

31 March 2020

Mr Warwick Anderson
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Australian Energy Regulator
GPO Box 520
Melbourne Vic 300

Sent via email: networkperformancereporting@aer.gov.au

Priorities and objectives for reporting on regulated electricity and gas network performance

Dear Mr Anderson

Thank you for the opportunity to provide a submission in response to the Australian Energy Regulator's (AER) *Priorities and objectives for reporting on regulated electricity and gas network performance* Consultation Paper.

Energy Networks Australia is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Energy Networks Australia considers that the objectives and priorities proposed in the Consultation Paper are broadly fit-for-purpose, sufficiently flexible, and appropriately capture the commonalities for reporting on electricity and gas network service providers (NSPs) subject to our proposed amendments outlined below.

Benchmarking

Energy Networks Australia agrees that performance reporting promotes transparency and can lead to enhanced stakeholder participation across the regulatory framework. Energy Networks Australia supports the use of benchmarking as one of several valuable tools for an economic regulator to inform and undertake its critical decision-making functions.

The use of benchmarking, however, must also take appropriate account of the operating environments of individual NSPs, and the relevant drivers for change in benchmarking results. For example, upcoming significant required investments in transmission is an instance where simple analysis or deterministic application of benchmarking results without context could result in flawed outcomes.

In addition, whilst the objectives and priorities of performance reporting may be similar for both gas and electricity networks, automatic adoption of identical benchmarking metrics is not recommended. Given their different operating circumstances and service delivery characteristics it would not be appropriate for gas and electricity NSPs to be directly compared.

Energy Networks Australia supports the AER continuing to undertake further benchmarking development. In order to draw the most meaningful conclusions from benchmarking results, Energy Networks Australia strongly encourages the AER to continue with their 2019 Benchmarking Report commitment to refine the assessment and quantification of material operating environment factors.

As identified in the AER's 2019 Benchmarking Report, ENA also supports a review of benchmarking output specifications as a result of increases in distributed energy resources and demand management activities across the industry. It is important that AER performance benchmarking evolves to accurately capture the valued services delivered by networks across an increasingly two-way grid, including the capacity for customers to connect and realise value from DER investments.

Role of incentive-based regulation

While performance reporting enhances accountability through outcomes monitoring, reliance on basic comparisons of actual versus forecast expenditure needs to be supplemented by an understanding of the role of incentive-based regulation. We would therefore recommend amendment of the objectives to recognise the role of incentive-based regulation.

Australia's energy networks are regulated through an incentive-based system that encourages networks to find better ways to serve customers. The AER's incentive schemes give network businesses an incentive to pursue efficiency improvements in opex and capex, and to share them with consumers. They also incentivise electricity networks to maintain and improve service performance.

Energy Networks Australia's *Rewarding Performance: How customers benefit from incentive-based regulation* report demonstrates that incentive regulation has encouraged energy networks to deliver efficiencies and improvements to customers. The report calculated that regulated energy networks operating under these schemes over the 2006-2018 period delivered an estimated \$6.3 billion of additional benefit to Australian energy customers.

In addition, there are other understandable reasons why actual expenditure and forecast expenditure deviate, for example due to approved cost pass through applications, that should be captured in performance reports.

Customer outcomes

We agree with the AER that done effectively network performance reporting should provide greater insights into the benefits consumers receive from network business

services, which is at the core of the AER's role under the National Electricity Objective (NEO) and National Gas Objective (NGO).

However, tracking costs and performance against allowances does not provide sufficient insight into the net customer benefits that NSPs provide. We encourage the AER to report on the performance of NSPs across all dimensions of the NEO and NGO, including quality, safety, reliability and security – as well as price.

NSPs are hearing from customers that affordability is their number one priority. Customers also indicate, however, that this is not at any cost. Although each NSPs' customers are different and have different needs, there are common themes. Customers are also telling NSPs:

- to maintain levels of reliability,
- not to compromise on safety,
- to keep up with rising expectations around customer interactions and service; and
- to invest and innovate to tackle future challenges.

