

Minutes of the South Australia public forum on ETSA Utilities' regulatory proposal (1 July 2010 to 30 June 2015)

Location: Stamford Plaza Hotel
North Terrace, Adelaide.

Date: Thursday 6 August 2009

Forum Chair: Steve Edwell, Australian Energy Regulator

Attendees: (see appendix 1)

Summary of discussion

1: Opening remarks by Steve Edwell (Chair, AER)

Steve Edwell opened the forum. The Chair outlined:

- the agenda, and noted that a record of the meeting will be made available following the forum.
- key aspects of the transitional arrangements for ETSA Utilities during the 2010-15 regulatory control period.
- headline figures from the key sections of ETSA Utilities' proposal.
- noted that forum is intended to be an opportunity for ETSA Utilities to outline their proposal. Questions from interested parties should be targeted towards the proposal, or the AER's assessment process.
- that the AER would not be providing its assessment of the proposal until the draft decision is released in November 2009.

2: Presentation by ETSA Utilities – Lew Owens, CEO and Eric Lindner, GM Regulation & Company Secretary.

A copy of the PowerPoint presentation delivered by Lew Owens and Eric Lindner is available on the AER's website at:

<http://www.aer.gov.au/content/index.phtml?itemId=730115>

3: Comments and questions on presentations

Andrew Nance – on behalf of SACOSS

Commented that from the information presented by ETSA Utilities with regard to the challenges arising from peak demand in SA it appeared that there is little progress in reducing peak demand. Andrew commented that the framework does not appear to be providing sufficient incentives for investments in reducing peak demand. Mr Nance asked for the AER's view on this matter.

Steve Edwell

- noted that the AER is not in a position to provide a view on ETSA's proposal at this stage.
- noted that efforts to manage peak demand are welcome.
- outlined that the current framework follows a propose-respond model. Projects will be assessed for their reasonableness and cost efficiency in accordance with the appropriate capex and opex criteria in the National Electricity Rules (NER).

Lew Owens

- responded to Mr Nance by stating his agreement with the concerns regarding demand management under the current framework.
- noted the 'beat the peak' demand management project that ETSA Utilities trialled and undertook a cost benefit analysis (CBA) on. Mr Owens stated that CBA showed overall positive benefits for society, but no such positive benefits to ETSA Utilities. Lew stated that such results would mean that the project would not be approved by the AER.
- mentioned that ETSA Utilities has held discussions with the SA Government, concerning a possible role for ETSA in any roll-out of programs to deliver demand management to stakeholders (such as a smart meter roll-out). This could be done via a jurisdictional derogation, in which case the AER could accept the expenditure as a necessary regulatory obligation.
- noted that a mass roll-out of demand management programs was not likely in the next regulatory control period, but more so in the subsequent period.

Ariel Liebman – EUAA

Mr Liebman commented that he was astounded by the size of the numbers proposed by ETSA Utilities. Mr Liebman believed figures of such magnitude were unprecedented, and that prices were increasing not just in the distribution component but indeed all along the electricity supply chain. Ariel questioned the AER, whether, given this background of issues the AER has the opportunity to assess whether the expenditure proposed by ETSA Utilities will actually be efficient. Mr Liebman questioned in particular, whether the AER should be making use of more benchmarking data to undertake this efficiency assessment.

Steve Edwell

- noted that benchmarking is still an area that is in a development stage for the AER, and that there is a clear lack of a comprehensive set of data on which benchmarking can be effectively undertaken.
- noted that in the long-term, there is the possibility that benchmarking can be put to greater use by the AER. Steve noted that the AER is standardising its data requirements from DNSPs, via its Regulatory Information Notices (RINs), which is intended to facilitate meaningful comparisons among DNSPs.
- noted that an approach to benchmarking had been developed for the AER by Wilson Cook in the recent NSW/ACT distribution determination.
- noted that currently, the AER is not in a position to be able to rely solely on benchmarking due to lack of available data, which can only be gathered over time.
- accepted that benchmarking is important and that the AER is working towards developing its approach to benchmarking.

Ariel Liebman

- questioned Mr Edwell as to whether the national electricity rules and national electricity law required the AER to apply benchmarking in its regulatory determinations.

