

Consumer Challenge Panel

Initial comments on
AusNet proposal
and AER Issues Paper

for AusNet Transmission
Revenue Review 2017-22

17 December 2015

Introduction

- CCP Subpanel comprises Mark Henley and Ruth Lavery
- Role as “Critical Friend” is to
 - challenge AER on whether proposals meet the NEO ie. long term interests of consumers (costs, safety and reliability)
 - Advise AER whether network’s consumer engagement is effective and how it has (and should) inform proposal

Consumer Engagement

IAP2 Spectrum of Participation



IAP2'S PUBLIC PARTICIPATION SPECTRUM

The IAP2 Federation has developed the Spectrum to help groups define the public's role in any public participation process. The IAP2 Spectrum is quickly becoming an international standard.

INCREASING IMPACT ON THE DECISION

	INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
PUBLIC PARTICIPATION GOAL	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	To obtain public feedback on analysis, alternatives and/or decisions.	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.	To place final decision making in the hands of the public.
PROMISE TO THE PUBLIC	We will keep you informed.	We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision. We will seek your feedback on drafts and proposals.	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.	We will work together with you to formulate solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.

Consumer engagement

2014

2015

Sept Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sept Oct Nov Dec

Review and planning

Webpage and online activity

Stakeholder forums

Consult.
paper

One-on-one consultation

Forums 1, 2

Forum 1: 26 March 2015.

- An introduction to AusNet Services;
- Approach to stakeholder engagement;
- Benchmarking performance;
- Responding to changes in the Value of Customer Reliability and forecast demand;
- Initial operating expenditure step changes; and
- An introduction to accelerated depreciation.

Forum 2: 28th May 2015

- Stakeholder engagement update;
- Value of Customer Reliability (presented by AEMO);
- West Melbourne Terminal Station – project update;
- The latest forecasts of revenue, price and expenditure; and
- Consultation on key issues: price vs reliability and accelerated depreciation.

Forums 3, 4

Forum 3: 12th October 2015

- Emerging Energy Market Trends; and
- Overview of the Revenue Proposal – outlining the building blocks, the impact of stakeholder feedback and documentation which will be claimed as confidential.

Forum 4:

is planned to discuss key elements of the revised proposal with stakeholders. Feedback from the third and fourth forums will be incorporated into the revised revenue proposal.

Accelerated Depreciation

- **3.5.4 Consultation paper on accelerated depreciation**
- AusNet Services is proposing to accelerate the depreciation of new transmission investments. To develop stakeholder understanding of its proposal, and ensure that stakeholder views were accurately understood and reflected in the proposal, AusNet Services published a consultation paper outlining the rationale for this approach. This is attached (Appendix 3B).
- This paper provided detailed, accessible information about accelerated depreciation and invited stakeholders to make written submissions on the subject. These submissions would inform the TRR proposal.
- AusNet Services received a single written submission on the consultation paper from another TNSP. Feedback was received that resource constraints impacted the ability of some stakeholders to provide written feedback on this document. Nonetheless, the paper provided detailed information that informed the robust discussion on accelerated depreciation that took place at the second

Participants were strongly against the application of any type of accelerated depreciation. (pg 53)

