

4 October 2019

Mr Chris Pattas
General Manager - Distribution
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001



Dear Mr Pattas,

Submission to consultation on review of repex modelling assumptions

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the AER's issues paper for its review of repex modelling assumptions.

Repex model and benchmarking in general

In general, PIAC supports the use of the AER's repex model and benchmarking of network businesses. It helps to objectively assess the repex proposals put forward by network businesses by providing a top-down assessment for sense-checking and highlighting differences between different businesses or within the same business over time. The results of the repex model highlight aspects of a business' revenue proposal requiring further investigation and prompts questions to be asked of network businesses by the AER and other stakeholders to test whether or not elements of a revenue proposal are prudent and efficient.

As the CCP noted in its submission regarding the 2019-24 NSW DNSP revenue determinations:

We have specifically encouraged each business to work with the AER repex team to improve the AER's RIN data and repex model as we believe it is critical for consumers and businesses to have confidence in the model as a cross check, given the likely capex investment that will be needed in the future in new technology platforms.¹

However, the deterministic use of the repex model and benchmarking more broadly becomes less useful and is potentially problematic. This may be particularly evident in assessing repex proposals where the nature of network asset management and replacement strategies are strongly influenced by exogenous factors – for instance, the particular technology of asset used, how it is installed, the geography of the network itself, or particular assets becoming redundant due to external factors.

Therefore, PIAC welcomes this review in highlighting and seeking to continue to improve the way that the repex model is designed and used. We also encourage both the AER and network

¹ CCP, *CCP10 Response to the Ausgrid Revised Regulatory Proposal 2019-24 and AER Draft Determination*, January 2019, 12.

businesses to continue to discuss preliminary repex modelling findings both during the pre-proposal stage and the revenue determination process.

Limiting asset replacement lives

PIAC supports setting defined maximum and minimum expected asset replacement lives to improve the forecasting accuracy of the repex model. Setting reasonable upper and lower bounds is an important step in effectively translating statistical analysis of historical data into practical forecast estimates.

In determining how to set such maximum and minimum lives, PIAC considers the AER should retain discretion to select the most appropriate method for the case at hand. However, stakeholders would also benefit from some degree of certainty and transparency of how the AER may apply its discretion. Therefore, the AER may propose a number of potential methods for setting maximum and minimum lives as well as criteria outlining how it may choose which of these methods (or another method) would be most appropriate to apply in a given circumstance.

Continued engagement

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

Yours sincerely,

Miyuru Ediriweera

Senior Policy Officer, Energy and Water
Public Interest Advocacy Centre

Direct phone: +61 2 8898 6525

E-mail: mediriweera@piac.asn.au