



11 November 2016

Ms Paula Conboy
Chair
Australian Energy Regulator
Level 35, 360 Elizabeth Street
Melbourne, VIC 3000

Email: SEFreview@aer.gov.au

Dear Ms Conboy

RE: REVIEW OF THE STAKEHOLDER ENGAGEMENT FRAMEWORK

CitiPower and Powercor welcome the opportunity to provide preliminary feedback to the Australian Energy Regulator (**AER**) on the review of its stakeholder engagement framework.

The AER's stakeholder engagement framework outlines the structure that allows stakeholders' interests to be consistently, transparently and meaningfully considered in the AER's decisions. Notwithstanding this framework, the extent to which stakeholder engagement processes have impacted the AER's decisions to approve or reject expenditure forecasts remains opaque. These considerations are discussed in detail below.

Importance of open dialogue

Open and proactive communication channels between the AER and distributors are critical to ensuring regulatory submissions and AER decisions are well understood by both parties. The AER's engagement approach has made progress in this regard. For example, we found staff level engagement was constructive in our recent regulatory determination process, and led to better informed decision making (irrespective of any outcomes).

Our requests for staff level meetings, however, were not always accepted and sometimes actively avoided. On this basis, there may be greater scope for AER senior management to be more encouraging of staff level meetings. Ultimately, the regulatory framework is most effective when all stakeholder views—including the AERs and distributors—are subject to robust and balanced assessment.

We also support the AER's more recent approach, such as for this framework review, where preliminary stakeholder views are sought prior to the publication of any documentation by the AER. This is more likely to focus on key stakeholder concerns, and lead to a more fulsome consideration of relevant issues than may otherwise be achieved (noting that in most circumstances, the publication of a preliminary position or issues paper limits the scope of any ensuing discussion).

Role of customer choice

The national electricity objective (**NEO**) is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity. On this basis, the AER may be limited in the extent to which it can approve expenditure for customer preferences driven by alternative (non-economic) factors.

The AER's ability to consider non-economic customer preferences is further complicated by the diversity of customers. For example, rural customers may support additional expenditure on bushfire mitigation, but the costs of such programs will be borne by all customers (including urban customers who may not support the expenditure).

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Role of stakeholder submissions

The AER's draft and final decisions for our networks provided an overview of stakeholder submissions on our engagement approach. A number of these submissions, however, focused on the Victorian electricity distributors as a whole. For example, the AER's Consumer Challenge Panel (**CCP**) stated that it only observed consumer engagement activities undertaken by some of the businesses, and further noted that its concerns do not necessarily apply to each Victorian distributor. It is not clear how the AER had regard to these broader statements in forming its decision for CitiPower or Powercor.

A similar theme was also raised in the review of the effectiveness of the CCP undertaken by Nous Consulting (on behalf of the AER).¹ This review found that the impact of the CCP's advice on improving the decisions of the AER was unclear to the majority of stakeholders consulted. Indeed, the AER itself expressed the opinion that the advice provided by the CCP did not substantially alter the matters or issues considered in their regulatory decision making.

Role of willingness-to-pay studies

The AER's final decision for SA Power Networks explicitly rejected expenditure that was 'supported' by willingness-to-pay studies (on the basis of AER and stakeholder concerns regarding the robustness of SA Power Networks studies). It is not clear, however, how the AER would have responded to SA Power Network's willingness-to-pay studies if these studies had been more robust—that is, whether the AER has in-principle concerns with such studies.

Our previous experience with willingness-to-pay studies may also be informative. For example, our regulatory proposal for the 2001–2005 regulatory control period was supported by a willingness-to-pay study. The cost of the study was significant, and was rejected in its entirety by the Essential Services Commission of Victoria given concerns regarding the method used.

Benefits of greater clarity and transparency

The benefits from greater clarity and transparency in the AER's use of stakeholder engagement feedback include:

- better expectations management regarding the ability for customer preferences to be reflected in regulatory decisions;
- more engaged customers and focussed submissions to regulatory proposals, which may be more likely to have a tangible impact on AER decisions; and
- lower costs to consumers due to better targeted consultations (i.e. not undertaking willingness-to-pay studies if the AER has in-principle concerns with such studies or specific methodologies).

We also recognise that all parties have scope to improve how stakeholder engagement feedback is incorporated into regulatory processes. In this context, we are continuing our efforts to ensure effective stakeholder engagement is a core business-as-usual activity.

Should you wish to discuss these matters further, please contact Jeff Anderson on (03) 9683 4809 or janderson@powercor.com.au.

Regards



Renate Vogt
Head of Regulation, CitiPower and Powercor

¹ Nous Group, *Review of the Consumer Challenge Panel*, April 2016.