

Consumer
Challenge
Panel

Evoenergy **Regulatory Proposal** 2019-24 CCP10 Initial response

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Introducing the CCP

- **Set up under the Better Regulation Reforms**
- **CCP10 is part of the 'second iteration' of the CCP – for NSW / ACT**
- **We assist the AER to make better regulatory determinations by providing input on issues of importance to consumers**

**Represent a consumer
'real world' perspective –
the 'person in the street'**

**Focus: consumer outcomes
Price, performance,
service, corporate
responsibility**

**Fair outcomes for all
A well-performing utility is
of best value to the
community**

the 'person in the street',
'real world' perspective –

responsibility
service, corporate

community
of best value to the

Overview

- **This proposal is reasonable, and tends to address the contemporary concerns of customers.**
- **Capex approach to support the progressive energy policies in the ACT is noted.**
- **The stable approach to the quantum of capital investment is noted.**
- **TSS: support for Evo's initiatives and focus on demand tariffs. CCP is keen to understand the acceptance and real experience of energy consumers.**
- **Community engagement on the reset appeared to be a little 'closed', so limited in depth in feedback.**
- **Some surprise that reliability and network performance were top of the key issues for consumers.**
- **Interested in Evo's response to recent trends in network performance, and how that relates to the expenditure proposals.**
- **We present in a spirit of constructive debate.**
- **We retain a commitment to 'no surprises.'**

Context

- **2014-19 determination not resolved before 2019-24 lodged**
- **Rapid changes: particularly in technology, including ACT Government commitment to renewable energy, NB reverse auction process**
- **2012 rule changes and “Better Regulation” now embedded - last time they were ‘brand new’**
- **ActewAGL, now Evoenergy, has made significant cost reductions in many aspects of the business during 2014-19**
- **New Rate of Return guideline being developed by the AER**
- **Benchmarking now better established, compared to 2015**
- **Major development in Consumer Engagement by some network businesses**

Overview: Total revenue Sought

\$ million nominal	2019/20	2020/21	2021/22	2022/23	2023/24
Return on capital	50.80	52.34	54.14	55.86	57.29
Return of capital (regulatory depreciation)	35.06	38.06	41.25	45.43	48.86
Operating expenditure	52.89	55.30	57.92	60.57	63.20
Revenue adjustments	0.66	0.32	0.33	0.34	0.35
Net tax allowance	5.97	6.33	6.66	7.18	7.42
Annual revenue requirement (unsmoothed)	145.38	152.36	160.30	169.38	177.12
Annual revenue requirement (smoothed)	143.78	151.92	160.52	169.61	179.21
X-factors	-3.08%	-3.08%	-3.08%	-3.08%	-3.08%

Capital Expenditure (capex)

