
Submission to the *Australian Energy Regulator*
Draft Decision – ElectraNet Transmission
Determination 2023 to 2028 and ElectraNet
Revised Revenue Proposal 2023-2028

Consumer Challenge Panel
Sub-panel 25

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The authors recognise the traditional owners of the lands on which ElectraNet and the Australian Energy Regulator (AER) operate, as well as the lands on which this report has been prepared. We pay our respect to the elders of these nations, past and present, along with their emerging leaders.

We advise that to the best of our knowledge this submission does not disclose any confidential material.

Contents

1	Overview	3
2	Background	3
3	Approach to Engagement	4
4	Issues in engagement	5
4.1	Capital Expenditure Sharing Scheme (CESS).....	5
4.2	Rule Change Step Change.....	6
4.3	Inertia Services.....	6
4.4	Consumer representation.....	6
5	Reflections on affordability	7

1 Overview

The CCP has observed transparent, open and responsive engagement with consumer representatives as ElectraNet developed its Revised Revenue Proposal. ElectraNet's task was made simpler as it accepted most of the AER's Draft Decision and there was a relatively small number of new issues that arose following the submission of ElectraNet's initial Revenue Proposal.

ElectraNet made several changes to its consumer engagement during 2022, which were well received by stakeholders and facilitated improved engagement with the Consumer Advisory Panel (CAP).

The CCP has identified some concerns about consumer engagement on several more technical and complex aspects of the Revised Revenue Proposal. For example, we consider that the CAP did not have access to objective and robust information on the Capital Expenditure Sharing Scheme (CESS). As such the CCP recommends that the AER does not give weight to the stated consumer view in support of ElectraNet's position on the CESS. Similarly, we did not observe any detailed engagement regarding the Rule Change step change, and therefore believe that this issue has not been effectively considered by consumers.

Finally, affordability concerns were a feature of ElectraNet's engagement with the CAP. The CCP has reflected on the limited outcomes of this engagement, and we are encouraging the AER to establish a new CCP lateral project to consider how affordability issues ought to be considered in future determinations.

2 Background

The Consumer Challenge Panel 25 sub-panel (**CCP**) was appointed in November 2021 and provided written advice to the Australian Energy Regulator (**AER**) on ElectraNet's Transmission Network Revenue Proposal in May 2022.

The focus of this submission is the effectiveness of ElectraNet's engagement activities with their customers since submitting their initial Revenue Proposal in January 2022, and how this engagement is reflected in the Revised Revenue Proposal submitted to the AER on 2 December 2022. In assessing the effectiveness of ElectraNet's engagement activities, the CCP is guided by the AER's *Better Resets Handbook: Towards Consumer Centric Network Proposals* (**Better Resets Handbook**).

ElectraNet implemented several changes to its engagement approach in 2022 including a membership revamp of its Consumer Advisory Panel (**CAP**). The CCP observed three CAP meetings in which the Revised Revenue Proposal was discussed.¹ In addition, the CCP observed a meeting of CAP members only on 5 October 2022. The meetings observed by the CCP included five new members, in addition to three returning members, and the recently appointed independent facilitator.

Several very significant shifts in the external macro- and micro-economic environment have occurred since ElectraNet's Initial Revenue Proposal. Most notable has been sharp increases in interest rates, inflation, and electricity prices.

¹ CCP observed CAP meetings on 29 September 2022, 17 October 2022 and 27 October 2022.

The AER's Draft Decision was published on 30 September 2022. ElectraNet has accepted most of the Draft Decision with the following significant exceptions:

- the allowed revenue for the Cyber Security step change (additional \$6.6M)
- the exclusion of the Rule Change step change (\$21.4M),
- new Inertia network services operational expenditure (**opex**) (\$16.3M),
- the CESS capital expenditure deferral adjustment, and
- the exclusion of cyber-attack costs from insurance cost pass through event

The Revised Revenue Proposal includes a significant new step change related to system operation capability and incorporates further adjustments for inflation and actual costs for the insurance step change.

