

## CONSUMER ADVISORY PANEL

### MEETING # 6

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- Date:** Monday, 31 October 2016
- Time:** 1:30pm to 4:30pm
- Venue:** Crowne Plaza, Hindmarsh Square
- Purpose:**
- Inform the Panel of the outcomes of the early engagement process
  - Update the Panel on recent developments
- Attendees:** Refer Attachment 1
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### MEETING NOTES

#### 1. Introduction

Rainer Korte, Executive Manager Asset Management, welcomed members and guests and provided an outline of the agenda. Consumer Advisory Panel member David Headberry, ECCSA, joined the meeting by phone.

Ann Shaw Rungie then introduced and welcomed the guests attending the meeting:

- Bev Hughson – representing the Consumer Challenge Panel Subgroup of the AER assigned to ElectraNet’s Revenue Determination;
- Mark Wilson – Technical Adviser, representing the Australian Energy Regulator.

Bev explained her role as an observer at the meeting, and provided an overview of the role of the AER’s Consumer Challenge Panel in providing independent advice to the AER to promote the long term interests of consumers in revenue determination processes, and to review the quality and effectiveness of the engagement processes undertaken by network businesses.

The Panel accepted the meeting notes of the previous meeting (CAP meeting #5) held on 24 May 2016 as a true and accurate record.

#### 2. Consumer engagement update

Simon Appleby, Senior Manager Regulation and Land Management, provided an overview of developments in the consumer engagement program since the previous Panel meeting in May 2016.

This update noted the progress against the consumer engagement plan, which is now nearing the end of the ‘interpret and respond’ phase, and the formation of the Working

Group. It was also noted that customer and stakeholder engagement with the business would continue as an on-going process.

The Panel was reminded of the purpose of the early engagement process to deliver better outcomes through an improved engagement model and a less adversarial approach to regulatory decision making, which has been formally endorsed by the AER. Some of the key outcomes and benefits expected to be achieved through this are:

- Improved shared understanding of network challenges and customer concerns
- More targeted expenditure plans that better reflect customer preferences
- Greater trust and confidence in regulatory outcomes
- Increased certainty in regulatory outcomes, with 'no surprises'
- Reduced resources engaged in the current regulatory process

A high level overview of key information released and meetings held since the last Panel meeting is contained in Attachments 2 and 3 to these meeting notes.

### **3. AER - update on early engagement process**

Mark Wilson introduced himself as one of the technical advisors with the AER. His role is to translate and provide advice on technical information in Revenue Proposals for his colleagues and the AER Board. He gave a brief overview of the meetings that he and other AER representatives have been involved in as part of ElectraNet's early engagement process in recent weeks which included 3 technical workshops hosted by ElectraNet and attended by CAP Working Group members.

Mark reiterated that the early engagement process is not intended in any way to pre-empt or replace the formal revenue determination process under the Rules. Rather, it is intended to inform and support ElectraNet's formal submission process by helping the AER and other stakeholders to better understand ElectraNet's plans and approaches, ensure that the Revenue Proposal will contain the right information required to enable proper assessment, and to allow a more effective and targeted formal review process.

Mark noted that particular areas of focus in the workshops were the risk assessment approach being applied by ElectraNet, the replacement capital expenditure program and IT projects. Mark noted that there are 4 members of the Technical Advisory Group within the AER. External consultants are also used to support the AER during the formal review process, on a targeted basis when required for specific issues.

In discussion, the following issues were noted:

- Use of consultants - the AER noted it has a panel of consultants it draws from as required to address issues that might need further investigation or analysis. Whether consultants are required to assist in reviewing ElectraNet's Proposals will be determined closer to the time. ElectraNet noted it relies on internal skills and resources wherever possible and draws on consulting expertise when expert advice is required. Specific areas of advice include matters such as development of an economic assessment framework, development of risk assessment methods, and advice on forecast insurance costs.

- Operation of incentives - the AER operates an incentive based regime based on efficient expenditure allowances, with efficiency sharing schemes designed to drive improved expenditure outcomes, balanced by the Service Target Performance Incentive Scheme (STPIS) which is designed to drive improved service performance.
- Use of benchmarking - the AER compares performance across businesses using a range of benchmark data. The AER uses this information more intensively where network businesses are not adequately responding to incentives to improve efficiency over time. Comparisons across distribution businesses are generally easier to make given the similarity across these networks, compared with transmission networks.

