

**Submission to the Australian Energy Regulator on
Powerlink's Regulatory Proposal 2017-22**

Jo De Silva

Consumer Challenge Panel

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Executive Summary

The Consumer Challenge Panel has been engaged in discussions surrounding network regulatory determinations since 2013 when the Panel was first established. Members of the Panel have also been engaged in these discussions prior to appointment to the Panel, in most cases for a significant number of years.

Throughout these processes, the Panel has consistently drawn attention to the impact of high prices on all households including the particular impact these have on the lowest income households across our community. These households already face major cost of living pressures and because the high prices for essential services presents affordability issues, they are at high risk of losing unrestricted access to the basic and essential service of electricity.

The author notes that the consumer engagement program was the first of its kind for Powerlink in terms of its scope and breadth. Powerlink is to be commended for its decision to raise its level of engagement with customers. The author also wishes to acknowledge the openness and transparency with which Powerlink has approached the Regulatory Determination. The author thanks Powerlink for its express willingness to engage with the Consumer Challenge Panel and other consumer interest groups.

The success of Powerlink's consumer engagement program is evidenced by the willingness of the business to embrace the consumer view that cost is the greatest concern. This consumer view is no surprise, given the affordability issues experienced by many Queenslanders and the slowing state of the Queensland economy. Yet it is noteworthy that Powerlink has recognised and prioritised this perspective in its Regulatory Proposal.

Of the 19 issues raised by the Consumer Challenge Panel in recent regulatory determinations, Powerlink has positively addressed 14, partially addressed 3 and negatively addressed 2. This is an encouraging result and demonstrates that Powerlink has adopted a consumer engagement approach which incorporated lessons and advice from earlier regulatory determinations in the current round of determinations.

This submission recognises that Powerlink has made a good start in proposing expenditure in line with consumer expectations and values. The author has recommended that the AER undertake detailed examination of significant capital expenditure proposals.

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Introduction

As a member of the Consumer Challenge Panel, the author thanks the AER for the opportunity to provide comment on Powerlink's Regulatory Proposal 2017-22.

As described by the AER, the Consumer Challenge Panel "assists the AER to make better regulatory determinations by providing input on issues of importance to consumers. Regulatory determinations are technical and complex processes which can make it difficult for ordinary consumers to participate. The expert members of the CCP bring consumer perspectives to the AER to better balance the range of views considered as part of our decisions."

The roles of CCP members include:

- advising the AER on whether a network business's proposal is justified in terms of the services to be delivered to customers; whether those services are acceptable to, and valued by, customers; and whether the proposal is in the long term interests of consumers;
- advising the AER on the effectiveness of network businesses' engagement with their customers and how this engagement has informed, and been reflected in, the development of their proposals.

Throughout the regulatory determination processes which have proceeded since late 2011, the Consumer Challenge Panel has consistently drawn attention to the following:

- Impacts of high prices on consumers;
- The way in which network proposals impact on safety and reliability;
- Whether the allowances for debt funding are reasonable;
- Whether the cost of equity is adequate;
- The role of benchmarking in the AER's determination of expenditure allowances;
- The role of incentive payment schemes, and;
- The varying level of effectiveness of network businesses' engagement with their customers according to the network.

Members of the Consumer Challenge Panel have been active in discussions with Powerlink in the lead up to the lodgement of the Regulatory Proposal. Members of the Panel including the author have met with Powerlink on at least 3 occasions, including a day-long meeting with business representatives. We have attended as observers of a Powerlink Customer and Consumer Panel meeting. Members of the Consumer Challenge Panel have engaged with the business in the lead up to lodgement of the Regulatory Proposal having formed the view that an important role the Panel can play is to provide early indications to the business of priorities and concerns.

Affordability Issues

As reported by the AER and illustrated in figure 1 below, electricity bills in the NEM are third highest in Queensland.