Table 3.1: Assessment of engagement activities against Guideline principles

Activity	Purpose	Consumer Engagement Guideline: Best Practice Principle
Review and Planning	<p>Identify relevant existing information to gain insights into consumer views.</p> <p>Gather stakeholder preferences related to design of TRR stakeholder engagement program.</p>	<p>Transparent</p> <p>Clear, accurate and timely communication</p>
Webpage Engagement	<p>Enables all stakeholders to access information relevant to the TRR engagement program,</p>	<p>Clear, accurate and timely communication</p>
	<p>including event details and key publications.</p> <p>Provide a channel for feedback.</p>	<p>Accessible and inclusive</p> <p>Transparent</p>
Stakeholder Forums	<p>Provide a progressive series of updates and feedback opportunities on the development of the regulatory proposal.</p> <p>Obtain consumer views and preferences on specific aspects of the proposal.</p> <p>Address the AER / CCP focus on service providers presenting genuine 'costed options.'</p> <p>Conduct feedback surveys.</p> <p>Publish presentations and discussion summaries shortly after the event.</p>	<p>Clear, accurate and timely communication</p> <p>Accessible and inclusive</p> <p>Transparent</p> <p>Measurable</p>
Consultation Paper: Accelerated Depreciation	<p>Establish a dedicated channel for the subject of accelerated depreciation.</p> <p>Gather submissions to inform the proposed approach to accelerated depreciation.</p>	<p>Clear, accurate and timely communication</p> <p>Accessible and inclusive</p> <p>Transparent</p>
One-on-one consultations	<p>Provide stakeholders with an opportunity for engagement that is tailored to their specific information and time requirements.</p>	<p>Clear, accurate and timely communication</p> <p>Accessible and inclusive</p> <p>Transparent</p>

Map against IAP2

- *Inform.* Most stakeholder engagement activities, including stakeholder forums, the TRR webpage, one-on-one interactions and publications such as fact sheets and a consultation paper, served to educate and inform stakeholders about the TRR proposal.
- *Consult.* In addition, the forums, one-on-one interactions and a consultation paper gave AusNet Services the opportunity to receive stakeholder feedback, acknowledge concerns and provide specific information on how stakeholder input influenced the revenue proposal.
- *Involve.* AusNet Services was mindful of the need to provide opportunities for stakeholders to have their views directly reflected in the TRR proposal. The second 'deliberative' stakeholder forum gave participants this opportunity, with the presentation of costed options on accelerated depreciation and capex-opex trade-offs.

Map against IAP2

- “However, the planning of network connections and shared network augmentations in Victoria is the responsibility of, respectively, the connecting parties and AEMO. In these instances, AusNet Services directly implements what stakeholders decide, consistent with the higher levels of the spectrum – *Collaborate* and *Empower*. The direct application of the VCR in AusNet Services’ replacement plans is another example of reaching these levels.”

We suggest that this is a very narrow perspective of ‘stakeholders’ – the end bill payers are stakeholders too

- AusNet Services envisages that, in future, more stakeholder engagement work could be conducted at these levels.

Opex

Base Year

Selection of base year

- For the purposes of this opex proposal, 2014-15 has been used as the base year. AusNet Services considers 2014-15 to be an efficient base year because:
- At the time of submission, 2014-15 is the most recent full year of available operational costs, and contains data that has been independently verified and audited;
- The operating environment conditions experienced during 2014-15 are considered representative of those prevailing in the current and forthcoming regulatory control periods (e.g. weather conditions, regulatory and legislative environment); and
- Benchmarking results confirm that AusNet Services has achieved stronger opex productivity improvements to 2014-15 than its peers. This is discussed in further detail below.

Opex

Table 5.1: Total forecast opex (\$m, real 2016-17)