#### **4. CAP Working Group - update on early engagement process**

At this point, ElectraNet representatives left the meeting to allow the CAP Working Group Members to brief the Panel and the representatives from the Consumer Challenge Panel and AER on the outcomes of the Working Group process.

At the conclusion of this closed session, ElectraNet representatives rejoined the meeting and the following summary was provided by Mark Henley on behalf of the CAP Working Group:

- The Working Group had attended five meetings, three of which were attended by the AER. They complimented ElectraNet on the high degree of openness and amount of time and effort put into the early engagement process and material provided for review.
- The Working Group noted in particular that no step increases in operating expenditure are being proposed which was welcomed, it was broadly comfortable with ElectraNet's IT proposals, and it was appreciative of the manner in which ElectraNet had engaged during the process.
- A number of questions remain in relation to various aspects of the Preliminary Revenue Proposal:
  - Why the Regulated Asset Base (RAB) is still going up when demand is falling
  - The impact of inflation and indexation of the RAB
  - The reasons why the capital program was underspent in the last period
  - What are consumers getting out of the forecast operating expenditure program, what is the basis of the labour cost escalators, will any activities suffer through expenditure reductions (e.g. environmental reporting)
  - The interplay between the Preliminary Revenue Proposal and the two contingent projects (relating to the Eyre Peninsula and potential for new interconnection)
- The Working Group thanked ElectraNet for being open and transparent throughout the engagement process.

## 5. Status of Revenue Proposal and recent developments

Rainer Korte, Executive Manager Asset Management, provided an update on progress of the formal Revenue Proposal and other recent developments. Key points included the following:

- ElectraNet has approached the AER to explore possible options for a short extension in the submission date of the formal Revenue Proposal due to the extenuating circumstances the business finds itself in given the extreme weather events of 28 September 2016, which has created internal resourcing challenges and a need to work through any implications for the formal Revenue Proposal. It was also noted that should any new issues emerge impacting on the Revenue Proposal, ElectraNet would engage further with stakeholders.
- In response, Panel members raised no immediate objections to the prospect of a short delay in lodgement of the Revenue Proposal, and it was noted that these are legitimate circumstances warranting a deferral, and that this approach would be preferred to a rushed Proposal subject to later adjustment;
- The exact cause of the blackout event of 28 September 2016 remains the subject of a number of internal and external investigations at this time, and more information will become available once these investigations conclude.
- ElectraNet undertook to update the Consumer Advisory Panel on the outcome of the AER's decision on the timeframe extension request.
- The Regulatory Investment Test for Transmission (RIT-T) is being applied to examine the feasibility of greater interconnection between South Australia and the Eastern States, known as the South Australian Energy Transformation project. This will include consideration of all credible network and non-network options that are able to meet the identified need, based on a range of future scenarios.
- Consultation is due to commence shortly with the release of an initial Project Specification Consultation Report. The report is about framing the problem and identifying the need and identifying feasible options that may meet the identified need. No investment would proceed unless it can be shown to be of benefit to customers. A public forum is expected to be held in early December, with submissions due in February 2017.
- Should an interconnector ultimately prove to be economic, there would be a sharing of the costs across the applicable regions.
- While a new interconnector would be expected to support improved trading between regions, it could not provide a perfect or 'firm' hedge, or remove all risk of price separation between regions as physical limitations will remain.
- It was also noted that recent events reinforce the importance of reliability of supply to the Eyre Peninsula, and that work is ongoing to continue to investigate the feasibility of an upgrade to the network supplying the region.

## **6. Next steps**

The Panel agreed to cancel the next meeting scheduled for 22 November 2016 and to reconvene at the next scheduled meeting date on 17 January 2017.

