Ethnic Communities' Council of NSW Inc.

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Submission concerning the TransGrid Revised Revenue Proposal 2014-19
Submission to AER January 2015

The Ethnic Communities Council of NSW (ECC) welcomes the opportunity to provide input into the **Revised Revenue Proposal 2014-19 by Transgrid to the AER Draft Decision on Transgrid published in December 2014.**[1] [2] [3]

Since its formation 40 years ago the ECC has been the peak body for culturally and linguistically diverse (CALD) community members and representative organisations in NSW. The ECC's 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 thanks the Australian Energy Regulator (AER) for the opportunity to contribute to the discussion on its draft revenue proposal for Transgrid and Transgrid's response to this draft. The ECC supports the AER in its determination to lower electricity prices to consumers and ensure the electricity transmission and 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 response by Transgrid to the draft revenue proposal, including observations and recommendations relating to:

- **Rate of Return (ROR) and Capital Expenditure CAPEX**
- **Consumer Engagement and Consultation**
- **Demand Management initiatives**

Rate of Return and Capital Expenditure

The rate of return (ROR) calculated by the use of a weighted average cost of capital (WACC) proposed by Transgrid in its initial proposal (8.83%) [4] was judged too high by the AER in its Draft decision and reduced to 7.24%.[5] Transgrid, in its response to the draft decision, suggested a minor revision only of its ROR to 8.65%. [6]

A high ROR, coupled with a high Regulated Asset Base (RAB), serves to put considerable upwards pressure on transmission prices, and consequentially the retail prices paid by consumers. Given predictions of continued reduction in both peak and average demand, there

[1] Transgrid Revenue Proposal Overview 2014/15 - 2018/19
[2] AER Draft Decision Transgrid transmission determination 2015-16 to 2017-8 overview
[3] Transgrid Revised Revenue Proposal 2014/15 - 2017/18
[4] Transgrid Revenue Proposal Overview 2014 op cit page 9
[5] AER Draft Decision op cit page 10
[6] Transgrid Revised Revenue proposal 2015 op cit page 8

are convincing arguments that large asset write-downs in transmission and distribution businesses would be to the financial advantage of businesses and consumers. [7] In the case of businesses, to provide realistic market evaluation to potential purchasers of any partial network sales/leases. For consumers, a large reduction in the return on capital costs of networks has the potential to lower the retail cost of electricity markedly.

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 7.24 % to still be too high, given current financial conditions and the relatively risk free nature of the investment process involving Government owned transmission businesses such as Transgrid.

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. [8] [9] AER guidelines suggest that the ROR should be established on the basis of a BBB+ risk profile. [10] It does not appear from either Transgrid's initial or revised proposal that this has been the process used. [11]
The ECC supports the Consumer Challenge panel's recommendation that the ROR should be considerably lower. [12]

Consumer Engagement and Consultation

Transgrid has undertaken a much wider engagement with stakeholders as part of their consumer engagement strategy during 2014. AER noted and was positive about this increase, although it pointed to some discrepancies between Transgrid's reporting of the engagement and outcomes and subsequent submissions on Transgrid's Revenue Proposal. [13] While Transgrid's major customers are not residential and small business consumers, the ECC feels that it is important to maintain authentic communication between the transmission businesses and the end users of the energy transmitted. We have valued the opportunity to provide feedback on CALD communities' needs and views and would strongly support the continuation of genuine consultation with consumers groups and advocates.

Demand Management initiatives

Transgrid has indicated that proposed cuts to its revenue may come at the cost of cutbacks in innovation to expand demand management initiatives, replacement projects and consumer engagement. [14] Transgrid initially proposed that the Demand Management Innovation Allowance (DMIA) be increased from $1 million/year to a total of $18 million for the period 2014-2019. This increase was based on three areas; collaboration, market understanding and

7 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

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

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

10 AER Rate of Return Guidelines December 2013

11 Transgrid Revised Proposal op cit page 116

12 AER Consumer Challenge Panel, *CCP SubPanel 6 submission on the Transgrid Revenue Proposal*, August 2014, page 5

13 AER op cit page 57

14 Transgrid Revised Proposal op cit page

development and technology trialling. This approach was rejected by the AER on the basis that the increase in funding was not presented as a capex/opex trade-off.
The AER Consumer Challenge Panel, in its report to the AER onTransgrid's proposed DMIA increase in the initial proposal [15] indicated several problem areas related to Transgrid's expenditure of the $1 million/year DMIA in the 2009-2014 period. The most telling criticism was that Transgrid '[did] not appear to have implemented any actual demand reduction solutions…..[rather] expended the allowance on various research and investigation projects, none of which were particularly innovative'. [16]

We believe that innovative demand management initiatives have the potential to significantly lower peak demand and hence prices for consumers. Demand management initiatives need to be seriously considered in relation to capex alternatives, as well as in relation to augex or repex. This would necessitate demand management initiatives to be spelled out in revenue proposals in a great deal more detail than to date and form part of the revenue proposal from its outset.

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
Ethnic Communities' Council of NSW Inc.

15 AER Consumer Challenge Panel , *CCP SubPanel 6 advice on Transgrid's Proposed DMIA* September 2014

16 ibid page 2