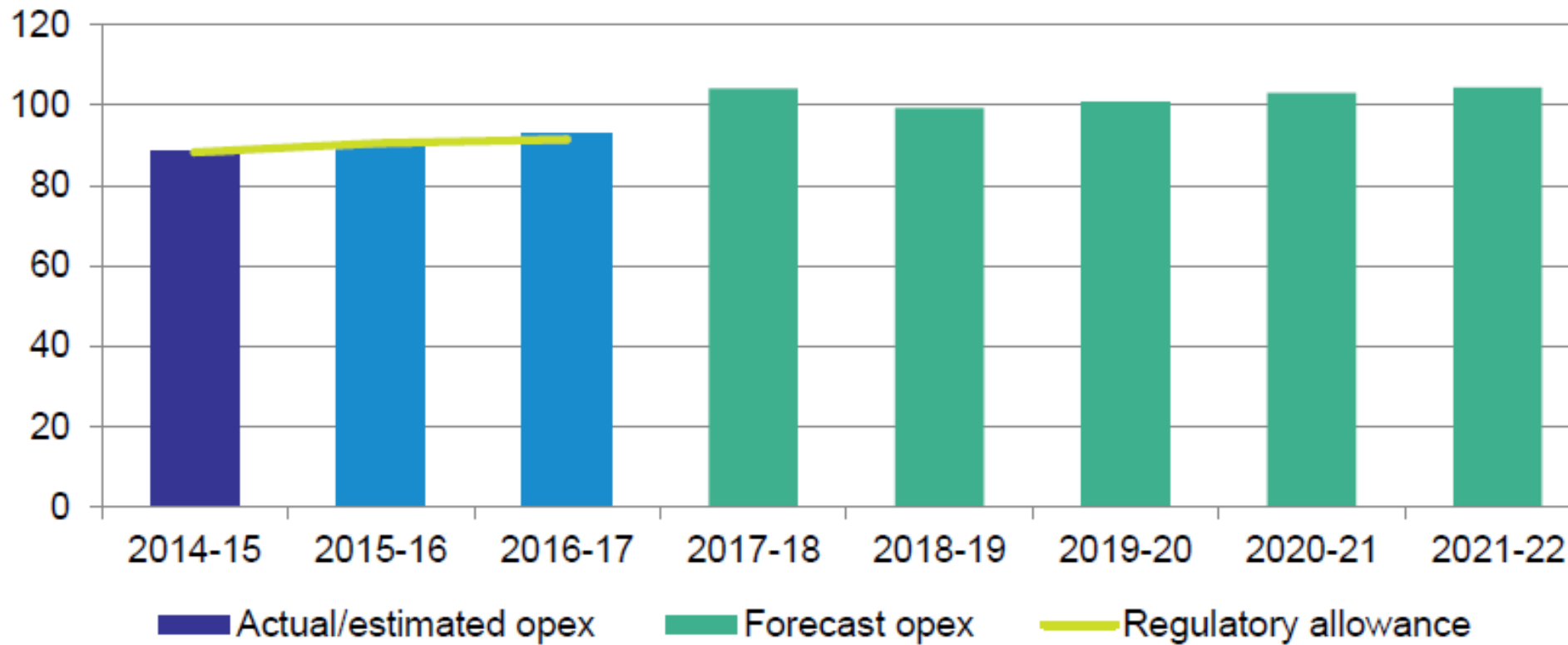
Opex	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Controllable	104.1	99.3	100.8	103.1	104.4	511.8
Non-controllable	118.0	118.0	118.0	118.0	118.0	589.9
Total	222.1	217.3	218.8	221.1	222.4	1,101.7

Source: AusNet Services

Of the total forecast opex, \$576.4m, or around 52%, is easement land tax. Easement land tax is a levy applied by the Victorian Government, which is recovered through regulated revenues but does not represent the underlying costs of operating the network.

Opex

Figure 5.1: Actual and forecast controllable opex (\$m, real 2016-17)



Declining Productivity

Table 5.10: Forecast productivity change (\$m, real 2016-17)

	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Productivity change (%)	0.28%	0.28%	0.28%	0.28%	0.28%	
Productivity change (\$)	-0.7	-0.9	-1.2	-1.4	-1.6	-5.8

Step Changes?

A number of step changes have been included in the forecast:

- decommission some retired assets,
- roll out enhanced condition assessment technology to proactively manage capex levels (allowing the deferral of investment)
- address an evolving IT security and emergency response landscape.

Opex step changes?

Table 5.14: Forecast opex attributable to step changes (\$m, real 2016-17)

Step change	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Establishment of IT security team	0.7	0.7	0.7	0.7	0.7	3.3
New emergency response arrangements	0.2	0.2	0.2	0.2	0.2	1.0
SAIP roll out	0.3	0.3	0.1	0.1	0.1	0.9
WMTS mobile switchboard	0.7	0.3	0.3	0.7	0.1	2.0
Synchronous condenser decommissioning	4.3	0.0	0.0	0.0	0.0	4.3
Morwell Power Station decommissioning	1.9	0.0	0.0	0.0	0.0	1.9
Total	8.2	1.5	1.2	1.6	1.0	13.5

