their own words, these events are usually 'high level' with limited explanation of more specific decisions.

We suggest that the AER consider two responses:

- a) Developing short videos explaining key aspects of the regulator's role and the regulatory process as specific by the national rules, primary audience being members of NSP consumer and stakeholder reference groups.
- b) AER staff to meet with NSP consumer and stakeholder reference / advisory groups and any other relevant groups soon after the release of a draft determination to provide an overview and answer questions. This could be included as a part of the Structured Engagement Pathway (SEP) process that is built on the Early Signal Pathway process.

11. No such thing as "Average customer"

Many comparisons and aspects of regulatory processes, both from NSP's and the AER, utilise references to impacts on an 'average customer' – household and small business. While the intent is to provide a straightforward indication of impact, the notion of 'average customer' is increasingly unhelpful. For example, average demand / use fails to recognise that a significant number of households have solar PV reducing their electricity demand from the grid, while those households unable to install PV are having their entire use from the grid. Averaging the load and costs for all households, fails to realistically reflect the different impacts, eg for solar and non-solar customers.

This point is also made in their forward to the SAPN Revised Proposal by Andrew Nance and Chris Marsden, Chairs of SAPN's Consumer Advisory Forum and Reset Advisory Group respectively who say:

"We have also raised concerns on the concept of the 'average SA electricity consumer.' With the increased take-up of Consumer Energy Resources (CER) behind the meter, the CAF would welcome a better articulation by the AER of this Determination's (and subsequent Annual Pricing Proposals) impacts on SA consumers, with or without CER."

As an indication of this point, we note that the residential consumption in network determination tends to be based on 4,000kwh per annum as the 'average' household use.

Yet a very quick web search of consumption for a family with 2 children and no solar PV yields:

- 6,205 kWh Skyline Solar: <https://www.skylinesolar.com.au/average-kwh-usage-per-day-in-australia/>
- 15,000 kWh Red Energy: <https://www.redenergy.com.au/living-energy/smart-homes/how-much-is-the-average-electricity-bill>, (with swimming pool)
- 7,100 kWh Finder: <https://www.finder.com.au/energy/how-much-energy-does-the-average-home-use> (Adelaide, household of 4)

This is strictly non exhaustive, but strongly indicative that a non-PV family with children household will use significantly more electricity than the 4,000kWh 'average' used by SAPN, AER and others. Higher electricity use comes with a significantly higher distribution cost.

Efforts need to be made to better reflect impacts, eg bill impacts, on different household demand and use profiles to enable more meaningful comparisons to occur.

12. Role of EBSS

CCP30 has observed two very different approaches to the Efficiency Benefit Sharing Scheme (EBSS). Energy Queensland has proposed that EBSS not be applied to Ergon and Energex, in part because actual opex expenditure was higher than anticipated resulting in a higher EBSS penalty.

SAPN on the other hand has reported a final, audited opex underspend of \$115 million compared to their original proposal of a \$20m underspend. This could have impacts SAPN's EBSS benefit.

We have discussed EBSS details in the relevant reports business specific reports. We ponder on whether EBSS is being seen by businesses as an incentive to improve opex efficiency or part of their strategy to increase revenue, unless they overspend! Maybe its time to rethink how EBSS is applied to better support customers.

13. Tariffs and EV charging

There has been a massive amount of engagement with consumers and stakeholders about many aspects of electricity tariffs by all network businesses and the ENA.

Elegant models have been developed, including by NSP's to apply tariffs whose price signals, if followed by customers, would better utilise existing network infrastructure and reduce new capex and associate opex spending. However, the realities remain that any change in tariff approach will leave some customers worse off, DNSP's can never be sure how retailers will apply network tariffs, invariably diminishing price signalling impact and many customers are very limited in their capacity to switch load.

This all means that significant tariff change/reform is difficult in the shorter term.

Meanwhile, there are opportunities for network effective tariffs to be developed and applied for newer technologies, particularly Electric Vehicles. Perhaps this is where more focus needs to be given?

14. Inter-period progress

No regulatory proposal occurs in isolation, any proposal builds on approaches and development of previous and the current regulatory periods. These past trends need to be part of the consideration of current proposals. So, for example, where there are increases sought in capex and / or opex for the next period, but previous regulatory periods have been characterised by underspend against allowance, then the veracity of the new claims for extra allowance need to be very carefully considered. Where the AER has provided commentary in previous decisions about areas for improvement, including in engaging with consumers and stakeholders, it is reasonable to expect that this advice has been heeded by the NSP.