

14 May 2025

Submission to the AER on the proposed Innovation Allowance in AusNet Services' 2026-31 Regulatory Proposal

With some comments on DNSP Innovation Allowances in general

Members of AusNet's **Innovation Advisory Committee (IAC)**, the stakeholder advisory group for AusNet's 2021-26 Innovation Program, are making this submission in support of AusNet's proposal for an expanded \$15m Innovation Allowance in the 2026-31 regulatory period. We cannot assess the prudence and efficiency of the expenditure, but we can comment on the process and perceived value of the 2021-26 program and on how our experience working with AusNet during the current period gives us confidence to support the proposed expanded program for 2026-31.

The existing innovation program

For the 2021-26 regulatory period, AusNet proposed establishing an innovation fund to resource innovative projects that would ultimately deliver greater customer value over the long run in the rapidly changing energy environment. These projects would trial new technologies and undertake research and development to enable it to respond to and support new business models and new ways of managing network challenges - including accommodating the increasing amount of CER (consumer energy resources) in the system - while keeping network costs down and maintaining secure and reliable network services. This proposal was supported by AusNet's Customer Forum, and the Australian Energy Regulator (AER) approved an innovation allowance of \$7.5m for the period.

The innovation fund has a number of important characteristics.

- The funding is allowed under a 'use it or lose it' arrangement such that:
 - any unused funds are returned to customers at the end of the regulatory period, and
 - the expenditure is not applicable to the Capital Expenditure Sharing Scheme and the Efficiency Benefit Sharing Scheme
- Funded projects must meet specific criteria including that they:

- represent strategic innovation to deliver greater customer value over the long run in the rapidly changing energy environment;
- if successful, could feasibly be funded in the future under the approved revenue allowance as BAU expenditure, but currently could not be; and
- are driven by customer needs and expectations.
- The innovation program overall and individual projects must involve collaboration with other partners, including consumers, industry and academic.

Governance and collaboration

A key part of the collaboration and governance approach was the establishment of the Innovation Advisory Committee (IAC) in early 2022. The IAC's role is to:

- provide independent input and feedback to inform the prioritisation and delivery of innovation programs, including the option of proposing projects for AusNet's consideration;
- provide a forum for AusNet to partner and collaborate with consumer advocates and represent customers voices;
- inform and shape engagement on innovation;
- help ensure that innovation plans deliver long-term benefits to customers; and
- help communicate lessons and outcomes from innovation projects to the broader industry.

Membership of the IAC includes energy and climate change experts, policy specialists, consumer and industry representatives (including representatives of other distribution networks), and researchers and academics.

Engagement with the IAC

The IAC has met ten times between February 2022 and February 2025¹. In these meetings, AusNet has reported progress on projects and sought views from the IAC on prioritisation and implementation options. IAC members have queried project alignment with the criteria including suitability of inclusion in the program (as opposed to projects being funded from the regular revenue allowance), project effectiveness in meeting emerging challenges, and projections or expectations of customer benefits. On numerous occasions the IAC has challenged AusNet's thinking and approach with respect to proposed projects – this has been a constructive part of the IAC's role and has helped keep the focus

¹ Meetings are scheduled quarterly for the remainder of 2025.

more tightly on customer and community needs as well as on the innovation objectives.

An example of applying the criterion that innovation program funding should only apply to projects that cannot be funded from the regular revenue allowance was the removal in early 2023 of a Dynamic Voltage Management System Development project from the innovation program to be funded from existing voltage management capex. As this freed up some of the innovation fund for expenditure on a new project, AusNet asked IAC members for any suggestions for a new project. Two project ideas were proposed by IAC members and a co-design workshop was held in May 2023 to further explore these ideas and decide on a project.

The Electri-fair-cation project

The chosen project was a pilot to seek to understand both the impacts of residential electrification on LV network nodes and the barriers to and opportunities for electrification of vulnerable households, including renters, by partnering with local organisations and businesses to electrify a number of low-income households' dwellings in a discrete geographic area. AusNet engaged further with the IAC on principles and approaches to consider when developing and implementing the project, and this became the 'Electri-fair-cation' project, working with Morwell Neighbourhood House and employing local tradespeople and vendors to electrify and improve the thermal efficiency of the homes of around 60 vulnerable households. The project is still ongoing, and has delivered a wealth of information and experience in managing the challenges of electrification for networks and households.

The process that led to the Electri-fair-cation project was significant for the innovation program because it demonstrated:

- AusNet's openness to allow the IAC real influence on the shape of the program and preparedness to incorporate suggestions and recommendations from members into projects;
- the ability of AusNet to leverage capabilities in the IAC into the program design;
- that the business and the IAC have different priorities for learning and financial expenditure, and the engagement between them allows this to be explored and addressed; and
- that we were capable of finding a middle ground between the IAC's and AusNet's ambition, and generate a project that satisfied both parties sufficiently - and produced both direct (to the participating households) and broader (through the knowledge gained) customer value.

