Consumer
Challenge
Panel

CCP32 Advice to the Australian Energy Regulator on the 2026-31 Regulatory Proposal for AusNet Services electricity distribution network

Consumer Challenge Panel (CCP) Sub-Panel CCP32

David Prins

Mark Henley

Robyn Robinson

14 May 2025

Contents

Acknowledgements

Acknowledgement of Country: We acknowledge the Traditional Custodians of the various lands on which the AER operates, and where AusNet Services own and operate their networks and facilities. We honour the customs and traditions and special relationship of those Traditional Custodians with the land as well as those where this report is being prepared. We respect the elders of these nations, past, present and emerging.

CCP32 wishes to acknowledge the cooperation and support of AusNet Services and AER staff, and the AusNet Services reference groups who have generously provided information and insights to assist the sub-panel in its review of the business's Regulatory Proposal.

We also advise that to the best of our knowledge this report does not present any confidential information.

1. Introduction

Every five years, AusNet Services is required to submit a Regulatory Proposal to the AER for its electricity distribution network, setting out the network investments, revenue and the prices required to deliver electricity distribution services for the next period.

This Statement of Advice is provided to the Australian Energy Regulator (AER) from Consumer Challenge Panel, sub-panel 32 (CCP32) in response to AusNet Services' 2026-31 Regulatory Proposal, which was submitted to the AER in January 2025.

CCP32 notes that this proposal has been prepared in a time of heightened uncertainty and significant challenge. Some key factors influencing AusNet Services' 2026-31 proposal which were not present in the 2021-26 proposal include an increased focus by communities and the Victorian Government on network resilience following a wave of extreme weather events across the State in 2023 and 2024, and a greater emphasis on the impacts of the move to electrification, and take-up of Consumer Energy Resources (CER) by Victorian consumers. These influences are further described in Appendices 1 and 2 respectively.

This submission focuses on specific areas of AusNet's regulatory proposal on which the AER has requested advice from CCP32.

2. Consumer engagement

Section 2 of the AusNet proposal covers customer engagement and research, including:

- Key points
- AusNet's engagement approach
- Outcomes of AusNet's engagement activities
- Public consultation on AusNet's draft proposal and how AusNet has responded to feedback; and
- Plans for post-lodgement engagement.

2.1. Late appointment of CCP32

There has been limited capacity for CCP32 to observe engagement activities conducted by AusNet due to the timing of member appointment:

- In the 2023-24 financial year, CCP32 comprised only one member whose capacity to observe AusNet's engagement events was limited.
- Two additional sub-panel members were appointed, commencing in July 2024.

In contrast, AusNet began its engagement for the 2026-31 regulatory period in 2022. A co-design workshop held on 17 October 2022 helped AusNet build and develop its engagement plan. This is indicative of how early network businesses are now starting their engagement process for each five-year regulatory review.

Where CCP32 was not able to observe consumer engagement, we have instead relied on desktop reviews of available materials for our assessments of the effectiveness of engagement. We recognise that desktop review of materials gives a much more limited perspective as compared to actually being there "in the room" (whether the "room" is in person or online).

2.2. Overview of AusNet stakeholder engagement

Section 2 of AusNet's regulatory proposal sets out

- AusNet's approach to customer engagement and research;
- The outcomes of AusNet's engagement and research activities;
- AusNet's responses to feedback on its draft proposal; and
- Plans for post-lodgement engagement.

It also references significant supporting documentation that AusNet has provided to the AER alongside the main regulatory proposal document.

AusNet Services has a public website[1] which AusNet states enables stakeholders to "find out more about the current Electricity Distribution Price Review (EDPR) and how customer and stakeholder engagement is central to its success".

[1] https://communityhub.ausnetservices.com.au/regulatory-reviews/edpr-2026-2031

The overall regulatory timetable set out on that web page is reproduced below:

AusNet states[2] that its engagement plan is a 'living' document which is the result of a co-design process with customer representatives and other stakeholders, building on:

- Ongoing customer research
- AusNet's own experience engaging across our three regulated networks
- Other electricity distribution businesses' experience, and
- Engagement guidelines and best practices.

[2] https://communityhub.ausnetservices.com.au/engage

The engagement plan[3] sets out an approach to customer and stakeholder engagement for EDPR 2026-31 which is designed through a five-step, ongoing process, shown diagrammatically below:

The objectives set out that the AusNet engagement should lead to a regulatory proposal that would

- Be evidence-based
- Focus on the "right" topics and be flexible
- Welcome open, honest and challenging conversations
- Allow for both broad and deep engagement
- Involve the right people in the right conversations and make it easy and practical for interested parties to engage
- Clearly demonstrate how customer and stakeholder input has shaped our plans and customer outcomes
- Help build participants' capacity to influence

The plan set out four stages of engagement:

1. Understanding needs & defining focus areas (completed in 2022)
2. Exploring focus areas & answering focus questions (largely completed 2023)
3. Drafting and finalising proposal (2024-2025)
4. Post-lodgement engagement (post-2025 submission).

CCP32 observed:

- None of stage 1 – having not yet been appointed;
- Some of stage 2 – as a one-person panel in the second half of 2023;
- Various engagement events in stage 3;
- Stage 4 – a Coordination Group meeting on 25 Feb 2025.

[3] The most recent version we have seen is version 4 dated July 2024.

There were three interlinking streams of engagement:

1. Targeted customer and stakeholder research and engagement
2. Co-ordination Group[4]
3. Panels (Electricity Availability, Customer Experience, Future Networks, Tariffs & Pricing, Benchmarking & Opex).

AusNet's engagement program by numbers as set out in its January 2025 regulatory proposal:

CCP32 members observed some but by no means all:

- Co-ordination Group meetings;
- Customer Panel meetings;
- EDPR-specific engagement sessions with customers;
- Joint DB engagement sessions.

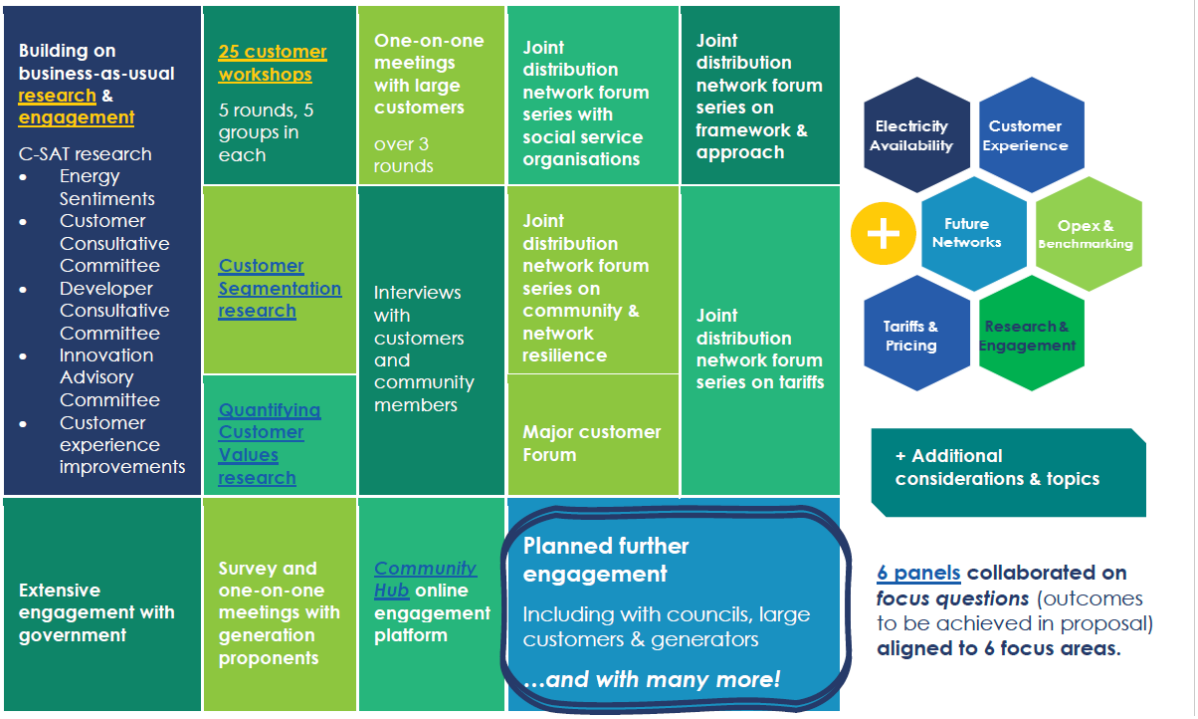
Two members of CCP32 attended the third and final of the three intensive two-day forums – this was a two-day off-site meeting in August 2024 (referred to as offsite #3) in preparation for the draft proposal. CCP32 did not attend either of the previous two such two-day forums.[5]

CCP32 attended several briefing sessions with AusNet staff where AusNet presented on various topic areas and answered CCP32 questions.

[4] Initially there was a Stakeholder Reference Group. This was replaced with the Co-ordination Group and the panels were rationalised.

[5] CCP32 was also invited to offsite #2 in March 2024, when CCP32 was operating as a single person sub-panel. That invitation had to be declined due to pre-booked leave. We are not aware of when offsite #1 was held.

