

The McKell Institute & ETU NSW



Submission to the AER:

Draft determination on AusGrid: Regulatory period 2019-2024

February 2019.

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Overview

This submission by the McKell Institute and the ETU NSW is in relation to the AERs Ausgrid – Determination 2019-2024.

The McKell Institute is a not-for-profit public policy institute dedicated to identifying creative responses to today's most pressing public policy challenges.

The ETU NSW represents workers in the electrical trade across the state of New South Wales and the ACT.

This submission focuses on what the McKell Institute and the ETU NSW believe is an unnecessary focus by the AER in this and previous regulatory determinations to incentivise DNSPs, such as Ausgrid, to seek major reductions in their work forces to achieve efficiency dividends mandated by the AER.

In previous submissions to the AER, the McKell Institute and the ETU NSW have expressed concerns over the AERs benchmarking methodology, and how it incentivises the DNSPs to cut down on labour costs and outsource vital tasks to contractual labour.

It is the view of the McKell Institute and the ETU NSW that such drastic reductions in workforces, like the 37 per cent reduction of Ausgrid's workforce in recent years, risks imparting long-term damage on the skill-base of the electrical trades industry. It also places undue strain on the existing workforce, who are faced with an ever-increasing task of managing a growing network with fewer staff.

This submission highlights the fact that workforce reductions have coincided with a decrease in performance. In April 2015, the AER found that Ausgrid should drastically reduce its workforce to achieve efficiency standards. In the two calendar years that followed that determination, the number of customers impacted by outages grew by 9.41 per cent.

Maintaining a well-trained, highly-skilled workforce is vital for the integrity, long-term reliability and safety of the industry. This submission contends that the AER has taken a short-term view when it comes to seeking efficiency in the network, which risks doing lasting damage to Ausgrid's workforce and the DNSP workforce more broadly.

The AER must reconsider its approach to incentivising a reduction in labour costs. While it is within the AER's mandate to seek an efficient, reliable network, safety and longevity of the workforce certainly falls under the remit of the regulator. Given this, this submission argues that the well-being of electrical trade workers has been poorly considered.

The McKell Institute and the ETU NSW thank the regulator for the opportunity to submit to this determination.

Key Points

- The McKell Institute and the ETU NSW have ongoing concerns over the merits of the AERs benchmarking methodology. The methodology incentivises cost-reductions by DNSPs through reductions in labour costs and an increase in contractual labour. This coincides with a growing circuit length, and increasing reports of poor vegetation management leading to major outages and incidents in New South Wales.
- Ausgrid's reduction in staff has coincided with a marked increase in outages experienced by its customers. The AER determined in 2015 that Ausgrid should reduce the size of its workforce, kick-starting a transformation that saw a 37 per cent reduction in Ausgrid's workforce.
- During that transition, more customers have experienced outages. In 2016, more than 1.1 million customers experienced outages. This grew by 9.41 per cent in 2017, reaching over 1.2 million. This means that around
- In total, there were 1592 outages in 2016. In 2017, this grew by 7.09 per cent to 1705 outages.
- There is little evidence of forecast investments in the future workforce of Ausgrid. The AER continually incentivised DNSPs to seek efficiency gains primarily through reducing staff and outsourcing labour. This risks de-skilling the industry during a period of considerable expansion, increased customer demand, and energy industry transformation.
- The AER does not appear to accept Ausgrid's labour cost forecasts, and instead determined that labour costs would grow slower than Ausgrid predicted. The AER's determination may place a ceiling on wages and labour costs, which could further incentivise Ausgrid to reduce labour costs through a reduction in supplementary expenses, such as training.

Past McKell Institute submissions to the AER

February 2015 Submission

In February 2015, the McKell Institute delivered a submission to the AER in response to the Essential Energy Draft Determination of that period. The McKell Institute's 2015 submission, while focused on Essential Energy's draft determination, aimed to put forward some broader arguments for future reference of the AER.

In that submission, the McKell Institute explored the price-side of the AERs responsibility, as well as identifying what it believed were certain gaps in risk management and reliability considerations put forward by the AER.

