AUSTRALIAN ENERGY REGULATOR

Minutes of the ACT roundtable on ActewAGL Distribution's regulatory proposal (1 July 2009 to 30 June 2014)

Location: AER office

23 Marcus Clarke Street, Canberra

Date: Tuesday, 29 July 2008 (2.00 pm to 3.50 pm)

Forum Chair: Steve Edwell, Australian Energy Regulator

Attendees: the meeting commenced with 10 registered attendees and 5 AER staff

Organisation	Attendees
ActewAGL Distribution	David Graham, Michael Charlton, Janusz Worony, Leanne Holmes, Silvano Forlin, Chris Walker, Alexander McPherson
Essential Services Consumer Council (ESCC)	Bill Pearcy
Independent Competition and Regulatory Commission (ICRC)	Shelley Schreiner, Stephen Paterson
Australian Energy Regulator (AER)	Steve Edwell (Chair), Mike Buckley, Lawrence Irlam, Dan Barclay, Robyn Le

Summary of forum

A summary of the discussions from the roundtable is set out below.

1. Opening remarks by the Chair

Steve Edwell (Chair) opened the forum and made introductions. The Chair outlined:

- The agenda, and noted that a record of the meeting (key points and responses to questions raised) will be made available following the forum.
- Key aspects of the transitional arrangements for ActewAGL Distribution during the 2009–14 regulatory control period.

2. Presentation by ActewAGL Distribution

The Chair invited David Graham (Director Regulatory Affairs) and Michael Charlton (General Manager, Networks) to present ActewAGL Distribution's proposal to the roundtable.

ActewAGL Distribution's presentation slides are available on the AER website at http://intranet.accc.gov.au/content/index.phtml/itemId/960161

David Graham provided an overview of ActewAGL Distribution's regulatory proposal, historical outcomes and the context for the 2009–14 determination. Main points covered:

- ActewAGL is a multi-utility comprising 2 partnerships – Retail and Distribution – which apply ring-fencing protocols in accordance with the ring fencing guidelines.
- ICRC required a CPI – 6.8% adjustment in revenue/unit in 2004/05 and CPI thereafter.
- Capex has exceeded the ICRC allowance during 2004–09, largely due to higher than expected pole replacement expenditure.
- Average residential network prices have fallen in real terms since 1999–2000.
- Results from a 2003 willingness-to-pay study confirmed customer support for electricity network service standards.
- ActewAGL has implemented a range of demand management initiatives, including significant pricing reforms and these have resulted in significant improvements in network utilisation. Over 75% of non domestic energy use is now on time of use tariffs, and domestic customers now have a time of use network tariff option.
- A multi-utility smart metering project is included in the regulatory proposal.
- The proposed revenue requirement and X factors for 2009–14 include the impact of the ACT Government's Utilities Network Facilities Tax (UNFT). The UNFT was covered as a cost pass through in the 2004–09 regulatory period, but is included as an opex component for 2009–14. This adds 4.1 percentage points to the X factor adjustment in 2009/10 (ie 20.4% with UNFT, 16.3% with the UNFT impact removed).
- Overall impact of proposed network and metering charges on the average residential bill in 2009/10 is a 4.4% real increase (or $1.80/ week, incl GST).
- Nominated pass-through events include a supply curtailment event, which would cover costs (including foregone revenue) arising if power is not transmitted to the ACT or rationed to or within the ACT.

- ActewAGL is also undertaking a review of possible undergrounding of part of the existing overhead network. This would fall under a service standard event in the pass through provisions. Results from ActewAGL’s cost benefit analysis should be available before the AER’s draft determination.

- Costs associated with the new ACT feed-in tariff scheme will also be covered under the pass through provisions.

Michael Charlton provided an overview of ActewAGL Distribution’s network and its proposed operating and capital expenditure requirements for the 2009–14 regulatory control period.

Mr Charlton discussed the unique challenges in ActewAGL’s operating environment, including backyard reticulation, reliability requirements for the national capital, ACT planning requirements, and load characteristics.

Mr Charlton outlined ActewAGL Distribution’s four main augmentation projects for the 2009–14 regulatory control period. These are:

- New Eastlake zone substation – need to remove some load from Telopea Park ZSS and meet growth in the Fyshwick and airport areas

- New Molonglo Valley zone substation – required to meet demand from a new residential development

- Civic zone substation upgrade – driven by growth in Civic and need to maintain security of supply

- Connection to new southern supply point at Williamsdale (16 km’s of 132 kV line into the Theodore area) – required to comply with a service standard obligation

Mr Charlton noted that total ACT demand is around 650 MW, most of which is supplied from the Canberra bulk supply point (BSP). The network also takes around 30 MW from the Queanbeyan bulk supply point, mainly for load in the Fyshwick area.

Mr Charlton noted that there is a contingency plan in place should the Canberra BSP fail. ActewAGL Distribution can conduct switching/reconfiguration to take supply into the ACT from the 132KV Yass-Canberra line (the ‘jumper lead’ solution). This can be achieved within 48 hrs and could provide around 200 MW to the ACT.

The 4 major augmentation projects and the pole replacement program are the main drivers of the proposed capex program.

The main drivers of proposed opex are the aging of the network, labour market pressures (skills shortages and apprentices) and increasing materials cost (CPI Index).

3. Comments and questions on ActewAGL Distribution presentation

Bill Pearcy asked if the public forum for ActewAGL Distribution relates to the 2009–14 regulatory period for ActewAGL Distribution.

