

Consumer Challenge Panel response to

ActewAGL's (ACT)
Regulatory Proposal

30 July 2014

Role of Consumer Challenge Panel

Arose in response to various 2012 reporting processes recognising lack of NEO focus, lack of consumer engagement.

CCP Role:

- **National Electricity Objective - long term interests of consumers**
- **Challenge AER**
- **The CCP is a new beast and we are all feeling our way to some extent**

ACT Engagement

- Thank you to ActewAGL for engaging with us and for making the effort to help us understand their business.
- Members of the CCP working on the NSW and ACT networks review are Bruce Mountain, Gill Owen, Jo De Silva, Mark Henley, and Ruth Lavery. If consumer groups wish to get in touch with us, they should contact Tanja Warre at AER

Presentation Focus

- **Consumer Engagement**
- **Reliability Standards**
- **Use of Benchmarking**
- **Step Changes in Expenditure**
- **Demand Forecasts**
- **Metering**

But First, the Headlines

- RAB: 22.1% increase (4 years)
- WACC: 8.9
- Bill Increase: 3.1%pa (5,000 kwh)
(Network only impact)

RAB Growth - 51%

Table 9.1 Roll Forward of the distribution RAB 2009–2014

<i>\$ million (nominal)</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13</i>	<i>2013/14</i>
Opening RAB	523.3	559.6	603.8	641.1	662.4
<i>plus net capital expenditure</i>	53.5	57.5	49.2	45.0	66.6
<i>less regulatory depreciation</i>	17.1	13.4	11.8	23.8	22.3
Closing RAB	559.6	603.8	641.1	662.4	706.7
Adjustment to opening value					-10.6
Opening RAB 1 July 2014					696.1

Table 9.3 Roll Forward of the distribution RAB 2014–2019

<i>\$ million (nominal)</i>	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>	<i>2017/18</i>	<i>2018/19</i>
Opening RAB	696.1	737.6	765.1	792.7	818.9
<i>plus net capital expenditure</i>	68.5	58.1	58.8	58.8	64.0
<i>less regulatory depreciation</i>	27.0	30.6	31.2	32.6	32.7
Closing RAB	737.6	765.1	792.7	818.9	850.2

WACC = 8.9

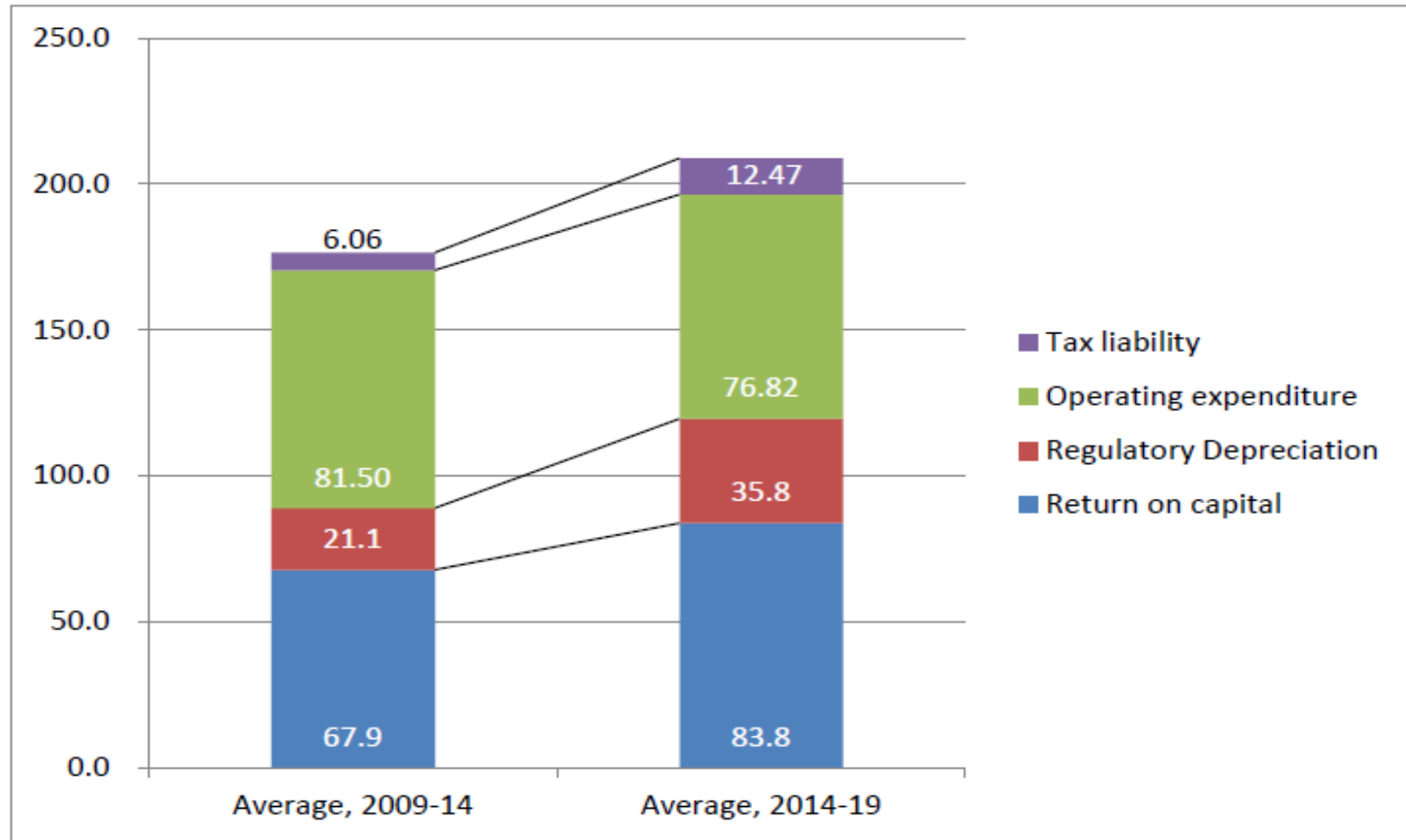
In the Long Term Interests of Consumers?

