

Consumer Challenge Panel: Progress report

CCP Subpanel 1, NSW and ACT Distribution Businesses

Reporting Period: Inception to 30th April 2014

Report Date: 30th May 2014.

Sub Panel Members: Jo De Silva, Ruth Lavery, Gill Owen, Mark Henley, Bruce Mountain

Context

The Consumer Challenge Panel was announced during 2013 to be a 'critical friend' for the Australian Energy Regulator (AER) by challenging ideas and decision making, in the interests of consumers. Sub panels of the CCP have been established to deal with the specific aspects of individual regulatory resets.

Subpanel 1 was established to provide CCP review of the NSW and ACT distribution business regulatory proposals for the period 1st July 2014- 30th June 2019. This process involves 4 DNSP's; Endeavour Energy, Ausgrid and Essential Energy from NSW and Actew AGL from the Australian Capital Territory.

Subpanel Activity

In order to manage the subpanel's work and focus, the subpanel members have kept in regular contact through regular teleconferences with each other and monthly video conferences with key AER staff.

During this initial period of the "resets", meetings were also held with DNSP business leaders from NSW, twice and with Actew AGL from the ACT

For the period to 30th April, the subpanel met with AER staff, by video conference on 4 occasions and held 8 sub panel teleconferences. Members also participated in one meeting with NSW consumers and a separate meeting with ACT consumers

Key Processes

In this initial period there have been two main processes underway.

1. Transitional Regulatory arrangements

The 4 DNSP's submitted transitional proposals to deal with the first year of the regulatory period, with subsequent full proposals for the full 5 year period due on 31st May, 2014. The subpanel was advised to limit time spent on consideration of the transitional proposals, with the Board making 'placeholder' determinations, with the understanding that any 'true ups' that are needed subsequently, can be made in response to the full regulatory proposal.

2. Preparation for lodgement of full regulatory proposals

The subpanel has prepared for the main focus of their work which will be considering and 'challenging' with regard to the full proposals. Action taken has included:

- Identification of key consumer issues.
- Reviewing the guidelines developed by the AER during 2013.
- Meeting with each of the DNSP's to gain a better understanding of the substantive issues from the perspective of the businesses.
- Discussion with the AER regarding likely topics for consideration in the issues paper that the AER will produce for comment, soon after the full regulatory proposals are lodged. The transitional proposals were used as at the main starting point for this consideration.

Issues Considered

As an approach to ordering our thinking, we have focussed our attention on 7 'core topics'. These are outlined below.

Capex

Recognising the significance of capital expenditure in network costs, we are considering the importance of having regard to actual results compared to past allowances for debt, returns and capex.

We discussed the changes in NSW planning standards, and encouraged the AER to explain how it would take account of these changes in the determination of capex applications, in dealing with the full determination.

We also considered the value and application of benchmarking in assessing the capex proposals that will be made by the DNSPs

Opex

The use of benchmarks is also relevant to operating cost considerations; consumers should not bear the burden of the gap between current performance and the efficient frontier.

We also considered the importance of having regard to actual results compared to allowances for debt, returns and opex.

We have reviewed the NSW DNSP's views regarding transitional opex costs and employment arrangements. A clear view of the sub panel is that where government policy decisions are made which impact on consumers it is up to governments to both fund their policies and to be transparent in their policy decisions.

WACC

The Weighted Average Cost of Capital is recognised as being a central consideration of the regulatory proposals, given its significant impact on the total costs to be passed through to consumers. We have raised issues with the AER regarding the overall approach to the determination of WACC as set out in the guidelines, and also the selection of the value of individual parameters (beta, MRP, debt costs). We consider that comparisons with WACCs in other industries and in overseas jurisdictions would also help to inform the process.

Metering

Metering is considered to be an important aspect of this determination noting debate about contestability of metering services. Pricing and value of legacy meters is significant with a need to understand components of exit fees, especially their contribution to the Regulated Asset Base.

Reliability

We have appraised ourselves of current considerations regarding reliability, including work currently being undertaken by AEMO. We also recognise that different consumers have different preferences regarding reliability.

Public Lighting

The Sub panel has liaised with Local Government and Ausgrid to better understand the prevailing expectations and arrangements with the objective of developing a shared understanding about what is needed. We understand that Ausgrid, the major DNSP with regard to NSW public lighting, is developing 'a promise' document to put all the current arrangements into 'one place'.

Consumer Engagement

Sub panel members have met with consumer interests and discussed consumer engagement with the DNSPs. The sub panel accepts that there is no single process for consumer engagement that is optimal, rather we are expecting a 'best endeavours' approach that shows a willingness to listen to what consumers say and to respond accordingly.

The sub panel expects that consumers will be able to make informed choices during engagement activities by considering the cost and benefit trade-offs between various options for opex as well as significant capex.

Concluding Comments

The sub panel members understand that the Consumer Challenge Panel is a new process, with the AER, DNSP's, consumer groups and CCP members all learning as we go. We have valued the cooperation of all DNSP's and of AER staff in our considerations.