

Responses to questions on notice from 17 November 2017 for the Select Committee on Electricity Supply, Demand and Prices in New South Wales

Question 1 (Transcript pages 33-34)

The Hon. ADAM SEARLE: *It is hardly worth the bother for them then, is it? In relation to Ausgrid and Endeavour, although I do not have a counterpart document, given the behaviour of Essential in this approach of, shall we say, an evolving view about what they need to run their business, are you going to inquire with Ausgrid and Endeavour about whether they have also had a similar evolution in their approach?*

Mr ANDERSON: *We have had your letter now only a few days and we are still working through it. I would be happy to take that question on notice, if you would like.*

The Hon. ADAM SEARLE: *I would like you to do that.*

Yes, a key issue which we will be testing through public consultation with consumer and industry stakeholders, including Ausgrid and Endeavour Energy, is whether the level of expenditure set out in our original determinations for 2014-19 is a reasonable estimate of what is now required by Ausgrid and Endeavour Energy to operate a safe and reliable network.

On 19 October 2017, the AER commenced a public consultation on the remaking of our 2014-19 operational expenditure decisions for Ausgrid, Endeavour Energy and ActewAGL.

In the operational expenditure issues paper (pp.1-2), we noted that the level of operational expenditure that Ausgrid and Endeavour Energy have incurred to date for the 2014-19 period are converging toward the forecasts we set in our original determinations. Given this factor, we sought stakeholders' views on whether we can rely on our original determination operational expenditure forecasts for 2018-19 in remaking our decisions.

The stakeholder submission period closed on 30 November 2017. We will consider these submissions in remaking our decisions.

A link to the operational expenditure issues paper and stakeholder submissions page is provided below:

<https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausgrid-determination-2014-19-remittal>

Question 2

The Hon. ADAM SEARLE: *In your original determination of Essential Energy you determined households savings of approximately \$313 annually and small businesses savings of approximately \$528. Are they the cost savings that you now envisage in your remade determination for Essential Energy customers?*

Mr ANDERSON: *Because of the undertaking that we accepted from Essential Energy when it adopted our original decision, my expectation would be that those cost savings have already passed through to customers.*

The Hon. ADAM SEARLE: *They are not on customers' bills—someone has trousered the money again. I am happy for you to take this question on notice, but can you tell us when Essential Energy told you it was going to accept the terms of the original determination?*

Mr ANDERSON: *I will have to take that on notice.*

The Hon. ADAM SEARLE: *As of May 2017 it had not done so, so I would like to know what day or month it did approach you.*

Mr ANDERSON: *Sure.*

The Hon. ADAM SEARLE: *Are you confident that those savings should have already been passed through to Essential Energy customers, in terms of network price reductions?*

Mr ANDERSON: *We set a revenue target and then Essential Energy sets its tariffs in order to target that level of revenue. My understanding is when tariffs are set there can be differences depending on movements in demand from time to time. My understanding is that Essential Energy may have slightly over recovered against our original determination.*

The Hon. ADAM SEARLE: *Rather than you guessing, can you take that on notice and then come back to us?*

Essential Energy informed the AER in September 2017 that it was considering accepting the terms of the AER's original determination for the 2014-19 regulatory period. Staff level discussions progressed during the month between the two organisations. We encouraged Essential Energy to consult on any proposed approach to the remake of the 2014-19 determination with consumer groups, which we understand has taken place.

This process culminated in Essential Energy submitting its remittal proposal for 2014-19 to the AER on 30 November 2017.

The proposal has received broad support from consumer groups, including Energy Consumers Australia (ECA) and the Public Interest Advocacy Centre (PIAC). A link to the proposal on the AER's website is available here:

https://www.aer.gov.au/system/files/20171130_%20CEO%20to%20Paula%20Conboy_AER%20Chair_2014-19%20Remittal%20final%20draft%2BAtt.1%20%28002%29.pdf

In the 2014-19 original determination, the AER estimated that average annual electricity bills for Essential Energy's residential and small business customers would reduce by \$313 and \$528, respectively, in 2015-16 and remain relatively stable over the balance of the 2014-19 regulatory control period. These estimates are based on NSW 2013-14 regulated charges for typical residential and small business customers consuming 6500kWh and 10000 kWh per annum, respectively.

A link to the AER's final decision overview document for Essential Energy's distribution determination is provided below (see pp.9-10: Table 1 – AER's estimated impact of the final decision on the average residential and small business customers' electricity bills in Essential Energy's network for the 2014 19 period (nominal)):

<https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/essential-energy-determination-2014-19>

As our 2014-19 determinations were the subject of legal challenge by the NSW-ACT distributors, the AER entered into enforceable undertakings with the distributors on network tariffs to address the uncertainty regarding the effect of the Australian Competition Tribunal's February 2016 decision on pricing and non-price matters.

The undertaking for Essential Energy was initially based on the AER's 2014-19 original determination. Essential Energy's network tariffs were adjusted in line with this determination in 2016-17 as part of the undertaking. This process has resulted in a large reduction in

network tariffs for Essential Energy's customers in 2015-16, with moderate increases in the following years.

The effect of the undertakings and differences between forecast and actual demand in forecasting tariffs is that Essential Energy has over-recovered compared to our original determination, so far this regulatory period. Our best estimate of the current over-recovery is \$98 million, which equates to approximately 1.9 per cent of its total revenues under our 2014-19 original determination.

In April 2017, we set out information on our website for stakeholders regarding the setting of network tariffs for Essential Energy from 1 July 2017 to 30 June 2019:

<https://www.aer.gov.au/communication/network-tariffs-in-the-act-and-nsw-from-1-july-2017>

Question 3

Ms HARTCHER-O'BRIEN: *One thing the AER has done—and last year and this year we have worked with retailers on it—is put forward a best practice guideline to retailers as to how they engage with customers in hardship. It focused on, as you say, not humbling customers having to apply for hardship. However, we recognise that access to hardship programs can be difficult. Sometimes customers are not necessarily being picked up. I can say that we issued a media release this morning that when retailers fail to properly protect customers who should be on hardship, we take action against them. We issued two infringement notices and they were paid this morning.*

The CHAIR: *Can you indicate to the Committee how many of those infringements you have allocated in the past 12 months compared to the past three years?*

Ms HARTCHER-O'BRIEN: *Relating to hardship, I will have to take that on notice.*

The CHAIR: *Yes, take it on notice. It will be interesting to see what you put forward now compared to three years ago.*

In the past 12 months, we issued one infringement notice for an alleged breach of hardship requirements (paid by Origin Energy, for allegedly failing to offer hardship assistance to a vulnerable customer). Another infringement notice was paid by Origin Energy in relation to its alleged wrongful disconnection of that customer.

In 2015, AGL South Australia Pty Limited and AGL Sales Pty Limited paid penalties of \$20 000 (one infringement notice) each, in relation to incidents in which nine hardship customers or customers on payment plans were disconnected from their electricity supply.