

Date: 13 January 2023

To:

Warwick Anderson

General Manager Pricing.

Australian Energy Regulator

via email: warwick.anderson@aer.gov.au

From:

ElectraNet's Consumer Advisory Panel

(Members names listed page 6)

Consumer Advisory Panel Composition

In (2015) ElectraNet convened a Consumer Advisory Panel (CAP) which operated until January 2022. This group is referred to as CAP1 in this response.

In September 2022 a refreshed CAP become functional and is referred to as CAP2.

Of importance to this response is that CAP2 is a relatively new group and has been meeting as a collective since mid-September 2022. Additionally, only three members of CAP2 participated in CAP1.

This information provides important context for how CAP2 have responded to the Proposal.

RE: RESPONSE TO REVISED REVENUE PROPOSAL

This submission responds to aspects of the AER Draft Decision for ElectraNet's 2023-28 regulatory proposal and to the Revised Revenue Proposal

This submission from the ElectraNet Consumer Advisory Panel (CAP) focuses on two broad questions:

1. *What consumer engagement developments have occurred since January 2022? and*
2. *What are the CAP views relating the Regulatory Proposal issues that we have discussed with ElectraNet?*

1. ElectraNet's Consumer engagement process

A range of improvement opportunities were identified by ElectraNet in the January 2022 Regulatory Proposal and by Seed Advisory in their February 2022 report.

In the "Customer Engagement Outcomes Report Revenue Proposal 2023-24 to 2027-28" that was part of the Regulatory Proposal package, ElectraNet responded with the following commitments:

- *reinstating an independent facilitator to run meetings and work with CAP members to ensure ElectraNet and consumer expectations are met during meetings and engagement processes;*
- *providing meeting presentations and supporting information to CAP participants well in advance of meetings;*
- *increasing engagement with the CAP during the development of the Preliminary Revenue Proposal;*
- *continuing early engagement of the CAP in ElectraNet's annual planning process with the introduction of twice yearly sessions (approx. March and September). These sessions will create opportunity for input on the development of network and asset plans, including the Transmission Annual Planning Report;*
- *funding optional independent training for CAP members who have minimal experience in understanding network proposals or network business operations;*
- *developing measurable success criteria for the CAP;*
- *ensuring face-to-face meetings where possible to enhance collaboration; and*
- *creating opportunity for face to face engagement with CAP members in regional South Australia.*

From May to August 2022 ElectraNet engaged an Independent Facilitator (Leanne Muffet from Strategic Matters) to assist with recruiting CAP2 and working with CAP1.

Key areas of work undertaken during this time were:

- Reviewing and re-establishing the Panel under new Terms of Reference;
- Reappointing a broader range of Members to the Panel;
- Clarifying the role and purpose of the Panel to focus on representation of consumer interests and improving the value of electricity transmission services in SA; and
- Clarifying the governance framework, working arrangements, membership, and responsibilities of the respective parties

A key task of the Independent Facilitator was to assist with the update of the CAP's Terms of Reference. Key updates to the Terms of Reference include a stronger emphasis on applying the International Association of Public Participation(IAP2) framework for engagement, clarity regarding the CAP's sphere of influence and decision making role, and a clear line of sight to ElectraNet's Executive Team and Board.

The refreshed Consumer Advisory Panel (CAP2) has provision for ten (10) independent members. To date seven of these positions have been filled with a diverse and experienced group of individuals with backgrounds across energy markets, social, environmental, legislative, industry, agricultural and business expertise. It is anticipated that the final positions will be filled in early 2023.

Since CAP2 formed and during the period between 21/ 09/ 22 and 27/ 10/ 22, they have met five times.

- four of these have been face to face (including an induction meeting); and
- one meeting has been online.

The purpose of these meetings has been to work with ElectraNet to provide consumer advice to inform the revised revenue proposal.

The CAP2, and particularly the Independent Facilitator have also worked on developing the engagement and topics plan for 2023, including engagement in the Annual Planning Process, developing the Transmission Annual Planning Report, exploring Renewable Energy Zones (REZ) and Inertia services, meeting jointly with the SAPN Consumer Advisory staff and Board, and developing measurable success criteria for the CAP.