Benchmarking

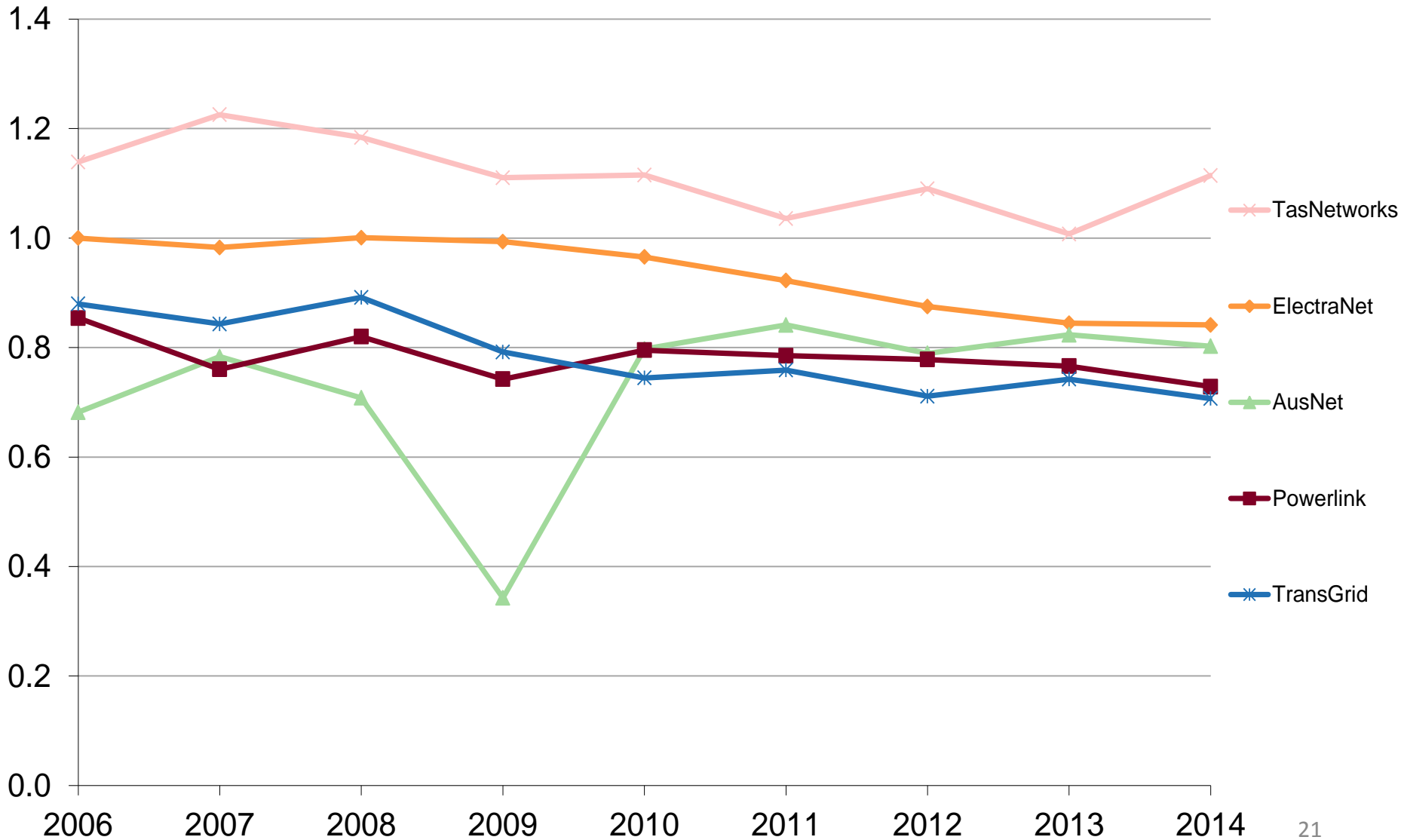
- Won't be used to derive efficient transmission network expenditures . . . this time
- 2014 and 2015 benchmarking reports released by AER are robust and use appropriate methodology
- A useful and important tool

