

Chapter 1

Introduction

1.1 On 2 October 2014, the Senate referred an inquiry into the performance and management of electricity network companies to the Environment and Communications References Committee for report by the first sitting day in March 2015. The terms of reference for the inquiry are as follows:

- (a) the manner in which electricity network companies have presented information to the Australian Energy Regulator (AER), and whether they have misled the AER in relation to:
 - (i) their weighted average costs of capital,
 - (ii) the necessity for the infrastructure proposed,
 - (iii) their regulated asset valuations, and
 - (iv) actual interests rates claimed against actual borrowing costs;
- (b) how electricity companies, including state government owned electricity companies such as Energex, have calculated the weighted average cost of capital and how this measure has changed over time;
- (c) where anomalies are identified in relation to price structuring or allegations of price rorting by electricity companies, such as Energex, are raised, the possibility of these matters being investigated by a national independent body created by the Federal Government with the required powers and reach to investigate and prosecute, where necessary;
- (d) to ascertain whether state-owned network companies have prioritised their focus on future privatisation proceeds above the interests of energy users;
- (e) whether the arrangements for the regulation of the cost of capital are delivering allowed rates of return above the actual cost of capital;
- (f) whether the AER has actively pursued lowest-cost outcomes for energy consumers;
- (g) whether network monopolies should have the right to recover historic overspending that has delivered unwanted and unused infrastructure;
- (h) how the regulatory structure and system could be improved;
- (i) whether the arrangements for the connection and pricing of network services is discriminating against households and businesses that are involved in their own electricity production;
- (j) whether the current system provides adequate oversight of electricity network companies; and

(k) any other related matter.¹

1.2 On 2 March 2015, the Senate granted an extension of time to report until 20 April 2015.²

Conduct of the inquiry

1.3 The committee advertised the inquiry on its website and in *The Australian* newspaper. The committee also wrote to relevant organisations and individuals inviting written submissions.

1.4 The committee received 69 submissions, which are listed at Appendix 1. Included in the submissions are 552 letters co-ordinated by a community organisation that the committee agreed to receive as a submission.³ The non-confidential submissions were published on the committee's website.

1.5 The committee held public hearings for this inquiry in Brisbane on 16 February 2015, Sydney on 17 February 2015, Melbourne on 18 February 2015, Adelaide on 19 February 2015 and Canberra on 24 March 2015. A list of witnesses who appeared at the hearings may be found at Appendix 2.

1.6 The committee thanks all of the organisations, individuals and government departments and agencies that have contributed to the inquiry.

Reports

1.7 The committee has finalised its deliberations on many of the key issues canvassed during this inquiry. However, the committee is still considering particular instances where the conduct of network service providers has been questioned. The evidence that the committee has not concluded its examination of include:

- allegations from a whistleblower that a government-owned network business, Energex, manipulated data about its costs; and
- allegations from other stakeholders who allege the regulator is being misled about the necessity of particular infrastructure proposals.

1.8 Energex has been invited to respond to certain specific allegations. The committee wishes to ensure that Energex has a reasonable opportunity to consider and respond to this evidence. The committee also requires time to consider any further evidence that Energex may provide. Accordingly, the committee has determined it is unable to report on this evidence by the 20 April 2015 reporting date.

1 *Journals of the Senate*, 2013–15, no. 59 (2 October 2014), pp. 1586–87.

2 *Journals of the Senate*, 2013–15, no. 79 (2 March 2015), p. 2203.

3 These letters were published as *Submission 65* and as a supplementary submission (*Submission 65.1*).

1.9 Although the committee requires additional time to consider certain unresolved matters, the committee considers it is unnecessary to delay the publication of its other findings. Accordingly, the committee has prepared this interim report. The committee intends to present its final report by 5 May 2015.

Structure of the report

1.10 This interim report comprises eight chapters. The remaining chapters of the report are outlined below:

- Chapter 2 outlines various matters that help place this inquiry in context. In particular, the chapter notes that this inquiry followed sustained concerns from consumers and industry about high electricity prices and overinvestment by network businesses. The chapter also notes the expectation that the use of non-conventional forms of electricity generation will increase, potentially altering the roles performed by electricity networks.
- Chapter 3 provides an overview of the regulatory framework applied to electricity networks and how the revenue of a network business is determined.
- Chapter 4 considers certain inputs to the revenue determination calculation and the impact that these individual components have on final electricity prices.
- Chapter 5 discusses particular issues that may arise when regulating government-owned network businesses.
- Chapter 6 considers information asymmetries that exist in the regulation process and whether there are incentives for network businesses to 'game' the regulator. This chapter also considers the appeal process available to network businesses and other users following a revenue determination made by the regulator.
- Chapter 7 explores concerns about the process by which the rules that apply to electricity network businesses are made. The rule-making and regulatory bodies involved in the electricity market are also considered.
- Chapter 8 draws together evidence received about the future of electricity networks and the direction of the electricity market. Issues considered include demand-side participation and the response of network businesses, policymakers and the regulator to technological and market changes.

Notes on references

1.11 Hansard references in this report are to the proof version of the committee Hansard. Page numbers may vary between the proof and the official Hansard transcript.

