

13 July 2015

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By email: VICElectricity2016@aer.gov.au

RE: Victorian electricity distribution pricing review (EDPR), 2016 to 2020

We thank the Australian Energy Regulator (AER) for the opportunity to comment on the proposals submitted by Victoria's electricity distribution network service providers (DNSPs) for the period 2016–2020.

This submission should be considered in conjunction with the joint submission to this review by the Victorian Energy Users and Consumer Alliance (VECUA), of which we are a member. We also commend to the AER the arguments from the Public Interest Advocacy Centre's (PIAC's) *A missed opportunity? Submission to the Draft Determination for Ausgrid, Endeavour Energy and Essential Energy*, to the extent that these apply to Victoria.

About CUAC

The Consumer Utilities Advocacy Centre Ltd (CUAC) is an independent, specialist consumer organisation established in 2002 to represent Victorian energy and water consumers in policy and regulatory processes. In informing these debates, CUAC monitors grass roots consumer utilities issues with particular regard to low income, disadvantaged, and rural consumers.

As Australia's only consumer organisation focused specifically on the energy and water sectors, CUAC has developed in-depth knowledge of the interests, experiences, and needs of energy and water consumers.

CUAC's work is guided by the principles of affordability, access, and fairness. Electricity is an essential service that everyone needs to participate effectively in society. It is important to ensure that all Victorians, regardless of their socio-economic position, are able to access the electricity supply system and afford its services. Failure to achieve this can entrench disadvantage and create significant social issues.

General comments

Many distributors are proposing low price growth in the coming regulatory period, with the notable exception of Jemena. While low price growth is more welcome than high price growth, CUAC believes there is potentially scope for cost decreases in several businesses, and would welcome the AER exploring the price reduction drivers outlined in the VECUA submission.

The distributors' weighted average cost of capital (WACC) proposals are excessive, and CUAC encourages the AER to instead apply the methodology of its *Rate of Return Guideline* in estimating a fair rate of return. CUAC is concerned at the large increases in capital expenditure (capex) proposed by some businesses, and encourages the AER to scrutinise this area closely. In particular, including costs whose likelihood and magnitude are uncertain as contingent events seems to us inappropriate. These costs would be better included as 'pass through' events.

While Victorian distributors remain amongst the most productive and efficient in Australia, according to the AER's benchmarking, CUAC is concerned at the decline in productivity many have displayed in recent years. We encourage to AER to strongly consider whether the past levels of productivity may be closer to the 'efficiency frontier' than current levels.

Consumer engagement

Since the disaggregation of the Victorian energy sector, DNSPs have left the bulk of consumer engagement to electricity retailers. As a result, engagement with consumers in the current regulatory period has started from a low base.

Culturally reinvigorating an organisation to become more outwardly and more customer focussed is an ongoing, multi-year endeavour. CUAC does not consider any DNSP to have reached the highest levels of engagement, but some have improved more than others. We would like to see all DNSPs continue their efforts in the forthcoming regulatory period.

This section adopts the International Association of Public Participation's (IAP2) public participation spectrum and its terminology (inform, consult, involve, collaborate, empower).¹

Jemena

Jemena's consumer engagement is likely the best of the Victorian DNSPs. CUAC has been a member of Jemena's Electricity Customer Council (ECC) since its inception in 2014, and was a member of the Council's predecessor, Jemena's Stakeholder Consultative Committee. We also attended several Jemena workshops or received Jemena briefings during the development of their EDPR proposal.

Participation in these processes has allowed us to both engage with Jemena and scrutinise its engagement with other stakeholders – in particular, with residential consumers.

Jemena's consumer engagement is meaningful and genuine, and CUAC considers the executive-level representation at ECC meetings to reflect the value it places on this area. CUAC considers that

¹ www.iap2.org.au

Jemena's internal culture has improved during and as a result of customer engagement to better understand the needs of its customers, and that the engagement has been open and transparent.

Jemena's communication is accurate, very timely, and reasonably clear. Jemena has shown great willingness to *involve* the ECC on its communication and adopt our recommendations, e.g. on the design of customer information cards or whom to consult in preparing Easy English materials. CUAC considers Jemena's overview of the ECC engagement to be accurate.²

CUAC considers Jemena's findings from its residential customer engagement likely to broadly reflect its customers' views.

Initially, CUAC was not convinced that the questions Jemena posed to consumers offered meaningful choice. For instance, when presenting choices relating to network reliability and responsiveness (SAIFI and SAIDI), the option for less reliable or less responsive service offered customers a saving of 40 cents or 90 cents per quarter, respectively. Such a small saving is unlikely to be material to many consumers, and CUAC questioned why a larger change in reliability and responsiveness was not proposed to provide consumers with a meaningful choice.