It noted previous language in AER determinations that were incongruous with the roles of other Government agencies, such as the Fair Work Commission, which demonstrated a lack of focus on the conditions workers within the distribution networks faced. The 2015 submission found that:

“AER appears to have entrusted to itself, with no legislative basis, the power to refute the determinations of the Fair Work Commission. We quote from the Ausgrid Draft Determination:

“The presence of a legal obligation, by itself, is insufficient to justify us providing opex for a particular item... Enterprise Agreements are one example of this. If a contractual or legal obligation were sufficient to justify the provision of opex, it would curtail the scope for us to undertake efficiency assessments.”

The AER here appears to be ignoring the role of the FWC entirely. The FWC is responsible for ensuring that labour is not unfairly remunerated by businesses and that conditions are reasonable”

January 2019 Submission to Evoenergy Draft Determination, 2019-2024¹.

The McKell Institute and the ETU NSW offered a submission to the AERs Evoenergy draft determination, 2019-2024. That submission noted the impact on Evoenergy that a 24 per cent reduction in its workforce had had. It highlighted the increased likelihood of outages and fire incidents as a result of the reduction of the workforce, and contended that the AERs regulatory approach risked de-skilling Evoenergy's workforce over the long term by outsourcing essential tasks to contractual labour.

¹ McKell Institute, 2015. Submission to the AER: Response to Essential Energy Draft Determination. Page 9

The AERs benchmarking methodology incentives workforce reductions

The McKell Institute and the ETU NSW has previously articulated its concerns with the AER's benchmarking methodology to quite an extent. Both parties believe the current benchmarking methodology exaggerates the risk of a 'race to the bottom' by DNSPs as they seek maximum efficiency dividends while encouraging the reduction in labour costs. In the McKell Institute and Evoenergy's submission to the AER in January 2019, it found:

"The AER benchmarks distribution networks by using multilateral total factor productivity – a method that allows the total factor productivity of different DNSPs to be compared.

The McKell Institute previously criticised certain elements of the benchmarking methodology adopted by the AER. It is clear that the AER has refined its benchmarking methodology over the previous years. However, the benchmarking methodology adopted by the AER still retains elements that cause some concern for those seeking adequate regulatory outcomes, particularly when it comes to the future of the industry's workforce.

Broadly speaking, The McKell Institute and ETU NSW are concerned that the benchmarking methodology does not adequately account for investments or expenditure allocated towards the safety or training of the workforce, or indeed the maintenance of an adequate workforce at all.

As one example, there is no specific reference to the skilling of the future workforce in the industry in OpEx breakdowns in the benchmarking methodology. In its analysis, The McKell Institute and ETU NSW have found no evidence that the AER's benchmarking methodology appropriately considers investments in the current and future workforces of the industry as investments at all. This omission is considerable.

Indeed, many of the efficiencies gained – efficiencies that have been beneficial towards DNSPs in the context of the benchmarking exercise – have come as a result of a reduction in OpEx achieved through a reduction in labour costs.

The McKell Institute and ETU NSW understand the need for DNSPs to maintain efficient workforces. However, in analysing the AER’s determinations and language in benchmarking exercises, it is possible to conclude that the AER supports DNSPs seeking efficiencies through workforce reductions beyond other measures. That labour costs, training costs, or the detailed nature of maintenance costs is not adequately tabled in the OpEx costings included in the benchmarking report is of concern.

This approach appears misguided and somewhat myopic. The precedents that are being set by such benchmarking approaches may facilitate a ‘race to the bottom’, where DNSPs adopt a single minded focus on achieving efficiency dividends that appease the AER benchmarking model rather than focusing on the best interests of their organisation, their workforce, their industry and consumers over the longer term.

The AER, in its efforts to continually improve its benchmarking methodology, should be more cognisant of the nuanced nature of OpEx – in particular, the nature of labour and associated costs – for each DNSP. Expenditure allocated towards training, for example, should be considered an investment rather than a mere expense that the AER is encouraging DNSPs to lower.”²

² McKell Institute & ETU NSW Submission to Evoenergy Regulatory Determination 2019-2024.

