



9 January 2021

Ms Kami Kaur
General Manager, A/g
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Email: VIC2021-26@aer.gov.au

Dear Ms Kaur

RE: AER Draft Decision and Revised Regulatory Proposals for Victorian Electricity Distributors 2021-26

Origin Energy (Origin) appreciates the opportunity to provide a response to the AER's draft decision and the revised regulatory proposals lodged by the Victorian distribution network service providers (DNSPs) with respect to the determination of regulatory revenue allowances for the period 2021 to 2026.

Origin is largely supportive of the AER's draft decisions and acknowledges the significant progress that the AER and DNSPs have made in driving the Victorian networks towards achieving more efficient expenditure levels and the resultant impact on affordability. Origin believes the AER draft decisions contribute positively to affordability and a reduction in Victorian consumers' network bills. We are therefore supportive in principle of the Victorian DNSPs' revised proposals being largely in line with the AER's draft decision recommendations. Nevertheless, we encourage the AER to rigorously assess the prudence and efficiency of the revised expenditure proposals to ensure expenditure remains appropriate.

We accept that a large portion of the reduction in allowed revenue proposed by the AER reflects changes in the economic environment from both the current regulatory period and since the DNSPs' submitted their proposals for the 2021-26 regulatory period. The economic uncertainty associated with the Covid-19 pandemic is expected to continue at least in the near-term and we anticipate further adjustments prior to the release of the AER's final decision. We encourage the AER to adopt a flexible approach that allows for the inclusion of the most up-to-date information in the final decision. Doing so will help to minimise within-period adjustments and any under or over recovery of revenue and therefore assist in maintaining price stability for customers during the forthcoming regulatory period.

Customer engagement has been a key feature of the 2021-26 determination process and we commend DNSPs for their efforts in this area and recognise that DNSPs have made genuine attempts to incorporate consumer preferences in their regulatory proposals.

Our previous submission noted the significant underspends in the current regulatory period for both capital (capex) and operating (opex) expenditure and the consequent efficiency payments requested by DNSPs in the forthcoming regulatory period via the capital expenditure sharing scheme and efficiency benefit sharing scheme. We questioned whether the expenditure underspends represented genuine efficiency gains and if the incentive schemes were operating as intended, particularly in light of the consistency with which efficiency payments are achieved.

We note that the AER has conducted a rigorous review of expenditure to ensure that efficiency gains are genuine and has applied efficiency adjustments to base year opex as appropriate (e.g. Jemena). We are supportive of the AER's analysis and assessment but also consider that the AER's proposed review of incentive schemes is essential in order to ensure the individual schemes are operating as intended and that the schemes interact to achieve optimal consumer outcomes without creating perverse incentives. We consider that a thorough review of cost allocation and capitalisation approaches across DNSPs, and their effect on benchmarking will be an integral component of the AER's review of incentive schemes.

We agree with the AER that distributed energy resources (DER) are an integral and growing component of distribution networks and we agree with the AER's support in this area. However, in assessing the DNSPs' proposed capital expenditure we encourage the AER to be cognisant of the potential for third party provision of DER. It is essential that the provision of DER by DNSPs not impinge on the competitive market, but rather any investment should facilitate the efficient development and use of DER within networks.

With respect to network tariffs, all Victorian electricity distribution businesses have proposed an aligned position for household and small business customers consuming less than 40MWh per year. Origin supports a consistent approach to tariff design as this aids in the development of retail tariffs. We support the AER's proposal to reassign customers on legacy cost reflective tariffs to the new time of use and demand tariffs and note that DNSPs have adopted this proposal.

We also support the AER's recommendation that tariff strategies be integrated with demand management and other initiatives. We appreciate this is an evolving area and the development of an integrated strategy is likely to be a complex and timely process. We are generally supportive of DNSPs' proposals to adopt tariff trials in the forthcoming regulatory period to better inform future tariff strategies.

The provision of alternative control services can impose significant costs on customers. Accordingly, we appreciate the AER's efforts in examining the underlying cost structures associated with these services and encourage future analysis to ensure that price increases are warranted.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at

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Yours sincerely

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Sean Greenup
Group Manager Regulatory Policy

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