

Consumer
Challenge
Panel

26 November 2017

Slavko Jovanoski
Assistant Director
Australian Energy Regulator
Level 20, 175 Pitt Street Sydney NSW 2000

By email: slavko.jovanoski@aer.gov.au

Dear Slavko

Essential Energy 2014-19 revenue allowance remittal proposal

On 14 November 2017, Warwick Anderson requested CCP10 to provide advice to the AER on a draft of Essential Energy's proposed 2014-19 revenue allowance remittal proposal which Essential intended to discuss with CCP10 and other consumer groups prior to lodgement with the AER.

The proposal comprises a draft 3-page letter to the AER and a draft infographic.

Essential has had a thorough engagement program with consumer groups about its proposal. The proposal has been disclosed by Essential to and discussed with consumer groups on a confidential basis in the following meetings:

Stakeholder Group	Dates
Consumer Challenge Panel 10 (CCP10)	10 November
Energy Consumers Australia	8 November and 15 November
Public Interest Advocacy Centre	10 November
Essential Energy's Customer Advocacy Group (CAG)	15 November
Energy Users Association Australia	16 November
Roundtable with all groups	23 November

CCP10 had the following involvement during this engagement process:

- we gave feedback to Essential on the draft proposal on 10 November
- we observed the feedback given to Essential by its CAG on 15 November to a

revised draft proposal and subsequently discussed with Essential how it would incorporate that further feedback into its proposal and

- we participated in the roundtable on the final draft proposal on 23 November.

CCP10 confirms that Essential was very receptive to comments from consumer groups and that it has taken steps to incorporate the feedback in the final draft proposal, particularly the infographic, which helps to summarise the key aspects of the proposal.

In both of the meetings on 15 and 23 November several members of Essential's CAG positively acknowledged the 35% decline in operating expenditure and 41% reduction in capital expenditure over the period. The CAG highlighted the efforts that Essential had made in a short period to reduce staff numbers and to negotiate more efficient labor conditions and to achieve the AER forecast figure in the period whilst keeping prices stable for consumers. The CAG reinforced that affordability is the key concern for consumers, however not at the expense of either:

- a suitable level of network investment in one reset period that would need to be addressed by an increase in future periods or
- a short-term reduction in operating expenditure that could reduce service levels and reliability.

CCP10 understands that Essential intends to propose to the AER a revenue allowance in accordance with the AER's set aside 2015 determination for the period up to 30 June 2016 and the section 59A undertaking entered into for the period up to 30 June 2019. Essential proposes to retain approximately \$90 million that has been collected by it due to variations in demand forecasting and that the total over-recovery for the 2014-19 period will be capped at \$100 million. A critical feature of the proposal is that the revenue effects will be confined to the 2014-19 period and within a CPI price path leading to price stability for Essential's consumers. In order to achieve this proposal, Essential has chosen not to re-open contentious matters following the Federal Court decision.

CCP10 supports Essential's proposal for resolving its regulatory allowance for 2014-19, following the remittal of that determination to the AER by the Federal Court. We commend Essential on its genuine and transparent consumer engagement on its proposal and on the way it has listened to that feedback and reflected it in its revised proposal. CCP10 believes that the Essential proposal is in the long-term interests of Essential's customers. We understand that this involves Essential retaining up to \$100m in revenue over-recovery that would otherwise be returned to consumers, but this needs to be considered in the context of the overall proposal. Consumers will benefit from:

- the certainty provided by the early resolution of the proposed price path
- the removal of the risk for consumers from the reopening of the contentious issues from the Federal Court decision, particularly in regard to debt costs, and
- on an ongoing basis from the reductions in operational and capital expenditure that Essential has achieved.

It is our opinion that the benefits outweigh the costs, in aggregate, for consumers from this proposal.

Finally, we laud the clarity and brevity of the Essential 2014-19 revenue allowance remittal proposal. We commend Essential for showing leadership in the resolution of the 2014-19 revenue determinations. Consumers were not well served by the regulatory impasse between the AER and the NSW/ACT businesses around the 2014-19 determinations.

We are delighted that Essential appears to also be taking a similar approach to consumer engagement on its 2019-24 proposal.

We are aware that the AER has agreed to give a copy of this letter to Essential prior to it lodging its final proposal with the AER.

Yours sincerely

Mark Henley, Louise Benjamin, Eric Groom and Mike Swanston