AER encouragement of workforce reductions

The AER have incentivised workforce reductions in recent years, despite an increase in outages

The McKell Institute and the ETU NSW noted in a previous submission the way in which AER has actively incentivised the major DNSPs to reduce their workforce.

In their submission on January 11, 2019 to the Evoenergy Regulatory Determination 2019-2024, the McKell Institute and the ETU NSW noted that:

- “Essential Energy reduced its network services opex by 26 per cent between 2012–13 and 2016–17, and reduced its workforce by 38 per cent. This contributed to an 8.7 per cent improvement in its opex MPFP.
- Ausgrid increased its network services opex by 4 per cent between 2012–13 and 2016–17. However, **Ausgrid incurred substantial transformation costs over this period to reduce its workforce by 37 per cent.** Ausgrid is forecasting opex reductions in 2017–18 and 2018–19.
- Endeavour Energy increased its opex between 2012–13 and 2015–16. However, since 2015–16, Endeavour Energy’s opex has declined and is forecast to decrease significantly more in 2017–18 and 2018–19 (based on its regulatory proposal for the 2019–24 period). Endeavour has reduced its workforce by 29 per cent.”³

The AER offer additional detail explaining Ausgrid’s labour reduction (emphasis added):

³ McKell Institute & ETU NSW Submission to Evoenergy Regulatory Determination 2019-2024.

“In our April 2015 revenue decision, we found that Ausgrid had high labour costs because it had too many staff and had engaged permanent staff in preference to contractors for the 2009–14 period of transitory capex work⁴.

“These costs coincided with a reduction in Ausgrid’s workforce over these three years of almost 1000 FTEs and a decline in its opex of approximately 22 per cent.”⁵

Consistently, AER demonstrate a desire for the DNSPs to significantly reduce their labour overheads, by reducing full time, salaried staff and using a contract labour model to save costs. The McKell Institute and ETU NSW understand that the AER has a vital role in ensuring the efficiency, affordability and reliability of the network. However, in the view of the McKell Institute and the ETU NSW, the focus on drastic reductions in workforces by the AER ignores the long-term consequences of deskilling an industry and making employment in an industry less secure. This submission also notes that the reduction in Ausgrid’s labour costs has coincided with a significant increase in outages, including major incidents like that on January 30, 2019 in inner-Sydney.

Reductions in workforce correspond with an increase in network outage issues and customers interrupted

The AER has documented a 37 per cent reduction in Ausgrid’s workforce over recent years. Unfortunately, there is no evidence that the reduction in Ausgrid’s workforce has resulted in improved performance.

⁴<https://www.aer.gov.au/system/files/AER%20-%20Ausgrid%202019-24%20-%20Draft%20decision%20-%20Attachment%206%20-%20Operating%20expenditure%20-%20November%202018.pdf> Page 26

⁵<https://www.aer.gov.au/system/files/AER%20-%20Ausgrid%202019-24%20-%20Draft%20decision%20-%20Attachment%206%20-%20Operating%20expenditure%20-%20November%202018.pdf> Page 27

The AER has noted that the expense of Ausgrid’s workforce transition has been considerable and that Ausgrid remains the least productive DNSP in the AEM. Outage data since 2016 suggests that, from the customer’s perspective, Ausgrid’s performance is in fact continuing to decline.

<i>Ausgrid Outages</i>	<i>2016</i>	<i>2017</i>	<i>% Increase</i>
<i>Customers Interrupted</i>	1,104,501	1,208,403	9.41
<i>Number of Outages</i>	1592	1705	7.01

Figure 1: Ausgrid service interruptions and customers effected, 2016-18⁶.

In 2016, around 1.1 million customers experienced outages. This grew by 9.41 per cent in 2017 to over 1.2 million. In total, 2016 saw 1592 outages, followed by a 7.01 per cent increase to 1705 in 2017. These figures are sourced from Ausgrid’s publicly available outage data, and demonstrate the last data sets that cover entire calendar year.