In response, Jemena organised a separate briefing for CUAC to explain the system characteristics that limited the change in reliability and responsiveness that could realistically be achieved in the next regulatory period without jeopardising system security. These limitations were reflected in the options presented to consumers. Having been given the opportunity to scrutinise the survey, CUAC accepts Jemena's interpretation of its results.

Additionally, CUAC is strongly supportive of Jemena's proposed assistance to vulnerable customers: in home displays; funding to No Interest Loan Schemes; improved communication with culturally and linguistically diverse (CALD) consumers. Jemena *involved* the ECC both in the choice of programs and aspects of their implementation, e.g. partnering with existing providers rather than establishing new programs. Distribution businesses have responsibilities toward their consumers, some of whom are low income, vulnerable, or CALD groups.

CUAC considers that Jemena has followed the AER's consumer engagement guideline (as well as recommendations from CUAC's 2013 report, *Meaningful and Genuine Engagement*) in its consumer engagement.

United Energy

United Energy's consumer engagement is one of the better of the Victorian DNSPs, behind Jemena. CUAC has been a member of United Energy's Customer and Consultative Committee (CCC) since its inception in 2012. We also attended several United Energy workshops or received briefings during the development of their EDPR proposal.

Participation in these processes has allowed us to both engage with United Energy and scrutinise its engagement with other stakeholders – in particular, with residential consumers.

² Jemena, Regulatory proposal – Attachment 4-1, April 2015, pp. 23–26

CUAC's engagement with United Energy – through EDPR workshops and the CCC – has been meaningful and genuine, but there remain broad opportunities for greater improvements and innovation. In particular, United Energy's engagement is less often at the *involvement* level than, say, Jemena's, and is more often at the *consult* or *inform* levels. Occasionally the engagement seems conducted more with a view to persuading stakeholders of United Energy's preferred proposals than soliciting and responding to views and feedback.

United Energy could improve the accessibility of its engagement. For example, while CCC meetings were minuted, EDPR workshops were not. (Or these minutes were not provided to participants for confirmation.)

For participants' views to be formally recognised, we had to put them to United Energy in writing. This is not to suggest that views put forward in workshops were ignored, but that an extra time and resource investment on the part of consumers was required when it need not have been. A greater degree of structure would also have improved United Energy's engagement.

However, United Energy has been very solicitous of feedback on their processes, and their effort in engagement was high.

United Energy's EDPR engagement process has shown good evidence of engaging with a wide range of stakeholders and reflecting their needs in its plan. We welcome, in particular, the focus groups and community road shows.

United Energy's efforts to understand and respond to the cultural and linguistic diversity of its customers should be a characteristic across the sector, and CUAC strongly supports the 'Rewired' energy literacy program being run by United Energy and the Springvale Community and Advice Bureau (SCAAB). Distribution businesses have responsibilities toward their consumers, some of whom are low income, vulnerable, or CALD groups.

CUAC considers that United Energy has generally followed the AER's consumer engagement guideline (as well as recommendations from CUAC's 2013 report, *Meaningful and Genuine Engagement*) in its consumer engagement.

AusNet Services

CUAC participated in a range of lunchtime seminars and technical insight workshops held by AusNet Services in 2014 and 2015 related to its EDPR submission. CUAC was also previously a member of AusNet Services' Stakeholder Consultative Committee, though this is no longer meeting.

AusNet Services' engagement was usually at the *information* or *consultation* level, without moving into *involvement*. CUAC's engagement with AusNet Services was insufficient to scrutinise their residential consumer engagement, though we consider AusNet Services's summary of its consumer engagement likely broadly represent the views of its consumers. However, some findings appear curious, such as that rural consumers support cross-subsidisation from urban consumers because the latter receive the benefits of agriculture and regional tourism.

We welcome AusNet Services' use of community forums and focus groups, as well as the development of a "plain language" EDPR summary.

CitiPower and Powercor

CitiPower and Powercor (CPP) are the Victorian DNSP with which CUAC has had the least engagement. While CPP published regular information about its EDPR plans, CUAC found it difficult to arrange meetings. CUAC's *involvement* or *consultation* in these processes was therefore minimal, and we are unable to judge much of CPP's other engagement.

CUAC's experience of CPP is that it is less accessible than other distributors, both to us and to residential consumers. CPP's consideration of how to engage with low-income/vulnerable/CALD groups was not well developed, suggesting instead that "a customer is a customer."

If you have questions regarding this submission, please contact Martin Jones on 03 9639 7600 or martin.jones@cuac.org.au

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