TNSP Outputs 2009–14 average

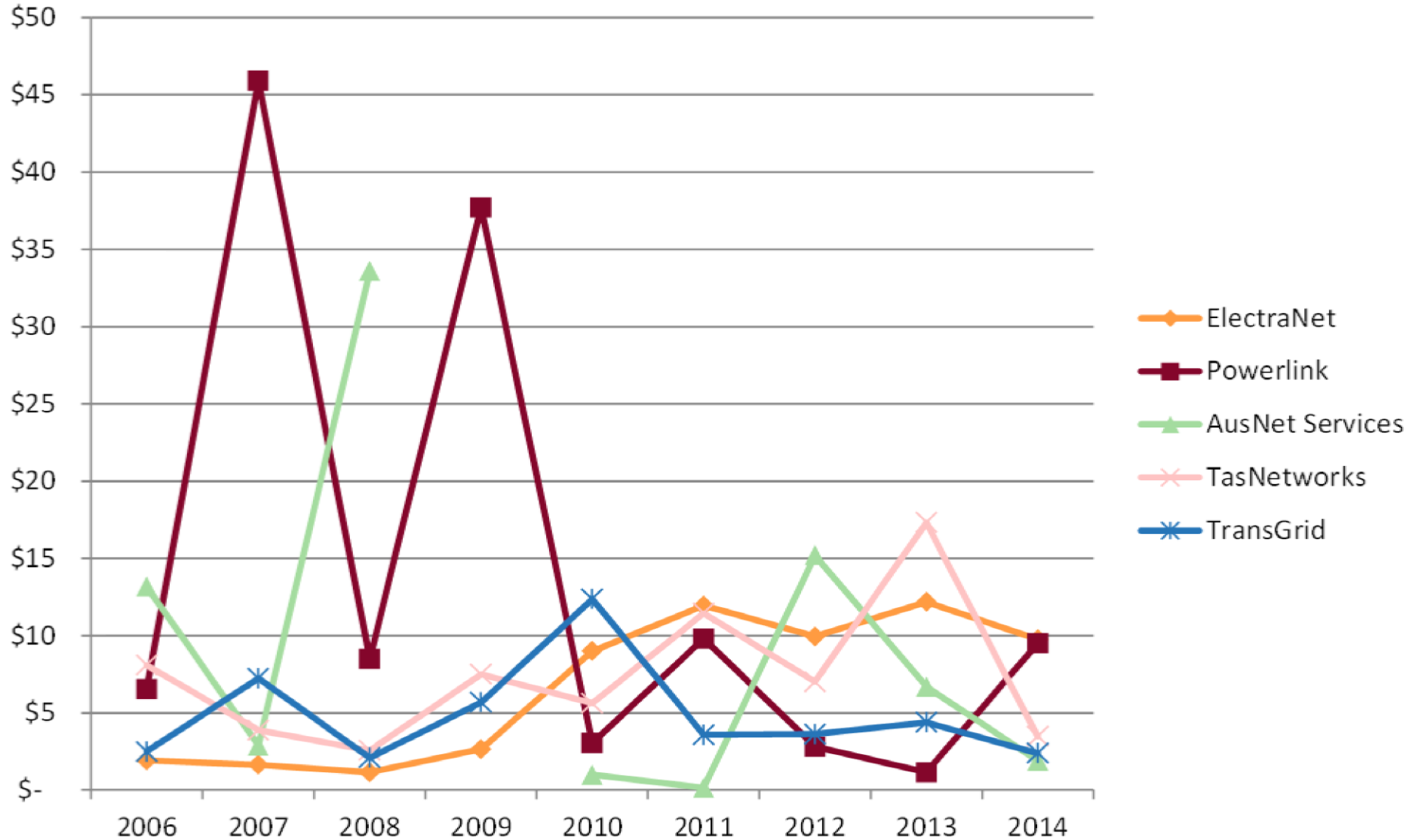
(Source: AER Benchmarking report 2015)