Summary of stage 2 engagement activities as at July 2024:[6]

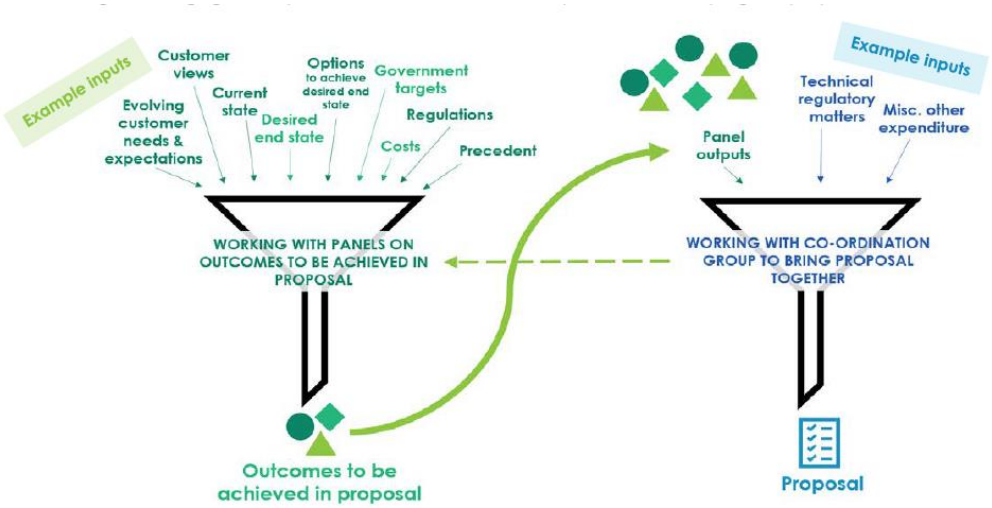


From the panels' collaboration on focus questions, 22 focus questions emerged, aligned to five focus areas and proposal outcomes.[7]

In 2024 the Coordination Group looked to understand and resolve trade-offs for inclusion in the proposal, getting into detail on building blocks (incorporating panel inputs) and the price path. During this time the Group sought to ensure that the proposal reflects customers' interests and is balanced and efficient. They played a key role in ensuring a clear line-of-sight between AusNet's research and engagement program and the proposal.

[6] The source of this diagram is the AusNet EDPR 2026-31 Engagement Plan version 4 dated July 2024, figure 2, page 10. We have included this diagram because it provides comprehensive information in an accessible format, even though it is not up to date beyond July 2024. The underlined words in the diagram in the Engagement Plan are hyperlinked to AusNet's Community Hub website; we were not able to copy that functionality here.

[7] This sentence is based on the AusNet EDPR 2026-31 Engagement Plan version 4 dated July 2024, figure 3, page 11. While figure 2 refers to six panels and six focus areas, figure 3 refers to five focus areas. We understand that the discrepancy relates to whether or not the Research and Engagement panel equates to a focus area, and it is not material either way.



AusNet participated in joint engagement with Victorian electricity distribution network service providers across the topics of:

- Framework and approach;
- Affordability and equity;
- Reliability and resilience;
- Network tariffs; and
- Customers experiencing vulnerability.

Details of the joint engagement activities conducted by the Victorian electricity distribution businesses in regard to tariffs and the outcomes are provided at Appendix 3.

2.3. Co-ordination Group views on overall consumer engagement

The Co-ordination Group provided independent reports on both the draft proposal and the final proposal.

2.3.1. Co-ordination Group Independent Report on Draft Revenue Proposal

The Co-ordination Group independent report on the draft proposal included the following comments:

> The proposed initiatives have been influenced, informed or driven by a combination of at least one or more of the following factors:
>
> - Feedback from customers through direct research and engagement
> - Feedback from the customer panels and / or the Coordination Group
> - Government and / or regulatory requirements or pressures
> - Impacts of storms and other weather events which have heightened the need for investment in certain areas.
>
> ---
>
> The engagement with the Coordination Group and panels has had a particular focus on 'affordability' (ability to pay) vs 'value for money' (willingness to pay) and AusNet clearly distinguish the two concepts in its draft proposal. AusNet's engagement has focussed more on the latter than the former. Whether or not the value / cost trade-off has the right balance

is one of the focuses of the consultation process on the draft proposal as AusNet finalises its proposal to the Australian Energy Regulator (AER) in January 2025.

The independent report on the draft proposal also noted:

> The panels and Coordination Group were involved and consulted on some but not all aspects of the draft proposal and therefore areas that influence costs and prices. A significant majority of the factors that influence costs, prices and the price path were not part of our consultation. This is not a criticism of AusNet or their approach to engagement but rather a function of items such as:
>
> - What consumers are able to influence
> - It is the AER's role to assess the prudency and efficiency of proposed expenditure
> - The practicalities and timeframes of this consultation process.
>
> We consider the draft proposal provides a good basis for consultation and that it will facilitate beneficial discussions and inform decisions to be made as the proposal is finalised.
>
> We support AusNet presenting those aspects of the proposed operating and capital expenditure that were consulted on as reflecting consumer preferences.
>
> AusNet notes in its draft proposal, and we strongly support this, that further engagement and work on affordability including considering the overall proposals costs, value and trade-offs is warranted.

2.3.2. Co-ordination Group Independent Report on Final Revenue Proposal

The Co-ordination Group independent report on the final proposal included the following key perspectives:

- A strong and continued appreciation of AusNet's sincerity, transparency, and huge effort in preparing the Regulatory Proposal and also in undertaking its consumer engagement.
- Commending AusNet's continued goodwill and effort in providing the Coordination Group and the panels with opportunities to be involved in informing and influencing aspects of their Regulatory Proposal, which is consistent with the AER's Better Resets Handbook expectation of network businesses.
- Acknowledging that AusNet has done a good job overall of eliciting customer views for those Regulatory Proposal components where there was engagement (i.e. specific operating and capital expenditure items, incentive schemes and the innovation fund). Those areas of the proposal where AusNet engaged generally reflect the views and feedback expressed by the Coordination Group and panels as consumer representatives, and therefore reflect consumer preferences.
- Noting that we have identified areas of residual concern in relation to some operating expenditure step changes (e.g. hazard tree program operating vs capital expenditure trade-offs and mix) and some aspects of capital expenditure (e.g. getting regional reliability allowance governance right and the calculation of net benefits for large renewable enablement through the sub transmission system) that may warrant further consideration and also that we believe AusNet should be more ambitious in their operating expenditure productivity.

- Understanding that changing primary contractors was designed to provide opportunities for AusNet, however this change combined with the size of the increased capital expenditure, at a time of significant infrastructure development not just across Victoria but across eastern states, will also present risks for AusNet to deliver on their commitments.

2.4. CCP32 views on overall consumer engagement

Our comments on AusNet's customer and stakeholder engagement are guided by the expectations on consumer engagement outlined in the AER's Better Resets Handbook.[8]

Expectation	Considerations	CCP32 Observations
Expectation 1 – Nature of engagement	Sincerity of engagement	• CCP32 observation is that throughout its engagement AusNet has engaged sincerely with consumers. • Participation at the two-day off-site that CCP32 observed in person in August 2024 included three AusNet board members, three Executive General Managers, and four General Managers. • CCP32 has observed AusNet engaging in active listening in consumer engagement, being open to listen, non-judgemental in response to consumer views, providing a "safe space" for consumers to speak their mind, summarising what they have heard, and checking that they have understood correctly. • Customers have expressed confidence in this engagement, but there is some scepticism in delivery. This was evidenced at the end of the online session with residential customers on 15 October 2024, when some customers voiced quite emphatically that the service they received to date was not acceptable and they needed to be sure that change would occur before they accept that the draft proposal represented value for money. Attention here is likely to be needed during the regulatory period to retain customer confidence.

[8] https://www.aer.gov.au/industry/registers/resources/guidelines/better-resets-handbook-towards-consumer-centric-network-proposals

Expectation	Considerations	CCP32 Observations
	Consumers as partners	• AusNet has collaborated with consumers through its Coordination Group, six customer panels that report to the Coordination Group, customer workshops, research activities, intensive two-day forums, online presence on its website and social media, and advertisement in regional local newspapers. • The Coordination Group has helpfully provided an independent report on the draft proposal and the final proposal. • AusNet conducts research on an ongoing business-as-usual basis. Other engagement has been switched on for this EDPR, though its Customer Consultative Committee continues on an ongoing basis. • Other than that, the business-as-usual engagement process post the reset is unclear. • At the online session with residential customers on 15 October 2024, some customers asked about how they would be kept informed of how AusNet was implementing the service improvements that they wanted to see in the next regulatory period.
	Equipping consumers	• At each of the customer workshops that CCP32 attended, and at the off-site, CCP32 found AusNet offering genuine options to customers, without appearing to influence customers regarding which options AusNet preferred or wanted participants to choose. CCP32 found choices were explained well to customers. • The Coordination Group is well run with an independent chair. • AusNet has separately used consultants SenateSHJ as moderators and funded members of the Engagement and Research panel to undertake research with customers.
	Accountability	• Meeting summaries of the Coordination Group are published in the AusNet Community Hub on its website, along with reports from customer workshops and research findings. • CCP32 heard feedback from some customers at the draft plan stage that they are not entirely confident that AusNet would deliver its plan. They would like further transparency in its activities between resets. • The draft plan and the final proposal have both explained in some detail how elements of the draft plan and final proposal evolved through engagement processes to the final versions that appear in the regulatory proposal. The Coordination Group was provided with a short document which summarised changes between AusNet's draft and final revenue proposals, and outlined how and where AusNet had

Expectation	Considerations	CCP32 Observations
		responded to customer and Coordination Group feedback. • In its draft plan AusNet was open and transparent that it cannot satisfy every engagement point of view: "Importantly, we have not aimed for consensus on this proposal. We were of the view that if we could achieve full consensus, we weren't engaging on complex enough topics. We accept that some of the customers and customer advocates involved in the process will not support every inclusion in this proposal. We were aiming for overall acceptance of the proposal by a clear majority, noting the purpose of this draft plan is to seek further feedback on the draft plan. Dissenting views and trade-offs have been acknowledged through the proposal." • Similar wording appears in the final proposal: "We acknowledge that some customers, customer advocates and other stakeholders do not support every aspect of this proposal for a variety of reasons, including that we're doing too little (and they're willing to pay more for a higher level of service), that we're doing too much (and it's too expensive), or that our plans include spending on an activity they don't personally see value in. Where we have heard dissenting views and trade-offs, we have acknowledged these through the proposal." • AusNet also notes in its final proposal: "Feedback received on the Draft Proposal was broadly positive and consistent, on both the outcomes that it was seeking to achieve and its value for money and affordability overall. While customers would always like their bills to be cheaper, there was no consistent feedback on areas they would like to see us cut back on. Of our customer workshop participants, 94% rate it as adequate or better, and many highlighting the strong balance achieved between affordability and service improvements, and the sentiment was similar among those who made submissions. Again, we have not aimed for nor think it practical to achieve unanimous support for our proposal. We understand there are some customers who would like us to be doing more or less, but we strongly believe our proposal strikes the balance that is in the best overall interests for our customers." • The final proposal also sets out updates that AusNet has made in the final proposal based on feedback received on the draft proposal.[9]

[9] AusNet proposal: *Updates made based on feedback received* – section 2.5.3.2, page 52. See also *Some feedback has not changed our proposal* – section 2.5.3.3, page 53 and *Plans for post-lodgement Engagement* – section 2.6, page 54.