The McKell Institute and ETU NSW contend that Ausgrid’s 37 per cent reduction in workforce has made it more challenging for Ausgrid to maintain their network and improve performance. This doesn’t only impact customers in the immediate term, but also risks costs increasing over time.

The more outages – particularly unplanned outages from equipment failure – that occur, the more expensive reactive maintenance becomes.

⁶ <https://www.ausgrid.com.au/Industry/Innovation-and-research/Data-to-share/Past-outage-data>

Considering some of the unforeseen costs associated with reactive maintenance are eventually passed on to customers through cost pass throughs, The McKell Institute and ETU NSW submit that the reduction in workforce has not had the positive impact on customers that the AER might have argued.

Instead, more customers in Australia's biggest city are facing more outages year on year, and are too often paying for it through cost pass throughs.

Punchbowl Incident

Poor system configuration may result in occasionally devastating consequences. The recent electrocution of a member of the public in Punchbowl, Sydney demonstrates in the extreme the consequences network failure can at times have – not just to electricity workers, but the public, too. During a storm on 5 January 2019, a downed, active power line in Punchbowl, Sydney was responsible for the tragic death of a 38 year old man⁷.

While there has been no formal inquiry to date, media outlets reported the man was electrocuted by livewires that fell down during the storm. The McKell Institute is aware that, in such incidences, there are manual maintenance processes which are employed to ensure that these wires are unable to be reverse fed from the L.V. network.. Clearly in the tragic incident in Punchbowl, this was not the case and a function of the network operator's capacity to ensure this, is staffing levels. The McKell Institute is by no means directly linking this incident to the explicit actions of any regulator or business. It would be purely speculative to prematurely link this incident to any specific decisions by any party involved in the regulation or operation of Sydney's transmission network – particularly before any formal inquiry has been concluded. The incident does, however, demonstrate just how vital it is that our networks are adequately maintained, and the high-risk nature of electricity networks generally.

⁷ <https://www.abc.net.au/news/2019-01-06/man-electrocuted-during-sydney-storm/10687736>

Underinvestment in vegetation management causes outages and fires

In the McKell Institute and ETU's submission to the AER regarding Evoenergy's draft determination for 2019-24, it warned of the consequences of poor vegetation management. The AER benchmarking methodology, and its tendency to incentivise contractual labour uptakes as a way of reducing labour costs. Overall, fewer workers means fewer people available to respond to major incidents, as well as pre-emptively reduce fire and outage risks. A recent major blackout event in Sydney demonstrates the consequences of complacency.

On January 30, 2019, Sydney's eastern suburbs experienced a major network disruption. An investigation quickly determined that the incident was caused by poor vegetation management. The *Sydney Morning Herald* reported:

“The blackout was caused by overgrown weeds, believed to be shoulder-high in some places, that grew around the equipment in an electrical substation on the corner of Epping and Manning roads in Double Bay...These weeds came into contact with the 132-kilovolt power cable where it emerges from the ground to connect to the switching equipment in Double Bay”⁸.

That there were shoulder-high weeds in such close proximity to vital network infrastructure demonstrates an abrogation of responsibility on behalf the Ausgrid, and the AERs failure to incentivise the DNSPs to undertake best-practice vegetation.

The January 30 incident was remarkable in the scale of its disruption. 45,000 customers were affected, including The Sydney Children's Hospital and Prince of Wales Hospital, which were forced to use backup generators. Businesses were forced to close, and Coogee Public School had to email parents to let them know that the school had 'a total blackout, with no

⁸<https://www.smh.com.au/national/nsw/overgrown-weeds-the-source-of-sydney-blackouts-20190131-p50uwq.html>

phone, internet, bells or electricity at all⁹. That such a major disruption could be caused by poor vegetation management within Australia's most populous urban environment is a stark example of the need to best-practice vegetation management across the network.

Unfortunately, the January 30, 2019 incident is not the only example of poor vegetation management leading to a major incident in New South Wales. While not in Ausgrid's distribution network, the Tathra bushfire in March 2018 was found to be caused by fallen power lines.