Mike Buckley confirmed that ActewAGL Distribution Distribution's regulatory proposal, and the forum, relates to the five year regulatory period starting 1 July 2009. The AER will make a regulatory determination for ActewAGL Distribution under the transitional provisions of Chapter 11 of the National Electricity Rules.

Steve Edwell asked what has driven current period capital overspends on pole replacements.

Michael Charlton said that:

- A number of safety incidents occurred, leading to an independent review of ActewAGL Distribution's pole inspection regime. The review concluded that existing processes were not sufficient, leading to a review of the inspection regime. Increased pole condemning rates followed. The ACT technical regulator conducted a similar review and drew similar conclusions on the inspection regime.

- A large number of poles were damaged as a result of the 2003 bushfires which needed to be replaced.

Steve Edwell asked if pole replacement was driven by age or condition.

Michael Charlton said that pole replacement needs are derived from condition based assessments.

<u>Treatment of Utilities Network Facilities Tax (UNFT)</u>

Bill Pearcy asked how ActewAGL Distribution would deal with any changes to the scope of the Utilities Network Facilities Tax (UNFT), particularly if the ACT Government removed the tax entirely. Mr Pearcy asked how consumers could be sure the impact of this is removed from the cost base should the tax be abolished.

David Graham said that ActewAGL Distribution has proposed a mechanism in its regulatory proposal to adjust for differences between forecast UNFT amounts and actuals. ActewAGL Distribution proposes to apply a symmetric adjustment through the annual pricing proposal process, to correct for the difference between forecast and actual UNFT liabilities.

Leanne Holmes added that if the UNFT was removed entirely, the impact of it would be removed using the tax change event pass–through provision of the National Electricity Rules.

Impact of smart metering obligations

Bill Pearcy asked how the proposed 'smart meter' pass–through event was different to the existing ICRC obligations to install interval meters.

David Graham said that the existing obligation imposed by the ICRC related to the installation of interval meters only to new installations and when replacement was required. The proposed smart meter pass–through event relates to any implications of any Government mandated roll out of interval meters to replace all existing installations, not just new and replacement installations. Mr Graham explained that the Ministerial Council on Energy (MCE) has conducted cost benefit analysis on the proposal to replace all meters with interval meters, however, the final decision on whether or not to do so in the ACT would be made by the ACT Government.

Janusz Worony said that if the decision was made to roll out interval meters across the entire network, this would involve the replacement of around 170,000 meters at significant cost to ActewAGL Distribution. Mr Worony added that ActewAGL Distribution currently install around 3600 interval meters per year under the current ICRC interval meter obligations, however, any Government decision to extend the roll out would likely contemplate a more compressed timeframe for replacement of all existing installations.

Michael Charlton noted that interval meters are not in themselves, smart meters. Smart metering is combination of an interval meter, and other technologies to utilise the additional information collected by these meters (such as in home displays and other communications capabilities).

Bill Pearcy noted that the ESCC's main concern regarding smart meters is whether or not there would be a benefit to consumers from a mandated roll-out. Mr Pearcy acknowledged that this was a separate matter that is outside of the current AER determination process for ActewAGL Distribution.

Steve Edwell noted that the MCE has conducted cost benefit analysis on the proposed roll out of smart meters, the results of which will likely be used by the jurisdiction to inform their individual decision on the matter.

Cost Allocation Method

Bill Pearcy noted that ActewAGL Distribution has allocated its corporate services costs according to employee numbers in each business division. Mr Pearcy asked if allocation by payroll would be more appropriate.

Alexander McPherson said that the cost allocation method applied for the 2009–14 regulatory control period is the same one decided upon by the ICRC for the current period. Mr McPherson added that the method has been approved by the AER.

Bill Pearcy noted that the AER's final decision on the cost allocation method states the AER considered ActewAGL Distribution's method was not consistent with the principles of the Rules. However, the AER has accepted it.

Mike Buckley confirmed that was the case, however advised that, during the transitional period of 2009-14, the AER must approve a cost allocation method which is consistent with the approach currently required by the ICRC. The AER expects to be able to implement a new cost allocation method from 2014. The 2009 determination will be done on the basis of data which follows the ICRC cost allocation method.

Steve Edwell added that the approval of the cost allocation method was not discretionary for this determination, as it was a requirement of the transitional rules.

Mike Buckley said that, going forward, ActewAGL Distribution will begin reporting its costs against the requirements of the national cost allocation framework, which differs from the one approved by the AER for the 2009 determination. This reporting means ActewAGL Distribution will transition to the national cost allocation framework developed under the National Electricity Rules in time for the 2014 determination.

Bill Pearcy commented that, if this is the case, then there would not be a revenue impact until 2014.

Mike Buckley indicated that it is the method of allocating costs which will differ, not necessarily the revenue impact. Mr Buckley added that it is not necessarily the case that the cost allocation method represents a significant driver of revenue in itself.

Leanne Holmes said that while the cost allocation method is fixed for the next regulatory control period, the levels of those allocated costs are not locked in. These will be scrutinised by the AER as part of the determination process.

4. Concluding comments

Mike Buckley advised that submissions on ActewAGL Distribution’s regulatory proposal close on Friday, 8 August 2008. Submissions received will be considered by the AER, in conjunction with technical advice from the AER’s engineering consultants. A draft distribution determination for ActewAGL Distribution is expected to be released in November 2008.

Mr Buckley asked that ActewAGL Distribution make available its presentation slides from today’s forum for publication on the AER’s website. Mr Buckley advised that a record of issues discussed at today’s forum would be circulated shortly.

Steve Edwell expressed his appreciation to the presenters and attendees for their participation and closed the meeting at approximately 3:50 pm.