Steve Edwell

- responded to Mr Liebman by not accepting the proposition that the AER will not be complying with its obligations under the NER and NEL.
- noted that the NER requires the AER to consider a number of factors, of which benchmarking is only one.
- Mr Edwell stated that given the underdevelopment of approaches to benchmarking and the provisions of the NER, the AER is not in a position to apply benchmarking alone in the way suggested by Mr Liebman.

Ariel Liebman - EUAA

- responded to Steve Edwell by stating that benchmarking was the only indicatory tool available to assure consumers of efficiency.
- mentioned that the ordinary consumer cannot assess the engineering aspects of ETSA Utilities' proposal and don't have consultants at their disposal, therefore how can consumers be satisfied that businesses are performing efficiently?

Steve Edwell

- commented that consumers can be satisfied that the AER will assess ETSA Utilities' proposal thoroughly in accordance with the NER.
- noted that the AER has a comprehensive and detailed process of assessing proposals, through areas such as input cost indicators, drivers of cost categories and demand forecasts. Benchmarking is only one tool that the AER is required to have regard to when assessing a distribution determination under the NER.

David Headberry – ECCSA

Mr Headberry directed a question to Mr Edwell, regarding whether the AER will be re-opening a debate on the Weighted Average Cost of Capital (WACC) parameters for ETSA Utilities?

Steve Edwell

- noted that the WACC and return on the Regulatory Asset Base (RAB) is an area of significant impact on ETSA's revenue and therefore the ultimate price that is passed on to consumers.
- noted that the way the NER operates, the AER releases decisions on WACC parameters every 5 years, with one just concluded. The framework allows ETSA to submit a proposal (drawing upon new or persuasive information) as to why certain parameters should be changed.
- given ETSA has done this, the AER will need to consider the merits of ETSA's proposal in those areas.

Ariel Liebman - EUAA

Directed a question to ETSA Utilities as to whether ETSA have a benchmarking graph for capex that is similar to the one that was presented by ETSA for opex?

Eric Lindner:

- answered Mr Liebman's question by noting that ETSA do not have such a graph, as the index presented was more appropriate for opex.
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Andrew Nance – on behalf of SACOSS

Mr Nance noted that prices for average residential customers was proposed to increase by approximately \$25 per year. He noted that a decrease in electricity consumption is assumed by ETSA, which he could not accept as being likely. Andrew believed that all the risk was being put onto consumers. Andrew noted that he believes the demand or sales forecasts presented by ETSA need to be thoroughly questioned.

Eric Lindner – ETSA Utilities

- commented that Wilkinson's work on consumption patterns is well recognised in the industry, and confirms ETSA's own modelling.
- noted that the Government have been responding to climate change through various measures, therefore we expect to be seeing an impact on that with regard to electricity consumption.
- noted that ETSA's forecasts don't factor in changes in consumer behaviour, but consumer behaviour is also expected to have an impact on sales.

Andrew Nance

- queried whether ETSA had factored into their long-term forecasts, the possibility that while consumers in general were moving to more efficient products, they were also increasing the size of the appliances, therefore cancelling out any possibility of a decrease in energy consumption?
- queried ETSA's trend forecasts and would like the opportunity to inspect these.

Eric Lindner

- clarified that this occurrence was factored into ETSA's forecasts.
- noted that the AER will be reviewing ETSA's demand forecasts and therefore, if the AER believes these are unreasonable, they will be adjusted.

Ariel Lieberman – EUAA

Mr Liebman directed a question to the AER, querying how much regard the AER is taking to the risk that Australia will decrease its international competitive standing with regard to energy costs. Ariel also mentioned how the UK appeared to have greater experience with regard to regulatory approaches, and if there wasn't something we could learn from the UK experience? In particular, Ariel questioned whether the AER should have greater regard to the figures that were being approved by the UK resets?

Steve Edwell

- noted that it is difficult to make international inferences, as each country and indeed business is unique.
- noted that the UK model is interesting and is one that the AER has been considering. The AER is interested in how the UK regulator, OFGEM, undertakes its resets and has been following this work.
- however, it was noted that OFGEM operate with less prescriptive rules and they have operated in a national framework longer than the AER.

- noted that as the regulatory regime in Australia evolves, the UK model will be one that will be inspected closely.