	Circuit line length (km)	Energy transported (GWh)	Maximum demand (MW)	Voltage of entry/exit points (KV)
ElectraNet	5,518	14,006	4,130	7,092
Powerlink	13,970	50,518	11,139	15,642
AusNet Services	6,573	48,334	9,370	10,380
TasNetworks	3,495	12,991	2,504	5,964
TransGrid	12,777	67,700	17,700	15,714

Multilateral total factor productivity by TNSP for 2006–14



Estimated customer cost of energy unsupplied due to supply interruptions (\$million nominal)



Incentive schemes

Incentive Schemes

- Incentive schemes for both operational performance and expenditure efficiency will apply to AusNet Services in the 2017-22 regulatory control period. These are:
- STPIS, Service Target Performance Incentive Scheme, which provides incentives to maintain or improve operational performance;
NCIPAP: The Network Capability Incentive Parameter Action Plan
- EBSS, The Efficiency Benefit Sharing Scheme which provides incentives to achieve and maintain operating expenditure efficiency improvements; and
- CESS, The Capital Expenditure Sharing Scheme which provides incentives to make capital expenditure efficiency gains.

Incentive Scheme Application

- The number of constrained dispatch intervals as measured under the Market Impact Component of the STPIS has declined sharply since 2011, demonstrating the efficacy of the performance incentive arrangements established.
- Consistent with recent AER determinations, proposed Service Component parameter targets have been set largely on the basis of average historic performance, with caps and collars set at the 5th and 95th percentiles of historic performance using the most appropriate statistical distribution.
- The Network Capability Incentive Parameter Action Plan (NCIPAP) proposes two priority projects to improve network capability, building on the seven projects successfully delivered to date which have created net benefits of \$34m.
- The EBSS Scheme carryover amount has been calculated as \$5.6m, reflecting AusNet Services' response in recent years to the cost efficiency incentives embedded in the regime.
- While AusNet Services endorses the AER's positions on the application of the new EBSS and the CESS for the forthcoming period, a number of EBSS exclusions are proposed in line with the current determination.

