

21 March 2019

Mr Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator
GPO Box 520
Melbourne Vic, 3001

Dear Mr Roberts

Submission on implementation of final decision forecast productivity growth

I refer to your letter to David Graham of 7 March 2019 anticipating release of the AER's final decision paper on forecasting operating expenditure (opex) annual productivity growth.¹

The letter acknowledges Evoenergy's comprehensive submission to the AER's opex productivity growth forecast review² and that the AER has taken Evoenergy's submission into account in determining an annual opex productivity growth forecast of 0.5 per cent. It further indicates that the AER proposes to adopt this productivity growth forecast to develop its alternative opex estimate in the AER's final decision for Evoenergy's 2019–24 distribution determination, due on 30 April 2019 and invites Evoenergy to make a further submission to the AER on the application of the productivity growth forecast to Evoenergy's revised proposal.

Given the operating expenditure factors that the AER must have regard to under the National Electricity Rules,³ particularly the most recent annual benchmarking report and the actual and expected opex during the preceding regulatory control periods, it is Evoenergy's view that the total opex forecast for Evoenergy that reasonably reflects the operating expenditure criteria should be based on a zero productivity growth factor.

If the AER determines that its final decision on opex productivity growth should apply to Evoenergy's final determination, then it is Evoenergy's view that this should be implemented via a transition path. Specifically, Evoenergy proposes a transition involving the application of a zero productivity growth factor up to 2020/21, with the AER's 0.5 per cent productivity growth factor applied from 2021/22 to 2023/24. In Evoenergy's view, this transition path would provide a reasonable opportunity for Evoenergy to secure further efficiencies consistent with the AER's target while also maintaining the quality, reliability and security of supply and ensuring the safety of the distribution system.

Evoenergy submits that significant new obligations relating to safety and reliability at the ACT jurisdiction level are only now beginning to affect it and disrupt the potential for immediate productivity growth. The most significant obligations arise from:

¹ AER 2019, Final decision paper – Forecasting productivity growth for electricity distributors, 8 March

² Evoenergy 2018, Forecasting productivity growth - Submission to the AER Opex Productivity Growth Forecast Review Draft Decision Paper 21 December [https://www.aer.gov.au/system/files/Evoenergy - Submission to the AER Opex Productivity Growth Forecast Review Draft Decision Paper – 21 December 2018.pdf](https://www.aer.gov.au/system/files/Evoenergy_Submission_to_the_AER_Opex_Productivity_Growth_Forecast_Review_Draft_Decision_Paper_-_21_December_2018.pdf)

³ Clause 6.5.6(e)

- the ACT Legislative Assembly passed the *Utilities (Technical Regulation) Amendment Bill 2017* in October 2017 which codified Evoenergy's responsibility for inspection of and defect tracking for privately owned infrastructure in the rural areas of the ACT, including all those on leased rural land, and in national parks and reserves;⁴
- a new operating requirement under the ACT's *Electricity Service and Installation Rules* now makes Evoenergy responsible for the process whereby inverters accompanying embedded generation (eg household solar) are to be tested every five years to ensure they are functioning correctly and will not cause a safety hazard for maintenance staff in the event of a power failure on the Evoenergy grid;
- the ACT Government's 100 per cent renewable energy by 2020 policy is driving the mandating or subsidisation of solar generation and storage installations to the maximum extent in all new developments, necessitating active network management by Evoenergy;
- expected expansion of the ACT Government's energy efficiency incentives scheme to provide incentives for transition from natural gas to efficient electric appliances.⁵

Evoenergy will strive to meet the AER's target productivity growth over the medium term and requests that the AER give consideration to an orderly transition, reducing the risk of negative impacts on safety and reliability.

Yours sincerely



Stephen Devlin
General Manager Evoenergy

⁴ These responsibilities are in addition to the transfer from the ACT Government to Evoenergy of management of vegetation near power lines on unleased urban land from 1 July 2018 for which Evoenergy has proposed an opex step change for the 2019–24 distribution determination

⁵ Shane Rattenbury MLA, Minister for Climate Change and Sustainability, Media Release, "New Energy Efficiency Scheme to address climate change and reduce energy bills", 11 January 2019