

ActewAGL Distribution Energy Consumer Reference Council**Meeting 2** Minutes 22 January 2015 09:30-13:10ActewAGL Distribution Depot, Oakden Street, Greenway

Attendees

Allan Williams (Chairman)

Jerry Howard,

Neil Greet,

Kristine Riethmiller,

Jodie Pipkorn,

Marcus Hipkins,

Glenys Patulny

Wayne King

Master Builders Association, ACT

Engineers Australia, Canberra Division

Canberra Business Chamber

SEE-Change

North Canberra Community Council

Tuggeranong Community Council

Tuggeranong Community Council

ActewAGL Distribution

Michael Costello,

Stephen Devlin,

Robert Atkin,

Paul Walshe,

Ed Gaykema,

Philip Deamer,

Peter Cunningham,

Leanne Holmes,

Aimee Barclay

Marianne Fitzgerald

Helen Leayr,

Kerri Hannaford,

CEO (attended for the last part of the meeting)

General Manager, Asset Management

General Manager, Network Services

Director, Marketing and Corporate Affairs

Manager Gas Networks

Manager Gas Access Regulation, Finance and Resources

Branch Manager Distribution, Strategy and Compliance

Manager Economic Regulation, Finance and Resources

Legal/Project Administrator, AAD Regulation

Regulatory Compliance Officer, Asset Management

Consumer Engagement

Consumer Engagement

Apologies

Susan Helyar

Catherine Carter

ACT Council of Social Services

Property Council of Australia (ACT)

Papers distributed at the meeting

- Minutes of meeting #1
- Hard copies of PowerPoint presentations
- ORIMA Research 'ActewAGL Distribution: A report on qualitative consumer engagement research'

- Foreword and Introduction from the ActewAGL Distribution's Revised Regulatory Proposal (2014-19 ACT electricity network determination)
 - ActewAGL Distribution's Revised Regulatory Proposal (2014-19 ACT electricity network determination) Fact Sheet
 - Proposed meeting dates for 2015
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1. Welcome and introductions

The Chair, Allan Williams, introduced himself as the independent chairman of the Energy Consumer Reference Council. He noted that it would be the last meeting for Neil Greet who will be replaced by Nick Clarke of Engineers Australia. Mr Williams thanked Mr Greet for his input. He welcomed participants and noted that two representatives from the Tuggeranong Community Council had joined the meeting; Wayne King and Glenys Patulny. Attendees at the meeting were invited to briefly introduce themselves.

Mr Williams informed the meeting that Michael Costello, ActewAGL, CEO would join the meeting at 12:30 to provide an update on the Electricity Determination. He also noted that a number of the ECRC attended the Australian Energy Regulator (AER) Public Hearing on the AER Electricity Determination on 9 December 2014. Presentations included Michael Henley, Consumer Challenge Panel and Michael Costello, CEO, ActewAGL.

2. Review of minutes of last meeting

Correct spelling of Kristine Riethmiller surname was noted for the minutes. Meeting agreed Communiqué was a concise account of Meeting 1 and found it useful to distribute to members. Minutes and Communiqué will be available on the ActewAGL website after each meeting.

Minutes were ratified as accurate.

Members discussed the AER Public hearing and the Consumer Challenge Panel (CCP). The following comments were made:

- Susan Helyar of ACT Council of Social Services met with one of the CCP members. At the next ECRC meeting she may be able to give the members an update.
- It is very likely that the CCP members allocated to the ActewAGL Gas Access Arrangement Determination will be in contact with the ECRC members.
- Questions were asked on why there is not someone from the ACT on the CCP, noting that the business environment is different to that of other Australian states and territories.
- A comment had been made at the hearing that the ACT low electricity prices were related to householders, the ECRC members noted that in the ACT this includes a lot of small businesses that operate out of 'households' and that there were not as many 'big business' in the ACT as in other jurisdictions.

3. AER Electricity and Gas Price Determination Process

Mr Peter Cunningham, Branch Manager Distribution Strategy and Compliance, ActewAGL provided the Council with a brief overview of the ActewAGL Distribution electricity and gas networks and the determination process for each network.

The presentation included:

- Critical dates for the electricity and gas AER determinations
- Steps to tariff setting
 - Building block revenue requirement - AER determines revenues required to cover efficient costs for 5 years, based on the building blocks of:
 - Cost of funding
 - Asset base
 - Capital expenditure
 - Operational expenditure
 - Income tax
 - Project sales.
 - Average price path set for 5 years – AER sets price path to deliver required revenue with forecast consumption
 - Tariffs set in annual pricing process – AER approves tariffs for each service, if they comply with the 5 year determination
- The gas determination cycle is one year behind the electricity determination therefore there is the chance for the ECRC to be more involved and for ActewAGL to obtain greater input from the community. The gas submission is due June 2015.
- Five year regulatory period is a long time in terms of financial markets and trying to anticipate fluctuations that can affect costs is difficult.

