

20 March 2020

Mr Warwick Anderson
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Anderson

Response to priorities and objectives for reporting on regulated electricity and gas network performance

Business NSW, formerly NSW Business Chamber, welcomes the opportunity to comment on the proposed priorities and objectives for reporting on regulated electricity and gas network performance.

Business NSW supports the proposals, as they both clarify and build upon the 2011 version of the priorities. In particular, we welcome that the new priorities show:

- the AER has reflected on the use stakeholders make of published information about monopoly networks, and
- how that enables holding the networks' and the AER's decisions to account.

Revisiting the reporting priorities opens up an opportunity for the AER to consider new uses for information that networks are obliged to provide. One possibility, also currently under consideration in the UK for its next round of network price controls,¹ is to set some incentives for network remuneration based on a network's relative performance compared to its peer networks, on a given metric.

Ofgem's objectives describe "performance" reporting as being useful because it may "encourage Network Service Providers (NSPs) to adopt more efficient processes and promote technologies applied successfully by better performing NSPs. It may also provide NSPs with an incentive to increase service performance while maintaining efficient investment levels."

While the AER can sit back and hope that these changes emerge, it is possible to take a more proactive stance in encouraging and rewarding good performance and, by extension, exposing and potentially penalising poor performance.

It is far from clear that 'reputational incentives' alone have a meaningful effect on monopoly networks' decisions, given that their customers cannot withdraw their business if they see conduct they do not like. Linking performance to financial incentives creates a far more convincing pathway to encourage customer service in the network sector.

When reviewing the priorities and objectives for network reporting, the AER should consider establishing the information needed in order to move towards a system of financial

About Business NSW

Formerly NSW Business Chamber, Business NSW is the peak policy and advocacy body which has been representing businesses in NSW since 1826. Business NSW is one of Australia's largest business support groups with a direct membership of 20,000 businesses. Business NSW works with government, industry groups, as well as business and community leaders to provide a voice for our members. Operating throughout a network in metropolitan and regional NSW, Business NSW represents the needs of business at a local, state and federal level.

incentives for areas of output where service quality improvements beyond the minimum standard may be in the interests of consumers.

As Ofgem in the UK has learned from their work to strengthen network incentives to respond to customers' needs, "*Some ... incentive mechanisms may operate better on the basis of relative performance (i.e. as compared with other companies' performance) rather than absolute performance (i.e. set at a particular level)*".

If you have any questions about this submission or would like to discuss in more detail, please feel free to contact the author at Simon.Moore@businessnsw.com.

Yours sincerely

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