Expectation	Considerations	CCP32 Observations
Expectation 2 – Breadth and depth	Accessible, clear and transparent engagement	• AusNet's approach to customer and stakeholder engagement for EDPR 2026-31 was developed in collaboration with its Customer Consultative Committee, EDPR 2021-26 engagement participants, government representatives and other key stakeholders. • AusNet has deployed various engagement methods, embracing on line and in-person workshops and forums, consumer research, online presence and via social media. • AusNet provided and facilitated opportunities for stakeholder feedback on its draft plan, and its revenue proposal is now open to stakeholder feedback through the AER's regulatory process.
	Consultation on desired outcomes, then inputs	• Round 1 of the customer workshop engagement started by asking customers about their experiences with AusNet, what they liked and what they didn't, before proceeding to ask customers how they saw the future and providing options for how AusNet could address issues such as reliability and resilience. • Concepts such as specifically investing to improve reliability for worst-served customers emerged from consumer engagement. • AusNet asked customers to consider desired outcomes. This engagement was supplemented with parallel consumer research as business-as-usual. • In its engagement with the Coordination Group and its engagement panels, AusNet presented actual capex and opex proposed spends as well as annual bill impacts. In end-use customer workshops, AusNet engaged largely based on what would be costs to customers in terms of annual bill impacts, rather than total capex and opex spends.

Expectation	Considerations	CCP32 Observations
	Multiple channels of engagement	• Engagement channels have included the Coordination Group, six customer panels, EDPR-specific engagement with customers, communities and other key groups, EDPR-related content on the Community Hub, and three intensive two-day forums with all EDPR panel members, AusNet board members and staff, and AER and Victorian Government staff. [CCP32 attended the third of those two-day forums.] • The engagement was broad, while also including deep dive sessions. • AusNet held a webinar on its draft plan on 17 October 2024, and has put a link to a recording of the webinar on its Community Hub website. • Besides producing a full 388 pages regulatory proposal (plus supporting documents), AusNet has also produced a 15-page summary report aimed at engaging with an audience that might read the summary report but would not engage with the full regulatory proposal.
	Consumers influence on the proposal	• Engagement activities appeared to have ranged from the 'consult' to the 'collaborate' level of the IAP2 spectrum • The business did clarify where it has legal and regulatory requirements that it has to meet, and where customers could and could not influence outcomes. • Resilience was a key issue, with the state government conducting an enquiry following severe storms that particularly affected the AusNet area, and which occurred during the engagement process. The draft proposal notes: "Our resilience plans are in an earlier stage of development than most other aspects of this plan", and "If the Network Outage Review final recommendations change our plans to improve reliability and resilience we will consult further with customers before our 31 January 2025 Revenue Proposal." Consultation on resilience after the draft plan was published occurred in round 4 customer workshops held in October 2024, at the Coordination Group and at the Electricity Availability Panel.
Expectation 3 - Clearly evidenced impact	Proposal linked to consumer preferences	• Consumer preferences were developed through the multiple channels of engagement discussed above. • The draft plan and final proposal both have shown considerable evidence as to how consumer preferences led to what is contained in the final regulatory proposal.
	Independent consumer support for the proposal	• The Coordination Group prepared independent reports on the AusNet engagement and draft plan, and on the final proposal, some extracts from which were quoted above.

In conclusion, it is the view of CCP32 that AusNet's consumer engagement has met, and in many areas has exceeded the expectations of the Better Resets Handbook. We commend AusNet for this comprehensive achievement.

3. Demand forecasts

Section 4 of the AusNet proposal covers demand and energy forecasts, including:

- Key points;
- Overview of the forecasting methodology;
- Customer number forecasts;
- Energy consumption forecasts; and
- Spatial demand forecasts.

We have been asked for views on how to consider demand risk in assessing expenditure proposals.

3.1. Summary of AusNet forecasts

AusNet sets out that its modelling approach has significantly improved over the last decade. The granularity of its forecast method reflects the dynamic changes impacting its network, including the growing uptake of rooftop solar generation, the emergence of electric vehicles, and the electrification of gas. Granular forecasts are said to ensure that AusNet's capital expenditure forecasts accommodate new connections, address changes in electricity usage and enable AusNet's customers to maximise the value from their CER investments.

AusNet's forecasts for customer numbers, energy consumption and minimum and maximum demands for the 2026-31 regulatory period are set out in the table below. The key points are:

- AusNet's customer base is forecast to grow steadily by around 1.8% per annum, in line with the Victorian Government's forecasts. The forecast growth rate is lower than the actual and expected growth rate of 2.1% per annum for the current regulatory period.
- Energy use from the network is expected to start increasing after a decade of declining energy consumption. A key reason for this growth is said to be the impact of electrification which will offset the impact of continued energy efficiency and increasing solar generation that tend to reduce operational energy consumption.
- Maximum demand is forecast to grow by 2.9% per annum over the 2026-31 regulatory period, reflecting the underlying increase in electrification and recognising that maximum demand is likely to occur when solar generation declines late in the day.
- Minimum demand will continue to fall as solar penetration continues to increase, supported by government policies and customer interest.

Demand, energy and customer number forecasts

	2026-27	2027-28	2028-29	2029-30	2030-31
Customer numbers	857,955	873,368	888,701	904,029	919,311
Energy consumption (GWh)	8,429	8,730	9,049	9,374	9,642
Maximum demand (MW)	2,185	2,252	2,317	2,385	2,449
Minimum demand (MW)	-568	-628	-669	-704	-742

Source: AusNet.

3.2. Views of the Coordination Group

The Coordination Group report provides context for AusNet's demand forecasts and investment challenges:

> "Historically, demand forecasts to predict future network expenditure have been largely based on the continuation of historic trends of energy usage, population growth, industry development, and so on. But the dynamics outlined above have combined to create a challenging context for future demand forecasting. The increased diversity of energy sources, evolving consumer behaviours, climate change considerations, and regulatory constraints have made it difficult to predict future energy consumption patterns accurately. Still, network businesses must plan investment to support the long-term sustainability and reliability of the electricity grid."

> "Like other distributors, AusNet has developed more sophisticated forecasting tools using a range of data sources, network data from smart meters and bottom-up assessment to develop energy flow models to build various scenarios to inform its forecasts. But there is more uncertainty than ever before. AusNet's stakeholders have urged it to orient its proposals to this uncertainty, prioritising 'no-regrets' investments and designing projects to meet multiple needs and to be readily scalable and flexible. But with a revenue cap form of regulation, cost impacts on customers depend on energy throughput and if forecasts are materially incorrect, costs can materially change. This is an unavoidable risk with the current regulatory framework in the current context."

From an affordability perspective the Coordination Group has highlighted:

> "We also note that average customer prices, and hence affordability are heavily dependent on the achievement of the uncertain increased demand forecasts. These are influenced by factors such as electrification of gas appliances, electrical vehicle uptake and government policy settings including tariffs and consumer behaviour. Lower electricity demand, e.g. through a slower take-up of electrification of gas loads, could result in significantly higher prices."

> "To better address affordability concerns and the uncertainties discussed we encourage the AER and AusNet to consider:

- Where possible, efficient, prudent and practical "back-ending" cost recoveries to the end of the regulatory period. We believe this can increase flexibility to allow AusNet to promote certain products and services and encourage consumer demand if demand forecasts are below expectations. We also believe it will provide relief in the context of affordability given the current economic climate would appear to be more prolonged than many may like.
- Identification and development of specific "reopeners" which may require regulatory change. These reopeners can allow for specific events related to demand forecasts not currently realised.
- AusNet to uplift their information and education to influence the demand forecasts if needed along with promoting connection agreements and dynamic controls as proposed as this can offer real value to consumers.
- Continuing its strong advocacy to Government on areas such as tariff reform which can assist in reducing costs to consumers."

3.3. Implications for customers if the actual energy delivered by AusNet in the 2026-31 period differs materially from its forecast

As outlined by the AER in its Issues Paper for AusNet:

> Customers would be protected from volume risk if the actual energy delivered by AusNet in the 2026-31 period is higher than its forecast. That is, AusNet will not be entitled to earn more revenue as a result of higher demand. In this case average network tariffs would be lower than expected.
>
> However, if actual energy delivered is lower than AusNet's forecast, customers could experience higher distribution network tariffs than expected because AusNet is still entitled to recover the revenue we determine, regardless of the actual energy delivered.
>
> AusNet forecasts the amount of annual energy delivered through its network will have increased from 8153 GWh in 2025–26 to 9642 GWh in 2030-31: a significant increase of 1489 GWh, or 18%. This is the forecast that has informed the illustrative estimates of tariff and bill impacts in its proposal.
>
> However, if the amount of energy delivered through AusNet's network were to increase at a slower rate, the impact of its proposed revenue on tariffs would be higher. Figure 2-4 in the Issues Paper (not reproduced here) illustrates the following examples:
>
> - Based on AusNet's forecast energy delivered increase (18%), customers could see 6.8% higher average annual distribution network tariffs ($nominal) compared to 2025-26 levels.[10]
> - However, if energy delivered were to increase at the same rate as we have seen in the current, 2021-26 period (9%), customers could see 13.8% higher average annual distribution network tariffs ($nominal) compared to 2025-26 levels.[11]
> - Even if energy delivered were to increase at a faster rate than what we have seen to date, but 10% lower than what AusNet has forecast, customers could see 7.8% higher average annual distribution network tariffs ($nominal) compared to 2025-26 levels.[12]

3.4. CCP32 observations

We largely concur with the Coordination Group's views. We have no specific changes to suggest to the forecasts or criticisms of the methodology.

Forecasting demand, including demand up to seven years in the future, is a difficult challenge for network businesses, particularly at this stage in the energy transition when there are such high degrees of uncertainty about how and how quickly a new energy system will unfold.