ActewAGL Distribution has proposed a rate of return building block that is based on a weighted average cost of capital (WACC) of 8.9 per cent. ActewAGL Distribution considers that this proposal is in the long term interest of consumers because it will ensure that ActewAGL

Distribution is able to undertake necessary investments in the network in the next regulatory period and beyond. Under-investment in the network will result in higher costs and ultimately higher prices to customers in the long term.

2009-14 cf 2014-19

Figure 0.5 Comparison of ActewAGL Distribution annual revenue requirement 2009–14 and 2014–19



Consumer Engagement

- CCP supports the AER's guidelines – not prescriptive, no 'box-ticking'. It's about genuine effort.
- Rely on consumer engagement that give consumers genuine choices, ie cost / reliability trade-offs.
- Not consumer engagement that informs consumers
- Consumers need to understand the cost implications of 'their' preferences.
- Dubious to accept 'step' opex on consumer engagement – should be a fundamental part of expenditure and actively integrated into existing opex – additional expenditure needs to be strongly argued.

iap2 public participation spectrum

developed by the international association for public participation

Where does ActewAGL 'sit'?



	INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
PUBLIC PARTICIPATION GOAL	To provide the public with balanced and objective information to assist them in understanding the problems, alternatives and/or solutions.	To obtain public feedback on analysis, alternatives and/or decision.	To work directly with the public throughout the process to ensure that public issues and concerns are consistently understood and considered.	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.	To place final decision-making in the hands of the public.
PROMISE TO THE PUBLIC	We will keep you informed.	We will keep you informed, listen to and acknowledge concerns and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and issues are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.	We will look to you for direct advice and innovation in formulating solutions and incorporate your advise and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.
EXAMPLE TOOLS	<ul style="list-style-type: none"> • Fact sheets • Websites • Open houses 	<ul style="list-style-type: none"> • Public comment • Focus groups • Surveys • Public meetings 	<ul style="list-style-type: none"> • Workshops • Deliberate polling 	<ul style="list-style-type: none"> • Citizen Advisory committees • Consensus-building • Participatory decision-making 	<ul style="list-style-type: none"> • Citizen juries • Ballots • Delegated decisions

Reliability Standards

- Are ActewAGLs' reliability targets too easily achieved? Are they performing in excess of consumer desires?
- Have consumer desires been measured?
- If questions giving cost impacts about reliability had been asked, would there be different reliability results?
- Has there been picking and choosing of consumers to consult, and answers (2009, 'large variation in WTP', largest sample, less weight?)