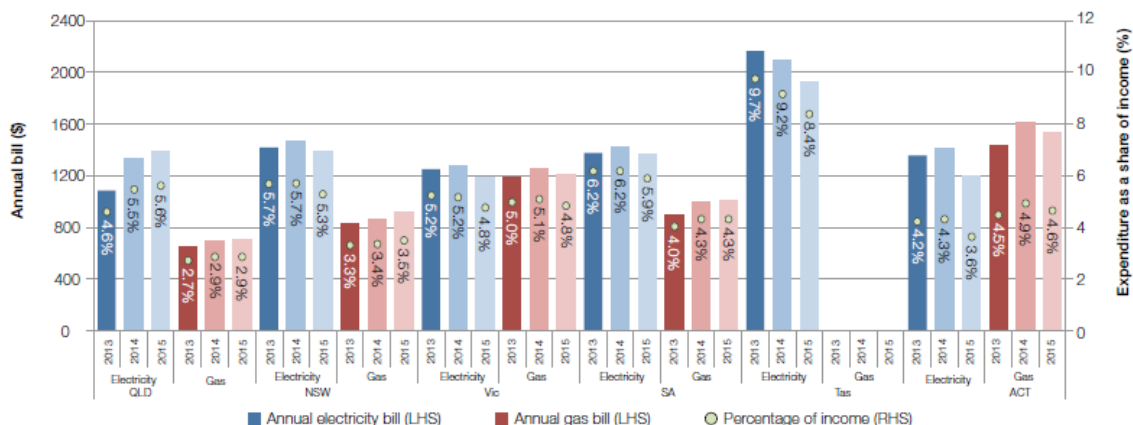


Figure 1: Annual electricity and gas bills, and as a share of benchmark low income household's disposable income (without concession) – jurisdiction specific 'low' consumption levels, June 2013, 2014 and 2015
 (Source: AER Annual Performance Report 2014-15 at http://www.aer.gov.au/system/files/AER%20Annual%20Report%20on%20the%20Performance%20of%20the%20Retail%20Energy%20Market%20201415_0.PDF: p.40)

In Queensland, customers experience a high rate of electricity charges (second highest in the NEM).¹

An indicator of energy hardship is the percentage of the Australian population who could not pay utility bills on time at some stage during the previous year. 12.1% of all Australian households were unable to pay their utility bills, mainly electricity, on time in 2014, due to insufficient income to pay the bill.²

Further, there are significant numbers of customers in debt and experiencing electricity disconnections in Queensland. Table 1 below details the customer debt figures and table 2 highlights the disconnection statistics.

Quarter/Financial year	Residential electricity customers with debt	Average residential electricity debt (\$)	Small business electricity customers with debt	Average small business electricity debt (\$)
Sep 15	39234	562	2550	1961
Dec-15	38459	582	2723	1831

Table 1: Queensland customer energy debt

Source: AER Retail Statistics at <http://www.aer.gov.au/retail-markets/retail-statistics/queensland-customer-energy-debt>

¹ AER (2015) Annual Performance Report

² ABS (2014) 4159.0 General Social Survey at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4159.0Explanatory%20Notes12014?OpenDocument>

2012-13	2013-14	2014-15	2015-16 Q1	2015-16 Q2
19306	25305	29692	7013	4961

Table 2: Residential customers disconnected for non-payment from 2012-13 in Queensland

Source: AER Retail Statistics at <http://www.aer.gov.au/retail-markets/retail-statistics/queensland-residential-customer-disconnections>

The AER has stated “we do not consider that the NEO would be advanced if prices are so high that large numbers of consumers are unable to afford the service.”³ Energy hardship, debt and disconnection are indicators of lack of affordability. As an essential service, electricity disconnection is the worst possible outcome for an energy consumer. The South Australian Council of Social Service has reported on the impacts of disconnection:

“The threat of disconnection places considerable stress and pressure on consumers. Consumers interviewed described experiencing a range of emotions, such as frustration, anxiety, shame and disappointment.”⁴

Similarly, the Public Interest Advocacy Centre has reported on the impacts of disconnection:

“Disconnection was disruptive to households, with a range of strategies deployed to cope with the situation, including using candles or lanterns, having cold showers/baths, and buying takeaway/prepared food. Those living in public housing were significantly more likely than others to take several courses of action to deal with the disconnection.