[10] In real terms (ignoring the impact of expected inflation), average annual distribution tariffs could be expected to be 1.0% lower than 2025-26 levels.
[11] In real terms (ignoring the impact of expected inflation), average annual distribution tariffs could be expected to be 5.4% higher than 2025–26 levels if energy delivered were to increase at the same rate as we have seen in the current, 2021–26 period.
[12] In real terms (ignoring the impact of expected inflation), average annual distribution tariffs could be expected roughly equal to 2025–26 levels if energy delivered were to increase at 10% lower than the proposal forecast.

As the actual level of demand will only become evident over time, potentially impacting later years of the 2026-31 regulatory period, price impacts could become significant at that time and if so, will particularly impact on customers experiencing affordability concerns, including some small and large businesses, as well as residential customers. Unexpected price increases will only erode customers' trust in the business and in the regulatory process.

Further engagement conducted by AusNet after release of the draft plan, particularly in regard to reliability / affordability trade-off, was based on the additional revenue requirement not significantly causing increase to customer bills. As discussed above, in AusNet's final proposal, in real terms (ignoring the impact of expected inflation), average annual distribution tariffs in 2026-31 could be expected to be 1.0% lower than 2025-26 levels. AusNet has not tested explicitly whether stakeholder views would differ if prices were to be increasing significantly.

We suggest the following actions:

- AER and AusNet to investigate what flexibility might be available in the regulatory process e.g. re-opener provisions, contingent arrangements etc. to accommodate this level of demand uncertainty, and to protect customers from unexpected and significant price rises.
- The Coordination Group has encouraged the AER and AusNet to consider where possible, efficient, prudent and practical "back-ending" cost recoveries to the end of the regulatory period. We do not necessarily consider that to be the most prudent solution. Rather AusNet and the AER should consider the merits of a revised price path for the 2026-31 period more generally and be open to innovative thinking.
- Should sizeable changes to the demand forecasts become evident prior to submission of AusNet's Revised Proposal, further engagement should be carried out with customers to confirm whether or not they remain comfortable with the proposed levels of expenditure driving network charges in the next regulatory period.

Re-opener (and similar) provisions should be symmetrical. They should apply equally if energy forecasts outturn significantly higher or lower than the forecasts on which the AER's final determination for 2026-31 is based.

4. Network prices and revenue requirement

Section 5 of the AusNet proposal covers the building block revenue requirement for 2026-31, including:

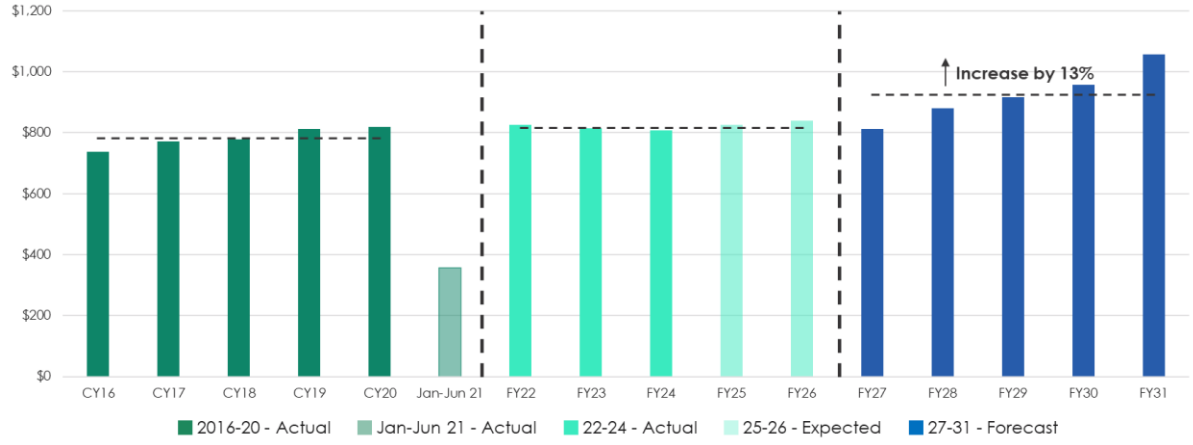
- Summary of AusNet's revenue requirements;
- Building block components of the revenue requirement;
- Smoothed annual revenue requirement, X factor and revenue cap; and
- Average price path under the proposed revenue cap.

4.1. AusNet's proposed revenue requirements

AusNet's smoothed revenue requirement for 2026-31 is $924.4 million per annum ($2025-26).

The figure below from the AusNet proposal compares the revenue requirement from Calendar Year (CY) 2016 to Financial Year (FY) 2031 ($m, real 2025-26).[13]

Revenue requirement CY 2016 to FY 2031 ($m, real 2025-26)



As shown, AusNet is proposing that its revenue requirement should increase by 13% between 2021-26 and 2026-31 due to:

- Revenue increases related to:
  - Increased financing costs, reflecting higher interest rates and our larger capital program
  - Increased operating costs needed to meet new obligations, evolving customer needs and manage a growing network and customer base.
- Revenue decreases related to:
  - Decreased incentive scheme payments, reflecting a large, planned overspend of our current period capital expenditure allowance
  - Decreased depreciation, reflecting higher expected inflation and a reduction in the accelerated depreciation of specific assets approved at the last price review.

4.2. CCP32 observations

AusNet's proposed revenue requirements are not an independent component of the proposal; rather they emerge based on the building blocks that make up the proposal and on which AusNet engaged stakeholders.

[13] In 2021 the regulatory period moved from covering five calendar years (Jan-Dec) to five financial years (Jul-Jun).

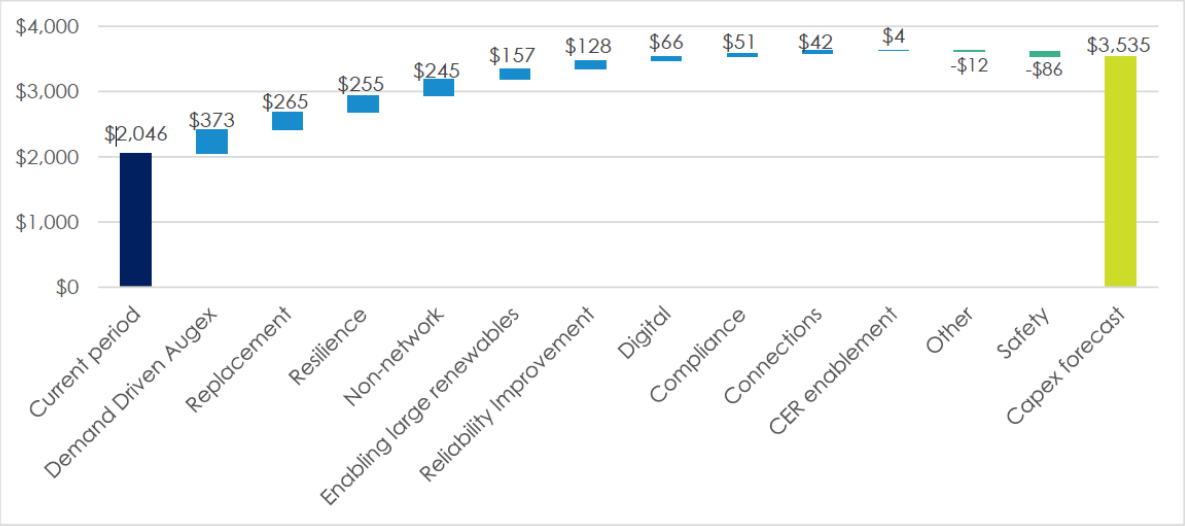
CCP32 has not tested the quantum of the capex and opex proposals and other building block elements; rather it is the role of the AER to test the prudency and efficiency of the business' investment and expenditure proposals. We note also that the effects of the proposed revenue requirements on prices have largely been diluted by increased energy forecasts. The risk if actual energy delivered by AusNet in the 2026-31 period differs materially from its forecast have been discussed above.

5. Capital expenditure

Section 6 of the AusNet proposal covers AusNet's capital expenditure proposals for 2026-31.

The figure below from AusNet's proposal shows a comparison of AusNet's expected capex for 2021-26 with its capex forecast for the 2026-31 regulatory period (by driver) ($m, real 2025-26)

Comparison of AusNet's expected capex for 2021-26 with its capex forecast for the 2026-31 regulatory period (by driver) ($m, real 2025-26)



We have been asked for views on

- The reliability / affordability trade-off, particularly where the proposals are for improvements in reliability. How well have businesses managed this discussion with consumers, including the question of who pays for regional reliability uplifts?
- AusNet's 'Customer experience' ICT capex proposal.

5.1. Reliability / affordability trade off

As set out in the AusNet proposal, AusNet's Quantifying Customer Values study showed that:[14]

- Customers valued reliability considerably higher (almost double) compared to the AER's VCR at the time. The AER has since refreshed its VCR calculations which AusNet states is similar to its study's finding, which accounts for changes in sentiment and more up-to-date values of unserved energy.
- Both households ($55.65pa) and businesses ($224.28pa) attach a positive value to improving reliability for worst served customers. AusNet did not test a degradation case (i.e. de-investing for more outages).
- Both households ($31.68pa) and businesses ($173.04pa) attach a positive value to reduce one 1 hour-long unplanned outage per year.
- Customers value resilience above all other services tested, across all demographics. Both households ($73.44pa) and businesses ($293.16pa) attach a positive value to reducing one 24-hour-long unplanned outage per year.

[14] AusNet proposal, section 2.4.4.1, page 35

- Customers are open to cost sharing even where they don't directly benefit, including on improvements for worst served customers and solar exports.
- Willingness to pay for the bundle of services increases with both capacity to pay (for households) and size of business (for business), but is positive for all demographic groups. Even those households who say they cannot meet basic expenses are willing to pay for the bundle of service improvements, at $114.40 per year (compared to the network average $135.12 per year and those who live comfortably at $143.50 per year)
- Customers see the value in investing in improved services while still being concerned about affordability. Some respondents are not willing to pay for any improvements, however almost all customers expect significant compensation for service degradations.