Questions from the Council

Q. Where does the solar from areas such as Royalla fit into the energy market and what effect does solar have?

A. This energy is injected straight into the ActewAGL Distribution network. Solar is revenue neutral for ActewAGL Distribution. There is no government subsidy to ActewAGL, although the price is determined by the Government set feed-in tariff. ActewAGL Distribution covers the cost associated with receiving solar from general network charges and customers without solar cross-subsidise those with solar.

Q. Is it right that it is more effective if the solar panels are west facing?

A. In California some installations have a mixture of south and west facing panels, the best system is to have 'follow the sun' panels but this does have a considerable cost.

Q. Does the AER take into account the high return on capital required, there is a lot of money spent on infrastructure that has a 'long tail'. What data is given to the AER?

A. The AER factors this into the formulas used to generate the allowable revenue. Distribution companies have to put in sound arguments about expenditure that is based on

projections; this may include new suburbs being developed and augmenting older services. The information to the AER includes both detailed financial projections and narratives that paint a broader picture about local economic drivers, government policy etc.

Q. Is it a positive or negative that 50 percent of ActewAGL is owned by the government in terms of the AER process?

A. In the ACT all capital works are funded by cash flow there is no contribution from Government. The ownership structure makes little difference in the eyes of the AER.

4. Gas Access Arrangement Submission to the AER.

Mr Ed Gaykema, Branch Manager, Gas Networks, ActewAGL provided the Council with a brief overview of access arrangements and the key areas of consideration for the ECRC, the presentation included:

- Overview of Gas Networks strategic objectives and the five year plan summary.
- How customer expectations such as safety, choice to have natural gas, reliability, cost and price stability are understood and what has been achieved.
- Industry comparisons show that ActewAGL compares very well especially with their 100 percent response rate within 60 minutes to emergencies achieved over the past 3 years.
- Vulnerable customers are an area of focus, to enable ActewAGL to do more for them.
- Main service provider for on-the-ground operations is Jemena.
- Consideration of performance and service standards.
- Gas infrastructure is closely monitored by the Australian Energy Regulator, forward planning needs to be prudent and robust.
- Cost to deliver gas to the customer – 2% income tax, 7% depreciation, 42% OPEX, 49% return on capital.
- Tariffs are the mechanism by which ActewAGL recoup the costs of distributing the gas, over the next five year period they are, for instance, considering more tailored tariffs eg large business v small business v household.
- Want to listen to the community to capture their expectations and check that the priorities for the next five years correct? In particular about levels of service.

Questions from the Council

Q. How does the cost of gas for customers compare to other jurisdictions?

A. Higher cost than some others, the service level is higher. Gas is a 'fuel of choice', if customers choose not to use gas then it is an issue for ActewAGL projections.

Q. There has been a 33% increase in the household gas bill in the last 12 months

A. Prices for gas distribution have been fixed for the past 5 years, however the price of gas has increased so the retail aspect of your bill has likely increased.

Q. Why is there a projected drop in capital expenditure in the area of market expansion of 6%?

A. Slide 16 of the presentation 'Types of Capital expenditure' shows a 6% drop in capital expenditure from the previous regulatory period to the next 5 year period from 46% to 40%. This is due to a lot of new development being undertaken already eg the suburb of Crace. In the next 5 years it is not anticipated that there will be as much new development as the last five.

5. Consumer engagement activities

Ms Helen Leayr, Consumer Engagement, presented to the Council on how the ECRC and the broader community can have input to the development of the five year plan for gas and future ECRC agendas. The presentation included:

- The five year plan for Gas consultation objective is to inform, consult and involve gas consumers and the Canberra community, and collaborate with the ECRC to develop the plan. This is based on the International Association of Public Participation engagement model adopted by the Australian Energy Regulator.
- The six month time frame before the Gas Determination is due is short, however should allow for consulting and collaborating and there will be ongoing consultation with the community. Ongoing consultation reflects ActewAGL's long term consumer engagement goals and will assist with future Determinations for gas and electricity.
- Proposed consultation on the five year gas plan includes a consultation discussion paper, workshops with business and the community, focus groups, online ActewAGL surveys through 'Power Panel' and ECRC consultation and input. A new ActewAGL website will be launched 1 July 2015.
- The ECRC were asked for their input on what more needs to be done on the consultation program and feedback on future agenda items for ECRC meetings on the Gas Plan.
- Due to time constraints at the meeting the presentation on the ORIMA research was not given, however members were given a copy of the ORIMA report 'A report on qualitative consumer engagement research'.

Questions and input from the Council

- Other forums that could be considered for consultation include the residential council, commercial council and Consult Australia.
- Need to be mindful of how many forums and what can be achieved in the timeframe. It is also important to remember this is bigger than the gas plan and it is new for consumers to be asked for this sort of input from ActewAGL, so may be difficult to bring the general community to a stage of understanding the implications of the Gas Submission to be able to make considered input.
- Positive to build up the rapport with the community through consultation.
- Member suggested an AER representative be invited to attend meetings.