3 Approach to Engagement

The CCP has formed the view that ElectraNet was genuine in its desire to engage in open and constructive dialogue with CAP members as it finalised its Revised Revenue Proposal. Our position is supported by the following observations:

- The improvement opportunities identified during the earlier stage of the regulatory process were implemented: An independent facilitator has been brought in, the Terms of Reference have been updated and the CAP membership has been refreshed and broadened.
- New CAP members actively represented their constituencies and asked appropriate questions of ElectraNet. It is likely that good induction processes, accessible information and open meeting processes supported new members' effectiveness.
- CAP members influenced the topics for discussion at CAP meetings.
- The number, format and timing of CAP meetings facilitated adequate opportunity for CAP members to engage with the set of issues under consideration.
- All CAP meeting materials, including agendas, presentations and accurate, detailed minutes have been published on ElectraNet's website. This facilitates accountability to a wider set of customers and stakeholders, which is important because the CAP is ElectraNet's sole consumer engagement vehicle.
- ElectraNet facilitated the CAP to meet alone, without the business present.
- The CAP reviewed and endorsed ElectraNet's summary of their position on matters subject to consultation and as published in the Revised Revenue Proposal (p19-21)
- ElectraNet has documented how it plans to maintain high quality consumer engagement during the forthcoming regulatory period. ElectraNet has committed to CAP involvement in the annual planning process, with engagement to commence early in 2023. This is a very useful initiative, and we trust the future engagement proceeds effectively. We also commend the commitment by ElectraNet for joint consumer-focussed meetings between the ElectraNet CAP and SAPN's Customer Advisory Board (CAB) to assist in identifying opportunities and efficiencies across the two utilities to benefit South Australia's energy consumers.

- ElectraNet’s Revised Revenue Proposal is readable, accessible and simple to navigate.

We did observe occasional frustration by the CAP members during discussions of very complex matters such as system inertia and rule change impacts. This may be explained by the challenge of transitioning from CAP1 to CAP2. The limited time available before the Revised Revenue Proposal was finalised may have prevented the new CAP members from developing a deeper understanding of these issues. However, this did not seem to restrict the members forming a useful ‘customer view’ on the value of the proposed investments.

One area that still requires attention is the development of metrics of success for ElectraNet’s engagement with its CAP.

4 Issues in engagement

4.1 *Capital Expenditure Sharing Scheme*

All the issues discussed by the CAP had elements of complexity. Generally, ElectraNet was effective in breaking down that complexity to ensure the topic was accessible to its consumer stakeholder audience. However, the CCP considers that ElectraNet’s engagement with the CAP on the Capital Expenditure Sharing Scheme (**CESS**) failed to objectively establish all the facts of the matter and as such failed to sufficiently equip consumer stakeholders to engage with the issue.

The treatment of ElectraNet’s CESS had several complex elements. There were procedural challenges relating to the evolving facts of the matter during the regulatory process (specifically the 9 May 2022 submission by ElectraNet revising its position on the CESS). ElectraNet acknowledged their role in contributing to this confusion. The rules governing the scheme are also complex, including deferral rules, and expert advice on the treatment of the deferral was not straight forward.

The CAP’s key question was whether ElectraNet’s revised approach to the CESS was within the CESS rules, and CAP support for the approach was dependent on the answer to this question. Our observation of the engagement process was that this question was not satisfactorily answered.

The CCP is concerned that ElectraNet’s engagement with CAP focussed on a sub-set of the AER’s Draft Decision to justify their approach to the deferral adjustment. The AER’s concern about whether projects brought forward had been subject to consultation and/or assessment were discussed in detail during CAP meetings. However, the more significant materiality thresholds relied upon by the AER in its Draft Decision were not the subject of informed discussion with CAP. The CCP considers that ElectraNet should have facilitated CAP engagement on all grounds of the AER’s Draft Decision, including the materiality of the 1.6% estimated underspend in capex in the current regulatory period, which features as a key issue in the Incenta report of December 2022 commissioned by ElectraNet.

The CCP is not confident that ElectraNet’s engagement with CAP on this issue has been sufficiently robust and objective. Therefore, we recommend that the CAP view on this matter should not be relied upon in the AER’s final determination.

4.2 Rule Change Step Change

ElectraNet have included an operating cost step change under the banner of a new obligation under the Rules to address increasing system complexity.

This issue was introduced briefly to the CAP in their meeting of 29 September 2022, mainly in the context of the AER not accepting a step change of \$3.9M related to increasing network complexity in the initial Revenue Proposal. In the CAP meeting of 27 October, ElectraNet presented a proposal for an increase of up to 20 staff to support the various system and operational functions driven by increasing system complexity. The impact of the proposal, being a proposed significant opex step change of \$21.4M, was not explicitly presented in the meeting. The summary of key topics for the CAP arising from the meeting did not include this step change, with the issue being only noted under 'additional matters.'

The cost of the proposed step change, however, was included in the opex step change totals when informing the CAP of ElectraNet's likely price impacts of the overall revenue proposal.

At the time, we observed a general comment that the CAP members were sympathetic to the need to invest in resources to develop ElectraNet's capability to operate an increasing complex network.