The *Australian* reported on April 7, 2018 that Essential Energy "failed to manage the trees and plants around more than 2500 of its powerlines in bushfire-prone areas in NSW last year, dozens of which were in its highest-risk areas where the company said fires were highly probably and would have severe consequences on nearby communities"¹⁰. The bushfire destroyed 65 homes.

Such major incidents within the AERs jurisdiction is alarming, particularly when so much of NSW and the network areas the DNSPs are responsible for lie in bushfire prone areas.

Ausgrid estimates that:

"25% of the overhead network assets fall within a bushfire prone area in both rural and urban areas"¹¹ – Ausgrid.

⁹<https://www.smh.com.au/national/nsw/overgrown-weeds-the-source-of-sydney-blackouts-20190131-p50uwq.html>

¹⁰<https://www.theaustralian.com.au/news/nation/energy-network-failed-to-clear-2500-powerlines-before-tathra-bushfire/news-story/d6790d7ea6480e4dffc1c995b4336d59>

¹¹<https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Attachment%205.13.L.3%20-%20Network%20Digitisation%20Business%20Case%20-%20January%202019.pdf>

Ausgrid has argued for better vegetation management technology in order to improve its ability to manage outages and bushfire risk. It has argued that it requires more resources to allocate towards improving its technological capacity to monitor “tree growth rates...trimming frequency history and projections, network construction, tree density per span”¹² and the ownership of trees to improve its capacity to manage vegetation.

It states that “Through better vegetation information and improved vegetation management activities in proximity to the powerlines the number of line failures and outages can be reduced.”¹³

The McKell Institute and the ETU NSW recommend that the AER reconsider its existing approach to regulating the vegetation management practices of the DNSPs. It is clear that more resources and more personnel are required across the NSW distribution networks to ensure that incidents like those on January 30, 2019 in inner Sydney and that of March 2018 in Tathra do not occur again.

Ausgrid’s main proposal offers little detail on vegetation management.

Ausgrid’s *Revised Regulatory Proposal* offers little detail about its proposed vegetation management plan for the coming regulatory period. Indeed, the term vegetation management appears only twice in the document. Earlier documents do include mentions of vegetation management proposals, however. In its

“3.2.5 Optimised Vegetation Management Optimisation of vegetation management cycles accounts for 27% of the total benefit over the business case period for the preferred option. The benefit is based on a reduction in vegetation management costs through deferral of tree trimming where possible and a reduction in unserved

¹²<https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Attachment%205.13.L.3%20-%20Network%20Digitisation%20Business%20Case%20-%20January%202019.pdf>

¹³<https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Attachment%205.13.L.3%20-%20Network%20Digitisation%20Business%20Case%20-%20January%202019.pdf>

energy – that is, a customer benefit rather than a cost saving – through additional tree trimming as required to prevent outages.”¹⁴

Further clarity is needed regarding fires and customer cost pass throughs

In its revised cost pass through application, Ausgrid nominates four separate ‘pass through events’ after which it would expect to recover costs by passing on costs through to customers. The four events are:

- An insurer’s credit risk event
- Insurance cap
- Natural disaster event
- Terrorism event.

The AER permits certain unforeseen costs to be passed through to customers. This submission notes that the natural disaster risk also includes ‘fire’:

“Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2019-24 regulatory control period that increases the costs to Ausgrid in providing direct control services, provided the fire, flood or other event was not a consequence of the acts or omissions of the service provider”.

This submission welcomes the caveat that there can be no cost pass throughs if a fire is not the consequences of Ausgrid’s actions. However, considering the limited capacity Ausgrid has to engage in proactive fire prevention activities, such as vegetation management, this submission has concerns over the nature of determining ultimate liability in the case of a major fire. In essence, it is not unrealistic for Ausgrid to argue that the limitations placed upon it by the AER were the root cause of its ‘acts or omissions’ that may cause a fire event. To

¹⁴https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Attachment%205.13.L.4%20-%20GHD%20independent%20review%20of%20the%20Network%20Digitisation%20Project%20-%20January%202019_0.pdf

avoid such an occurrence, it is in the AERs interests to allow for the resources and incentivise Ausgrid and other DNSPs to engage in best-practice, preventative vegetation management.

