Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Industry and Science Portfolio
Additional Estimates 2014-15
26 February 2015

AGENCY/DEPARTMENT: DEPARTMENT OF INDUSTRY AND SCIENCE

TOPIC: Australian Energy Regulator

REFERENCE: Written Question – Senator Ketter

QUESTION No.: AI-49

1. What changes have enabled the AER to deliver its draft determinations which could see significantly reduced network charges for consumers?
2. When were these changes made?
3. I understand that Energy Consumers Australia has now been formed. Can you please provide an update on this body?
4. What will its initial focus be, how often will it meet and what resources have been provided to it?

ANSWER

1. On 29 November 2012, the Australian Energy Market Commission (AEMC) released its Economic Regulation of Network Service Providers final rule determination. The resultant changes provide greater flexibility under the National Electricity Rules and National Gas Rules for the Australian Energy Regulator (AER) to adapt its regulatory approaches to be more targeted at specific businesses. The following highlights the main areas of reform relating to the rule changes:

    1. *Rate of return* – a new common framework now applies to electricity transmission and distribution network business revenues and in gas network access determinations. This framework requires the AER to take into account market circumstances, estimation methods, financial models and other relevant information. Due to the way energy network businesses are regulated in Australia, where, among other things, they receive a regulated rate of return on their regulated asset base (having regard to depreciation), the rate of return is one of the most significant contributors to recoverable revenues and, consequently, costs for consumers. These changes are, therefore, critical in ensuring consumers are not paying more than necessary for the costs of finance to build and maintain network infrastructure.

    2. *Capital expenditure and operating expenditure* – the new rules allow the AER to compare the relative efficiencies of network businesses' proposed expenditure and decide upon efficient expenditure allowances. This change will provide the AER with more effective tools to determine efficient costs, place incentives on the businesses, where appropriate, to lower these costs, and ensure consumers are not paying for gold plated or inefficient expenditure.

    3. *Capital expenditure incentives* – the AER now has a range of new tools to incentivise networks to invest more efficiently, with the overriding objective of ensuring that only capital expenditure which has been assessed as efficient by the regulator will form part of the regulated asset base. Under the new arrangements, when the network business spends more than its approved allowance, it will only have it rolled into the regulated asset base when the AER determines it reflects an efficient level of investment. This change means that

network businesses will have incentives not to spend more than their approved revenues, unless it is absolutely necessary to do so due to unforeseen circumstances, and consumers will not be faced with paying a rate of return against inefficient and/ or costly assets for their economic life (which can be up to 60 years).

4. *The regulatory process* – the regulatory determination process is now lengthened by five months to expand opportunities for stakeholder involvement, particularly by consumer and community representatives. This will allow for consumers, who are the ultimate beneficiaries of the regulatory process, to more actively engage in the determinations and provide some context about what their 'long term interests' are, as this is an important determinant for the AER's assessment of the network businesses' regulatory proposals.

2. These changes were introduced by the AEMC on 29 November 2012. However, the new rules required the AER to further develop its approach to a range of components contributing to the regulatory determination prior to it being applied in practice. The AER released a series of guidelines over November and December 2013 and the changes are now being to be applied in the upcoming determinations in New South Wales, the Australian Capital Territory, Tasmania, South Australia, Queensland and Victoria.

3. On 13 December 2013, the Council of Australian Governments (COAG) Energy Council agreed to establish a national energy consumer advocacy body. Energy Consumers Australia (ECA) was established as a company limited by guarantee on 30 January 2015. The legislation establishing the funding mechanism for ECA was also made effective on 30 January 2015.

   The Board of Directors was announced by the Hon Ian Macfarlane MP, Minister for Industry and Science and the Hon Tom Koutsantonis MP, South Australian Minister for Mineral Resources and Energy on 30 January 2015. The ECA Board of Directors is:
   - Louise Sylvan – Chair (four year term).
   - Steven Graham – Director (three year term).
   - Catherine Cooper – Director (three year term).
   - Clare Petre – Director (two year term).
   - Gillian Owen – Director (two year term).

4. Initial Focus:
   The ECA Board determines the priorities for ECA (in accordance with the ECA company constitution). The ECA business plan and budget is required to be communicated to the single member of ECA being the Hon Tom Koutsantonis MP, South Australian Minister for Mineral Resources and Energy. The ECA Board held its first meeting on 13 February 2015 and according to the ECA Board Communique it focused on establishing ECA's operations. The Board meeting communiques can be found on the ECA website at: www.energyconsumersaustralia.com.au.

   Meetings
   Under the company constitution the ECA Board must meet at least once a month and hold an annual general meeting with the member or a representative nominated by the member at least once in each calendar year and within six months after the end of its financial year.

   Resources
   ECA's budget will be agreed annually by the COAG Energy Council. The Council has agreed to ECA's initial budgets of:
   - for the period 30 January 2015 to 30 June 2015 - $2,417,448; and
   - for the 2015-16 financial year - $6,198,011.

ECA is funded through industry participant fees that are collected by the Australian Energy Market Operator from National Electricity Market participants and national gas market participants. These costs are passed onto energy consumers and are estimated to equate to about 46c per annum for each consumer.

ECA is able to receive funds from other sources, however those funds would be used to fund any one or more of ECA’s core activities as set out in its constitution. The Western Australian and Northern Territory Governments may elect to make contributions directly to ECA, as above, the funding would be used for any one or more of ECA’s core activities, but for that particular jurisdiction.