Mark Henley – UnitingCare Wesley Adelaide

Directed a question to the AER as to whether there are other pricing options that the AER can consider for aspects of a DNSP's regulatory proposal, such as negotiated contracts.

Steve Edwell:

- clarified that the pricing control applied by the AER depends on the type of service.
- noted that the AER classifies services in three ways, including: standard control which are under a directly set price; alternative control which are regulated under a set price but are separated from other tariffs in recognition of their potentially competitive nature; and services which are negotiated services, in recognition of their contestability and are therefore regulated under a negotiate/arbitrate process with the AER involved in dispute resolution should negotiations fail.
- Mr Edwell therefore noted that the regulatory regime does allow for various approaches, depending on the type of service.

Lew Owens:

- clarified that the capex numbers presented by ETSA at the forum are offset by capital contributions from customers.

Ariel Liebman – EUAA

Stated his concern about the apparent lack of uptake of demand management initiatives by ETSA Utilities. Mr Liebman noted his organisation and constituents support demand management, that it is a critical issue in South Australia, and that they would be happy to participate in such programs.

Steve Edwell:

- noted that the AER does not disagree with Mr Liebman's comment and also added that under the NER, the AER will be assessing whether ETSA Utilities has considered all options for managing the network, including the consideration of demand management options.

Eric Lindner:

- noted that ETSA has experience in working with larger businesses in assessing options to reduce their peak demand, particularly for prospective projects and developments. Commented that if the EUAA had members that there keen to consider such options, that ETSA has experience in this and would be keen to work with these members.

4: Presentation by David Headberry – Advisor, Energy Consumers Coalition of South Australia

A copy of the PowerPoint presentation delivered by David Headberry is available on the AER's website at <http://www.aer.gov.au/content/index.phtml?itemId=730115>

5: Closing remarks by Steve Edwell

Steve Edwell closed the public forum by thanking the speakers and re-iterating a few points regarding public submissions, including:

- interested parties are advised to take note of the strict deadlines for submissions periods and decision dates.
- submissions need to be presented clearly, with supporting arguments, and can be targeted to particular aspects of the regulatory proposal or determination.

Appendix 1: List of attendees

Name	Company
Dr Chandra Kumble	Director Transmission Sector, Hill Michael Associates
Mr Craig Marschall	Principal, Trans Tasman Energy Group
Ms Renate Tirpcou	Senior Policy Analyst, CitiPower and Powercor Australia
Mr Brent Cleeve	Manager Price Reviews, CitiPower and Powercor Australia
Mr Neil Watt	Manager Asset Strategy & Price Review, CitiPower and Powercor Australia
Mr Jeremy Tustin	Director, Economic Regulation, Department for Treasury and Finance
Mr David Bentley	Revenue Regulation Manager, ElectraNet
Mr Ariel Leibman	Director Policy, Regulation and Analysis, Energy Users Association of Australia
Mr Antony Clarke	Senior Policy Advisor, Business SA
Mr Ashley Manna	Community Development Executive, Parsons Binckerhoff (PB)
Mr David Howard	Business Development Executive, PB
Mr Mark Henley	Manager Advocacy and Communication, UnitingCare Wesley Adelaide
Mr Tom Stead	Policy and Research Analyst, SA Council of Social Service
Mr Anthony Saker	UMS Group Asia Pacific
Mr David Headberry	Advisor, Energy Consumers Coalition of SA
Mr Lew Owens	CEO, ETSA
Mr Eric Lindner	General Manager Regulation and Company Secretary, ETSA
Mr Luke Russell	SP AusNet
Mr Andrew Nance	Principal Consultant, St Kitts Associates
Mr David Hitchcock	Local Government Association of SA
Mr Geoff Barton	Manager Commercial and Regulatory Programs, Envestra
Mr Vince Duffy	Director Markets and Sustainability, Energy Division, Department for Transport, Energy and Infrastructure (DTEI)
Mr Mark Pedler	Senior Policy Officer Energy Division, DTEI
Mr Keith Odlum	Senior Policy Officer, Energy Division, DTEI
Ms Jenny Karavolos	Manager Dynamic Power Management, Saab Security
Mr Marino Bolzon	Manager Energy Market Reform, Energy Division, DTEI
Mr Michael Davidson	Wessex Consult