

Consumer Challenge Panel
response to

ActewAGL electricity

Regulatory Proposal

30 July 2014

Role of Consumer Challenge Panel – to reiterate Mark's comments

- 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

- Members of the CCP working on the ActewAGL electricity 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 John Skinner at AER

- This proposal does not head in the right direction: little change from current, if anything with declining energy density things are actually getting worse.
- The mistakes of the past in capex and opex allowances and demand projections must not be repeated.

Demand

- ActewAGL is forecasting flat demand going forward
- Whilst forecasting demand is fraught, the CCP urges the AER to scrutinise this carefully

Opex

- Average annual actual opex for 2010-2014 was \$89m
- Actual opex in the base year – 2012/13 – was \$90m. After adjustment for non recurrent costs, ActewAGL says its efficient base year opex is \$68m
- ActewAGL then adds on its proposed step changes (around \$8m per annum) to reach average annual forecast opex for 2015-2019 of \$75m
- Despite a decrease in average annual opex, the CCP queries whether this is an efficient level

(in \$2013/14)

Step changes over next regulatory period

	\$ million 2012/13
• EHSQ	3
• regulatory compliance and strategy	9
• technical standards	1
• safe work practices	4
• contractor management	3
• network operations and call centre	2
• network OT support	5
• corporate service charges	<u>9</u>
	35

Step Changes in Opex

- Whilst ActewAGL has reduced 2012/13 opex by \$30m for non-recurring expenditures, it is hard to see why the bulk of the proposed step change expenditure should be added back on
- Expenses relating to decisions by management/shareholders about structure should not be passed through to consumers
- Consumer engagement/regulatory compliance/consumer engagement should be absorbed
- Step changes need very careful analysis by the AER – don't embed step changes into future base expenses

Benchmarking

- It is the CCP's view that benchmarking is an important tool for the AER
- Despite variations between businesses, on balance benchmarking is appropriate and it works

Capex

- Actual capex for 2010-2014 was \$367m
- Forecast capex for 2015-2019 is \$372m

(in \$2013/14)

Capex – asset renewal/replacement

- Expenditure for 2010-2014 was \$93m, comprising 25% of capex
- Forecast expenditure for 2015-2019 is \$135m, or 36% of capex
- That's an increase of \$43m or 46% between the two regulatory periods
- There is a 43% increase in this capex between 2013/14 and 2014/15

(all in \$2013/14)

Capex - augmentation

- Expenditure for 2010-2014 was \$95m, comprising 26% of capex
- Forecast expenditure for 2015-2019 is \$104m, or 28% of capex
- That's an increase of \$10m or 10% between the two regulatory periods

(all in \$2013/14)

Capex and demand

- Increases in renew/replace capex and augmentation capex is somewhat offset by decreases in other capital expenditures
- However, within the context of flat, if not lower demand, it is hard to see why any increase in expenditure is necessary

Capex and asset base

- Return on asset base is around 40% of the proposed revenue requirement
- Whilst the WACC will have a big impact on this, it is also important to ensure the asset base is correct