Submission to the ACCC Retail Electricity Pricing Inquiry preliminary report

Victorian Electricity Network Businesses

17 November 2017

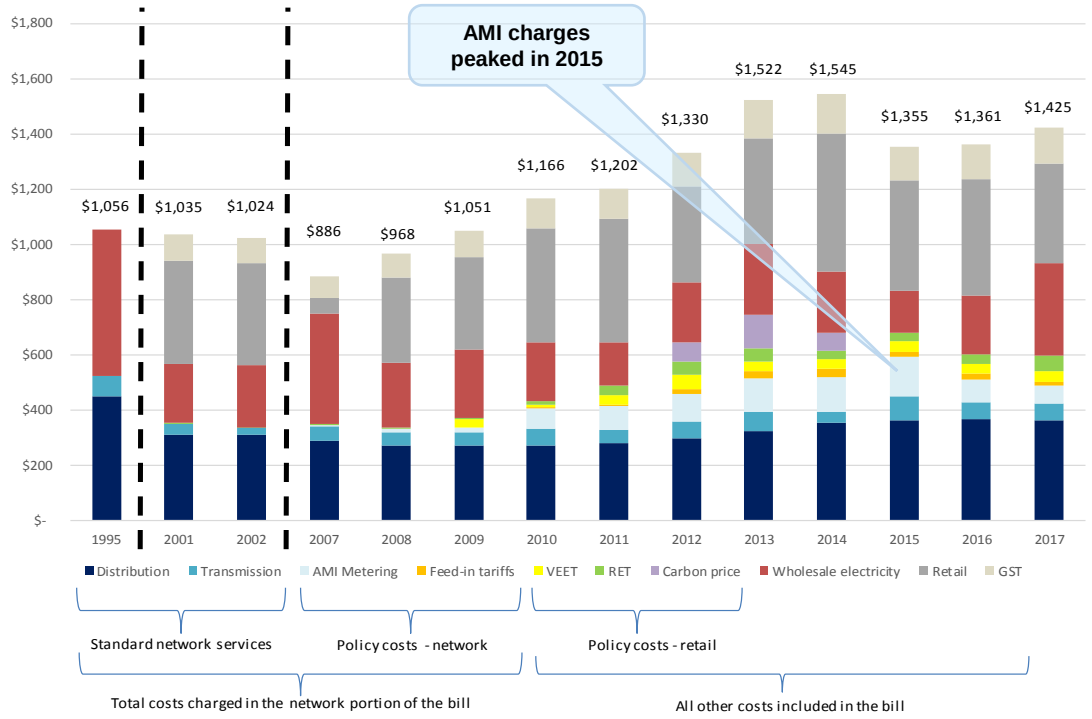
1. Victorian networks are good long-term performers

Our businesses have a long history of providing high quality, reliable and good value services to Victorian electricity consumers over multiple decades.

Victorian electricity users pay the lowest network costs of any state, and pay less for network services today, in real terms, than they did two decades ago. The AEMC reported that in 2016/17 the typical Victorian customer would pay 21 per cent or $135 less than the Australian representative customer.[1]

Oakley Greenwood found that in 2017 average electricity network costs in Victoria were $100 lower in real terms than they were in 1995.[2]

Figure 1: Composition (2016$) of the annual residential electricity bill in Victoria (4,000 kWh; no electric off-peak hot water)



Note: The figures at the top of each bar show the total annual bill for a residential electricity customer in Victoria, without electric off-peak water heating, that uses 4,000 kWh over the course of the year.

As the preliminary report notes, understanding what has driven costs is necessary to understanding what actions could improve future outcomes for electricity customers. Therefore it's important to highlight that each state is different in terms of policy and this has contributed to the network costs for Victorians.

For example, during the past decade referenced by the ACCC in its preliminary report, mandated programs such as the AMI (smart meter) roll-out and solar feed-in tariffs accounted for a large share of new costs. We have calculated this to be $158, or approximately 11 per cent of the average Victorian residential bill in 2015/16.[3] Another significant policy program is the implementation of the Victorian Bushfire Royal Commission (VBRC) recommendations. In transmission, the Easement Land Tax is a cost that is outside of the control of the network business. The tax increased by 42% between 2007/08 and 2015/16, to $111 million, and has since increased further.