A note on best practice vegetation management

The McKell Institute and the ETU NSW believe that it is the regulator's responsibility to ensure that the DNSPs are engaging in best-practice vegetation management to minimise the risk of fires, like that in Tathra in 2018, and outages, like that in inner-Sydney on January 30, 2019. In its submission to the AER in January 2019, the McKell Institute and ETU NSW found that:

“It is important that the AER ensures that Evoenergy, in executing its responsibility to manage vegetation in order to prevent unnecessary disruptions and bushfire risks, has the resources and capacity to not only manage vegetation, but do so effectively and sustainably.

The ACT is unique in its natural environment. As a major urban centre within close proximity to the natural environment, it is vital that any vegetation management does not damage beyond necessity the ACT's unique environment. Environmental researchers have determined the regular pruning of hazardous trees and vegetation is the preferred method of vegetation management. Not only does well-considered vegetation management reduce the risk of bushfires and network disruption, it also minimised impact on the ecosystem. It is important that best-practice vegetation management be considered by the AER and factored into its forecasting, and that AER determinations incentivise best-practice vegetation management, no

A growing task managing the network

The reduction in Ausgrid's workforce corresponds with a period of expansion. In January, Ausgrid serviced 1.724 million customers. By the end of the regulatory period, it is expected that Ausgrid will be servicing 1.827 million customers.

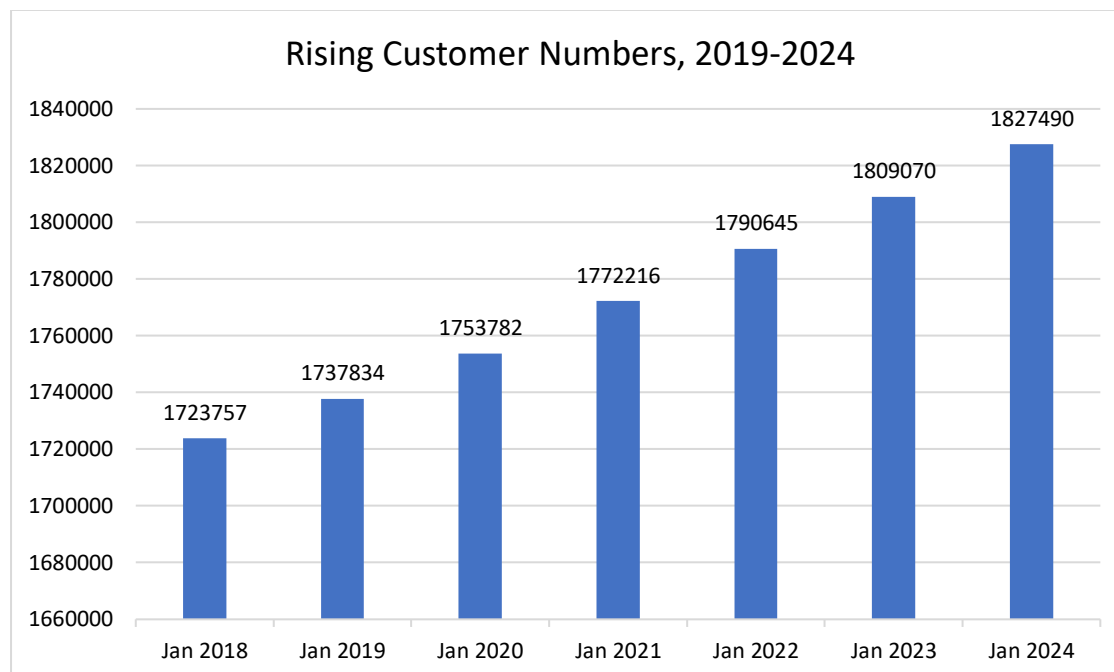


Figure 2: Forecast Ausgrid customer numbers (Opex model, November 2018)¹⁵.