- Consider how to engage those who are not easy to engage ie those who would not normally attend a workshop.
- The community/ECRC needs to understand what the costs are, hard data is needed to understand the trade-offs. For instance, what are the trade-offs if reliability is reduced by 15 minutes? Figures are required that demonstrate on a sliding scale from 'gold plating' to a lower level of service and the associated impact on price of gas distribution.
- Visual representations are needed to understand the trade-offs.
- Willingness to pay surveys are useful but more is needed.

Q. Have members of the Consumer Challenge Panel been to the ACT to visit and visualize Canberra?

A. Yes, AAD has met with the CCP on the electricity review. The AER toured the electricity network before the 2009-14 review, but not for the 2014-19 review. Maybe this needs to be considered for gas. ActewAGL propose to update the Consumer Challenge Panel members on ECRC meetings after they have been held.

Q. How much consideration is given to new technologies or different directions for the energy market? Are we just operating on the same model over again?

A. Yes, the current model is being expanded, for instance, co-generation and tri-generation are being considered, solar panels and battery storage. At this stage it is not believed that there will be any new gas technologies viable in the next five years.

6. Other matters

Mr Allan Williams, Chair, asked the Council if there were any other matters to be discussed [none], he noted that the draft Communique and Minutes would be distributed to the Council members. Draft schedule of meetings was provided and agreed by members.

7. Electricity Networks Draft Determination Update

Mr Michael Costello, CEO, ActewAGL provided the Council with an update on the Electricity Networks Draft Determination process currently underway by the AER. The update included the following:

- ActewAGL's formal response to the AER's Draft Determination was submitted on 20th January.
- Public responses can be submitted until 13th February.
- ActewAGL submission makes the following comments:
 - Benchmarking and methodology are unlawful.
 - The reduction in operating expenditure of \$157 million (\$13/14) or 41.7% is unprecedented and not in the best interests of electricity customers.
 - The proposed operating expenditure allowance is what it was 15 years ago.

- A glide path to cut costs to enable the transition is required to ensure a safe, secure and reliable electricity supply that is in the long term interests of customers.
- The capital expenditure reduction proposed by the AER of 34.4% to \$244.2 million will impact ongoing safety and reliability.
- The price path proposed by ActewAGL in its revised regulatory proposal will mean an increase in the distribution component of the annual bill of \$50 based on typical use or \$0.96 per week.
- ActewAGL have reviewed their plans and have pushed back the Molonglo zone substation by one year and the upgrade to the Belconnen zone substation until the next regulatory period.
- ActewAGL Distribution's residential customers currently pay the lowest network charges in the country (on a state by state comparison) and have the lowest electricity bill.

Mr Costello believes this Determination could end up in the courts, ActewAGL is currently losing \$3million a month due to the projected changes from the AER decision, unfortunately this means ActewAGL will have to act now and look at workforce cuts. Consultation will be undertaken in May with staff in regard to redundancies. ActewAGL will not compromise on safety but will need to reduce reliability and customer satisfaction.

Questions and input from the Council

Q. Is this caught up in the four year political cycle? Will there be changes as we move through different political priorities with respect to deregulation and over regulation?

A. There is a deep grievance, and a political impact associated with the price increases as experienced in NSW. Surveys suggest that energy is something that worries people although the AER says it is just 1% of the household expenditure. Sensible regulation is needed; we are a monopoly so regulation is important.

Q. Is this affecting all states?

A. Yes, all utilities are experiencing the same types of responses from the AER. The ActewAGL proposal was for a price increase of \$0.96 a week, we accepted that the AER may come back with a lower figure. The AER proposal would be a cut of \$1.60 per household per week. ActewAGL is not convinced that \$1.60 less each week is worth the downside the cuts are going to cause.

Q. If there is not an ACT representative on the Consumer Challenge Panel what are we doing about this?

A. This is a concern. Chair noted that the public can have input to the AER by the 13th February.

Q. With operating expenditure reduced and the flow on effects does this leave ActewAGL open to litigation if there are extreme events such as the Victorian bushfire examples?

A. The Victorian issues were related to safety, and this could be relevant for ActewAGL for instance, less vegetation management could lead to increased negative events. Essential

Energy in NSW who have a large rural footprint had \$700 million taken off their vegetation program by the AER.

Q. At the AER Public Hearing in December 2014 it appeared that the AER and ActewAGL were just not on the same level, is there an issue with communication?

A. A serious issue has been the benchmarking that was used. After two years of using a benchmarking model the AER discovered it was not working at the end of August 2014. They therefore had to rush to bring in new data. The data they used in the model was from NSW, QLD and Wales (UK). It is a fundamental issue that the ACT should not be benchmarked against these three very different markets.

8. Meeting close

Summary of meeting resolutions:

- The ECRC will explore writing a letter to the AER highlighting the fact that there is no one on the Consumer Challenge Panel from the ACT.
- The meeting discussed current membership of the ECRC and agreed there was good representation of the ACT consumer groups, but identified additional groups that could be approached and it was suggest consideration be given to expanding the council's demographics.
- It was agreed that meetings of the ECRC would be held monthly for at least the first half of 2015.

Mr Williams closed the meeting at 13:10