ACAT
AUSTRALIAN CAPITAL TERRITORY
CIVIL & ADMINISTRATIVE TRIBUNAL

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

AERInquiry@aer.gov.au

ACAT SUBMISSION
Draft Decision
ActewAGL Distribution Determination 2015-16 to 2018-19

The ACAT wishes to make some brief observations on the Draft Decision issued by the Commission in November 2014. We apologise that our Submission is several days late.

The Draft Decision is based on complex industry and economic issues which are outside the particular expertise of the ACAT. The comments which follow in this Submission are made in the context of the particular responsibilities and experience of ACAT, described in our Submission dated 22 August 2014 to the Commission on the Issues Paper.

Rate of Return

The ACAT supports the proposed Rate of Return of 6.88%, noting that it is consistent with the approach outlined in the AER Guidelines, and is more appropriate than the Rate of Return previously allowed to ActewAGL Distribution.

Capital Expenditure

ACAT is not well placed to comment on the AER's decision on the appropriate level of capital expenditure (Capex), and must rely on the Commission's independent expertise in this respect. We wish to note however that:

- There are some special factors in the ACT which may not neatly align with the capital expenditure requirements of a typical urban electricity distributor, for example the costs of vegetation management in the 'Bush Capital'. Our experience of the Canberra Bushfires, and the liability of a Victorian utility for widespread damage and deaths in the Victorian Bushfires, are important reminders of the importance of proactive vegetation management.
- Some capital expenditures may be the result of ACT Government renewable energy initiatives and the achievement of this important objective should not be constrained by the Commission's Capex decision.

ENERGY AND WATER
PO Box 578 CIVIC SQUARE ACT 2608
Ph: 62077740 Fax: 62077739
Email: acatenergycomplaints@act.gov.au
www.acat.act.gov.au

ActewAGL could not have been aware of the scale of the proposed reduction in Capex until the publication of the Draft Decision, and most likely is already fully committed to its Capex program in 2014-15. For this reason, and the likely impacts on the Territory economy discussed below (at Opex), the ACAT recommends that the proposed Capex reductions commence from 1 July 2015 and be transitioned in over 2015-16. The cost of this transition should be borne by consumers.

Operating Expenditure

ACAT is not well placed to comment on the AER's decision on the appropriate level of operating expenditure (Opex), and must rely on the Commission's chosen comparator methodology and its independent expertise in this respect. We welcome the customer benefit which will accrue from the lower Opex allowance, however we recommend that the reductions in Opex be transitioned in between 1 January 2015 and 30 June 2017 to allow ActewAGL to achieve greater operational efficiencies in a planned and structured manner, rather than in a disordered process forced by short-term considerations. The cost of this transition should be borne by consumers.

ACAT sees several important reasons for this measured approach:

- ActewAGL could not have been aware of the scale of the proposed reduction in Opex until the publication of the draft decision. Because of their scale, the impacts should not be backdated to 1 July 2014.
- The restructure of ActewAGL's operations should be well planned and implemented in the most efficient sequence possible. An effective restructure requires careful consideration of the areas where the utility is performing poorly compared to their interstate (Victorian) comparators. The Commission could be of assistance to ActewAGL by identifying any such areas of poor performance.
- ActewAGL is a major employer in the Territory. The Territory economy could be seriously affected by wholesale redundancies and cessation of contracts by ActewAGL over the next few months.

Fees and Charges

ACAT considers that some of the fees and charges levied by ActewAGL Distribution are excessive. ActewAGL may be tempted to offset reductions in Capex and Opex by raising fees and charges to a level higher than cost-recovery, or which maintains feather-bedded work practices. ACAT recommends that the Commission scrutinise proposed fees and charges in each annual approval of the standard customer contract.

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Summary of Recommendations

1. ACAT supports the proposed Rate of Return of 6.88%.
2. ACAT recommends that the impact of vegetation management costs and ACT Government renewable energy measures on Capex be carefully considered when preparing the Final Decision.
3. ACAT recommends that the new Capex level commence from 1 July 2015 and be transitioned in over 2015-16.
4. ACAT recommends that the new Opex level commence from 1 January 2015 and be transitioned in over the period to 30 June 2017.
5. ACAT recommends that the AER maintain close scrutiny, on an annual basis, over fees and charges proposed by ActewAGL.

If the approach recommended by ACAT is adopted, ACT consumers will still see very substantial reductions in their electricity bills, however the total reduction will be staged over several years, with some reduction in prices occurring from 1 July 2015.

Yours sincerely

Linda Crebbin
General President

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