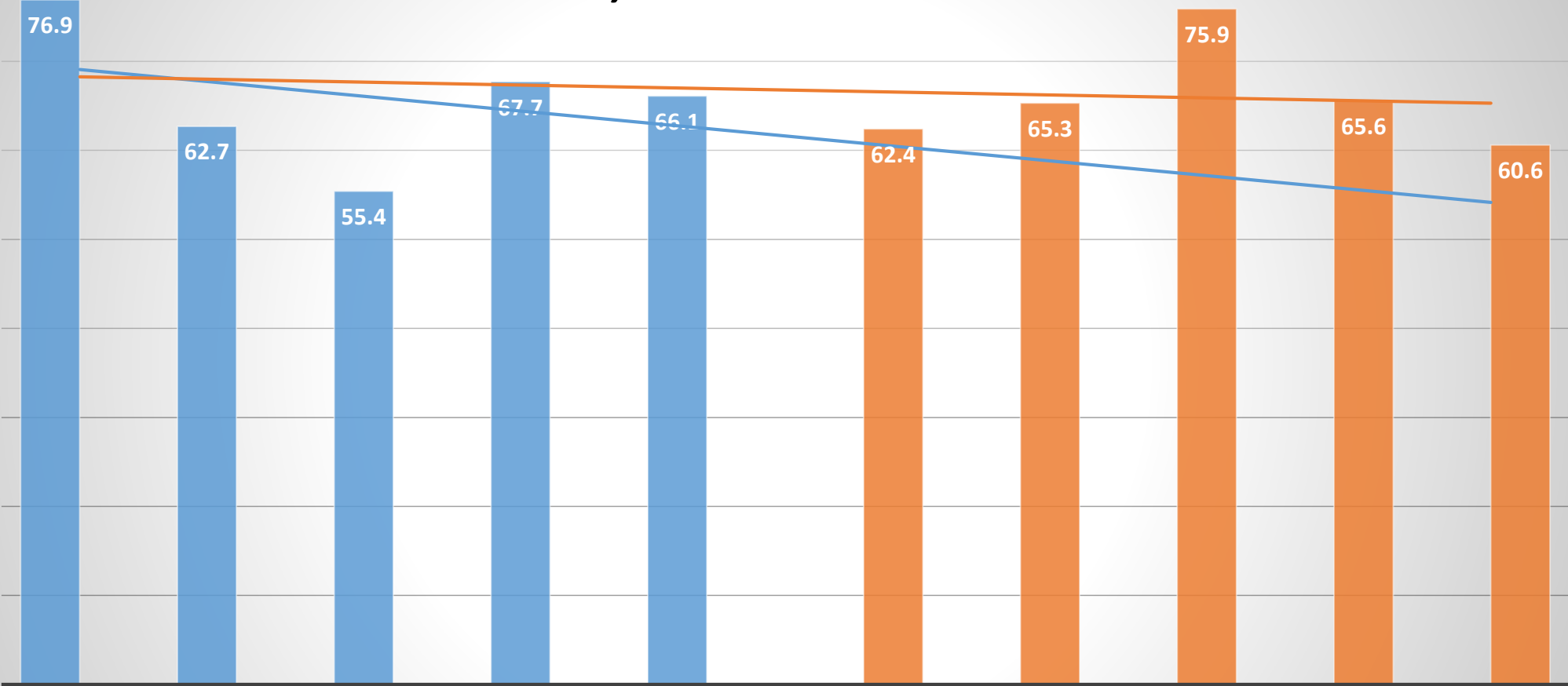
Forecast Capex

\$ million (2018/19)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
AER allowance 2014–19	79.5	66.2	70.7	61.6	60.5	338.6
Evoenergy actual 2014–19 ¹	76.9	62.7	55.4	67.7	66.1	328.8
Evoenergy forecast 2019–24	62.4	65.3	75.9	65.6	60.6	329.8
Variance allowance to actual	(2.6)	(3.6)	(15.3)	6.1	5.7	(9.8)
Variance allowance to forecast	(17.2)	(1.0)	5.2	4.0	0.1	(8.8)

¹ Actual to 2016/17 and forecast for 2017/18 and 2018/19

Capex Actual and Proposed

Note Trend lines, flatter for 19-24



2015 2016 2017 2018 2019 2020 2021 2022 2023 2024

Actual 14-19 forecast 19-24 Linear (Actual 14-19) Linear (forecast 19-24)

Capex by Category, 2014-24

\$ million (2018/19)	2014–19 Allowance	2014–19 Actual	2019–24 Forecast	Variance (Actual vs AER)	Variance (Forecast vs AER)
Augmentation	51.7	33.3	47.2	(18.5)	(4.5)
Connections	85.4	90.6	85.9	5.2	0.5
Replacement	115.1	80.1	91.6	(35.0)	(23.5)
Reliability and quality improvements	7.3	6.7	6.2	(0.6)	(1.1)
Non-network	63.0	89.8	58.3	26.7	(4.7)
Capitalised overheads	57.5	68.2	75.6	10.7	18.1
Less capital contributions	(33.4)	(39.6)	(34.2)	(6.2)	(0.7)
Less disposals/materials escalation adjustment	(8.2)	(0.4)	(1.1)	7.8	7.1
Net capex	338.6	328.8	329.8	(9.8)	(8.8)

Considerations re Capex

- Augex is about right and heading in the right direction with focus on control systems etc
- % Repex is a bit below other network businesses, makes sense for a younger network. Underspent 2014-19.
- The ratios and balance of investment in repex, non-network assets and customers connections vary from other utilities, we look forward to further analysis by the AER, Evo and conversations with ACT consumers to clarify this position.
- Non Network costs are high, about 18% of total capex.
- Very high Non- Network spend over the 14-19 period, carried forward capacity would be expected?
- A fair bit of Non-Network is IT, should be delivering efficiencies elsewhere, where are these efficiencies?

