16 May 2018

Mr Chis Pattas
Australian Energy Regulator
GPO Box 520
Melbourne VIC 300

Via email: AERinquiry@aer.gov.au

Dear Mr Pattas,

Power and Water Corporation – Regulatory Proposal 2019 – 2024

The Electrical Trades Union of Australia (ETU) Queensland and Northern Territory Branch is the Electrical, Energy and Services Division of the Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia (CEPU). The ETU Queensland and Northern Territory Branch represents over 300 electrical supply industry workers employed by Power and Water Corporation (PWC) and its contractors.

The ETU welcomes the opportunity to make the following submission relating to PWC's regulatory proposal.

The ETU requests the AER consider our submissions relating to the unique geographical challenges faced in the NT, comparative employment costs and the operational expenditure stretch target.

Geographical Challenges

The ETU supports PWC's arguments throughout their proposal relating to the significant and unique geographical and environmental challenges faced in the NT.

The NT's vast expanse requires a network and a workforce to deal with one of the most diverse set of climatic, geographical and environmental conditions of any network service provider in the country. The North faces a monsoonal climate with torrential seasonal rains, floods and regular cyclones from October to May each year. In Central Australia, the desert summers provide scorching temperatures with abrasive dust storms while in winter temperatures frequently drop below freezing. The operating conditions are starkly different to typical electricity networks.

This provides for a unique set of workforce planning, turnover, scheduling and work practices to fit these circumstances.

The AER regularly performs benchmarking assessments, but the NT conditions would not fit equally with a single other network provider. Rather, the conditions could be taken from unique geographically isolated components of nearly every other provider in the country.

The ETU believes these factors should weigh heavily as important contextual information in determining this first regulatory period.

Comparative Employment Costs

The ETU does not support PWC's assertions in relation to NT direct employment costs being significantly higher than other jurisdictions.

Firstly, the comparison used by PWC compares employment costs across Australia's public sector and not specifically the supply industry.

Secondly, supply industry workers at PWC earn significantly less than many of their interstate counterparts when performing equivalent roles.

Higher employment costs may be a factor when considering outsourcing due to the requirement of electrical contracting firms having to fly in / fly out a work force and pay significant additional travel, accommodation, mobilisation and de-mobilisation costs.

If, however, PWC's reference to comparative employment costs is in relation to the ratio of professional and managerial staff to technical staff then this may be an area the ETU agrees. The corporatisation and marketisation of power network companies over the past 20 years has seen prolific growth in these roles with limited value add for consumers.

If the AER is of the mind to consider PWC's comparative employment costs argument, then a genuine benchmarking exercise should be performed and made available for the consideration of stakeholders and the AER prior to the determination being finalised. Such benchmarking should include a genuine interstate comparison of wages for equivalent roles as well as an assessment of the expansion and actual necessity of the significant growth in managerial and professional roles.

The AER may also turn its mind to the efficient engagement of external contract resources as a potential unnecessary cost driver in network businesses.

Operational Expenditure Stretch Target

The ETU does not support PWC's assertion that it can successfully introduce a 10% operational expenditure efficiency target.

PWC has not consulted with or otherwise engaged with employees or their representatives in formulating this target. The creation of the target is an arbitrary guess based on a loose assessment of performance of other DNSP's and includes no meaningful technical assessment of genuine capacity to achieve whatsoever.

In fact, the only current initiative underway in PWC which has been announced as the main driver of achieving this target is a wholly unparticularised whole of company restructure and it appears PWC are attempting to immediately realise cost benefits of a restructure that is likely to take well beyond the regulatory period to fully consult, implement and operationalise.
The fact that this is an arbitrary target adopted by senior management, the most likely result will be an ad-hoc attempt at implementation followed by protracted industrial disputation and finally a withdrawal or redirection by management.

If you overlay the reasoning put forward by PWC, and supported by the ETU, in relation to the impacts of the unique geographical challenges faced in the NT, the scales of economies challenges and a highly dispersed network, with the concept of an arbitrary efficiency stretch target, it seems absurd to proffer both arguments.

Notwithstanding, should PWC be open to genuine productivity reviews, the ETU is committed to working collaboratively with management to identify an opportunity for improvement.

Conclusion

The current iteration of PWC is relatively new, having been formed on 1 July 2014 after the Government initiated a structural separation event to disaggregate the Generation and Retail components of the business. As you would expect this is a massive change for an organisation and has caused significant upheaval that the business has been working through for the past few years. With a new Chair and a comparatively new Chief Executive the organisation is still going through a period of bedding down systems and cultures.

Coupled with these changes is the fact that Power and Water Corporation did not historically do a good job of tracking its asset base and maintaining quality datasets. This is acknowledged in their regulatory proposal where they indicate shortcomings in historical RIN data.
ETU members have experienced the unintended consequences which regularly result from the introduction of new regulatory changes and the often reactive decision making of senior management grappling with new concepts, targets and performance pressures.

The ETU urges the AER to take these matters into consideration as PWC is brought under the regulatory oversight of the AER and into the regulatory determination process.

The ETU would welcome the opportunity to discuss in detail our concerns outlined above and to share any examples or experiences that may be useful to the AER in formulating its draft determination.