This corresponds with a significant increase in circuit length, with the network extended by more than 1200 kilometres over the forthcoming regulatory period. Naturally, an expanding remit requires major investment to keep pace with growing demand and maintenance responsibilities. Ausgrid's master list of capex projects over the coming period reflects this, with the program totalling \$2.8 billion over the coming regulatory period. 89 per cent of this capex is expected to be on replacing existing or ageing assets, according to the master list. It is curious that, despite such an expansive capital expenditure program and a rapidly growing network, Ausgrid's workforce will likely continue to decline in line with AER expectations. The McKell Institute and the ETU NSW have serious concerns about the viability of such an

¹⁵<https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Attachment%205.13.M.1%20-%20Poles%20program%20CBA%20summary%20-%20January%202019.pdf>

approach. That there is little investment forecast in Ausgrid’s workforce (for example, there is scant evidence of forecast investment in skills training, workforce development, apprenticeship programs etc) could prove disadvantageous for Ausgrid, and ultimately NSW electricity consumers, in the long term.

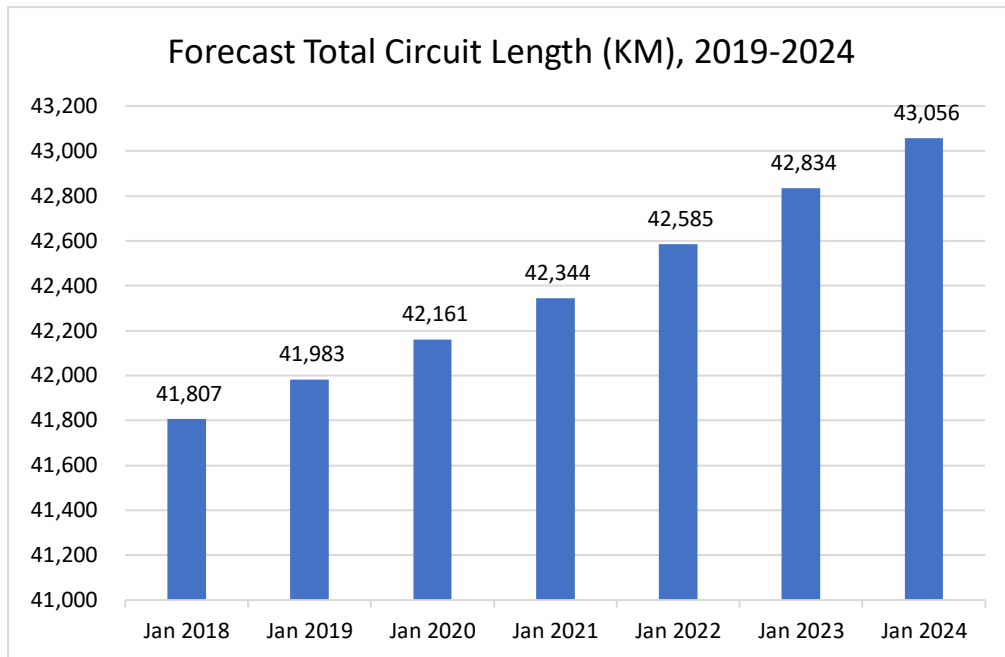


Figure 3: Growing circuit length (Opex model, November 2018)¹⁶.

89 per cent of capex is expected to be replacing old assets

AER Category of Capex	
Augmentation	13
Connections	17
Fleet	1
ICT (Non Network)	5
Network Overhead	5
Plant	1
Property	1
Replacement	344

Figure 4: Capex projects, 2019-2024.

¹⁶<https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Attachment%205.13.M.1%20-%20Poles%20program%20CBA%20summary%20-%20January%202019.pdf>

The extent of the maintenance challenges for Ausgrid should also be noted. It has forecast, for example, that by the end of the regulatory period, it expects there to be 8588 pole failures per year. That is 23.5 incidents every single day. This is a considerable task to manage, and should be reflected and responded to in this determination.