Customer workshops, Coordination Group, panels and the two-day forum we attended also supported expenditure for improvements in reliability and all customers paying towards regional reliability uplifts that improve the reliability of service for those customers currently experiencing the worst reliability.

Feedback to AusNet on the draft plan indicated that AusNet was focused on the right things, particularly reliability, resilience, customer experience and innovation.

5.2. 'Customer experience' ICT capex proposal

AusNet has proposed a set of renewed customer experience and advocacy commitments to its customers – including where AusNet will advocate on their behalf to address a range of regulatory and policy issues impacting customers – and will hold itself to account to make sure it delivers what it set out to do. This accountability is said to be important to both AusNet's management team and Board.

The proposed initiatives address known customer pain points, including better customer relationship management and improved communications.

Feedback to AusNet on the draft plan indicated that AusNet was focused on the right things, particularly reliability, resilience, customer experience and innovation.

The AusNet proposal further commits:

> Our customers and stakeholders support necessary improvements that AusNet is planning to make over the next regulatory period, but they also wanted assurance these improvements are being made with several criteria in mind, including that AusNet should not seek funding for what was funded in the last reset, and assurance that customer experience and service resources will stay in place even if our ownership, Board or CEO change.
>
> We have accepted the criteria proposed by our Customer Experience Panel and worked with them to develop a proposed set of refreshed commitments for the forthcoming regulatory period. This includes how we plan to measure and report against their progress, holding ourselves to account. We are also proposing an evolution in the way we track and report on progress based on customer feedback.

The AusNet proposal also sets out that the Customer Experience Panel spent 23.5 hours across 10 meetings as a standalone panel and engaged on AusNet's approach to customer service, the design of its Customer Service Incentive Scheme and the updated set of customer experience commitments.

The Customer Experience Panel reached the following key agreements:[15]

- **No double counting** through the CSIS and customer experience expenditure.
- Importance of aiming for **first call resolution** to include in the CSIS.
- Selection of mix of customer satisfaction and service level-type metrics.
- Customer satisfaction should **include all aspects** of the customer experience.
- Support to **consider increasing the CSIS** revenue at risk.
- Importance of **communication during planned outages**. This includes providing clear and informative messaging to customers and offering a variety of ways of receiving notifications.
- Importance of **improving accuracy of Estimated Times of Restoration (ETRs)** during unplanned outages.
- Consider **impact of outages on businesses** (especially in smaller towns) and ensure power supply for major events.
- Support for **customised services** in planned outages and connections.

On this basis, CCP32 is of the view that AusNet has engaged on customer experience such that what AusNet is proposing to deliver in regard to customer experience matches the outcomes of its engagement.

However, we also point out that these do not represent new expectations of customer experience that exceed previous expectations. Rather, as stated above, the proposed initiatives address existing known customer pain points. The proposal is to "catch up" with customer expectations that up to now have not been met.

[15] AusNet proposal, section 2.4.7.4, page 42

6. Operating expenditure

We have been asked for views on:

Opex step changes:

- CCP32 views on whether the step changes meet our framework as a number seem to be more discretionary, more based on consumer support, or are expansions of existing activities and requirements rather than driven by a new reg obligation, a capex to opex trade off or new material increase in costs from an external driver out of the DNSPs control as required under the NER.
- Views on quality of customer engagement, especially for step changes the DNSPs claim are supported by or consistent with consumer wishes, including if / how costs and benefits of the step change were consulted on, affordability and vulnerable customers were engaged, and if / how DNSPs responded to customer views in their proposals
- Views on small step changes and whether they are / should be covered by base and trend or should be absorbed, particularly given affordability concerns and that the historical opex for a number of Victorian DNSPs has been below the AER's forecasts over recent regulatory periods.

6.1. What AusNet is proposing

Section 7 of the AusNet proposal covers AusNet's operating expenditure proposals for 2026-31.

Section 7.9 of AusNet's proposal describes the step changes AusNet has included in its expenditure forecasts, as well as the step changes it proposes to absorb.

AusNet proposes 11 (9 positive and 2 negative) step changes relating to new regulatory obligations, capex/opex trade-offs and new initiatives. AusNet states that additional funding is required to efficiently meet its customers' evolving needs through education and improved communications, uplifting its customer relationship management resources, improving network safety and resilience along with complying with new obligations. AusNet's proposed step changes are outlined in the table below.

Offsetting these increases are $62 million of affordability measures that AusNet has incorporated in its forecasts to help address its customers' affordability concerns. These measures comprise:

- AusNet has not included additional opex running costs for SAPs ($0.5m).
- Labour cost synergies between flexible exports and emergency backstop ($3m).
- Absorption of the following costs:
    - Additional labour costs due to expected EBA outcomes ($20m).
    - Additional SOCI expenditure to uplift physical security across 70+ distribution sites ($2m).
    - GSLs for controllable services, to increase our accountability to deliver positive customer outcomes ($3m).
    - Digital additional opex associated with higher license costs for existing systems and platforms ($4m)
    - Additional opex associated with increased fleet requirements ($14m)
- Negative step changes for:

- Efficiencies resulting from Digital investments ($4m).
- Electrification of the AusNet fleet ($0.7m)

- Adjustment to reflect expected avoided GSLs due to reliability investment ($2m).
- Synergies between customer relationship managers and emergency preparedness staff ($9m).

Proposed opex step changes ($m, real 2025-26)

Step change	Driver	Total over 5 years
Emergency Backstop Mechanism	New Regulatory Obligation Capex/Opex trade-off	21.6
ESV direction to conduct more frequent pole inspections	Changed Regulatory Obligation	8.0
Digital (inc. SaaS, licenses etc.)	New initiative and opex associated with capex	39.9
Digital Efficiencies	Capex/Opex trade-off	-3.9
Flexible Services and non-network solutions	Capex/Opex trade-off	8.5
Fleet Electrification	Capex/Opex trade-off	-0.7
Customer relationship management and broad communications	Customer driven initiative	15.7
Early Fault Detection	New initiative and opex associated with capex	7.8
Resilience (Hazard Tree Program)	Capex/Opex trade-off	15.0
Emergency Preparedness and Response	Major External Factor	9.2
Insurance	Major External Factor	10.5
AEMO Fees	New Regulatory Obligation	0 (Placeholder)
Total		**131.7**

6.2. Views of the Coordination Group

The Coordination Group's overall conclusions on opex are:[16]

- AusNet has done a good job overall of eliciting customer views for the step changes where there was engagement (i.e. customer relationship management, flexible services and non-network solutions, innovation and hazard tree/resilience program), at times consulting and even collaborating with customers.
- Their operating expenditure proposal for those step changes is broadly consistent with customer preferences and generally reflects the views and feedback expressed by the Coordination Group and the Panels, though we have comments on the hazard tree analysis.

[16] Coordination Group, Independent Report on Regulatory Proposal 2026 -2031, 2 May 2025, section 6.3.1, page 24

- We generally support the categories of the discretionary step changes but agree with the AER's proposed priority assessment of the prudency and efficiency of all step changes.
- To note, as the AER does in its Issues Paper, that the number and total size of step changes is not consistent with the Better Reset Handbook expectations of step changes being small in number.
- Notwithstanding the consistency with the AER's methodology we believe AusNet should be more ambitious in their opex productivity and look forward to the AER review of the methodology in 2026.

The Coordination Group also made further comments specifically on step changes:[17]

> There are an unusually large number of step changes that relate to:
>
> - Regulatory changes – Emergency Backstop ($21.6m), Energy Safe Victoria (ESV) direction for more frequent pole inspections ($8.0m) and AEMO Fees ($0 placeholder),
> - Accounting treatment in a capex/opex trade-off – e.g. digital efficiencies, flexible services and fleet electrification, and
> - Opex costs associated with proposed capex and customer driven initiatives e.g. digital, customer relationship management and broad communications and early fault detection
>
> The total proposed costs of the nine positive and two negative step changes is $131.7m or 8.4% of total forecast opex. This unusually high level compares to 15.6% for Powercor, 12.8% for CitiPower, 16.8% for United Energy and 7.2% for Jemena – reflecting, in part, the common regulatory changes all Victorian electricity distribution networks face. By contrast, in their 2025-30 proposals, step changes were 0.6% opex for Energex, 0.3% for Ergon and 5.6% for SAPN; for 2024-29 resets Ausgrid was 2.7%.
>
> Apart from the ESV direction on more frequent pole inspection, we do not offer comments and leave the AER to assess, where required, whether the proposed expenditure is prudent and efficient. Our focus is on the other step changes with many resulting from AusNet responding to customer issues raised during engagement. Our comments are more qualitative as we leave it to the AER to assess the prudency and efficiency of the proposed expenditure.

The Coordination Group went further to comment on these other individual step changes. Some of their comments are:[18]

- ***ESV direction on pole inspections:*** We look to the AER to scrutinise the proposed step change closely.
- ***Digital (incl SaaS and licences):*** Were these limitations due to poor operational management or implementation of previous initiatives, or were they simply due to increased demands on field staff that had not been foreseen? Recognising there is unlikely to be an objective answer to such questions we nonetheless urge the AER to

[17] Coordination Group, Independent Report on Regulatory Proposal 2026 -2031, 2 May 2025, Appendix B, page 50

[18] These are selective quotes to support this advice to the AER. The Coordination Group considered each step change in considerable more detail than these short extracts reveal.

consider carefully whether any of these initiatives should, at least, be partly self-funded by the business.

- ***Customer relationship management:*** we also look to the AER to monitor that AusNet follows through on this and other areas of accountability for customer-supported discretionary spending.
- ***Early fault detection:*** We can support the idea and leave the AER to assess prudency and efficiency given the difficulty to assess benefits.
- ***Resilience (hazard tree program):*** We leave the AER to assess whether AusNet has provided the required rigour of an optimal opex/capex trade-off given the current state of understanding of the issue.
- ***Insurance****:* The issue of insurance, particularly how risk is shared between networks and consumers, is becoming a significant issue as network resilience is becoming a significant issue. How much should networks use opex and capex to minimise risk and how much should consumers rely on insurance, in the market where increased resilience risk is making insurance more expensive? It is an issue we hope the AER takes up in its Resilience Guideline referred to above.