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Use of Benchmarking

- Benchmarking is an important tool for the AER
- Every business will seek to distinguish themselves and thereby diminish the importance of benchmarking by the AER
- CCP view is that every business will be better on some measures and worse on others – on balance benchmarking is appropriate and works
- If the AER is to stand as a surrogate for contestability, then it must place serious reliance on robust benchmarking

Step Changes in Expenditure

- Hard to see why expenses relating to decisions by management/shareholders about structure should be passed through to consumers, (see next slide).
- Consumer engagement
- Step changes need very careful analysis by the AER – don't embed step changes into future base expenses

Which costs should consumers Bear?

Note the last para in this excerpt.

8.5.3.6 Sale of TransACT and Ecowise Environmental

Over the regulatory period 2009-2014, ActewAGL has rationalised non-core investments and associated service provision to enable a greater focus on core operations. This includes the divestment of Ecowise Environmental and cessation of corporate services provided to Ecowise Environmental and Grapevine in 2009/10. Additionally, the corporate services provided to TransACT were also progressively rolled back in 2010/11 with final cessation in early 2011/12.

A change in the structure of corporate services followed, as well as changes to ActewAGL Distribution's contracts management and business development functions. This addressed a significant portion of the impact on the corporate services cost base.

However, a small portion of residual fixed corporate costs led to a greater share being allocated to the remaining ActewAGL divisions, including Electricity Networks.

Vegetation Management

Table 8.13 Forecast standard control network maintenance operating expenditure

<i>\$ million (2013/14)</i>	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>	<i>2017/18</i>	<i>2018/19</i>	<i>Total</i>
Zone substation	3.3	3.2	3.3	3.4	3.4	16.6
Transmission	0.3	0.3	0.3	0.3	0.3	1.3
Distribution	3.7	3.6	3.7	3.8	3.9	18.8
Secondary systems	1.3	1.3	1.4	1.4	1.4	6.8
Property services	0.3	0.3	0.3	0.3	0.3	1.3
Vegetation management	3.9	3.9	3.9	3.9	3.9	19.4
Total network maintenance expenditure	22.4	21.6	21.7	21.8	23.1	110.7
<i>Allocated to distribution</i>	<i>18.7</i>	<i>18.0</i>	<i>17.9</i>	<i>18.0</i>	<i>19.3</i>	<i>91.9</i>
<i>Allocated to transmission</i>	<i>3.7</i>	<i>3.6</i>	<i>3.7</i>	<i>3.8</i>	<i>3.9</i>	<i>18.8</i>

Vegetation management, \$19.4 million over 5 years! About right or too much?

Demand Forecasts

- CCP has some concern that ActewAGL could be more responsive to systemic, lasting falls in demand.
- How seriously have the opportunities of Demand Management been considered
- Forecasts should be 'reality-checked' against AEMO forecasts

Metering

Uncertainty about the final form of the metering rules, likely future developments in metering technology and costs, the extent to which competition will develop in markets for metering services, and future policies in relation to PV systems make it difficult to develop indicative estimates over a 5 year horizon.

So why should consumers carry all of the costs of this uncertainty?

Metering (- X): 30% ↑ in 2015-16

Table 15.8 Metering revenue building blocks

<i>\$ million (nominal)</i>	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>	<i>2017/18</i>	<i>2018/19</i>
Return on capital	4.5	5.0	5.4	5.8	6.2
Regulatory depreciation	1.8	2.2	2.7	3.1	3.7
Operating expenditure	3.4	3.9	4.0	4.3	5.4
Tax allowance	0.7	0.8	0.9	1.1	1.2
Total revenue building block (unsmoothed)	10.4	11.9	13.0	14.2	16.4
Smoothed revenue requirement	9.1	12.3	13.5	14.9	16.4
X-factor (%)	0.0	-30.1	-6.0	-6.0	-6.0