To provide a full picture of network performance these factors need to be considered.

We note that performance across these measures is not easy to quantify. We encourage the AER to look beyond the numbers reported in Regulatory Information Notices and talk directly with customers to understand their views and form a complete picture of network performance.

This feedback will not only demonstrate the areas where customers consider NSPs are performing well, but also the areas where both NSPs and the AER can work together to improve customer outcomes.

Effectiveness of the regulatory regime

The Consultation Paper proposes a new objective for gas and electricity network performance reporting (*inform consideration of the effectiveness of the regulatory regime*).

Energy Networks Australia agrees that performance reports can reveal the performance of networks (when appropriate context is provided), and identify possible framework changes to be progressed through the appropriate policy and law processes. We recognise that it is important that the regulatory framework not only motivates efficient behaviour within NSPs but also provides for sufficient investment and confidence in the regulatory regime.

Performance reports, however, can also lead to learnings on how effectively the rules and laws have been applied, and highlight areas where there may be a need for a change in regulatory approach, or exercise of discretion, by the AER.

Therefore, Energy Networks Australia strongly recommends amendment of the proposed objective to also consider the effectiveness of regulatory approaches employed under the current framework.

Performance reports, consistent with the standard discipline expected of regulatory initiatives, should include a clear outline of how the AER intends to assess and track the effectiveness of the application of the regulatory framework, having regard to both the costs and benefits, and provide those results. NSPs remain concerned to ensure that the performance reporting framework can be informed by and complement the operation of incentive-based regulation. This concern is reinforced by a number of recent policy and regulatory interventions that have not accorded with these principles.

In addition, in order to promote transparency for customers and stakeholders, there is value in considering an additional section in performance reports that tracks the costs to NSPs of complying with the regulatory regime.¹ Providing greater transparency on the costs of the regulatory regime, and the trajectory of these costs, will assist in highlighting to customers and stakeholders the overall costs of regulatory requirements, which are ultimately borne by customers. Over time, this may open opportunities to identify areas warranting a direct discussion with customers and stakeholders on the value they derive from particular aspects of regulation and opportunities for streamlining.

Data efficiency and value

Energy Networks Australia recommends adopting an additional *data efficiency and value* objective for reporting on regulated electricity and gas network performance. This objective should seek to ensure that the AER requests no more data than is necessary from electricity and gas NSPs, and to consider consolidating requests where possible. This objective would assist in minimising costs to customers of duplicative or redundant information collection processes that do not materially inform regulatory decision-making or other functions.

It should also ensure that the AER demonstrates, through transparent cost benefit analysis, that the overall benefits of the data collected to stakeholders outweigh the costs in complying with data requests, which is ultimately borne by consumers. This analysis should demonstrate how requests contribute to the achievement of the NEO and NGO, which is focused on the long-term interests of customers.

For corresponding reasons, an adjustment to the *provide an information resource* objective is also proposed. Energy Networks Australia recommends that the objective should be adjusted from “Performance reporting enables the AER to collect and

¹ These compliance costs include, but are not limited to, the costs of complying with Regulatory Information Notices, Annual Planning Reports, regulatory determination process and associated consultative processes, and guidelines and schemes and their related annual reporting and auditing processes.

report accurate and reliable information on the performance of NSPs” to “Performance reporting enables the AER to collect and report materially accurate and meaningful information on the performance of NSPs”.

Emerging issues

Energy Networks Australia supports the adoption of the *emerging issues* priority. However, we consider that consultation with stakeholders before such reporting metrics are included in performance reports is required to ensure that it adequately addresses the issue at hand. In addition, Energy Networks Australia recommends that the AER proactively requests guidance from NSPs on the types of proposed issues and topics to consider reporting on.

If you have any questions, or would like to discuss this submission further, please contact [REDACTED]

Yours sincerely,

[REDACTED]

Garth Crawford
General Manager, Economic Regulation