Operating Costs (opex)

Trend Growth in Opex

- **Key questions in assessing the trend growth:**
 - **Are the output growth factors reasonable?**
 - **Is the assumed productivity change reasonable?**
 - **Are the projections for labour cost increases reasonable?**
- **Trend customer growth factor:**
 - **Is based on AER statistical analysis but it is significantly larger than estimates by NZ Commerce Commission**
- **Assumed trend productivity growth:**
 - **Assumption of zero based on AER statistical analysis but most businesses plan on continuous productivity gains. Should networks be different?**
- **Labour cost projections:**
 - **Are the increases projected consistent with other wage forecasts? If there are real wage rises will Evoenergy expect productivity gains from the workforce to offset these?**

Considerations Regarding Opex

- **Opex is about half the increase in proposed total revenue. Are there more opportunities for efficiencies and cost reductions?**
- **Evoenergy has applied the base-step-trend approach used by AER – but is it giving plausible results?**
- **Base opex is \$16.5m below the starting point**
- **This reflects productivity increases achieved by Evoenergy and is to be applauded**
- **Two key factors in the increase are a trend increase in costs and a step change. Both should be carefully reviewed**
- **The step change is due to increased vegetation management costs. Responded to ACT Government requirements. Are the costs reasonable?**

Happy with Incentive Schemes

- **EBSS**
- **CESS**
- **STIPIS**
- **DMIS (where is the evidence of serious consideration of DM?)**

Tariff Structure Statement

- **Evoenergy is recognised as being among the leaders in tariff reform – e.g. introduction of residential demand tariffs**
- **We consider cost reflective tariffs are in the Long term interest of consumers and support this in principle. We have some questions:**
 - **Is there a case for seasonal tariffs?**
 - **What is the movement in average tariffs for customers on the basic tariff and the demand tariffs?**
 - **The reduction in the gap in energy rates raises questions**
 - **Demand charges for LV commercial customers are much larger than those for residential customers and HV customers.**
 - **What is driving this? And the increase in residential demand charges relative to those for HV customers?**
 - **Why is Demand + Capacity tariff (rather than the demand tariff) prescribed for LV customers with embedded generation**
 - **If tariffs are cost reflective and based on demand why should the network tariffs depend on equipment on the customer's side of the meter?**

Consumer Engagement

At the start CCP10 posed 3 key questions as a basis for considering the Revenue Proposal:

- 1 What was Tried?**
- 2. What was Heard?**
- 3. What was Applied**

What was Tried?

- **ECRC**
- **Community Forums**
- **Online?**

Process Overview

REGULATORY TIMELINE



We are here

CUSTOMER AND STAKEHOLDER ENGAGEMENT

What was Heard?

- **Affordability**
- **Reliability**
- **Sustainability**

Consultation Questions from Evoenergy

SUMMARY OF QUESTIONS

OPERATIONS AND MAINTENANCE (p16)

Are there other areas of network operations and maintenance that you think are important?

OPEX CASE STUDY (p19)

Which option would you prefer?

- 1 More pro-active approach to network maintenance (at an additional cost and with the benefit of greater future reliability)
- 2 More reactive maintenance program (for a saving now but potentially reduced reliability in the future)
- 3 The current approach

INVESTMENT IN THE NETWORK: CASE STUDY (p24)

How should we support customers with solar PV generation?

What issues are most important when considering the network infrastructure requirements that result from solar PV generation?

NETWORK TARIFFS (p25)

Are there particular reforms to the existing suite of tariffs that you consider important?