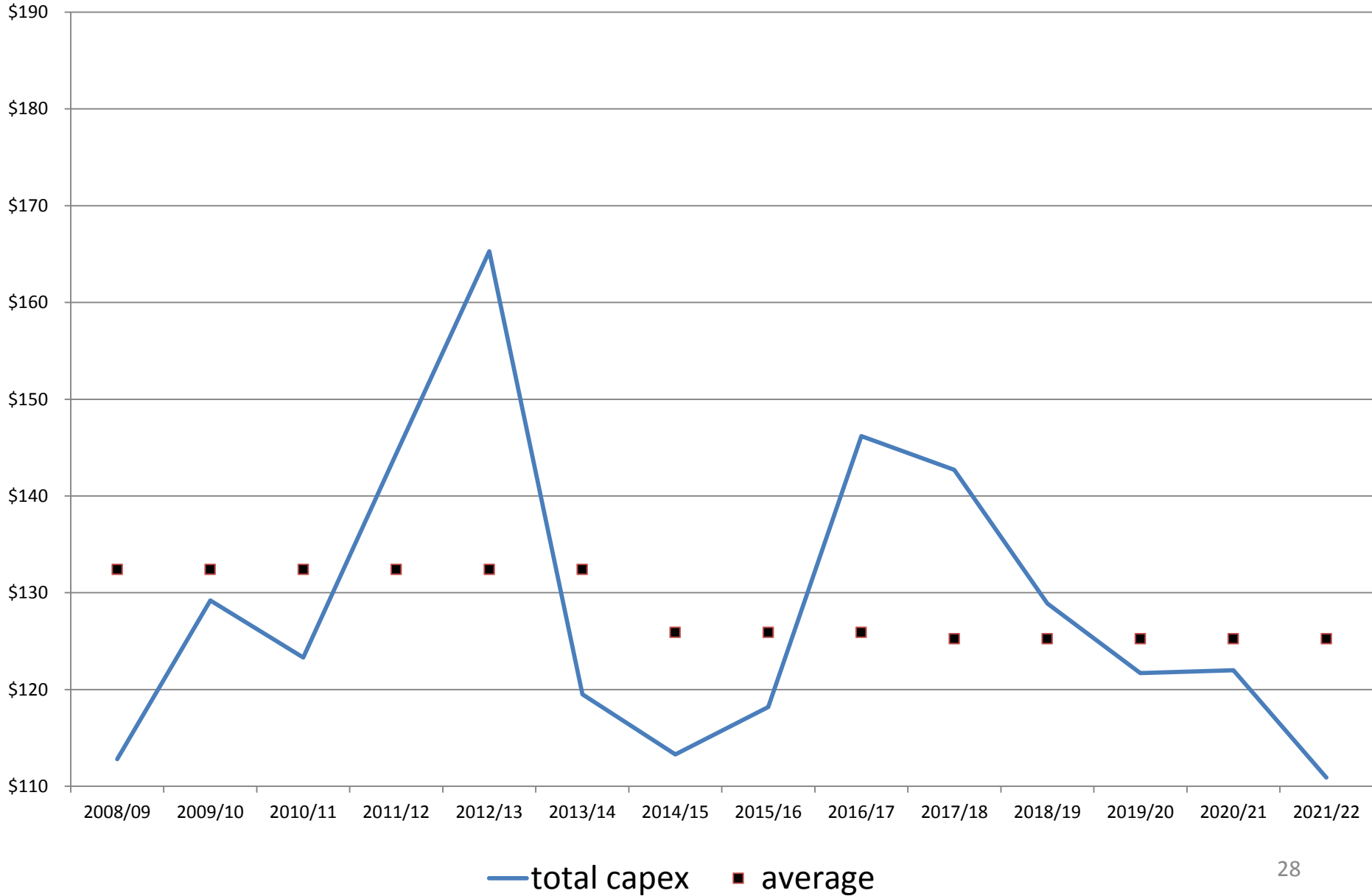
Rate of return, gamma, tax

- ACT appeal may inform/influence AER decision for AusNet
- We accept use of guidelines, with AER using discretion to choose parameters that are more in consumers' best interests