A range of impacts resulted from disconnection, most commonly anxiety and emotional disorders, loss of food and an inability to wash. These impacts were compounded the longer the disconnection.”⁵

³ AER Issues Paper for NSW Distribution Determination at <http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausgrid-determination-2014-19/proposal>: p.25

⁴ South Australian Council of Social Service (2014) South Australian Disconnection Project at <https://www.sacoss.org.au/reports/energy-water?page=0%2C0>: p.19

⁵ Public Interest Advocacy Centre (2013) Cut Off III at http://www.piac.asn.au/sites/default/files/publications/extras/13.04.14_final_report.pdf: p.ii

Expenditure Trends

The author has reviewed Powerlink’s actual and forecast expenditure for the current regulatory period as indicated below:

Activity	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Capex total	445.7	316.1	158.5	159.8	211.3	1291.4
Opex total	167.4	181.0	211.3	216.5	216.1	992.3
Total expenditure	613.1	497.1	369.8	376.3	427.4	2283.7

Table 2: Actual and forecast expenditure for the 2012-16 regulatory period (\$m nominal)

The author has compared capital and operating expenditure for the previous two regulatory periods to that proposed in the Regulatory Proposal and against the allowance as below:

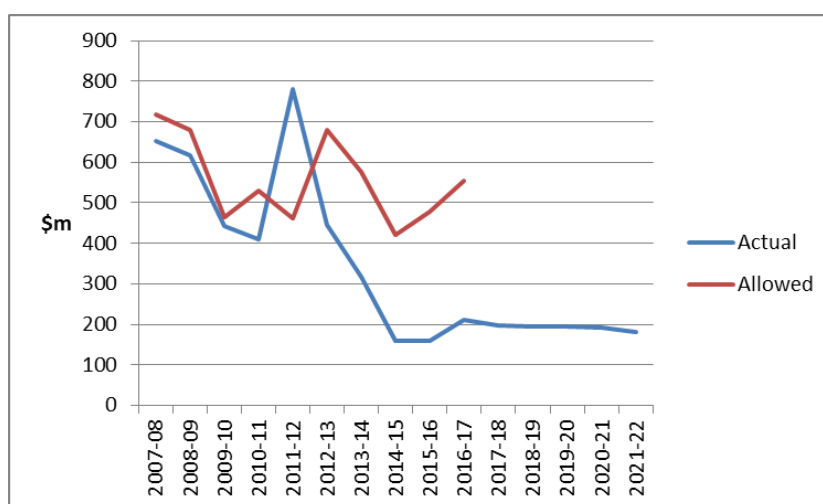


Table 3: Powerlink Capital Expenditure 2008-09 to 2021-22

(Note: Actual 2015-16 to 2016-17 is forecast and Actual 2017-18 to 2021-22 is as proposed in Powerlink’s RP)

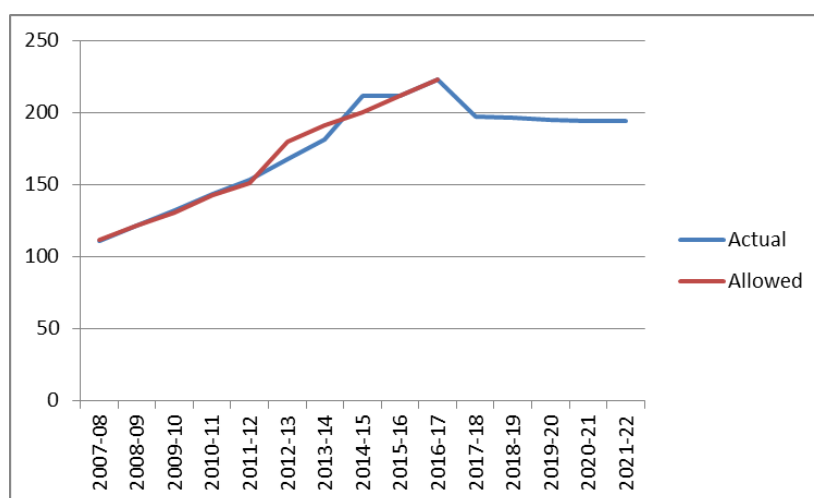


Table 4: Powerlink Operating Expenditure 2008-09 to 2021-22

(Note: Actual 2015-16 to 2016-17 is forecast and Actual 2017-18 to 2021-22 is as proposed in Powerlink’s RP)

In its Regulatory Proposal, Powerlink is proposing a significant program of capital expenditure of \$957.1 million over five years:

