

15 January 2020

Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001



Sent via email: Directlink2020@aer.gov.au

Dear Mr Roberts,

Directlink 2020-25 revised revenue proposal

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 draft determination and Directlink's revised revenue proposal for the 2020-25 period.

The context of these revenue determinations

Determining Directlink's revenue allowance for the 2020-25 period can only be made while cognisant of both the current state of the National Electricity Market (NEM) and the recent history of electricity network outcomes in NSW.

A combination of high wholesale electricity prices, high gas prices and long-term growth in the Regulated Asset Base (RAB) of network businesses has meant that consumers have faced unusually high bills in recent years. The ACCC noted that "high prices and bills have placed enormous strain on household budgets and business viability. The current situation is unacceptable and unsustainable."¹

We acknowledge that this strong uptick in network investment was not driven by Directlink.

Recent revenue determinations have helped put downward pressure on NSW network prices, and while it is clearly positive that this is coming down, it must be noted that it is coming down from a particularly high level. Further, falling prices are not enough – they must also be efficient and sustainable.

Given this, PIAC contends that efficiency and consumer preferences should be central drivers of decisions by the businesses and the AER.

Consumer engagement

Consumer engagement is a core responsibility of network service providers (NSPs) in the energy market. Being a natural monopoly providing an essential service,

¹ ACCC, [Restoring electricity affordability and Australia's competitive advantage](#), June 2018, iv.

businesses like Directlink do not face these competitive pressures; consumers cannot choose a different set of poles or pipelines, nor can most cost-effectively remove themselves from the grid at this stage.

Given the importance of robust and early consumer engagement, the level of consumer engagement conducted by Directlink in developing its original proposal was not acceptable (this is discussed in more detail in PIAC's earlier submission²).

We have seen some improvements in Directlink's approach to developing its revised proposal, such as sharing briefing material on the AER's draft determination and seeking feedback on their revised proposal. However, this does not make up for the lack of early engagement prior to the original proposal itself. Given that APA Group, the entity managing Directlink, also owns and manages other regulated assets, we expect that the lessons learnt here and from other NSP engagement strategies will be applied to future regulatory determinations such as for the Murraylink interconnector.

Revised proposal

Overall, PIAC is pleased that Directlink has accepted many aspects of the AER's draft determination.

PIAC also supports, in principle, Directlink's proposal for recovering efficient end of life costs in a manner that ensures efficient costs are recovered from the customers benefiting from Directlink and using a robust and transparent methodology used by other relevant regulators.

Continued engagement

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

Yours sincerely,

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² PIAC, [Submission to Directlink 2020-25 revenue proposal](#), March 2019, 2-5.