

Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
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Melbourne Vic 3000

aer inquiry@aer.gov.au

5 March 2009

Dear Mr Pattas,

**Framework and approach paper for the regulatory period commencing
1 January 2011**

VCOSS welcomes the opportunity to comment on the Framework and Approach paper for the regulatory control period commencing 1 January 2011 for the Victorian Distribution Network Service Providers (DNSP).

VCOSS is the peak independent coordinating body of the social and community services sector in Victoria. VCOSS raises awareness of the existence, causes and effects of poverty and inequality and advocates for the development of a sustainable, fair and equitable society.

As this is the first distribution price review conducted by the Australian Energy Regulator (AER) in Victoria, VCOSS feels it is important to highlight a number of issues that may impact on low income and vulnerable Victorians.

An efficient, reliable distribution network is fundamental to our electricity supply system. As distribution network prices make up 40 to 50 percent of a household energy bill, VCOSS believes that this is of significant concern to low income and vulnerable consumers in Victoria.

While VCOSS is not in a position to comment on all of the framework proposals we will highlight a number of factors of concern to our members.

Weighted Average Cost of Capital (WACC)

VCOSS supports the AER's approach to WACC as outlined in the *Statement of Regulatory Intent on the revised WACC Parameters* initial findings of December 2008.

While the global financial crisis has put a strain on the availability of credit, electricity distribution networks could be seen as a stable investment in a market facing enormous turmoil. In the current climate a *guaranteed* rate of return through the WACC is presumably preferable to a risky investment elsewhere.

Reporting

To facilitate understanding of distribution pricing and its impact on consumers, VCOSS suggests that the AER provide a supplementary report to its draft decision that could include but not be limited to:

- Average proposed price change
- the number of domestic customers above and below average price
- the types of customers above and below average price
- service performance targets by geographic area

Similarly we believe that the annual reporting obligations should be accompanied by the above information as well as information on:

- best and worst served customers and
- Guaranteed Service Level (GSL) payments

If this information was published in a timely manner it would allow consumers to scrutinise the companies' price proposals and service performance. Current Comparative Performance Reports published by the Essential Services Commission Victoria provide important information on DNSP's performance, unfortunately in a manner that is inaccessible to most consumers.

Service Target Performance Incentive Scheme (STPIS)

VCOSS supports the AER's preliminary decision to apply the reliability of supply, customer service and GSL component of the STPIS in the coming regulatory period.

As quality of supply will no longer be subject to GSL or s-factor determinations it may be appropriate to implement additional compliance monitoring in areas that may be affected by fluctuations in the quality of supply.

VCOSS is concerned that if DNSPs are to segment customers into geographic areas for the purpose of setting GSL parameters this may cement poor service quality in regional and remote areas. While VCOSS acknowledges the varying cost and difficulties in maintaining equal service

across the network, it is inappropriate for a class of consumers to be receive lesser standards of service based on geographic location.

Control mechanism for standard control services

The AER has indicated in the preliminary framework and approach paper that it is inclined to apply a weighted average price cap in determining prices for distribution services. If the AER is to take this approach VCOSS believes that parameters should be placed around tariff rebalancing.

To ensure that there is equity in tariffs within the weighted average price cap VCOSS believe that the AER should specify parameters around both average price and average consumer numbers to ensure that the +-approach is not skewed by extreme deviation within the tariff basket.

The approach should also provide mechanisms by which windfall profits can be returned to consumers. This may occur towards the end of the regulatory period if households are reallocated to time of use tariffs as a result of the installation of interval meters. Reallocating dual fuel households where there is little or no off-peak consumption to a time of use tariff with a much higher peak rate will result in significantly increased revenue, similarly for households with off-peak hot water or slab heating that are boosted during peak periods, the revenue gained from this peak period boosting will be much greater than that forecast.

Alternatively, it may be prudent for the approach to require DNSPs to provide an estimation of the number of households to be reallocated to time of use pricing during the regulatory period and consider the revenue impacts accordingly.

Unregulated services

The roll out of Advanced Metering Infrastructure by distribution businesses in Victoria will create an extensive infrastructure network, which may have application outside the provision of metering services, such as the radio mesh network.

As this infrastructure will be paid for by consumers, any revenue from ancillary services provided through this infrastructure should be returned to consumers through future price reviews.

Conclusion

VCOSS has restricted its comments to the principles we believe should be included in the AER's consideration of the final framework and approach to ensure equity and fairness in the pricing of essential services. If you have any queries about VCOSS' submission please contact Sarah Toohey, Energy Policy Officer on (03) 9654 5050 or sarah.toohey@vcoss.org.au.

Yours sincerely



Cath Smith
Chief Executive Officer