Capex by category (\$m 2016/17)	2017/18	2018/19	2019/20	2020/21	2021/22	Total over period
Load driven augmentations	0.3	2.6	0.3	0.0	0.0	3.1
Load driven easements	2.6	1.5	3.2	0.3	0.0	7.7
Non-load driven reinvestments	161.6	161.2	155.8	159.6	156.0	794.3
Non-load driven other	15.7	9.8	7.8	7.8	7.8	48.9
Information Technology	12.4	11.3	12.5	12.5	11.8	60.5
Support the business	5.6	7.8	11.9	11.7	5.7	42.7
Total	198.2	194.2	191.4	192.1	181.3	957.1

Table 5: Capital Expenditure Proposed by Powerlink 2017-22 (\$m)
(Source: Powerlink RP)

In particular, the author notes the following significant expenditure:

- Non-load driven reinvestments (\$794.3m)
- Information technology (\$60.5m)
- Commercial buildings (\$24.5m)

The author strongly recommends that the AER undertake detailed analysis about business cases and allowances for each of the capex significant projects and programs. The author intends to reassess this proposed expenditure after the Draft Decision, and anticipates further review of the proposals at that stage.

In its Regulatory Proposal, Powerlink is proposing a significant program of operating expenditure of \$976.7 million over five years. The author notes the decrease in opex expenditure and fact that this is one of two key drivers of the proposed decrease in Powerlink's revenues in the 2017–22 regulatory control period.⁶

⁶ AER (2016) Issues Paper at <http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/powerlink-determination-2017-2022/proposal>

Powerlink's Customer Engagement Program and Findings

Introduction

This section comments on Powerlink's customer engagement program which was conducted as part of Powerlink's Regulatory Proposal for 2017-22.

Powerlink commenced its customer engagement program for the regulatory reset in 2014 when it commissioned engagement consultancy Articulous Communications to analyse engagement approaches undertaken by other energy network businesses.

In February and March 2015, Powerlink engaged independent research firm the Australian Centre for Corporate Social Responsibility (ACCSR) to undertake in-depth customer and consumer perception research.

Powerlink established its Customer and Consumer Panel in May 2015, with a representative membership of directly connected customers, consumer advocates and industry representatives. The Panel has met three times since then.

On 30 March 2015, Powerlink hosted a Demand and Energy Forecasting Forum with speakers from a wide range of industries to learn more about new technologies and the impacts they may have on future electricity demand and energy.

On 24 July 2015, Powerlink held its annual Transmission Network Forum with over 100 stakeholders attending to discuss the future development of Queensland's electricity transmission network.

In 2015, stakeholders were invited to provide input on the Greater Brisbane and Central Queensland to Southern Queensland Area Plans through a series of forums.

Powerlink also undertook a number of one-on-one briefings with key stakeholders including the Queensland Government, AEMO, Energex, Ergon Energy, Queensland Resources Council and the Energy Users Association of Australia.

Online mediums were utilised to complement Powerlink's face-to-face engagement including a Transmission pricing webinar and the Powerlink website.

Research into Engagement Approaches

Powerlink engaged the services of Articulous Communications to investigate 24 organisations and publicly available data on consumer engagement programs in the context of AER regulations.

Articulous notes that "the findings are to be used to help guide Powerlink in their next stage of creating their consumer engagement methodology and will be used as background material for Powerlink's engagement workshop in December 2014."⁷

⁷ Articulous Communications (2014) Powerlink AER Consumer Engagement Research at <http://www.aer.gov.au/system/files/Powerlink%20-%20Appendix%203.01%20->

Articulous found that the following four stages have worked for energy network businesses in relation to the AER:

- Identifying and recruiting stakeholders
- Initial consumer research
- Customer review of first submission draft
- Presentation of proposal and closure of feedback loop

Customer and Consumer Perception Research

Powerlink engaged the services of ACCSR to conduct in-depth interviews with 30 stakeholders nominated by Powerlink during February and March 2015. Participants included Powerlink's customers, representatives of consumer organisations, government/regulators, and industry associations.

The purpose of the interviews was to understand the views and perspectives of Powerlink's stakeholders. The interview combined qualitative and quantitative techniques, including open ended and rating-styled questions. As ACCSR states: "Open-ended questions were thematically analysed to produce a list of issues, or topics, mentioned by stakeholders. These were then grouped thematically and the number of mentions of each topic were counted and displayed in graphical format. We analysed both open-ended responses and rating-style items overall, and then grouped responses into stakeholder (self-selected) categories: consumers, customers, industry, government/regulators, and other stakeholders."⁸

ACCSR found that the main consumer issue is high prices. Stakeholders consider that government ownership and regulation contributes to high prices by encouraging greater cost network investment. Stakeholders also talked about falling demand as a response to higher prices and said that they wanted information about Powerlink's future network investments to inform their own strategic planning.