CAPEX

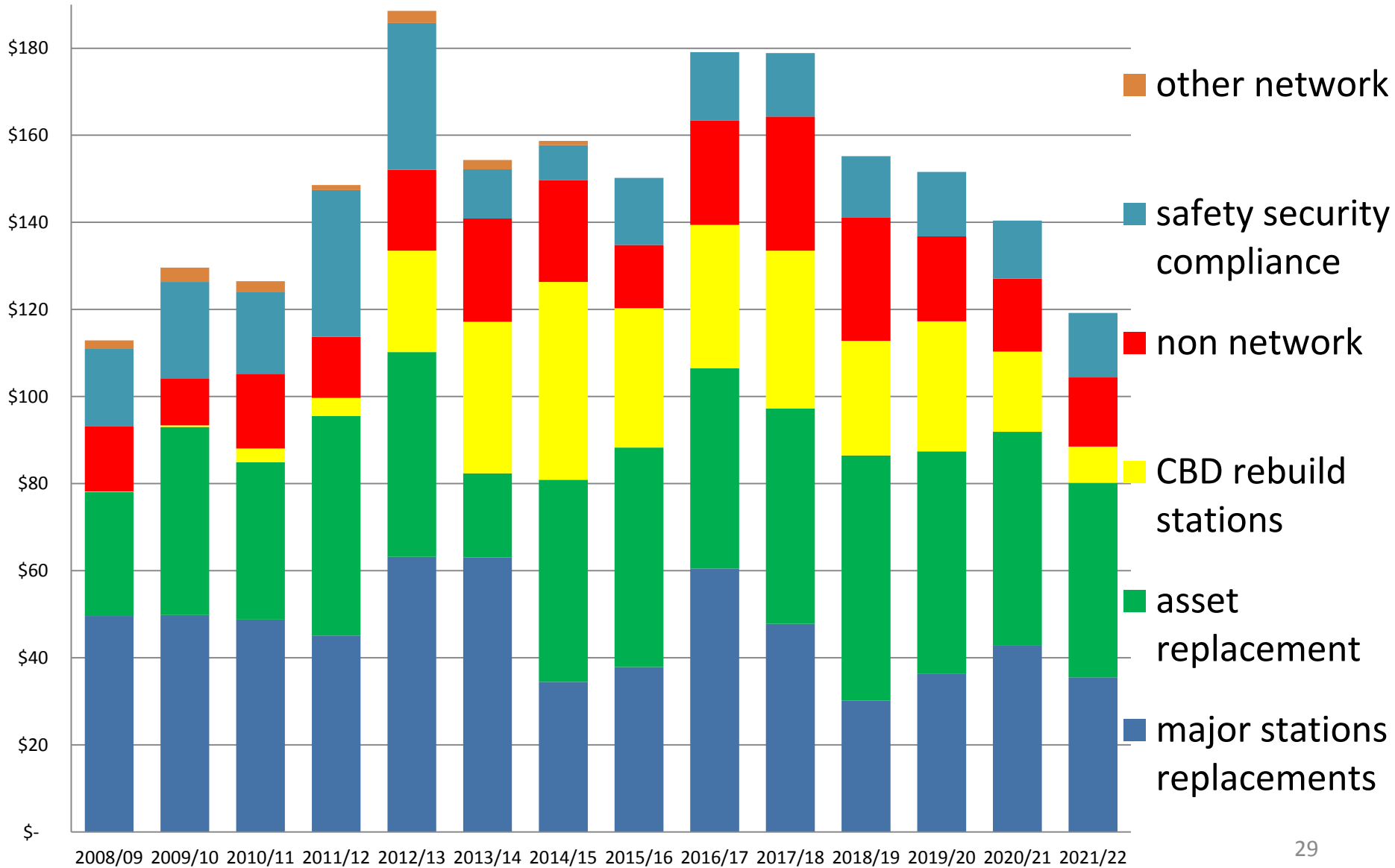
Capex

2016/17\$m source: table 4.7 of AusNet proposal



Capex

2016/17 \$m source: table 4.7 of AusNet proposal



RAB: 10% Increase over Proposal Period

Table 8.2: Regulatory asset base roll forward (As Incurred) 1 April 2017 to 31 March 2022 (\$m nominal)

Regulatory Year	2017/18	2018/19	2019/20	2020/21	2021/22
Opening RAB	\$3,129.7	\$3,312.7	\$3,362.2	\$3,398.7	\$3,422.8
Group 3 Assets roll in	\$99.0	-	-	-	-
Adjusted Opening RAB	\$3,228.7	\$3,312.7	\$3,362.2	\$3,398.7	\$3,422.8
Net Capital expenditure	\$187.4	\$166.5	\$166.4	\$157.8	\$137.1
Opening RAB inflation addition	\$75.9	\$77.8	\$79.0	\$79.8	\$80.4
Nominal depreciation	-\$179.4	-\$194.8	-\$208.9	-\$213.5	-\$199.1
Closing RAB	\$3,312.7	\$3,362.2	\$3,398.7	\$3,422.8	\$3,441.2

Accelerated Depreciation

Proposal:

- accelerated depreciation on new capex from 2017 onwards, at 200% of currently used asset lives
- Bringing forward capital investment recovery

Comment

- The 200% proposal is arbitrary and doesn't in any way match usage or stranding
- No evidence provided of the impact on AusNet of disruptive technologies
- Intuitive that there will be an impact, but to what degree?
- Not matching line usage with life

Confidential pass through event

- material, incremental, efficient costs associated with defined events
- network incentive to limit or mitigate the costs associated with a pass-through event
- CCP has signed confidentiality agreements and have seen confidential version of submission. Agree that event is commercially sensitive
- AusNet must be accountable to consumer, can't rely on AER to act as consumer advocate
- AusNet has offered further information subject to confidentiality

Epilogue

How can a revenue network proposal review be completed without a single mention of WACC, Sharpe Lintner or even beta?

We think we have created history!!!