## ATTACHMENT 1 – Attendees

<b>Member</b>	<b>Organisation</b>
David Headberry*	Public Officer, Energy Consumers Coalition of SA (ECCSA)
Mark Henley	Manager Advocacy and Communication, Uniting Communities
Tim Kelly	Conservation Council of South Australia
<i>Vacant</i>	Chief Executive, South Australian Chamber of Mines
Andrew McKenna	Senior Policy Advisor, Business SA
Taryn Sexton	Chief Executive Officer, Local Government Professionals Australia
Jo De Silva**	Senior Policy Officer, SACOSS
Vivienne Smith	COTA SA
Graham Pratt**	Consumers Association of South Australia
<b>Independent Facilitator</b>	
Ann Shaw Rungie	Independent Facilitator, Ann Shaw Rungie Consulting
<b>Australian Energy Regulator</b>	
Mark Wilson	Technical Advisor
<b>Consumer Challenge Panel</b>	
Bev Hughson	Consumer Challenge Panel
<b>Company Representatives</b>	<b>ElectraNet</b>
Rainer Korte	Executive Manager, Asset Management
Simon Appleby	Senior Manager, Regulation and Land Management
Suzanne Paterson	Advisor to the Chief Executive
Evan Krizman	Customer Engagement Officer

\*Attended by phone | \*\* Part attendance

### Apologies:

Sandy Canale - Energy and Water Ombudsman, Energy and Water Ombudsman SA

Peter Dobney - Director, Energy Users Association of Australia

Hon Robert Kerin Executive Chairman, Primary Producers SA

## ATTACHMENT 2 – Key publications released since May 2016

Publication	Author	Purpose	Release Date	Link to resource
Transmission Annual Planning Report 2016	ElectraNet	The Transmission Annual Planning Report provides information to market participants and other interested parties on the current capacity and emerging limitations of the South Australian transmission network over a ten-year planning period. An overview of the report was also released.	30 June 2016	<a href="https://www.electranet.com.au/wp-content/uploads/report/2016/06/20160630-Report-SouthAustralianTransmissionAnnualPlanningReport.pdf">https://www.electranet.com.au/wp-content/uploads/report/2016/06/20160630-Report-SouthAustralianTransmissionAnnualPlanningReport.pdf</a>
Expenditure Forecasting Methodology	ElectraNet	This report describes the methods and processes by which ElectraNet will develop the forecasts for its operating and capital expenditure programs for the coming regulatory period, in accordance with clause 6A.10.1B of the National Electricity Rules.	30 June 2016	<a href="https://www.electranet.com.au/wp-content/uploads/report/2016/09/20160630-Report-ElectraNetExpenditureForecastMethodology.pdf">https://www.electranet.com.au/wp-content/uploads/report/2016/09/20160630-Report-ElectraNetExpenditureForecastMethodology.pdf</a>
Final Framework & Approach Paper	AER	This framework and approach document is the first step in the process to determine the revenue that ElectraNet can recover from customers over the five year period from 2018 to 2023. It highlights the broad nature of certain regulatory arrangements that will apply for the next regulatory control period.	28 July 2016	<a href="https://www.aer.gov.au/system/files/AER%20-%20ElectraNet%20final%20framework%20-%20%26%20approach%202018-23%20-%20July%202016.pdf">https://www.aer.gov.au/system/files/AER%20-%20ElectraNet%20final%20framework%20-%20%26%20approach%202018-23%20-%20July%202016.pdf</a>
Preliminary Revenue Proposal	ElectraNet	The purpose of the PRP is to promote effective early engagement with our customers and other stakeholders and facilitate feedback that we can take into account in our formal revenue proposal, which will be submitted to the Australian Energy Regulator in early 2017. Three information sheets were also released providing summary details.	6 September 2016	<a href="https://www.electranet.com.au/wp-content/uploads/resource/2016/09/20160906-Report-PreliminaryRevenueProposal.pdf">https://www.electranet.com.au/wp-content/uploads/resource/2016/09/20160906-Report-PreliminaryRevenueProposal.pdf</a>
Customer Insights Report	ElectraNet	Information collected during ElectraNet's customer engagement program has been distilled into a set of insights. This report summarises the key outcomes.	6 September 2016	<a href="https://www.electranet.com.au/wp-content/uploads/report/2016/09/20160905-Report-ElectraNetCustomerInsightsReportDeloitte.pdf">https://www.electranet.com.au/wp-content/uploads/report/2016/09/20160905-Report-ElectraNetCustomerInsightsReportDeloitte.pdf</a>

