Consumer
Challenge
Panel

CCP32 Advice to the Australian Energy Regulator on the 2026-31 Regulatory Proposal for United Energy Electricity Distribution Network

Consumer Challenge Panel (CCP) Sub-Panel CCP32

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Table of Contents

Acknowledgements

Acknowledgement of Country: We acknowledge the Traditional Custodians of the various lands on which the National Electricity Market operates, and where United Energy 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 CitiPower, Powercor and United Energy (CPU) as well as AER staff, and CAP (Consumer Advisory Panel) members 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, United Energy is required to submit a Regulatory Proposal to the AER for its electricity distribution network, setting out the network investments and revenue 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 United Energy's 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 United Energy's 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, and a greater emphasis on the impacts of the move to electrification and consumer energy resources (CER) by Victorian consumers. These influences are further described in Appendices 1 and 2 respectively.

Note: All financial information in this report is presented in real 2025-26 dollars, unless otherwise stated.

Note: Page numbers quoted in this document refer to the page in United Energy's "Regulatory Proposal 2026-31. Part B: Revenue and expenditure forecasts."

This is one of five submissions that CCP32 has prepared in response to revenue proposals from each of the Victorian Electricity distribution businesses. All focus on a set of questions that the AER has asked us to consider, shown in italics for the relevant sections.

2. Consumer engagement

Matters impacting engagement

In considering the consumer engagement conducted by United Energy and the impact of this engagement, there have been two limiting factors.

1. Late appointment of CCP

For CCP subpanel 32 (CCP32) there has been very limited capacity of CCP32 to observe engagement activities conducted by United Energy due to the timing of member appointment.

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

United Energy began its engagement for the 2026-31 regulatory period early, keen to learn from feedback relating to their 2021-26 regulatory period engagement and committed to put in place people, specifically for its CAP (Consumer Advisory Panel) who could work with the CPU businesses for the duration of the period of development of the regulatory proposal. This means that CCP32 missed much of the foundation engagement that was undertaken.

2. Three businesses is harder

United Energy is one of three Victorian Electricity distribution businesses with similar ownership, along with CitiPower and Powercor. (We refer to the three businesses collectively as CPU), For a range of sound reasons, CPU elected to consolidate as much of their engagement as possible into single processes, with business specific processes as needed. This means that the CAP was required to consider and provide advice for 3 businesses. We note that while there is much in common for three Victorian electricity distribution businesses, there are some significant differences too. Powercor is the largest of the three businesses with responsibility for a substantial regional and rural geography and population, while CitiPower is geographically and functionally highly concentrated as the inner city network for a large city. United Energy services the eastern and southeastern suburbs of Melbourne and the Mornington peninsula with some agricultural production and highly transitory populations since the district is very popular for tourists and holiday makers, particularly during the Summer.

CAP members said that considering three networks was *"really tough"*(CCP32 agrees). They recognised that CPU tried to not do one size fits all, but the "reality" was difficult, including the challenge of having all CAP members getting up to speed on all three businesses.

Other contextual considerations

Further to the business specific engagement undertaken by CPU, the five Victorian electricity distribution businesses (the CPU businesses as well as AusNet Services and Jemena Electricity Network) conducted a joint engagement program on tariff structures with further details of the joint engagement and the outcomes provided in Appendix 3.

The five businesses also collaborated early in the process on considering network "resilience." This joint work is considered separately in Appendix 1.

CCP32 also recognises the substantial commentary that has accompanied regulatory proposals from both Victorian DNSP's (Distribution Network Service Providers) and network service providers from other jurisdictions about the many external factors that contribute to the uncertainty confronting consumers and businesses alike for electricity markets around the world. Uncertainties include the

extent and speed of transition to a zero carbon emissions future, the rate of transition away from gas – significant in Victoria as a high gas use state - and extent of uptake of Consumer Energy Resources (CER) including rooftop PV, home batteries and electric vehicles.

There are also significant policy decisions pending at both National and State Government levels.

Uncertainty creates important opportunities for consumer engagement processes on topics beyond the specifics of running a network, including how risk is shared between consumers, businesses and governments; extent of socialisation of CER enablement; cost / reliability trade-offs; speed of transition and equity in transition impacts, both intergenerational equity and responses to income/wealth inequality.

From a regulatory process perspective, the development of the "Better Resets Handbook"[1] with its 2024 re-release has also been important in shaping regulatory process and emphasising the crucial role of consumer engagement. We note that an "Early Signals Pathway" option was outlined in the Handbook as an option where proposals demonstrating strong engagement and modest price path variations could be rewarded with 'lighter touch' regulation. This option was not proposed by any Victorian DNSP for the 2026-31 resets and the option is withering from the AER's regulatory lexicon.

The Early Signals Pathway (ESP) process has partly morphed into Structured Engagement Pathway

The context for electricity network focused consumer engagement at the moment is 'tricky.'

United Energy engagement

The following discussion and observations from CCP32 are based on less observed engagement than has been the usual approach over the 12 year life of CCP, due largely to the late appointment of CCP32 coupled with limited opportunities to observe actual engagement events and selected opportunities to observe CAP discussions. In developing this Advice CCP32 has relied on:

- Reading engagement focused documentation on the United Energy engagement website.
- Observation of some CAP meetings, with meeting 16 on 5 December 2024 being an extended meeting of 6 hours, focusing on the test and validate feedback to CAP about how their input in response to the Draft Plan had been heard and applied
- Meetings with CPU staff
- Discussions with CAP Chair and Deputy Chair as well as with some individual members.

