



Ethnic Communities' Council of NSW Inc.

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Submission concerning the Victorian Distribution Networks Revised Revenue Proposal 2016-20 Submissions to AER January 2016

The Ethnic Communities Council of NSW (ECC NSW) welcomes the opportunity to provide input into the Revised Regulatory Proposals 2016-20 by Citipower, Powercor, Jemena, United Energy and Ausnet Services to the AER Draft Decisions on their revenue proposals published in January 2016.^{1 2 3 4 5 6}

Since its formation 40 years ago the ECC NSW has been the peak body for culturally and linguistically diverse (CALD) community members and representative organisations in NSW. The Ethnic Communities' Council of NSW main activities are advocacy, education and community development. It is a member of the Federation of Ethnic Communities Councils of Australia (FECCA) and the Energy Advocacy role represents FECCA in the NEM.

The ECC NSW thanks the Australian Energy Regulator (AER) for the opportunity to contribute to the discussion on its preliminary revenue proposals for the Victorian distribution businesses and their revised responses to these draft determinations. The ECC NSW supports the AER in its determination to lower electricity prices to consumers and ensure electricity distribution businesses operate in an efficient manner. We would like to provide comments focusing on the potential impacts for CALD energy consumers on some aspects of the responses by networks to the preliminary revenue proposals, including observations and recommendations relating to:

- Regulated Rate of Return and Regulated Asset Base
- Consumer Engagement and Consultation

¹ Citipower Revised Regulatory Proposal 2016-20, January 2016
² Powercor Revised Regulatory Proposal 2016-20, January 2016
³ Jemena 2016 Revocation and substitution Submission, January 2016
⁴ United Energy 2016-20 Revised Regulatory Proposal, January 2016
⁵ Ausnet Services Revised Regulatory Proposal 2016-20, January 2016
⁶ AER Preliminary Decisions (distribution) for Victorian DNSPs 2016 - 20 overviews 2015

Rate of Return and Regulated Asset Base

The regulated rate of return (ROR) calculated by the use of a weighted average cost of capital (WACC) proposed by Victorian networks in their initial proposals of between 7.18 and 7.38%⁷ were reviewed by the AER in its preliminary decisions and reduced to between 6.02 and 6.12%.¹² The five networks, in their responses to the preliminary decisions, all suggested marked revisions upward of their initial WACCs from 8.61 to 8.7%^{13 14 15 16 17}

The last regulatory period (2010-2015) saw a massive increase in the networks capital program, and hence a concomitant increase in the Regulated Asset Base (RAB) brought forward to the new regulatory period. Given that the ROR allowance accounts for approximately 40% of the total cost base of the determinations, a high ROR, coupled with a high RAB, indexed annually for CPI increases, serves to put considerable upwards pressure on distribution prices, and consequently the retail prices paid by consumers.

Given predictions of continued reduction in both peak and average demand, there are convincing arguments that large asset write-downs in transmission and distribution businesses would be to the financial advantage of both businesses and consumers.¹⁸ In the case of businesses, it would provide a realistic market indication of their value. For consumers, a large reduction in the return on capital costs of networks has the potential to lower the retail cost of electricity markedly and this would serve the long term interests of consumers.

While we support AER's proposal to set a (considerably) lower ROR than the previous regulatory period, we consider the AER's suggested ROR of 6.02 to 6.12% to still be too high, given current financial conditions and the relatively risk free nature of the investment process involving Victorian distribution businesses.

Discussion and agreement about the risk parameters of distribution and network businesses seems to hinge on definitions of how 'risky' such investment remains. Quite large gaps appear between rates when businesses are evaluated on a AAA-, BBB+ or BBB basis.^{19 20} AER guidelines suggest that the ROR should be established on the basis of a BBB+ risk profile.²¹ It would appear from the networks' initial and revised proposals that a BBB/BBB+ profile has been used.²²

⁷ Citipower Revenue Proposal 2016 – 2020, April 2015

⁸ United Energy Revenue Proposal 2016 – 2020, April 2015

⁹ Jemena Revenue Proposal 2016 - 2020, April 2015

¹⁰ Ausnet Services Revenue Proposal 2016 – 2020, April 2015

¹¹ Powercor Revenue Proposal 2016 - 2020

¹² AER Draft Decision overviews op cit

¹³ Citipower Revised Regulatory Proposal op cit

¹⁴ Jemena Revised Regulatory Proposal op cit

¹⁵ Powercor Revised Regulatory Proposal op cit

¹⁶ United Energy Revised Regulatory Proposal op cit

¹⁷ Ausnet Services Revised Regulatory Proposal op cit

¹⁸ Bruce Mountain 'Why the power networks are wrong about writedowns' Business Spectator August 2014 and 'Time to write down the value of NSW Networks' Business Spectator October 2014

¹⁹ PricewaterhouseCoopers, *Estimating a debt risk premium*, Report to Essential Services Commission of Victoria March 2013 page 3

²⁰ Dr T Hird, Competition Economists Group, Memorandum to ActewAGL Distribution May 2014

²¹ AER Rate of Return Guidelines December 2013

²² Victorian DNSPs Revenue and Revised Regulatory Proposals op cit

The ECC NSW supports the Consumer Challenge panel's recommendations that the ROR should be considerably lower.²³

Recommendations:

1. *The allowed ROR should be based on the efficient operation of an AAA-business and should reflect more accurately the risk parameters of a business in an essential service, monopoly setting. We consider that the ROR should be considerably lower than either that proposed by the networks in their revised proposals or the draft determination by the AER.*
2. *The RAB for each network should be re-evaluated to take into account the possibility of stranded assets and inflated valuations of the capital base of networks, particularly given falling average demand and the projections of continued weakening of peak demand. An analysis should be made of the differences between the regulatory value and the economic value of network assets and suitable adjustments made in the long term interests of consumers.*

Consumer Engagement and Consultation

The Victorian DNSPs have undertaken engagement with stakeholders, to varying degrees, as part of their consumer engagement strategy during 2014-5.