What issues are the most important when considering the addition of new network tariffs?

Do you have other ideas of how we could support customers as we transition to more cost reflective tariffs?

Would you prefer a fast (1-3 years), medium (3-5 years) or slow (5+ years) transition to more cost reflective network tariffs?

CUSTOMER ENGAGEMENT (p28)

How would you prefer to engage with ActewAGL Distribution?

What electricity network related topics are most important to you?

Key Themes, 1 and 2

Maintaining safety, quality, reliability and security of supply

Evoenergy's regulatory proposal reflects the key capital projects required to maintain the safety, quality, reliability and security of supply. These include investing in feeders to increase the capacity of existing zone substations to provide required capacity for major developments in the Molonglo and Gold Creek districts, continuing the replacement and refurbishment program for ageing poles and underground cable, and constructing a second connection point to the NSW transmission network.

Striking the right cost/reliability trade-off

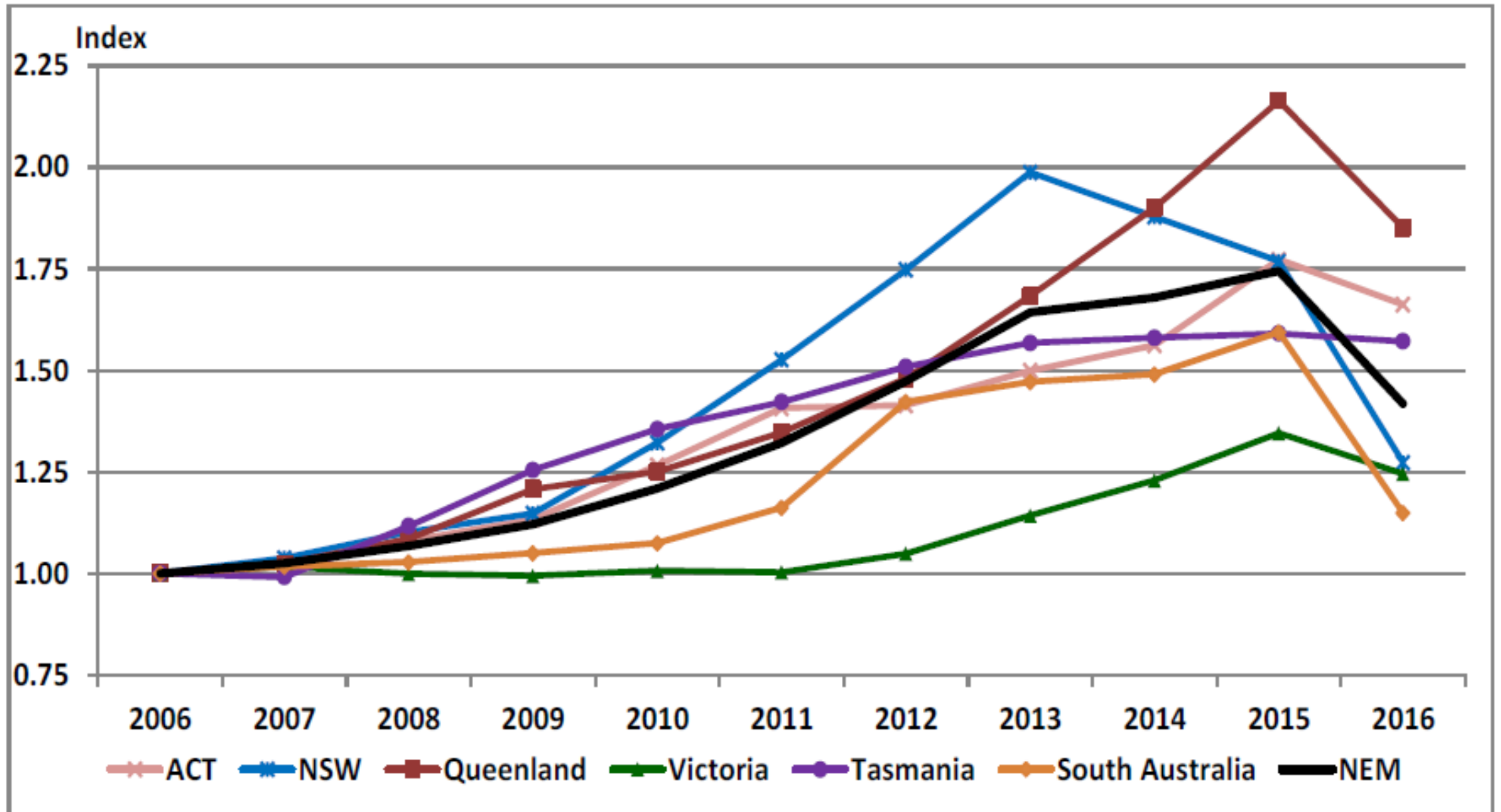
Evoenergy is acutely aware of the level of energy prices currently impacting consumers. However, it is also aware that maintaining reliability of supply is vitally important. Evoenergy has thus sought to manage the network component of electricity prices by finding the right balance between cost optimisation and reliability of supply for the long-term interest of consumers. Evoenergy has optimised its capital expenditure (capex) program by overlaying a top-down assessment onto its bottom-up, asset-specific planning approach. This assessment has identified nearly \$46 million in opportunities to reduce or defer augmentation expenditure (augex) and replacement expenditure (repex).