2. Engagement on the Revised Revenue Proposal

The members of CAP2 confirm that ElectraNet has:

- engaged well with CAP2 for the duration of time that the CAP2 has been operating (i.e. late September 2022 +);
- shared information clearly and in a timely fashion with the CAP2 members;
- responded in a timely fashion to any queries raised by CAP2 members; and
- followed through on many commitments that they made in January in their Consumer Engagement Outcomes report.

The CAP2 understand that any outstanding items from January 2022 will be addressed in the first half of 2023. These outstanding issues form part of a schedule of works and include the Annual Planning Process and the development of measurable success criteria for the CAP.

In considering the AER's Draft Decision and the development of ElectraNet's revised revenue proposal process, CAP2 has focused on the general issue of affordability of electricity and six specific issues. These are noted over page together with the CAP's observation of and position on each of them.

The general issue of concern that was discussed actively by CAP2 is that of rising energy costs for household and business customers SME’s as well as C&I businesses.

The draft decision provided for an increased maximum allowed revenue that was 15% higher than proposed by ElectraNet in their initial proposal. The AER explains this stating:

“In this draft decision we have employed current interest rates rather than the placeholder values in ElectraNet’s proposal. It is important that we update for the latest market data so that ElectraNet’s determination reflects current financial market conditions.” (Page 4, Draft Decision overview)

While CAP 2 recognises that the AER has appropriately applied the relevant National Electricity Rules on making the Draft decision, it nevertheless will add significant cost pressure for many customers. CAP2 has encouraged ElectraNet to continue to explore every opportunity and innovation that can be implemented over the life of the regulatory period to reign in rising electricity costs.

CAP2 also encourages the AER to explore opportunities to reduce the burden of rising energy costs, particularly associated with interest rates rises with customer groups and network businesses

Specific Matters.

Issue	Observations from CAP2	Level of support from CAP2
Price impacts and contingent projects	<ul style="list-style-type: none"> • CAP members recognise that ElectraNet needs to balance price impacts on consumers with the provision of ongoing consistent energy supply throughout the state. This tension creates an ongoing challenge. • The CAP expressed concerns regarding regional business sensitivity to obtaining a reliable supply of energy. • From January to December 2022, national interest rates increased seven times. Given the national backdrop of rising interest rates and inflation, and policy decisions being made at State and Federal levels, CAP members recognise: <ul style="list-style-type: none"> – ElectraNet is navigating a difficult set of circumstances; and – Adjustments in spending by ElectraNet is likely to have minimal impact on overall price point for residential and industrial consumers alike. • The CAP recognises the framework within which ElectraNet is working, however they would like to see ElectraNet commit to continuously explore options and/or innovations regarding mitigation of potential adverse financial impact for customers. 	<p>General level of support for the position. <i>However</i>, the CAP expects to see an ongoing focus on the exploration of applied options and or innovations to mitigate potential financial impacts for customers</p>

Issue	Observations from CAP2	Level of support from CAP2
Capital Expenditure Sharing Scheme (CESS)	<ul style="list-style-type: none"> Given the timing of this issue and the formation of the new CAP (CAP2) in September 2022, there has been limited engagement on this topic. CAP2 recognises that ElectraNet has accepted the AER's draft decision on forecast capital expenditure. CAP2 recognises that AER has a more detailed understanding of the intricacies of the CESS rules than the CAP has. That the CAP accepts ElectraNet's position of updated CESS forecasts that will include the removal of the capital expenditure deferral adjustments, resulting in a penalty outcome of \$2 – 3 million for financial year 2023/24 	<p>Support for the position that ElectraNet has documented in the RRP, including accepting the principles espoused by ElectraNet regarding the removal of capital expenditure deferral adjustment.</p>
Insurance Costs	<ul style="list-style-type: none"> CAP2 recognises the work that ElectraNet has undertaken in obtaining the right coverage at the best possible price and with fair risk allocation. If insurance premiums are higher than forecast a cost pass-through may occur to consumers. CAP2 recognises that this topic was actively discussed with the previous CAP (CAP1) in the lead up to the revenue proposal being lodged, including taking higher risk in some instances where insurance premiums were not considered to be prudent. CAP2 understands that ElectraNet has not expanded its insurance cover or increased its forecast. 	<p>Support for the resolution between AER and ElectraNet that is documented in the RRP (i.e. AER's removal of the growth component of the forecast).</p> <p>Acceptance of the "scale factor" reduction decision by the AER in the Draft Decision and ElectraNet's (reluctant) acceptance.</p>
Cyber security	<ul style="list-style-type: none"> CAP2 sought clarification that SP3 is an adequate security level and investment to make over the coming years. With the additional information that ElectraNet provided, the CAP supports ElectraNet's approach and looks to the AER and ElectraNet to determine a prudent level of expenditure, commensurate with the cyber risk preparedness of other Australian Network Service Providers. The CAP anticipates receiving regular updates on this matter including access to any research being undertaken by ElectraNet (e.g.: current work being undertaken by Deloitte) 	<p>Support for the position on the understanding that the CAP will be regularly updated on the matter.</p>