[1] AEMC, 2016, *Final Report: 2016 Residential Electricity Price Trends,* 14 December, calculation based on data from p.134 and p.191

[2] Oakley Greenwood, 2017, *Causes of residential electricity bill changes in Victoria, 1995 to 2017*, p.19

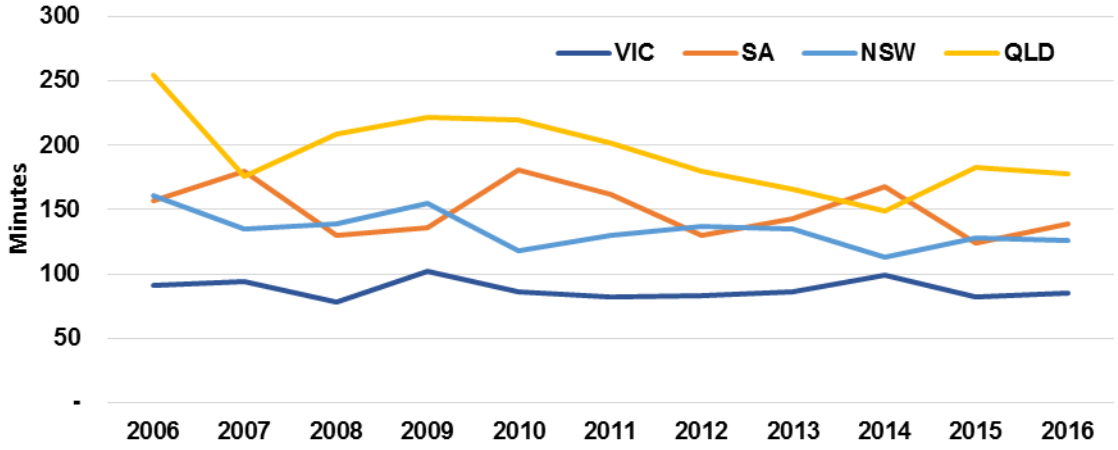
[3] Calculation based on historical revenue and customer numbers as reported by each business in annual tariff models submitted to the AER.

As Figure 1 shows, the cost of the Victorian metering roll-out peaked in 2015, the final year of the ACCC's analysis, exaggerating the ongoing network-related share of the typical electricity bill. These charges have reduced significantly in 2017 and 2018.

The Victorian network businesses would be pleased to verify or assist in reconciling retailer data with our own data regarding network revenues.

Service levels also remain high, and networks continue to meet Victoria's electricity needs. Figure 2 shows that Victorian electricity consumers experience the shortest average duration of outages in Australia and that reliability has been maintained over the period between 2006 and 2016.

Figure 2: System Average Interruption Duration Index (SAIDI)[4]



Victorian electricity distribution networks have the highest capacity utilisation and the second highest productivity level (below South Australia) based on the Australian Economic Regulator's (AER) analysis.

Figure 3: Capacity Utilisation[5]

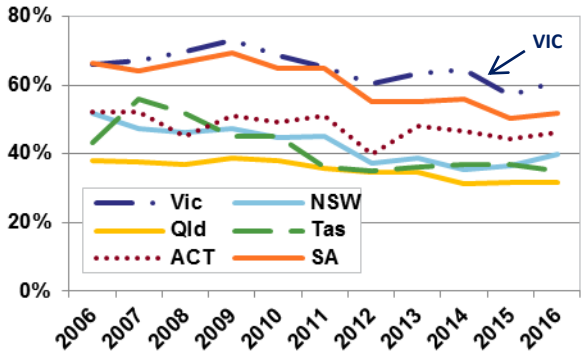
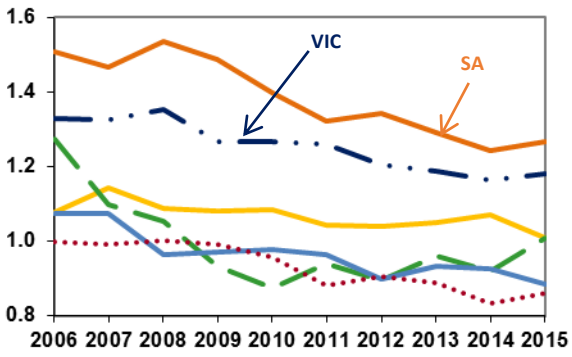