Key Themes 3 and 4

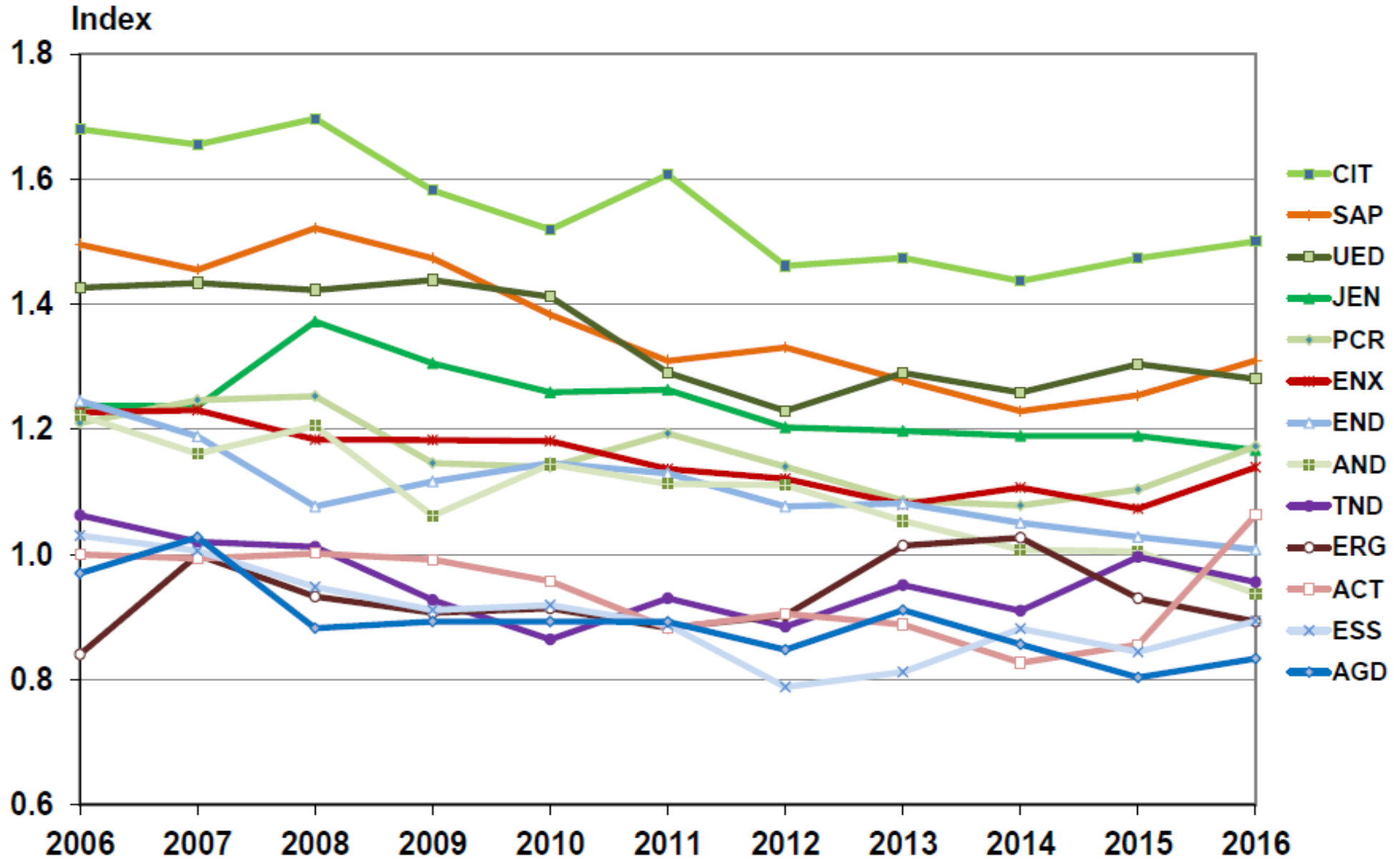
Supporting new technology	New technologies such as solar PV, wind farms and battery storage pose a number of challenges, and opportunities, for Evoenergy in the forthcoming regulatory period. As mentioned above, Evoenergy proposes to address these technical challenges by investing in systems that will allow effective management of two-way power flows.
Pricing that is cost reflective and stable	Evoenergy's regulatory proposal seeks to recover no more than the efficient cost incurred in providing distribution and transmission services. Evoenergy estimates that its regulatory proposal will increase the average consumer's retail bill by less than one per cent per year, before the impacts of other factors affecting retail bills such as inflation and the price of wholesale electricity.