6.3. Views of CCP32

There is a common theme here. The customer facing step changes largely have been the subject of effective customer engagement. AusNet is responding to customer expectations so that they will deliver what customers have expressed a desire to see delivered.

However, even though costs and benefits were provided as part of stakeholder engagement, customers are still relying on the AER to assess the prudency and efficiency of the proposed expenditure. Customers are also relying on the AER to assess whether the proposed step changes meet the requirements of step changes as set out in the NER and the regulatory framework more generally.

7. Incentive mechanisms

We have been asked specifically for views on CSIS:

- Does CCP32 have any views on best practice for developing the CSIS incentive design and the appropriateness of each DNSP's CSIS engagement, noting that the CSIS requires genuine engagement, collaboration and co-creation with the DNSP's customers?
- Does CCP32 consider that CSIS targets based on historical average performance genuinely encourage improvement against performance parameters, or would this be merely encouraging the status quo or very minor improvements only? Should performance targets significantly improve on historical average performance?

7.1. What AusNet is proposing

Section 13 of the AusNet proposal covers AusNet's proposals in regard to incentive schemes.

Section 13.4 of AusNet's covers the proposed Customer Service Incentive Scheme (CSIS) in particular.

AusNet's proposal sets out:

> Our proposed design targets areas customers particularly value and want improved, as evidenced by our engagement with our panel and customers.
>
> For the 2021-26 regulatory period, AusNet co-designed the first CSIS in Australia. The CSIS was developed to provide more holistic incentives to improve customer experience, replacing an incentive for time taken to answer the telephone. The Customer Forum at the time and AusNet agreed the CSIS is a significant improvement on the existing incentive arrangements, but that it is only one element of AusNet's commitment to improving customer experience, and that the scheme will need to evolve over time.
>
> As part of that evolution, we have engaged extensively with our Customer Experience Panel on the design of the updated CSIS for 2026-31. Early in the engagement process, we co-designed a set of Focus Questions with the Panel, which were the focus of our engagement. Related to the CSIS, we worked with the Panel to answer the following Focus Question: "**How might we design a CSIS that delivers maximum benefit for customers?"**.
>
> Our engagement with the Customer Experience Panel on the CSIS design and principles included:
>
> - reviewing the current CSIS metrics with a view of whether changes needed to be made for 2026-31
> - revenue at risk for the CSIS
> - C-Sat methodology
> - setting targets for the new CSIS metrics.
>
> Through deliberation over a number of discussions the Customer Experience Panel supported the following guiding principles:
>
> - Continue to include customer experience metrics (i.e. C-SAT), however consider adding service level measures to have a mix of satisfaction and service level parameters.

- Continue to include overarching C-SAT measures (e.g. satisfaction with the overall planned outage experience) rather than specific aspects (e.g. satisfaction with communication on the planned outage).
- Customers should not pay twice for service improvements (i.e. through the CSIS and other expenditure allowances).
- AusNet should be ambitious with their CSIS, setting stretch targets and increasing the revenue at risk of the incentive, up from +/- 0.5% in the 2021-26 period, to reflect AusNet placing a high value on customer satisfaction and experience.

At our EDPR stakeholder offsite in August 2024, we received support from stakeholders on:

- Our proposed performance parameters for the 2026-31 CSIS, which includes removing a claims C-SAT metric that is part of the 2021-26 CSIS due to data issues and introducing a new service level metric for first-call resolution.
- Our proposal to change the C-SAT surveying methodology from telephone to online, due to significant benefits that can be extracted from moving away from an outdated surveying approach using telephone calls.

We also engaged on the CSIS through our Draft Proposal, where we presented the updated CSIS metrics and our proposed methodology for setting targets in 2026-31. Our EDPR Coordination Group wrote in their submission to the Draft Proposal that they support our CSIS proposal, provided that the metrics are sufficiently challenging. We also received some further feedback from other submissions that we outline in section 2.5.4.

7.2. Views of the Coordination Group

The Coordination Group report says in regard to the CSIS:

> Customer service improvements continue to be a stated customer preference. AusNet engaged significantly with customers and other stakeholders on the performance of the CSIS and on how it could be improved. In response to this engagement, some metrics were changed and revenue at risk was increased from ±0.5% to ±1%.
>
> …
>
> The Coordination Group supports the proposed CSIS, provided that the metrics are sufficiently challenging and that customers are not paying twice – i.e. they are not funding the CSIS and a significant increase in capital expenditure to meet CSIS targets.

7.3. Views of CCP32

In response to the questions posed by the AER:

We are aware that the CSIS requires genuine engagement, collaboration and co-creation with the DNSP's customers. Our limited personal observations, combined with what AusNet has written in its proposal and the views of the Coordination Group, all serve to give us confidence that AusNet has engaged appropriately in the CSIS design and development.

The AER also asked:

> Does CCP32 consider that CSIS targets based on historical average performance genuinely encourage improvement against performance parameters, or would this be merely

encouraging the status quo or very minor improvements only? Should performance targets significantly improve on historical average performance?

CCP32 considers that the objective of a Customer Service Incentive Scheme is to encourage improvements in customer service performance that customers are willing to fund. The inherent ambition for customer service excellence that emerges from AusNet's engagement on its CSIS will not be achieved by merely seeking to match historical performance levels. Incentive rewards should only be paid on the achievement of stretch targets, not on business-as-usual performance.

In this context we note that AusNet's proposal is to set the CSIS metric targets for 2026-31 based on historical performance. However, importantly AusNet also states:

> We will apply performance deadbands again to our assessment approach so that we are only rewarded or penalised for significant improvements or decrements to customer service levels. This approach incentivises genuine improvements in line with the value of the service improvements to our customers.

8. Tariffs

We have been asked specifically by the AER for:

- CCP32 views on how tariffs in general were explained by the DNSPs and understood by stakeholders and how meaningful CCP32 found the engagement. For example, this might include whether feedback from stakeholders was incorporated into the proposals and if not, did the DNSPs explain why feedback was not incorporated.
- Whether CCP32 consider there are any specific consumer perspectives/concerns overlooked or not well addressed.
- Based on CCP32 observations on engagement does CCP32 have any thoughts on the proposed small business tariffs and assignment policies

8.1. AusNet's approach to tariffs

AusNet's approach to tariffs is set out in its Tariff structure statement (TSS) compliance document and explanatory document that are part of its regulatory proposal.

AusNet's proposal sets out[19]

> Our Tariffs & Pricing Panel spent 25.5 hours across 8 meetings as a panel and collaborated (to the extent it was able) on the approach to designing and implementing network pricing that reflects customer behaviour and electricity usage in this proposal. The panel also participated in the joint network tariffs engagement activities.
>
> **The Tariffs & Pricing Panel designed and answered the following focus questions.** Complete answers are published on Community Hub and attached as a supporting document:
>
> - How might we allocate revenue across different tariff classes in a balanced, justified and proportional way, that also provides support for customers with specialised needs?
> - How might we better analyse and understand customer impact, including understanding the impact of 'doing nothing', to help us make more informed decisions?
> - How might we use tariffs to enable and facilitate an energy transition without unexpected downside impact, and reflect the value of CER in the energy system irrespective of their specific technologies?
> - How might we build customers' agency on tariff choices, and smoothly support customers to transition to cost-reflective tariffs?
> - How might we ensure tariff design reflects agreed pricing objectives?
>
> **The Tariffs & Pricing Panel reached the following key agreements:**
>
> - There are limited opportunities to make substantive changes to the revenue allocation between tariff classes.
> - Tariff classes should be technology neutral as much as possible, given the rapid emergence of new technologies. There was also an acknowledgement some tariffs may only be effective with specific technologies.

[19] Section 2.4.7.2, Tariffs and Pricing, page 40

- Need to update the opt-in Time of Use (TOU) tariff to incorporate a low-cost solar soak period.
- In the absence of a mandatory transition to TOU (government mandated optional assignment policy), there is still value in implementing a broader communications strategy to inform the public about the changing tariffs and opportunities to save (among other topics). Noting distributors should play an active role in encouraging customers to move to TOU tariffs.
- Government policy is clear that the two-way CER tariff will be opt-in, but should have a low incentive and be available to all.
- The tariff impact assessment should be more 'personalised', including examples of customers underpaying or overpaying based on current tariffs, including understanding the impact of 'doing nothing'.

The Coordination Group's Report on our Draft Proposal provides a detailed overview of our panel members' feedback on our engagement with them and the extent to which the Draft Proposal reflects customers' views and preferences. An excerpt is below. The Tariffs & Pricing Panel met once more in November 2024, to inform on related feedback we've received on the Draft Proposal to date and confirm how the topics in the Panel's remit will be presented in this Proposal.

Excerpt from the Coordination Group's Report on the Tariffs & Pricing workstream

The panel is supportive of both AusNet's direct engagement but also the joint DNSP engagement around tariffs and tariff reform. The engagement was detailed, included a diverse group of customer classes, consumption types and those with various community energy resources. The engagement included responsive modelling, which further enhanced and nuanced consumer preferences. This was expressed in adjustments to the peak rate window, the strength of the price signals, the appetite for two-way pricing and preferences regarding the community energy resource tariff. Unfortunately, the key enabling piece for the introductions of the supported tariffs is contingent on a change in the Victorian government policy

There is also discussion on tariffs elsewhere in the proposal, including:

- AusNet's tariff strategy[20]
- In regard to capex and how "cost reflective" tariff update can affect capex requirements.[21]

See Appendix 3 – Joint DB Engagement on Tariff Structures – regarding joint engagement on tariff structures that AusNet undertook with the other four Victorian DBs.

8.2. Views of CCP32

8.2.1. Residential customers

AusNet's proposals for **residential customers** followed from the joint DB engagement on tariff structures set out in Appendix 3:

- Workshop participants collaborated on some tariff design choices e.g. whether solar soak should be offered during non-summer months, and proposed changes to TOU windows. However, they were limited to choices that the DBs said would be acceptable to the Victorian Government.