Publication	Author	Purpose	Release Date	Link to resource
Network Vision	ElectraNet	This document overviews the change drivers impacting on the transmission network, what the future might look like over the next 10-20 years, and the key directions and priorities for the planning and operation of the transmission network.	6 September 2016	<a href="https://www.electranet.com.au/wp-content/uploads/resource/2016/06/20150312-Report-NetworkVisionDiscussionPaper.pdf">https://www.electranet.com.au/wp-content/uploads/resource/2016/06/20150312-Report-NetworkVisionDiscussionPaper.pdf</a>
Independent Planning Review of ElectraNet's Preliminary Capital Expenditure Projects	AEMO	This document reviews ElectraNet's preliminary capital expenditure project proposals for the regulatory period 2018-19 to 2022-23, focusing on major network development projects.	9 September 2016	<a href="https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/-/media/9ECC1741448E4725B7664850D778C79E.ashx">https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/-/media/9ECC1741448E4725B7664850D778C79E.ashx</a>
Electricity Transmission Code Review Final Decision	ESCOSA	This decision represents the final outcome of the review of the connection point reliability standards for the South Australian transmission network under the Electricity Transmission Code. The review found the standards remain appropriate and that no increases in standards were required.	22 September 2016	<a href="http://www.escosa.sa.gov.au/ArticleDocuments/1020/20160922-Electricity-TransmissionCodeReview-FinalDecision.pdf.aspx?Embed=Y">http://www.escosa.sa.gov.au/ArticleDocuments/1020/20160922-Electricity-TransmissionCodeReview-FinalDecision.pdf.aspx?Embed=Y</a>



### ATTACHMENT 3 – Key meetings held since the last CAP meeting in May 2016

Meeting	Purpose	Date	Attendees
CAP Working Group Meeting #1	<ul style="list-style-type: none"> <li>Provide an overview of the Preliminary Revenue Proposal</li> <li>Identify areas of interest for further review</li> <li>Agree next steps and forward meeting schedule</li> </ul>	25 July 2016	<ul style="list-style-type: none"> <li>ElectraNet</li> <li>Independent Facilitator</li> <li>Consumer Advisory Panel Working Group representatives</li> </ul>
CAP Working Group Meeting #2	<ul style="list-style-type: none"> <li>Develop an understanding of the Preliminary Revenue Proposal</li> <li>Work through the indicative depreciation forecast</li> <li>Explore the implications of greater interconnection</li> <li>Review the profile of the Regulated Asset Base</li> </ul>	12 August 2016	<ul style="list-style-type: none"> <li>ElectraNet</li> <li>Independent Facilitator</li> <li>Consumer Advisory Panel Working Group representatives</li> </ul>
AER Technical Workshop #1	<ul style="list-style-type: none"> <li>Provide an overview of the key insights from ElectraNet's customer engagement program to date</li> <li>Outline ElectraNet's Network Vision for South Australia's electricity transmission network</li> <li>Provide an overview of the Preliminary Revenue Proposal and indicative forecasts</li> </ul>	7 September 2016	<ul style="list-style-type: none"> <li>ElectraNet</li> <li>Independent Facilitator</li> <li>Australian Energy Regulator technical advisors</li> <li>Consumer Advisory Panel Working Group representatives</li> </ul>
AER Technical Workshop #2	<ul style="list-style-type: none"> <li>Provide an overview of ElectraNet's approach to developing the capital expenditure forecast</li> <li>Provide a more detailed breakdown of the capital expenditure program</li> <li>Review the application of economic and risk assessment frameworks by ElectraNet and how these have been applied to number of case studies related to range of network and unit asset replacement and line refurbishment projects</li> </ul>	22 September 2016	<ul style="list-style-type: none"> <li>ElectraNet</li> <li>Independent Facilitator</li> <li>Australian Energy Regulator technical advisors</li> <li>Consumer Advisory Panel Working Group representatives</li> </ul>
AER Technical Workshop #3	<ul style="list-style-type: none"> <li>Review the application of economic and risk assessment frameworks by ElectraNet and how these have been applied to number of case studies related to a number of operational and business IT projects</li> </ul>	12 October 2016	<ul style="list-style-type: none"> <li>ElectraNet</li> <li>Independent Facilitator</li> <li>Australian Energy Regulator technical advisors</li> <li>Consumer Advisory Panel Working Group representatives</li> </ul>