Figure 4: AER Productivity Index[6]



In the ten years to 2016, hundreds of thousands of new customers were connected to the Victorian electricity network. And, network services have become more complex. Maximum demand on the network has grown, while total energy consumption has remained relatively steady leading to both lower energy use per customer, and peakier consumption patterns. Customers have also embraced solar PV, which is leading to multi-directional energy flows on a system originally designed for a one-way transfer of energy from large generators to the customer.

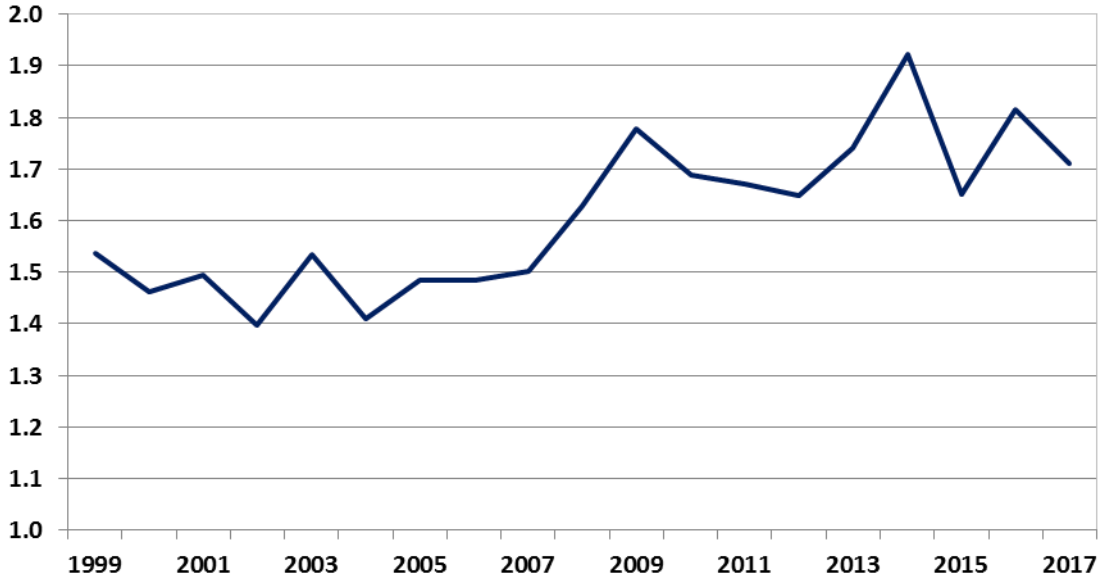
[4] AER, 2017 and prior years, Economic Benchmarking Regulatory Information Notice (RIN) data.

[5] AER, 2017 and prior years, Economic Benchmarking Regulatory Information Notice (RIN) data.

[6] AER, 2016, Economic Insights DNSP Economic Benchmarking Files, shows Multilateral Total Factor Productivity Index, by State

Figure 5 illustrates this increasing peakiness of demand in Victoria. As this ratio has increased, so has the challenge to provide network services efficiently because the maximum stress on networks is increasing relative to typical use.

Figure 5: Ratio of peak demand to average demand in the Victoria



As the energy sector changes, networks have a strong plan for efficiently meeting the future needs of Victorian electricity users.

In 2018, network prices will again fall, despite the increasingly complex demands on network services.

AER-approved prices for 2018 provide estimated cuts to electricity distribution charges for average residential customers ranging from $10 to $69.[7]

This follows a drop in 2017 Victorian electricity distribution bills of between $2 and $52.[8]

2. A positive agenda for future of networks

There is a period of widespread change underway in the electricity sector, and electricity networks have a key role to play in enabling customers to get the most out of their energy services.