In our analysis of the Revised Revenue Proposal, we note that ElectraNet relies heavily on a report from PowerRunner, a US-based company that appears, from their website, to provide high-end IT solutions to utilities related to network modelling and operations. We see this as a potential conflict and believe this issue should have been raised with the CAP to provide context to the investment justification.

In the Revised Revenue Proposal, ElectraNet does not present any comment from the CAP regarding PowerRunner's report or the proposed step change itself. We believe this is appropriate as the CAP was not meaningfully engaged on the matter of the proposed step change in any detail, including highlighting the potential conflict in including a consulting report and business case prepared by a potential vendor.

4.3 Inertia Services

Electranet is tendering for inertia services required by AEMO in upcoming years. The need, cost and nature of such a service is a complex technical area to consider. Electranet presented the issue fundamentally as a risk to reliability. The CAP noted the uncertainty of cost and recommended that ElectraNet err on the side of certainty by including a 'best estimate' amount in the Revised Revenue Proposal.

While the quantum of the claim remains subject to AER analysis, the CCP believes that the process and consideration by the CAP was reasonably well-informed.

4.4 Consumer representation

During the 19 October 2022 Public Forum, it was noted that ElectraNet was holding a vacancy on the CAP which it intended to fill with an additional representative of South Australian household consumers. The CCP agrees that ElectraNet's CAP is not sufficiently representative of small end users. We note that other Transmission Network Service Providers (**TNSPs**) in the NEM have been able to engage with a wider range of household and small business representatives in their ongoing engagement activities. Given the emerging cost of living pressures facing households and small businesses, as well as the changing dynamics of the energy transition, it is important that this perspective is a part of a TNSP engagement program.

5 Reflections on affordability

The forecast outlook for electricity prices has deteriorated since ElectraNet lodged its initial Revenue Proposal. ElectraNet acknowledges this in its Revised Revenue Proposal noting that “the Australian Government expects electricity prices to increase 56% in the next two years”². The Revised Revenue Proposal does not substantively address this issue, but ElectraNet does offer the following statement on the affordability challenge:

ElectraNet acknowledges the increasing cost of living and that this is a major issue for South Australians. We are committed to playing our part by ensuring that the money we spend on South Australia’s electricity transmission network is spent efficiently and is in the long-term interest of consumers.

*While transmission costs are only about 11% of the average household electricity bill, we will keep searching for innovative solutions to keep costs as low as possible. Our CAP has challenged us to drive down costs while maintaining reliability and we remain committed to this.*³

The CAP presented a strong focus on affordability, and actively pressed ElectraNet on the impact that the Revenue Proposal will have on customers. The need for effective engagement and seeking lower cost solutions regarding contingent projects was raised a number of times in the CAP meetings we observed, as was the reconsideration of the supply security risk / cost trade-off. ElectraNet responded by advising that they will continue to pursue capex and opex efficiencies wherever possible but did not consider further reductions in expenditure programmes to be acceptable, with the somewhat vague commitment that:

*We will continue to work with the CAP to balance cost and reliability in the long term interests of consumers.*⁴

Despite the looming affordability crisis, this looks like a ‘business-as-usual’ approach.

In our view, there is still a level of concern within the CAP, despite ElectraNet’s assurances, that the existing efficiency schemes may not be strong enough to maintain adequate pressure on ElectraNet to seek every opportunity to respect affordability, in particular regarding contingent projects.

That being said, there is value in ElectraNet’s commitment to the continuation of the CAP as an advisory consumer body into the regulatory period, as it will provide some level of ‘corporate memory’ of commitments made as these key issues arise, particularly in the context of high energy costs.

This determination touches on an issue that will be increasingly challenging for future AER determinations as the impacts of the energy transition flow through to higher electricity prices, which are likely to be well above CPI for many years. Until now, the relatively benign environment has meant the AER hasn’t had to grapple with an affordability crisis as part of its regulatory decision-making process. However, difficult questions about how the AER ought to consider affordability issues in its determinations are starting to arise and are likely to become acute in the future.

² ElectraNet, *Revised Revenue Proposal 2023-2028*, p10

³ *ibid*

⁴ *ibid*, p25

We encourage the AER to consider establishing a CCP lateral project to explore the role of affordability issues in future revenue determinations. The lateral project could consider the following questions:

- How are affordability concerns expected to be dealt with in revenue proposals?
- How can consumers' short-term affordability concerns be considered within the long-term interests of consumers?
- Should Revenue Proposals model the impacts of their expenditure proposals on customer hardship and disconnection rates?
- What is good practice to assess customer preferences in the trade-offs between prices and reliability?