Issue	Observations from CAP2	Level of support from CAP2
Renewable Energy Zones (REZ)	<ul style="list-style-type: none"> Although not directly relating to the Revised Revenue Proposal, CAP2 sought additional information pertaining to the network’s capacity to accommodate Renewable Energy Zones (REZ). This includes: <ul style="list-style-type: none"> AEMO’s request for ElectraNet to respond to changing ISP needs every two years, which is likely to trigger the development of REZ Design Reports. We anticipate that the ISP 2024 may update the REZ situation for SA. The changing nature of emission reporting requirements. Information pertaining to SA’s capabilities within an international context 	Support for ongoing discussion and updates from ElectraNet on this matter
Inertia services	<ul style="list-style-type: none"> The CAP firmly supports the notion that price certainty and stability are important to customers. Therefore the CAP expressed that it is better to clarify upfront costs for customers than not to. CAP2 notes that CAP1 supported the introduction of Synchronous Condensers as part to the response to this matter, and to improve system security CAP2 has clarified the timing of the purchase of Inertia services with the expected commissioning of PEC – when we do not expect additional inertia services will be required. We are satisfied that the inertia services to be purchased are for the period before PEC is operational The CAP recommended that ElectraNet submit an estimate of expected costs up front and adjust with smaller variations [if required] later. 	Support for ongoing discussion and updates from ElectraNet on this matter.

3. Concluding Comments

As members of ElectraNet’s Consumer Advisory Panel (CAP2), we confirm that ElectraNet has:

- moved to improve their overall engagement practises, including enhancing the Consumer Advisory Panel functioning, implementing the “Improvement opportunities” that they identified in their “Customer Engagement Outcomes Report,” January 2022, attachment ENET017 to the regulatory proposal. (Page 21);
- engaged well with CAP2 for the duration of time that the CAP2 has been operating (i.e. late September 2022 +);
- shared information clearly and in a timely fashion and with the CAP2 members;
- responded in a timely fashion to any queries of CAP2 members; and
- followed through on many commitments that they made in January 2022 in their Consumer Engagement Outcomes report.

The CAP2 understand that any outstanding items from January 2022 will be addressed in the first half of 2023. These outstanding issues form part of a schedule of works and include the Annual Planning Process and the development of measurable success criteria for the CAP.

The CAP2 also recognises that energy markets are volatile and that technologies, policies and consumer impacts are all changing rapidly that energy businesses and their consumer reference groups will continue to need to be agile in responding appropriately to rapid change.

We support the Revised Revenue Proposal that has been prepared by ElectraNet, and with the understanding that where we seek additional information this will be supplied to us by ElectraNet on a regular and consistent basis into and throughout 2023 and coming years.

We look forward to our ongoing work with ElectraNet.

SIGNED

Note: the CAP members have members have been appointed in their own right, notwithstanding their links to the organisations / associations listed.

(Alphabetically listed)

Greg McCarron ([Central Irrigation Trust](#))

Jodie Van Deventer ([The Australian Industry Group](#))

Mark Henley ([Consumer advocate](#))

Mark Parnell ([Environmental and Conservation advocate](#))

Rebecca Knol ([The South Australian Chamber of Mines and Energy](#))

Simon Maddocks ([Primary Producers SA](#))

Vikram Kenjle ([University of Adelaide](#))

And

Leanne Muffet (CAP Independent Facilitator, [Strategic Matters](#))