AER noted that the process of meaningful and authentic consumer engagement by network businesses is in its early stages and there is scope for improvement.²⁴ Assessment of the consumer engagement practices and processes reflected the range of approaches undertaken by the DNSPs. There has been a broad consensus by consumer groups and advocates that consultation is most generally at the 'inform and consult' level, rather than moving into the higher levels of the IAP2 domains (involve/collaborate/empower)²⁵ (with the notable exception of Jemena). Detailed information on the methodologies employed by networks to consult with consumers is not easily found, nor is information about the spread and diversity of consumers engaged and consulted, and by what means, especially those with a first language other than English.

The Ethnic Communities' Council of NSW was active in supporting the requirement by the AER that the energy networks engage with their consumers when preparing their proposals. ECC NSW participated in the development of the consumer engagement guidelines that were prepared to assist the networks in this activity.

One of the major criticisms of the process of consumer consultation and engagement by network businesses is that it has been, and continues to be, largely a process of one-way information transfer. There is little indication or transparency of how, if at all, such consultation and communication has been used to shape the networks' initial proposals and their subsequent revised proposals.

²³ AER Consumer Challenge Sub-Panel 3, *Response to proposals from Victorian electricity distribution network service providers for a revenue reset for the 2016-2020 regulatory period*, 5 August 2015

²⁴ and *CCP Submission on NSW DNSP Regulatory Proposals*, August 2014, pages 18-20

²⁵ AER Preliminary decisions, Victorian DNSPs op cit

²⁵ *IAP2 Public Participation Spectrum*, IAP2 International Federation 2014

The AER objectives for consumer engagement include:

- equipping consumers to participate in consultation
- making issues tangible to consumers
- obtaining a cross section of views
- considering and responding to consumer views ²⁶

The ECC NSW places great value on any **authentic** opportunity to provide feedback on CALD communities' needs and views. We would strongly support the continuation of **genuine** consultation with consumers groups and advocates. In regard to CALD communities in particular, we note:

- *Research by ECC NSW indicates that some consumers from culturally and linguistically diverse backgrounds have limited internet access or capacity to understand English when asked to read complex questions.*
- *Lack of the technological skills to use devices and computers can limit CALD consumers' ability to engage successfully with technology.*
- *Although older members of the general community are increasingly able to use the internet they do not involve themselves in interactive activities, according to the Australian Communications and Media Authority research 2010. This is compounded among CALD older consumers in that many revert to their first language which makes their access to and interaction with internet, written in English, even lower.*
- *Internet use is also lower in low-income households. In 2011, 67% of low-income (earning less than \$30,000 per year) used the internet. Similarly Australians with lower levels of basic education and those living outside capital cities were less likely to use the internet.*
- *Newly arrived and refugee consumers have difficulty engaging with internet due to language difficulties, low income and often a low level of basic education. When this group of energy consumers can access the internet at libraries etc they encourage their children to use the facility so that their children can keep up with their peers. If the adults gain access to internet, they will use it to contact family or find out news of their country of origin. These groups are unlikely to visit an energy website to complete an interactive survey promoted by energy networks.*
- *The networks in their planning proposals outline their future consumer engagement plans. The proposals all rely on social media and the internet to 'have your say'. The proposals include some minimal face-to-face activities.*
- *There are 1.34 million people living in Victoria who speak a language other than English at home. This would indicate that there are a large number of*

²⁶ AER, Consumer engagement guideline for network service providers, November 2013

CALD energy consumers who are unable or reticent to access or interact with a social media or internet based engagement methodology.

The ECC NSW has more recently had valuable consultation with Energy Networks Australia and Networks NSW, among others, about its draft guidelines on engaging CALD energy consumers'.²⁷ Such guidelines have the potential to inform the provision of authentic and productive consumer engagement with CALD communities, and as such, deserve to be fully explored by all networks in their consumer engagement strategies.

Recommendations:

1. *That consultative processes undertaken by DNSPs and others include a wide range of engagement techniques, including the use of bi-lingual educators connected with CALD communities and other techniques detailed in the ECC NSW guidelines, Cultural Connections: Engaging CALD energy consumers.*²⁸
2. *That recognition be given to the lack of effectiveness in CALD communities of online and fixed phone line consultative processes and more effective, alternative engagement and consultative tools utilised by energy businesses and agencies.*
3. *That appropriate records be kept to indicate that CALD consumers have been consulted and in what manner and that such consultation reflects the appropriate demographic makeup of the relevant consumer populations.*

If you require additional information please contact Iain Maitland, Energy Advocate on 02 9319 0288 or email energy2@eccnsw.org.au .

Sincerely yours,

Mary Karras



Executive Officer
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²⁷ ECC NSW, *Cultural Connections: engaging CALD energy consumers*, 2015

²⁸ *ibid*