Customer and Consumer Panel

Powerlink convened its first meeting of its Customer and Consumer Panel on 28 May 2015. Organisations represented included Energex, Ergon, BMA, Santos GLNG, Council of the Ageing, St Vincent de Paul, CSIRO, Chamber of Commerce and Industry Qld, Queensland Resources Council and Energy Users Association Australia. The meeting was attended by senior Powerlink representatives.

The second meeting of the Panel was on 21 August 2015 and the third meeting on 19 November 2015. Representatives of the Consumer Challenge Panel have attended some of the meetings as observers.

[%20Powerlink%20AER%20Consumer%20Engagement%20Research_Articulous%20Communications%20-%20January%202016.pdf](#)

⁸ ACCSR (2015) Powerlink Queensland Customer and Consumer Perception Research at <http://www.aer.gov.au/system/files/Powerlink%20-%20Appendix%203.02%20-%20Customer%20and%20Consumer%20Perception%20Research%20Summary%20of%20Results%20ACCSR%20-%20January%202016.pdf>

The following issues relevant to Powerlink’s regulatory proposal were canvassed during Panel meetings:

- Framework and Approach
- Opex – Powerlink proposed to adopt the base step trend model for its revenue proposal
- Opex benchmarking for transmission
- Labour costs
- Capex: asset reinvestments, demand forecasting, network configurations
- Bottom up versus top down forecasting for capex
- Incentive schemes
- Transmission pricing
- Depreciation
- WACC

Consumer Challenge Panel Perspectives

Since 2013, the Consumer Challenge Panel has raised a number of issues relating to the effectiveness of network businesses consumer engagement activities. The following table collates that advice and assesses the performance of Powerlink against the issues raised:

Issue Raised By CCP	Panel Raised	Addressed by PL	Assessment of PL Performance
Clear, accurate and timely communication			
Range of engagement tools used	Sub panel 1, sub panel 7, CCP	Yes	The incorporation of a range of tools including stakeholder meetings, in-depth interviews, customer panel, webinar, website is noted.
Placing emphasis on face to face consultation/ in depth discussions	Sub panel 1, CCP	Partially	The in-depth interviews and open, transparent discussions in customer and consumer panel meetings are noted. The relatively small number of actual engagements is also noted.
Engagement timetabled to be able to effect regulatory proposal	Sub panel 1, sub panel 8	Yes	Powerlink’s first round of research was in 2014.
Accessible and inclusive			
Recognition of different customer segments and targeting engagement accordingly	Sub panel 1, sub panel 3, sub panel 7, sub panel 8, CCP	Yes	While there is no reporting of the research demographics which is regrettable, Powerlink undertook stakeholder mapping to target its engagement.
Consumers being presented with cost and price implications of any preferences	Sub panel 1, sub panel 7, CCP	No	There are no reports of specific discussions about cost and price implications of any preferences.
Using the IAP2 spectrum, targeting participation at the “Involve”, “Collaborate” and “Empower” levels rather than just “Inform”	Sub panel 1, sub panel 6, sub panel 7, sub panel 8, CCP	Yes	Powerlink targeted engagement at the Involve level.
Transparent			
Consumers informed of their role in the process and of the objective of the process	Sub panel 1	Yes	This is notable in the case of the Customer and Consumer Panel.
Provision of information to customers engaged of average prices (cents/kWh),	Sub panel 1	No	There is no evidence that this information was provided.