Additionally, while in operation the project has demonstrated the value of:

- AusNet engaging directly with local communities while developing and implementing projects; and
- using the IAC as an ongoing resource when implementing projects by, for example, discussing problems that have been encountered and asking for advice, and seeking recommendations of other stakeholders who should be engaged with for specific projects.

The evolving governance role of the IAC

During 2024 AusNet sought feedback from the IAC on how members have experienced the process and whether it can be improved. Some members noted that there have been times, particularly early on in the period, where there was limited opportunity to influence the program. This was partly because when the group was formed there was already a pipeline of projects planned or in progress that had been established prior to the IAC's formation. As noted above, the process of initiating and developing the Electri-fair-cation project was a very different experience and one in which the IAC played a pivotal role. AusNet has taken this feedback on board and has undertaken to bring the IAC in more consistently during the project ideation and development process, and look for more opportunities to seek project ideas from the group.

It was also noted that the IAC has not had formal involvement in innovation projects outside the innovation program – i.e., projects that can be funded from the regular capex and opex allowances. This is largely because the IAC's remit has been tied to the innovation program and is separate from the ongoing Customer Council and EDPR stakeholder panels (although one IAC member also sits on the EDPR Coordination Group). The Coordination Group has recommended that there be some crossover between the IAC and the new Customer Council, and that there is reporting back and forth between the two groups.

The IAC is of the view that with these changes in the way the IAC works and the way it interacts with the Customer Council, the IAC will be more empowered to fulfil its role going forward.

The proposed innovation program

The IAC supports the proposed expanded innovation allowance because the experience with the current program shows that it creates value for customers and provides an opportunity for customers and other stakeholders to have ongoing input into innovative projects. This benefit is not only for AusNet customers, but for all electricity consumers due to the commitments to share findings with the

industry more generally. Similarly, AusNet customers stand to benefit from shared findings of other DNSPs' innovation programs, if their proposed innovation allowances are also approved by the AER.

On the last point, the IAC also supports the concept of the innovation allowance for DNSPs in general and recommends that the AER develop an approach to guide DNSPs that propose innovation programs of a similar nature. We note that all the other Victorian DNSPs have proposed innovation programs along similar lines to AusNet's and that, while the requested funding varies considerably, the cost per customer is relatively low and consistent across the five networks at around \$4 per annum.

Summary of innovation expenditure²

Item	UNITED	JEMENA	CITIPOWER	POWERCOR	AUSNET
Innovation expenditure	\$15M	\$8M	\$7.5M	\$20M	\$15M
% of total network capex	1.1%	0.35%	0.6%	0.5%	0.4%
Total cost per customer	\$21	\$21	\$21	\$22	\$19

We also urge the AER to allow innovation programs to be approved without specifying projects in detail over the entire period. If DNSPs were to design and lay out their entire innovation program for a five-year period two years in advance, it would both restrict their ability to respond to emerging issues and technological change, and remove any real capacity for stakeholder advisory committees to influence project development and selection. DNSPs should be very clear about the types of projects that will be developed and implemented, make a case for how these types of projects will benefit customers and respond to the energy transition, and articulate some specific projects for the beginning of the period and any other projects that they are certain are required. But there must be some flexibility for new projects to be generated and existing ones to be changed or re-prioritised in response to emerging issues and stakeholder engagement.

But the IAC's support for AusNet's innovation allowance proposal (and by extension, of innovation proposals by DNSPs more generally) is contingent on a number of key aspects of the proposal – which have been part of the existing innovation program and to which AusNet has committed to retaining for the expanded program:

- That the funding is allowed under a 'use it or lose it' arrangement such that:

² Table from *Submission to the Australian Energy Regulator (AER): Local Government Response to the Victorian Electricity Distribution Price Review (EDPR) 2026-31* prepared by the Victorian Greenhouse Alliances, May 2025.

- any unused funds are returned to customers at the end of the regulatory period
- innovation expenditure is not applicable to the Capital Expenditure Sharing Scheme and the Efficiency Benefit Sharing Scheme
- That funded projects must meet specific criteria including that they:
 - represent strategic innovation,
 - are unsuitable for funding via the approved revenue allowance,
 - seek to deliver benefits to customers, and
 - are driven by customer needs and expectations.
- That the innovation program overall and individual projects must involve collaboration with other partners, including consumers, industry and academic, such that:
 - knowledge is shared with the wider industry,
 - a stakeholder advisory group (the IAC) is involved with project identification, prioritisation and development,
 - there are established communication flows between the IAC and the Customer Council in order to keep both groups knowledgeable of the others' relevant activities, and
 - where projects are implemented in specific locations, they are designed and delivered in partnership with local people, communities, organisations and businesses to the extent practicable.

This submission is supported by the customer stakeholder members of AusNet's Innovation Advisory Committee who were able to respond in the timeframe available: Dean Lombard, Scott McKenry, Heather Smith, Jo Witter, Nando Ochoa, Lara Kruk, and Maxime Di Petta.