Metering Opex: 45% ↑

Table 15.6 Forecast metering operating expenditure 2014–19

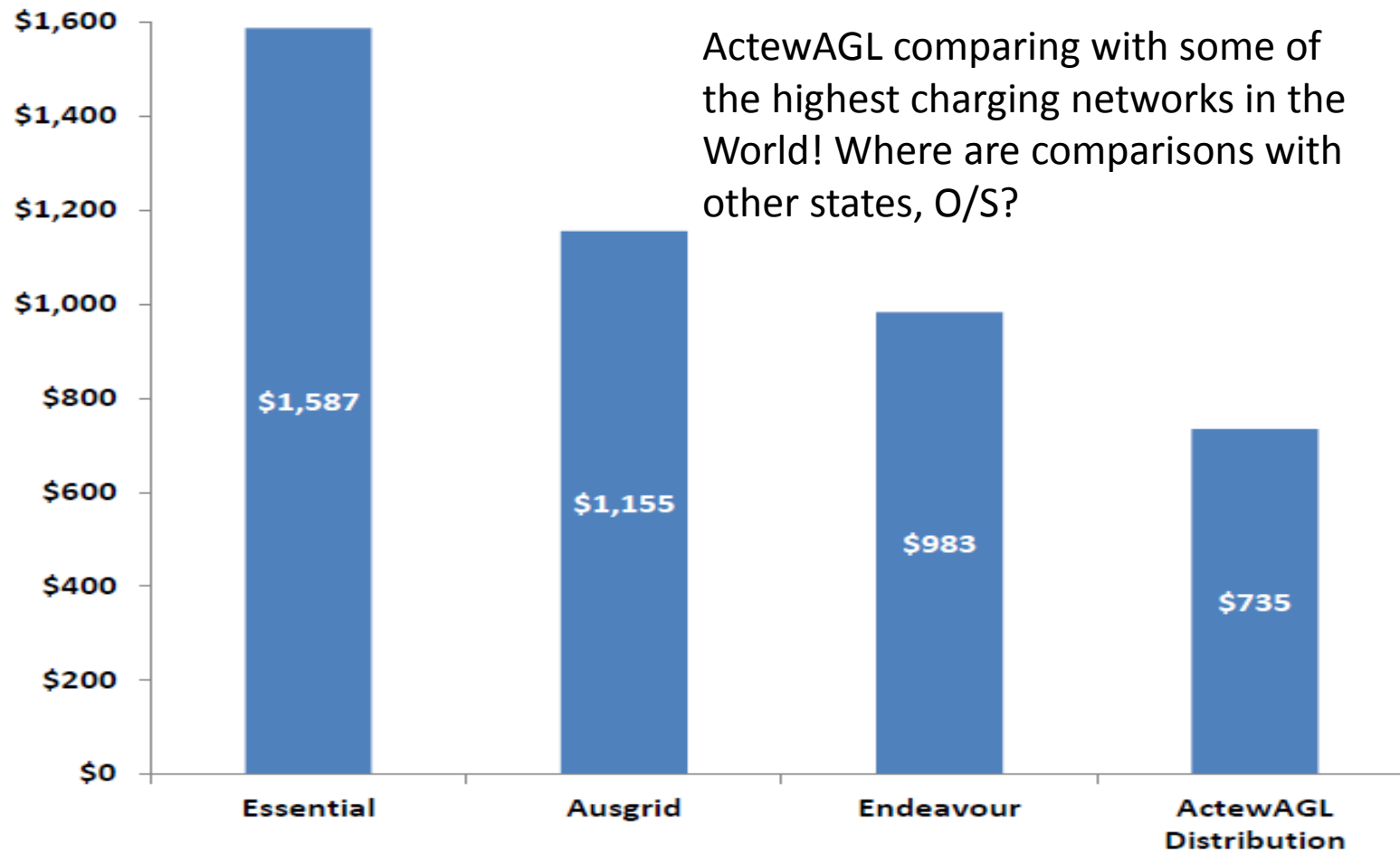
<i>\$ million (2013/14)</i>	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>	<i>2017/18</i>	<i>2018/19</i>	<i>Total</i>
Network Maintenance Costs	1.22	1.52	1.56	1.60	2.33	8.22
Network Operating Costs	1.50	1.53	1.56	1.60	1.63	7.82
Other expenditures	0.52	0.56	0.52	0.57	0.75	2.92
Total	3.24	3.61	3.65	3.77	4.70	18.97

Headlines for Consumers

- RAB 'Rules'
- WACC 'out of whack'
- Jam Tomorrow
- Reality, Rhetoric and the NEO
(aka Consumer Engagement)
- Comparisons (next Slide)

Comparisons - To Follow

Figure 0.2 Comparison of Residential network charges in the ACT and NSW⁸



General Comments

- The preceding comments are general.
- The CCP will be making a submission to the DNSP proposals by 22nd August, which will flesh out the comments made today and which will be made public