“Based on the analysis completed, the model output is supporting the replacement of 22,358 poles by the end of FY24. This includes 3,209 poles committed for replacement during FY19 and a total of 19,149 poles during FY20 to FY24.” - Ausgrid¹⁷

	2020	2021	2022	2023	2024
Forecast Failures	6770	7195	7639	8104	8588

Figure 5: Forecast failures of poles in Ausgrid network¹⁸.

¹⁷<https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Attachment%205.13.M.1%20-%20Poles%20program%20CBA%20summary%20-%20January%202019.pdf>

¹⁸<https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Attachment%205.13.M.1%20-%20Poles%20program%20CBA%20summary%20-%20January%202019.pdf>

The AER's labour price forecasting may be placing a lid on wages

Our forecast of the expected increase in real labour prices in NSW is lower than that proposed by Ausgrid. We have applied our standard approach by averaging the forecasts of growth in the NSW utilities wage price index by our consultant Deloitte Access Economics and Ausgrid's consultant, BIS Oxford Economics. In contrast, Ausgrid only applied BIS Oxford Economics' forecast¹⁹. - AER

The AER's determination allocates less resources towards Ausgrid's labour costs than Ausgrid submitted. The AER submits this on the basis of its own economic modelling conducted by BIS Oxford Economic and Deloitte Access Economics.

The McKell Institute and the ETU NSW have reservations over the determination arrived at by Ausgrid. Wage growth in Australia has been at historically flat levels in recent years. This has had ripple effects throughout the entire economy, constraining consumer spending and government revenue in all jurisdictions. In its determination, the AER appears to have, in essence, assumed that low rates of wage growth in the economy (and electrical sector) will continue. Therefore, it questions the veracity of Ausgrid's own forecasts for higher rates of wage growth, rebutting these and allowing for less OpEx to be directed towards labour costs over the regulatory period.

Of concern to the McKell Institute and the ETU NSW is the broader implications of such a determination. Limiting labour OpEx significantly below the figure Ausgrid has determined would be appropriate could have broader repercussions for not only the exiting workforce, but Ausgrid's ability to invest in the future of the industry.

¹⁹<https://www.aer.gov.au/system/files/AER%20-%20Ausgrid%202019-24%20-%20Draft%20decision%20-%20Attachment%206%20-%20Operating%20expenditure%20-%20November%202018.pdf> Page 20

Lack of investment in human capital is evident

The energy sector is undergoing an immense period of transformation that requires a highly skilled, highly adaptable workforce. The plans for the upcoming regulatory period, however, are thin in terms of how Ausgrid will ensure the future of its workforce.

Both Ausgrid and the AER have an extensive tranche of documents relating this regulatory determination publicly available. Ausgrid's final revised proposal for example, includes 84 PDF documents and 45 XLS models that explore in detail a variety of CapEx and OpEx requirements. None of these offer specific investment plans in relation to human capital. Just as maintaining physical assets is vital to ensure the risk of outages is mitigated, so too is the maintenance of a highly capable and skilled workforce. The fewer workers available to respond to incidences, that slower reactive maintenance can become. This ultimately impacts Ausgrid customers, who are already suffering as a result of increasing outages over the years since Ausgrid has begun reducing its workforce.

In its determination rounds, the AER should expect more detailed information from Ausgrid and other DNSPs regarding long-term strategies aimed at securing the capacity of its workforce.

Concluding Remarks

This submission has reiterated previous concerns of the McKell Institute and the ETU NSW.

The AER has a key responsibility in ensuring the efficiency, safety and reliability of Australia's energy network. However, this submission highlights elements of the AER's regulatory approach that appears to undermine the workforce of this industry over the long term.

A growing and evolving energy network requires a nimble, highly-skilled and highly-responsive workforce. The AER's benchmarking and regulatory approach, however, too often mandates that DNSPs seek their efficiency dividends primarily through a reduction in labour.

This approach needs to be revised to ensure the industry can maintain its existing skilled workforce, and continue to attract more into the future. Failure to do so could lead to an increase in poor customer outcomes, higher costs due to an increase in 'reactive maintenance', and a less secure network in the future.

The McKell Institute and the ETU NSW thank the AER for the opportunity to submit to this determination.