[20] Executive Summary, page 21
[21] See pages 113, 114 and 115

- Customer advocates from several network consumer advisory groups engaged with the Victorian Energy Minister calling for a more ambitious transition away from single rate tariffs.
- At the third workshop, an optional two-way CER tariff was introduced, based on discussions that the DBs had held with the Victorian Government. Limited options were offered and discussed, without a consensus being reached.
- Some customer bill impact analysis was provided in the three joint DB workshops, but only for five archetypes of residential customers (e.g. homes with solar).

The Coordination Group expressed support for TOU tariffs and supported consistency across the Victorian DNSPs. These were key themes that emerged from the joint DB tariff workshops.

8.2.2. Small business customers (consuming no more than 40MWh per annum)

Joint DB consultation paper on Small Business Network Pricing

Following the holding of the three workshops referred to above, a joint DB consultation paper on Small Business Network Pricing was issued in June 2024. We were not involved in the development of the paper or in how the DBs ensured that small businesses received the consultation paper and were assisted in responding. This consultation process does not seem to be mentioned (or taken into account) in AusNet's proposal, though it is mentioned and cited in other Victorian DBs' regulatory proposals for 2026-31.

AusNet's proposal for small business tariffs

In the 2026-31 regulatory period, AusNet is proposing to make minimal changes to its small business tariffs. It is proposing to:

- maintain the existing small business ToU tariff with no change made to the tariff structure;
- retain the small business assignment policy; and
- close the small business embedded network tariffs that have zero customers from 1 July 2026.

In contrast to residential customers, AusNet and the other Victorian distributors are not proposing to introduce a solar soak period or a new CER tariff for small businesses.

As set out by AusNet:[22]

> Designing efficient tariffs for small businesses is challenging due to the different types of small businesses, the diversity in consumption profiles and where they are in our network. We also acknowledge that while some small businesses may be able to shift their consumption, others will have limited flexibility to do this (for example, shops open during business hours or restaurants that open during mealtimes). When considering which network tariff and structure to apply to small business, we need to consider customers' needs and balance it against making our tariffs more cost reflective. We are particularly mindful of the potential impact on small businesses who may have limited choice about when to consume electricity to carry out their business operations to serve their customers.

[22] See AusNet TSS Explanatory paper 2026-31, section 4.2.1.1, page 30

> Instead of designing complex network tariffs to target a diverse set of small business customers, AusNet and the other Victorian distributors are proposing to keep things simple by retaining the two rate ToU tariff as the default tariff.

The justification for maintaining the existing small business ToU tariff and for not proposing to introduce a solar soak period or a new CER tariff for small businesses seems to be based on desk research and distribution substation analysis rather than specific engagement with small business customers. This is notwithstanding that in response to the distributors' joint consultation paper, several respondents suggested that distributors should consider solar soak periods for small and medium business customers.[23]

An alternative approach, on which AusNet might have engaged, would have been to target tariff reform on small businesses that may be able to shift their consumption. This may have resulted in "designing complex network tariffs to target a diverse set of small business customers" as AusNet has put it, or it may have been no more complex than the residential tariff reforms being proposed.

8.2.3. Medium and large commercial and industrial customers (consuming more than 40MWh per annum)

We are not aware of any joint DB engagement with medium and large commercial and industrial customers (consuming more than 40MWh per annum). We understand that AusNet discussed tariffs one-on-one with medium and large commercial and industrial customers (consuming more than 40MWh per annum): we had no visibility into those discussions.

[23] Jemena 2026-31 Electricity Distribution Price Review Regulatory Proposal, Attachment 09-02, Tariff Structure Statement – explanatory statement, section 7.4 Small and medium business customers – Customer engagement

Appendix 1 – Network resilience

Resilience has been a substantial issue for network businesses over recent years, both in Australia and overseas. For example, NSW DNSPs in their 2024-29 resets placed a major engagement effort on resilience, driven by significant 'events' including major bushfires in 2019/20, repeat flooding events and damaging storms.

In April 2022 the AER released a resilience guidance note[24] to provide guidance to network businesses as well as consumers about how they would consider resilience specific (as opposed to reliability focused) expenditure proposals. This guidance note included:

> *"To support evidence that resilience funding is prudent and efficient to achieve the expenditure objectives, the AER expects NSPs to demonstrate, within reason, that:*
>
> 1. *There is a causal relationship between the proposed resilience expenditure and the expected increase in the extreme weather events.*
> 2. *The proposed expenditure is required to maintain service levels and is based on the option that likely achieves the greatest net benefit of the feasible options considered.*
> 3. *Consumers have been fully informed of different resilience expenditure options, including the implications stemming from these options, and that they are supportive of the proposed expenditure."*

The report also recognised that promoting community resilience is important too, defining this as:

> *"The ability of communities to withstand and recover from the impacts of natural disasters."*

More recently a report considering The Value of Network Resilience was published in September 2024.[25] In releasing the final decision of this process, the AER noted:

> *"Our initial value will be applied to the upcoming Victorian distribution networks electricity determinations for 2026-2031. Victorian distribution businesses are expected to use this initial value to inform their proposed resilience investments in their networks as part of their regulatory proposals."*

In releasing this report, the AER also said that *"we will continue to work with stakeholders to develop a more robust and enduring approach throughout 2025."*

CPU businesses and Jemena made submissions to the process and were supportive of the direction being taken, with the CPU businesses highlighting that:

> *"The wealth of knowledge from customer and stakeholder engagement to date should be appropriately utilised in pricing determinations."*

[24] https://www.aer.gov.au/system/files/Network%20resilience%20-%20note%20on%20key%20issues.pdf
[25] https://www.aer.gov.au/industry/registers/resources/reviews/value-network-resilience-2024/final-decision

The Victorian Government has also been giving policy attention to electricity network resilience with a review conducted between September 2021 and May 2022 and the Expert Panel making 35 recommendations. More recently the Energy Minister stated on 20 December 2024:[26]

> *"The Government initiated the independent Network Outage Review following the February 13 (2024) storm event, which caused widespread damage to around 12,000 kilometres of powerlines lines, and left over 531,000 customers off power supply at its peak.*
>
> *Implementing these recommendations will ensure Victoria's privately-owned electricity transmission and distribution businesses are better equipped to prevent, prepare for, and respond to severe weather events….*
>
> *The final design of this scheme and payment amounts will be subject to consultation"*

It is expected that there will policy and program decisions about resilience announced during 2025, which will likely impact on the DNSPs and be reflected in their revised revenue proposals late in 2025.

The Victorian DNSPs have been part of the processes to consider regulatory approaches to resilience.

Victoria experienced major flooding and storm events over 2021-24, while memories of ugly "Black Summer" bushfires of 2019-20 are still fresh for some communities. In developing their regulatory proposals, the Victorian DNSPs have undertaken resilience specific engagement with consumers, including:

- The five Victorian DNSPs shared in a resilience focused workshop in October 2023 with about 70 participants from 40 organisations developing joint resilience investment principles to be used to underpin a "framework for engaging with customers and stakeholders"
- The five DNSPs also agreed to establish a *"Resilient Network Investment Framework to provide structure, guidance, principles and criteria for resilience investment decision-making for the 2026-2031 period"*[27]

<u>CCP32 observations</u>

There can be little doubt that the "black summer" fires and major storms through 2021 and 2024 have left consumers, governments and electricity networks all anxious about the risk of more frequent and high impact extreme weather and fire events. Resilience is consequently a crucial topic for DNSPs to be actively considering and engaging on with customers and stakeholders.

The Victorian DNSPs are to be commended for affording resilience a level of priority and for their commitment to plan together and to engage actively with consumers and stakeholders, including State and Local Governments.

While there was some difference in consumer opinion about the priority responses to extreme weather risk, in significant part based on geography, the key messages that were almost universal were that recovery after a weather event and availability of clear, timely and accurate information are both crucial.

[26] https://www.premier.vic.gov.au/sites/default/files/2024-12/241220-Building-Power-Network-Resilience-In-The-Face-Of-Storms.pdf
[27] https://engage.unitedenergy.com.au/regulatory-reset/resilient-network-investment-framework

The networks have heard these messages and responded, we think, with an appropriate focus on readiness for returning electricity supply as soon as safe, after an extreme weather event. Expenditure on strategies including response vehicles (eg MERV), mobile generators and batteries add to existing network capacity, are appropriate priorities and are modest in the DNSP proposals.

Similarly, well located community liaison and support staff are a prudent expenditure able to work with communities, enhance preparedness and assist in bringing together local community groups and plans, all building trust and cohesiveness, particularly in post event recovery. Again, we consider that the proposed expenditure of this nature is modest and appropriate.

The more vexed question is about the extent of capex that it is prudent to spend on "network hardening," where this comprises major capex projects.

Where resilience spending also supports higher priority capex expenditure that provides value to customers, it is appropriate. The proposed Powercor spending on SWER line upgrades in parts of their rural region is a case in point.

The Victorian DNSPs have consulted effectively on resilience concerns and have heard customer and stakeholder concerns and priorities. Their regulatory proposal expenditures are responsive to consumer and community priorities, modest (compared to what they could have been) and well considered.

The challenge for all five businesses is to continue to engage effectively with consumers and communities and to efficiently deliver what they have agreed to.

Appendix 2 – Electrification and Consumer Energy Resources

Electrification

The energy sector in Australia is rapidly changing to a model of renewables-based distributed generating resources. Electrification is supporting the move of the energy sector towards net zero emissions targets, and involves the shift in end uses of electricity – including transport and heating- away from fossil fuel sources.

