

Consumer
Challenge
Panel

27 April 2020

The Chief Executive Officer
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

by email: AERInquiry@aer.gov.au

Dear Dr Develin,

Thank you for the opportunity for the Consumer Challenge Panel (sub-panel CCP14) to provide advice regarding the proposal by the Australian Energy Regulator (AER) to delay the final 2020-25 distribution determinations for Energex Limited, Ergon Energy Corporation Limited and SA Power Networks.

Whilst the AER has completed the review of the final proposals from these companies, it is understood that the AER is proposing to delay the final decisions in order to account for the next short-term forecasts of inflation to be published by the Reserve Bank, due on 8 May 2020. The AER considers that the May forecasts will provide a more accurate reflection of economic circumstances for the next regulatory period.

We are conscious of the opportunity to defer a decision from time to time on the basis of better or more timely information becoming available can offer. Despite such a practice of delaying a decision being likely to lead to more appropriate decisions, clearly to do so often would not be in the interest of all stakeholders of the decision. We do recognise, however, that the current economic conditions are extremely rare and believe that the AER's consideration of an unusual approach is in this case justified.

We note a number of specific and important initiatives being undertaken by governments, regulators and consumers in relation to the impact of the global pandemic on the electricity industry and energy consumers, and view this proposed action by the AER as one component of this suite of initiatives.

The unprecedented nature of the global pandemic is expected to have profound impacts on the economic conditions that will influence the efficient operation of the electricity distributors and, ultimately, consumers, over the next regulatory period and beyond. Given that forecast inflation is an important input into the determination of network revenues, CCP14 supports the proposed delay in the determinations proposed by the AER.

We believe that there are a number of additional factors that may be impacted by the delay.

Firstly, retailers will be assessing and formulating new retail price offerings and the impact of new network prices and tariff structures on their customers. Network prices also provide guidance to notified pricing such as the DMO and regulated pricing by the QCA. CCP14 asks that the timeliness of the delivery of these 'follow on' decisions is uppermost in the way the data is presented to retailers

and other regulators to reduce any risk of a delay in these pricing decisions, specially where benefits to consumers in the form of reduced prices or more appropriate tariff offerings will be forthcoming.

Secondly, it would be useful if the AER could note in the final decision the impact of the later inflation data relative to the decision that uses currently available information. Such an approach would assist consumers appreciate the importance and value of the delay.

Finally, it is clear that many planning decisions by the utilities will also be highly impacted by these unprecedented conditions. Customer growth forecasts, major customer projects, solar PV development and operating cost input changes are now highly uncertain and may or may not differ significantly from the forecasts in the final proposals. It would be helpful for the AER to articulate in the final decision how any significant variance in the forecasts used by the utilities would impact consumers, and what actions are available to both the companies and consumers should significant variances eventuate.

Thank you for the opportunity to provide advice in this matter. I acknowledge my CCP colleagues Mark Grenning and David Prins in assisting with the preparation of this advice.

Yours sincerely

Mike Swanston

For CCP14

The Consumer Challenge Panel sub-panel CCP14

The AER established the Consumer Challenge Panel (CCP) in July 2013 as part of its Better Regulation reforms. These reforms aimed to deliver an improved regulatory framework focused on the long-term interests of consumers.

The CCP assists the AER to make better regulatory determinations by providing input on issues of importance to consumers. The expert members of the CCP bring consumer perspectives to the AER to better balance the range of views considered as part of the AER's decisions.

CCP14 is a sub-panel of the AER's Consumer Challenge Panel. The AER established the sub-panel to focus specifically on the AER's regulatory determination of Energex, Ergon Energy and SA Power Networks for 2020-2025.