

23 June 2017

Ed Chan
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235



Dear Mr Chan,

Draft determination on the NSW DNSPs Revenue Smoothing participant derogation

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales. PIAC welcomes the opportunity to respond to the AEMC's draft determination on the NSW DNSPs Revenue Smoothing participant derogation.

Of primary concern in this derogation is ensuring that consumers are not forced to pay more than they are required to (in both the short and long term) and that bill shock is minimised where possible. As part of the legislation to privatise the NSW network businesses, a price guarantee was created which stipulates that total network charges in 2018-19 will be lower than those in 2013-14.¹ By deferring revenue recovery from the current RCP to the subsequent RCP, there is the potential that network businesses may avoid this condition and result in consumers paying higher prices than necessary. PIAC notes that the AEMC's draft determination does not seem to consider this point.

PIAC supports the draft determination to provide the Australian Energy Regulator (AER) with additional discretion around any revenue smoothing required. Furthermore, PIAC supports the additional transparency of the process by having the AER make this as a separate decision and expects that consumers and other stakeholders will have opportunity to provide input to this.

PIAC supports the draft determination explicitly requiring the AER to make any revenue recovery to be neutral with regards to net present value (NPV). However, as with any calculation of NPV, the choice of discount rate has significant impact on the total dollar values. The weighted average cost of capital (WACC) reflects both the time value of money as well as the opportunity cost of money and will be higher than the inflation value alone. PIAC sees no need for revenue smoothing in this case to also include the opportunity cost of capital. PIAC would expect that the AER would use a value of inflation rather than the WACC.

¹ NSW legislation, Electricity Network Assets (Authorised Transactions) Act 2015 - Section 8 http://www.austlii.edu.au/au/legis/nsw/consol_act/enata2015566/s8.html

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

Craig Memery

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