The large uptake of solar PV across Australia, combined with an increasing interest in batteries, electric vehicles and other energy-focused technology, is impacting how we plan, design and operate the network for all users.

For example, there are about 320,000 solar PV installations across Victoria, equating to more than 14 per cent of homes.[9]

Victorian networks are already responding to this changing external environment to remain relevant to our customers and this includes finding ways to increase the productivity of our assets and drive down prices.

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[7] https://www.aer.gov.au/news-release/aer-approves-2018-network-tariffs-for-victorian-electricity-customers, accessed 13 November 2017

[8] https://www.aer.gov.au/news-release/aer-approves-network-tariffs-for-victorian-electricity-customers-in-2017, accessed 13 November 2017

[9] Australian PV Institute (APVI) Solar Map, funded by the Australian Renewable Energy Agency, accessed from: http://pv-map.apvi.org.au, on 14 November 2017

That is why we have contributed to developing a national roadmap for delivering the best outcomes for customers. The CSIRO and Energy Networks Australia's Electricity Networks Transformation Roadmap (ENTR) identifies the steps required to meet the changing needs of the electricity sector and maximise the benefits to customers from future energy market developments.

The Victorian distribution businesses have embraced the roadmap as it will play a significant role in driving down prices as customers adopt new energy technology.

We also believe there are significant benefits for customers to be achieved if we can find a way to implement fairer pricing.

To successfully achieve this, a collaborative approach among stakeholders will be needed, and our businesses have already begun a consultation process to explore future pricing approaches with customers, their advocates, retailers, energy service providers, government and other stakeholders.

Networks are also playing a significant role in driving innovation within the sector.

For example, networks are developing and trialling innovative solutions to connect customer distributed energy resources, such as solar and batteries, and manage complex energy flows with minimal investment in new assets.

As owners and operators of infrastructure that provides an essential service to Victorians, we are focused on delivering efficient services.

We note that the preliminary report has identified the concept of writing down asset values in cases where over-investment or asset stranding has occurred as an area for further exploration in the ACCC Inquiry. The Victorian network businesses strongly believe that there is not a credible case for asset write downs in Victoria. Victorian networks have shown good long-term performance. The Victorian approach to network planning, which uses a probability-based assessment to determine whether asset upgrades are needed, has kept expenditure at efficient levels.[10] New spending has instead been made to deliver government policy objectives:

- to deliver smart meters that will enable customers to take greater control of their electricity use and drive down costs;
- to improve bushfire safety; and
- to encourage solar PV installation and reduce emissions.

The work of Energy Networks Australia and others has also highlighted the risks of write downs, including raising the cost of future network services by creating an uncertain and high risk investment environment.[11]

Further to this, the AER has implemented a strong incentive framework to ensure efficient investment and drive down costs for customers.

These include:

- RIT-repex, a regulatory investment test required to be applied for high value asset replacements, which will be used to assess efficiency of future capital expenditure for the long-term interest of customers;
- Strengthened demand management incentive scheme;
- AER powers for ex post capex review (to be available to AER in the coming round of revenue determinations);
- Capital Expenditure Savings Scheme and use of forecast depreciation – which provide incentive to reduce capital expenditure where it is efficient to do so; and
- AER benchmarking and performance reporting (including productivity measures).

[10] Further information on the differences in planning approaches in Australian jurisdictions can be found in, SKM (prepared for AEMC), 2009, *Advice on Development of a National Framework for Electricity Distribution Network Planning and Expansion.*

[11] Energy Networks Association, 2014, *Written Down Value? Assessing proposals for electricity network write-downs,* August

While the ACCC's preliminary report has focused on understanding the past, the outlook for the future and understanding where we stand today is just as critical to identifying how to bring down electricity prices.

The electricity sector is going through incredible change. The answer to delivering the greatest benefits to Australian electricity users must focus on getting the framework right to promote the innovations that will drive down prices and generate value. To this end, the Victorian networks will continue to work to promote fairer pricing and other ENTR initiatives.