total revenue (\$bn) and total profits (\$bn) for the specific DNSP and compared to those of other NSPs each year over a five year period plus data on average minutes off supply, per connection on average for the last five years			
Evidence based claims about reliability	Sub panel 1	Partially	Powerlink discussed reliability in meetings and forums.
Appointment of independent adviser/facilitator	Sub panel 8	Yes	Appointed.
Measurable			
Evidence that success is being measured	Sub panel 1, sub panel 7, sub panel 8, CCP	Yes	Powerlink conducted a series of formal market research and informal briefings with stakeholders to assess performance against KPIs.
External assessment by participants	Sub panel 1	Partially	Stakeholder reference meetings provided opportunity for external feedback. There was no external assessment process.
Accountable			
Willingness to pay surveys being used to provide useful insights on consumer preferences about competing priorities, rather than to justify significant expenditure	Sub panel 1, sub panel 8, CCP	Yes (PL elected not to use WTP)	The decision by Powerlink not to use WTP is to be commended. It is a very costly method if it is done well, and Powerlink has demonstrated that there are alternative ways to gain information about consumer preferences.
Inadequate information provided in WTP surveys	Sub panel 3	Yes (PL elected not to use WTP)	As above.
AER engage independent WTP evaluators	Sub panel 3, CCP	Yes (PL elected not to use WTP)	As above.
Sufficient time in workshops and meetings to explore regulatory proposal issues	Sub panel 3, sub panel 7	Yes	This is notable in the Panel meetings and the consumer research appears focussed to ensure adequate time for emerging issues to be fully explored.
Aligns with AER CE Guideline	Sub panel 1, sub panel 8	Yes	As noted above.
Senior executives part of engagement	Sub panel 8	Yes	Powerlink is to be commended for senior level engagement in the consumer program.
Appropriately costed			
Part of efficient revealed costs rather than a step change	Sub panel 6	Yes	Powerlink is to be commended for an efficient yet valuable engagement process.

Table 7: Assessment of Powerlink performance against consumer engagement issues previously raised by Consumer Challenge Panel

Revisions due to Consumer Input

Powerlink notes the following impacts of its engagement program on the Regulatory Proposal:

- “Operating expenditure - use of benchmarking, individual line item efficiency analysis and more detailed evaluation of the efficient base year;
- Demand and energy forecasting – improved approach to demand and energy forecasting with impacts of new technology such as battery storage included for the first time;
- Network planning – input to Greater Brisbane area plan with outcome to maintain flexibility at lowest costs in the short to medium term; and

- Engagement approach – engage through face-to-face activities with a focus on areas that have greatest impact on electricity prices.”⁹

Feedback from Queensland Consumers

The author spoke to three members of the Powerlink Customer and Consumer Panel. In general, the feedback was extremely positive about the approach of Powerlink to engagement with customers and consumers. There was agreement among each of the members that the Regulatory Proposal contained no negative surprises and that their expectations were largely met through the RP. As one Panel member commented:

“The Powerlink Customer & Consumer Panel discussed Powerlink’s Regulatory Proposal at its meeting on 25th February 2016. Panel members generally responded positively to the proposal overall. They were pleased that Powerlink had kept its commitment to adhere to the AER’s Guidelines and processes. There were no major surprises.”

Panel members spoke highly of Powerlink’s openness and transparency. They felt that Powerlink listened to views presented throughout the process, and made efforts to respond to issues in appropriate ways. They felt that Powerlink’s RP contained no surprises as most of the issues had already been canvassed with Panel members in the lead up to lodgement.

In terms of concerns, there was a question raised by one Panel member about opex and whether there might be scope for further reductions. However, another Panel member commented on the constraints Powerlink faces in terms of reducing its opex as a government owned entity with existing Enterprise Agreements in place.

There was also concern raised that at no stage did Powerlink actually engage with the Panel about the actual consumer engagement approach it would use.

Finally, a Panel member was concerned about Powerlink’s contingent projects and whether these might raise Powerlink’s capex above that in the current regulatory period. However, another Panel member spoke about Powerlink’s oral presentation about the approach it would take to its contingent projects, particularly the approval process requiring a clear set of triggers and the need to make a case for each contingent project.

Conclusions

The success of Powerlink’s consumer engagement program is evidenced by the willingness of the business to embrace the consumer view that cost is the greatest concern. This consumer view is no surprise, given the affordability issues experienced by many Queenslanders and the slowing state of the Queensland economy. Yet it is noteworthy that Powerlink has recognised and prioritised this perspective in its Regulatory Proposal.

Of the 19 issues raised by the Consumer Challenge Panel in recent regulatory determinations, Powerlink has positively addressed 14, partially addressed 3 and negatively addressed 2. This is an

⁹ Powerlink (2016) Regulatory Proposal: p.11

encouraging result and demonstrates that Powerlink has adopted a consumer engagement approach which incorporated lessons and advice from earlier regulatory determinations in the current round of determinations.