Other Considerations

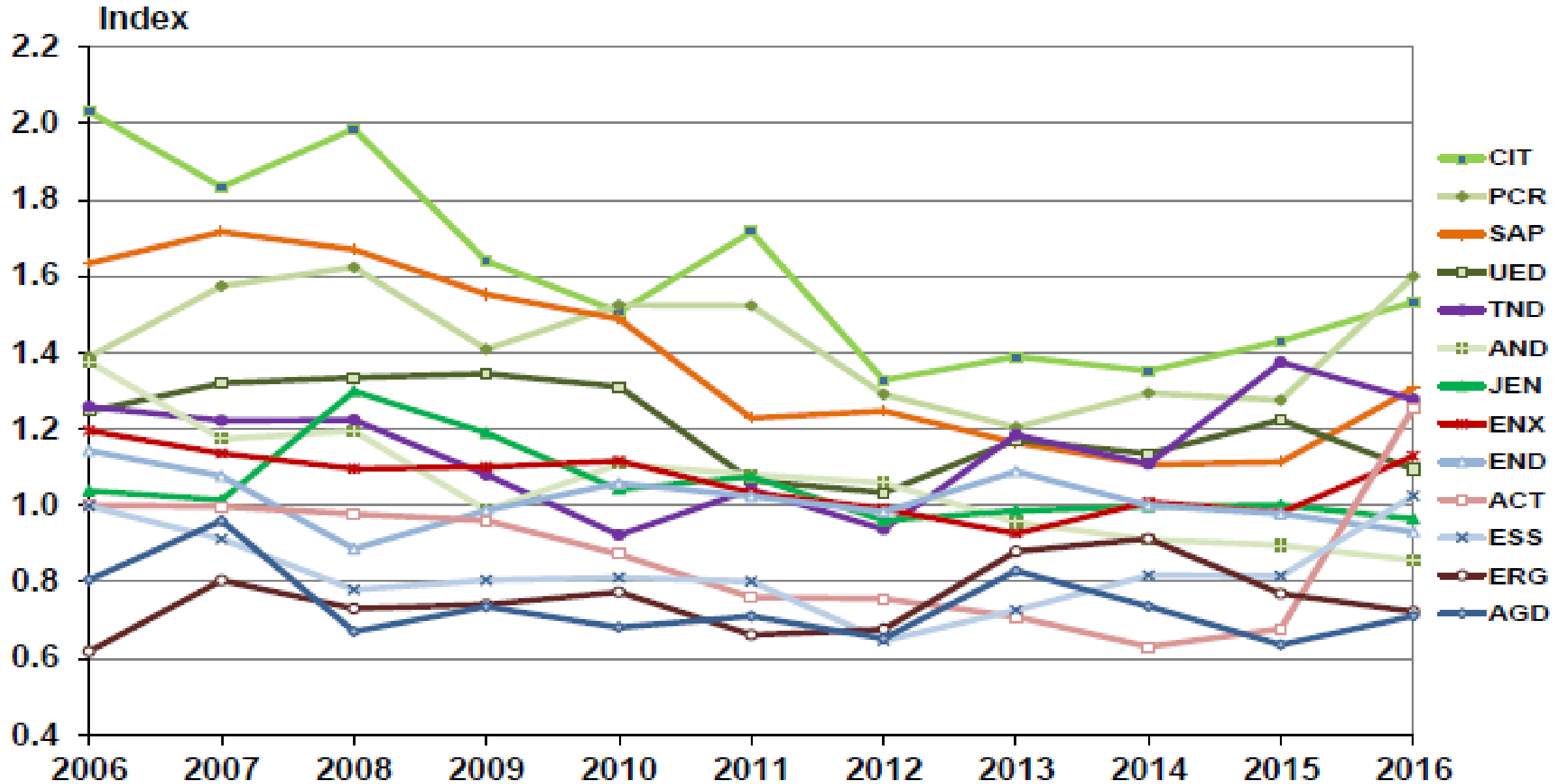
Index of Network Revenues, 2006-16



Total Multilateral Partial Factor Productivity



Opex Multilateral Partial Factor Productivity



What was Applied?

- **Is the price / reliability trade-off reflecting consumer views. NB Theme 2, “Price ...BUT ...”**
- **CCP had limited opportunity to observe consumer engagement**
- **Theme 4: is an annual price increase of 5.66% (nominal) “cost reflective and stable?”**
- **Can the Evoenergy network be used more efficiently?**
- **Evoenergy has had the second highest increase in network revenues, 2006-16 (price index), is this reasonable?**
- **Is there enough information about theme 3 “Supporting New technology?”**

Topics for Consideration

- Is annual revenue growth > CPI justified. Nominal growth 5.66%,
“X-factor” = -3.08%
- What are consumers saying re price – reliability trade-off?
- How does Proposal stack up against Evoenergy’s 4 key themes?
- Rate of Return – separate process. MRP = 7% seems high.
- To what extent have non-network options been considered?
- Opex is about half the increase in proposed total revenue, are there more opportunities for efficiencies and cost reductions?
- Opex Partial Multifactor Productivity is OK, but Total Partial Multifactor Productivity improved over last 12 months, but still low. To what extent has this continued? How can network be used more efficiently?
- Is a “step change” for increased vegetation management costs warranted?

Topics for Consideration

- **AER's growth trends have been applied but are they appropriate? Eg Zero productivity Are there labour productivity gains to offset forecast wages growth?**
- **How realistic are growth forecasts? Eg Molongolo,**
- **How effective was consumer engagement? What was heard and applied?**
- **Repex is largest component (35% capex), despite a comparatively young network, is this reasonable?**
- **Depreciation / IT spending are related, is IT spending too high?**
- **Contingent Project, how will consumers be engaged?**
- **Rate of return and increased MRP will be addressed in rate of return review**

Where next ? General Observations

We observe ongoing changes in how regulatory processes are undertaken, including:

- Much earlier starts; Preliminary revenue proposals.**
- Deliberative forums / deep dives to engage consumers and other stakeholders on detail**
- Wider range of consumer engagement activity, note heterogeneity of consumers**
- Three way engagement without prejudice: network, regulator, consumers**
- Where next? Opportunities to engage more fully, more frequently? Earlier start, more transparent.**