In August 2024, the Victorian Government published a document titled Cheaper, Cleaner, Renewable: Our Plan for Victoria's Electricity Future. The document forecasts that by 2035:[28]

- *Electricity use will increase by about 50% compared to 2024, driven by the electrification of homes and businesses, uptake of electric vehicles, and new industrial load growth.*
- *There will be an increasing amount of electricity use through the conversion of gas products to electricity and through transport, with the addition of 1.4 million electric cars and an equal amount of charging ports. Electric vehicles will consume 8 terawatt hours of electricity every year, while an additional 7 terawatt hours of annual electricity consumption will be associated with electrification - gas usage that will be replaced with electricity.*
- *To support this increase in consumption, about 11.4 GW of new grid-scale renewable generation projects will need to be connected to the Victorian transmission and distribution networks, with a total of 222 offshore wind turbines and 900 additional land- based turbines.*
- *Around 7.6 GW of additional rooftop solar (an extra 27 million solar panels) and 4.3 GW of distributed storage will be installed, including behind-the-meter batteries, demand-side participation and smaller front-of-meter assets such as neighbourhood batteries.*

The Victorian Government's plans to shift away from fossil gas usage are detailed in Victoria's Gas Substitution Roadmap, a document which is updated annually. Key features of the December 2024 update include:

- Listing policy actions that have been taken to date, including the gas connections moratorium, strengthening national efficiency standards for new homes and prohibiting gas distribution businesses from providing incentives to connect gas; and
- Highlighting actions that are under consideration including energy efficiency standards for rental homes and mandating the progressive electrification of existing buildings.

Consumer Energy Resources (CER)

Consumer Energy Resources is the term used to describe energy technology that is installed at a customer's premise, and includes solar pv, battery storage and electric vehicles.

As at August 2024, solar panels were installed on 30% of Victorian homes, and this number is expected to continue growing over the next regulatory period. While rooftop solar provides many benefits, including savings for customers and a reduction in Victoria's carbon emissions, high solar uptake can also lead to system security challenges such as minimum system load.[29]

The cost of battery storage is rapidly declining and is likely to continue to decrease. The Australian Energy Market Commission (AEMC) also noted that warranted lifetimes for battery storage are

[28] https://www.energy.vic.gov.au/renewable-energy/victorias-electricity-future
[29] Powercor, Regulatory Proposal 2026-31, p. 11

increasing, the incentive to store low-cost solar energy and use this energy in peak periods is increasing, and that by 2025, battery installation may be financially viable for a number of households with solar PV installed. Given these developments and different rebates offered by the federal and state governments to encourage uptake of rooftop solar, battery storage and EVs it is expected that Australia will see high uptakes of battery storage in coming years.[30]

Electric Vehicles present an opportunity to increase the utilisation of the electricity distribution network and, if the additional electricity used in EV charging can be managed, abate the expected increase in peak demand. With vehicle-to-grid technology, EVs can act like a "battery on wheels" and become a valuable generating resource if coordinated properly.[31]

Every electricity distribution network today is faced with the challenge of how to facilitate, enable, integrate and optimise effective CER operation into their network at the least cost. To meet this challenge, network businesses have each developed a CER Integration Strategy, which typically seeks to:[32]

- maintain distribution network reliability, quality of supply, and resilience
- support power system security, stability and optimisation
- provide fair and cost-effective distribution network access and CER enablement
- provide and utilise network capacity in an efficient, economic, coordinated and timely manner
- enable and facilitate competition and new services for energy market participants; and
- meet regulatory obligations.

[30] Jemena Regulatory Proposal, p. 37
[31] Jemena Regulatory Proposal 2026-31, p. 37
[32] Jemena Regulatory Proposal, Attachment 03-01, p. vii

Appendix 3 – Joint DB Engagement on Tariff Structures

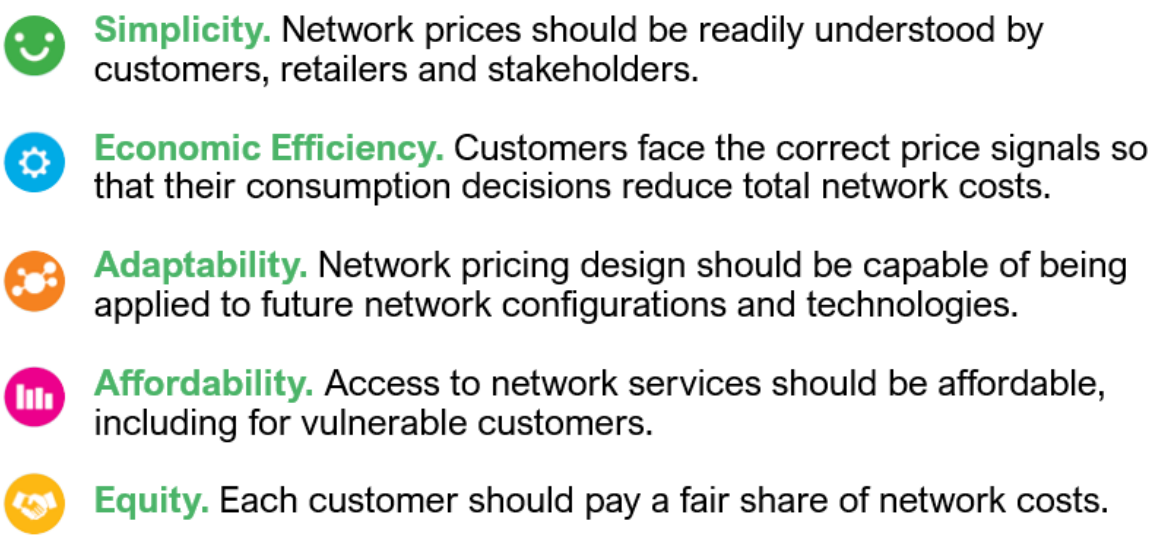
Residential customers

There were three joint DB workshops on residential tariff structures which were attended by consumer advocates and other interested stakeholders. These were held on:

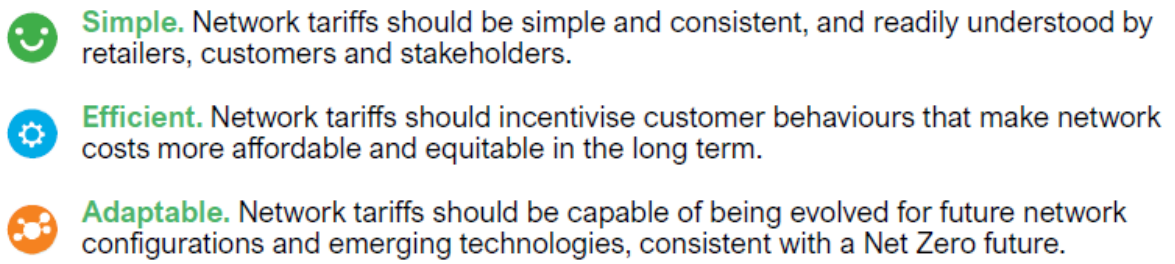
- 10 August 2023
- 16 November 2023
- 16 April 2024

A representative of CCP32 attended the third and final workshop in the series.

Workshop 1 discussed the then current pricing objectives of the Victorian DBs:



These were reduced to three objectives, which were discussed in workshop 2 and carried forward to the DBs' Tariff Structure Statements in their regulatory proposals:



The materials we have seen from workshop 1 refer to residential and small business tariffs. Workshop 2 does not refer to small business tariffs, and the focus of workshop 3 which we attended was specifically on residential tariffs.

The Victorian Government controls the Victorian Tariff Order which regulates network tariffs in the state. The DBs informed stakeholders at the workshops that the Victorian Government had established key policy positions that will pertain to the 2026-31 regulatory period. Specifically,

residential customers on flat rate tariffs would remain on flat rate tariffs unless they opt to change, and that export charges would be permitted only on an opt-in basis.

Workshop participants collaborated on some tariff design choices e.g. whether solar soak should be offered during non-summer months, and proposed changes to TOU windows. However, they were limited to choices that the DBs said would be acceptable to the Victorian Government.

Customer advocates from several network consumer advisory groups engaged with the Victorian Energy Minister calling for a more ambitious transition away from single rate tariffs.

At the third workshop, an optional two-way CER tariff was introduced, based on discussions that the DBs had held with the Victorian Government. Limited options were offered and discussed, without a consensus being reached.

Some customer bill impact analysis was provided in the three joint DB workshops, but only for five archetypes of residential customers (e.g. homes with solar).

Small business customers (consuming no more than 40MWh per annum)

Following the holding of the three workshops referred to above, a joint DB consultation paper on Small Business Network Pricing was issued in June 2024. We were not involved in the development of the paper or in how the DBs ensured that small businesses received the consultation paper and were assisted in responding. The paper focused on network tariffs that apply to small business customers (consuming no more than 40MWh per annum), including pricing structures and tariff assignment rules. This paper aimed to provide information to stakeholders, including small business advocates, on these issues, and sought feedback on the questions raised in the paper. The paper stated that feedback received would be considered by the DBs in deciding the pricing structures for small business customers for the 2026-31 regulatory period.

The paper sought views on six questions:

1. Do you see value in changing the small business default ToU peak period from 9am-9pm to 8am-8pm to reflect the current small business peak load profile?
2. Should a solar soak period be introduced into the small business default ToU tariff, and if so, why?
3. Do you agree that small businesses should be able to remain on existing their single-rate tariff, or be able opt into a single-rate tariff?
4. Should we retain the small business opt-in demand tariff?
5. Should we introduce a small business CER tariff, and if so, what benefits will this tariff provide in meeting our pricing principles?
6. Do you agree or disagree that there is no reason to change the current tariff assignment rules? Please provide your reasoning.

We understand that only a few submissions were received, and we have not sighted any of the submissions. There are many possible reasons why only a few submissions were received.

We are though aware from the Jemena proposal:

> In response to our joint consultation paper, several respondents suggested that distributors should consider solar soak periods for small and medium business customers.[33]

The IAP2 Spectrum of Public Participation sets out five levels of participation: *Inform, Consult, Involve, Collaborate, Empower*.

Consult has the public participation goal "To obtain public feedback on analysis, alternatives and/or decisions."

The consultation met this goal.

Inform has the promise: "We will keep you informed."

Consult has the promise: "We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision."

The consultation paper did not promise to keep small businesses informed. Nor have we seen any evidence that the DBs kept those who made submissions informed during deliberations on small business tariffs in the lead up to the businesses' draft plans and regulatory proposals.

Medium and large commercial and industrial customers (consuming more than 40MWh per annum)

We are not aware of any joint DB engagement with medium and large commercial and industrial customers (consuming more than 40MWh per annum).

[33] Jemena 2026-31 Electricity Distribution Price Review Regulatory Proposal, Attachment 09-02, Tariff Structure Statement – explanatory statement, section 7.4 Small and medium business customers – Customer engagement