

Appendix 3

Recommendations made in the first interim report

On 20 April 2015, the committee presented an interim report that included 18 recommendations. These recommendations are reproduced below.

Recommendation 1

4.75 The committee recommends that the Council of Australian Governments (COAG) Energy Council commission an independent expert review of options for excluding future imprudent capital expenditure and surplus network assets from a network service provider's regulatory asset base (RAB). This review should consider the provisions of the Western Australian Electricity Networks Access Code and its decision-making criteria.

4.76 The review should have the freedom to suggest any necessary changes to intergovernmental agreements, the National Electricity Law or the National Electricity Rules.

Recommendation 2

4.77 The committee recommends that, following the outcomes of the current round of network pricing decisions, the COAG Energy Council commission an independent expert review of the efficacy of recent changes to the National Electricity Rules and the benchmarking process in promoting the long-term interests of consumers. This assessment should focus on the appropriateness of current methodologies for calculating the weighted average cost of capital (WACC) and the manner in which the estimated cost of corporate income tax is calculated.

Recommendation 3

4.78 The committee recommends that the National Electricity Rules be amended to provide that the Australian Energy Regulator may set a regulatory control period that is less than five regulatory years.

Recommendation 4

5.44 The committee recommends that state governments seeking to privatise their electricity network assets examine whether those assets are overvalued and if the regulatory asset base should be written down prior to privatisation.

Recommendation 5

6.67 The committee recommends that the National Electricity Rules be amended to cap the costs associated with the preparation of a regulatory proposal that a network service provider may recover from its customers.

Recommendation 6

6.68 The committee recommends that the COAG Energy Council request the Australian Energy Market Commission to review the consumer engagement activities of network service providers. As part of this review, proposals for enhancing the effectiveness of consumer engagement efforts should be invited from consumer advocacy groups. Particular focus should be given to the effectiveness of consumer engagement in ensuring that network planning outcomes respond to the long-term interests of consumers.

Recommendation 7

6.69 The committee recommends that the Australian Energy Market Commission and the Australian Energy Regulator jointly develop and publish consolidated guidance on the regulatory determination process to better inform members of the public, consumer groups and other energy user stakeholders.

Recommendation 8

7.55 The committee recommends that the Australian Energy Market Commission is provided with the ability to initiate a rule change process without being required to receive a rule change request from an external party.

Recommendation 9

7.56 The committee recommends that the Australian Government pursue, through the COAG process, amendments to the National Electricity Law to require that the Australian Energy Market Commission must commence public consultation on a rule change request within a prescribed period of time if the rule change request has been lodged by the COAG Energy Council.

Recommendation 10

7.57 The committee recommends that the Australian Government pursue, through the COAG process, an agreement that any Commonwealth, state and territory energy policy schemes and measures that may have implications for the National Electricity Market or network efficiency must be referred to the Australian Energy Market Commission for formal advice regarding the likely effects on the long-term interests of consumers.

Recommendation 11

7.59 In light of the recommendation made by the Competition Policy Review (Harper Review) regarding a single national access and pricing regulator, the committee recommends that the Australian, state and territory governments consider:

- the potential efficiencies and other advantages of a single national access and pricing regulator; and
- whether such a proposal would be in the long-term interests of consumers of electricity, given the need for a regulator with sufficient expertise to

challenge, when required, well-resourced electricity network service providers.

Recommendation 12

7.63 The committee recommends that the Australian Government commission an external review of the capability of the Australian Energy Regulator (AER). The review should consider:

- the adequacy of the AER's financial resources;
- the effects of the 2014–15 budget cuts; and
- whether the AER has the skills and powers needed to perform its functions effectively.

Recommendation 13

7.64 The committee recommends that the Australian Energy Regulator should facilitate public consultation on the statement of intent it develops in response to the COAG Energy Council's statement of expectations.

Recommendation 14

7.65 The committee recommends that the board of the Australian Energy Regulator should be reformed so that:

- the number of board members is increased from three to five;
- the requirement for a Commonwealth member and two state and territory members is abolished with future appointments based solely on merit;
- all appointments to the board are to be made by the Commonwealth;
- at least one board member is required to have knowledge of, or experience in, consumer affairs in energy matters; and
- at least one board member has expertise in decentralized energy systems and demand management.

Recommendation 15

8.73 The committee recommends that the Australian, state and territory governments increase and prioritise efforts to ensure that networks are prepared to efficiently respond to changes in the energy market, in light of:

- the increased uptake of small-scale solar generation;
- emerging energy storage technologies;
- the anticipation of customers going 'off-grid';
- the anticipation of further disruptive technologies; and
- the certainty of value destruction as a result of current business models.

Recommendation 16

8.74 The committee recommends that, as cost-reflective network pricing is introduced, the COAG Energy Council ensure appropriate steps are taken so network companies' tariff and non-tariff based demand management programs are strengthened to assist consumers to transition to cost-reflective tariffs.

Recommendation 17

8.75 The committee recommends that the Australian Energy Regulator expedite its implementation of the current demand management incentive scheme rule change in all open network revenue determinations.

Recommendation 18

8.76 The committee recommends that the COAG Energy Council remove any barriers to networks implementing cost-reflective network prices to ensure efficient use of demand management and embedded generation is rewarded.