The CPU businesses started early and, with their CAP, developed an "engagement pathway" that informed engagement and which provided a base for adjustment as the engagement program progressed

The CPU businesses summarise the key phases of their engagement on their engagement website[2] as follows

[1] https://www.aer.gov.au/industry/registers/resources/guidelines/better-resets-handbook-towards-consumer-centric-network-proposals
[2] https://engage.powercor.com.au/powercor-regulatory-reset

The engagement program was refined over time and has been distilled into the following diagrammatic representation of the program as it ran it's course, up to lodgment of the regulatory proposal.

CCP32 observes that the most significant phases of the engagement were the first of the stages, summarised as "Broad and wide" and then the most recent stage "Test and validate" which used the

Draft Plan as a major focus. The "Broad and Wide" stage primarily generated principles that the CPU businesses should apply in developing their regulatory proposal with 'affordability' as the main principle. The "Test and validate" stage focused on the draft plan and so considered some proposed expenditure items in greater detail.

Deep and narrow

While CCP32 was unable to observe much pf the "deep and narrow" engagement, the following chart summarises much of the engagement undertaken in this phase (though not all) and provided the CPU businesses' quantification of the levels of participation across the three businesses. CCP32 is unable to determine the extent of engagement specifically related to United Energy

2024 engagement and research only	CitiPower	Powercor	United Energy	Participation n=
Deep & Narrow				
1. Customer values quantitative analysis with resi & SMB	x	x	x	1519
2. Joint distributor: Finalising the resilience framework	x	x	x	73
3. Joint distributor: Tarriff engagement with informed stakeholders	x	x	x	36
4. Resilience workshops with informed stakeholders		x	X	37
5. Trade-off evaluation: Quant and deliberative engagement with resi. & SMB	x	x	x	1700
6. Future Energy Network forum with informed stakeholders (reporting in 24)	x	x	x	26
7. CER Summit with informed stakeholders (reporting in 24)	x	x	x	38
Total for key programs within the 2024 Deep & Narrow				**n=3429**

CCP32 notes that from the beginning of engagement there was a strong focus on 'value' over 'cost' for consumers and this perspective was strongly promoted by the CAP.

Specifically, the United Energy proposal (Part B, page 12) says

> *"Affordability was a key theme throughout our engagement program, recognising the prevailing cost of living challenges. In the context of the energy transition, however, customer sentiment was also focused on how our network can enable and unlock customer 'value' now and in the future—as noted by the Customer Advisory Panel, the big message on affordability from most, though not all customers, is about value rather than cost".*

Test and validate

At its 5 December 2024 meeting, the CAP was given the following engagement summary by CPU staff:

Test & validate – engagement summary

Who	C&I customers	Residential & SMB customers	Local council groups, sustainability groups, advocacy groups	Regional and rural customers	First Peoples	All customers
Attendees	n=39 (PAL:24, All 3 networks:15)	n=1,272 (CP: 428, PAL:427, UE:417)	n=38 (CP:9,PAL:22, UE:7)	n=26 (PAL only)	n=152 (CP:5 PAL:75, UE:42, Other/unknown: 30)	n=193 (town halls CP:45, PAL:87 UE:61 note these were open to staff) n=9 (feedback form)
Topics	Current and emerging issues, overall proposal, power quality, network tariffs, demand management	Energy use and ability to shift load, electrification, network control, metering replacement program	Energy transition, customer assistance package, innovation fund, modernisation (CitiPower), regional and rural supply (Powercor)	Regional and rural supply, power quality, resilience	Energy consumption and experience, First Peoples Program initiatives	Overall proposal
How we engaged	C&I member groups One on one interviews	Online survey	Roundtables	Regional and rural summit	Online survey Football and netball carnival Baymob Expo	Feedback forms Town Halls

The number of people involved is noteworthy. United Energy says in their proposal overview, in reference to engagement about the draft plan (proposal) (page 6)

> *"Our draft proposal provided a transparent and comprehensive view of our preliminary plans for the 2026–31 regulatory period. Engagement from our customers and stakeholders on our draft proposal has been wide-reaching, with over 300,000 video views across social media, and an estimated total audience of over 900,000 customers."*

We assume that these number refer to responses to draft plans for the 3 CPU businesses, still the numbers are impressive, including the extensive use of videos. CCP32 considers that these were very well developed, clear and of an appropriate length. We cannot validate the numbers given, but have no reason to question them.

In meeting with members of the CAP on 8th May 2025, the following observations were made about CPU's engagement program.

> *"There was a good range of techniques applied and a wide range of input," particularly we suggest, during the "Broad and Wide" stage of the engagement"*

> *"The Businesses set out their strategy early on, took advice willingly, checked in with CAP regularly, were responsive to advice, sat in on customer engagement sessions and for United Energy, undertook good regional engagement."*

It was noted that CAP members observed that the CPU staff willingness to hear and accept critique picked up over the course of engagement. We suggest that this is an indication of the growing maturity of engagement processes from both business and consumer perspectives.

It was also observed that Executive managers were heavily involved, but the CEO and Board members were largely invisible so regarded as not demonstrably listening to customers. United Energy have advised that Stakeholder engagement updates are included in monthly reports to the Board and that stakeholder engagement is a standing item on Board agendas.

The CAP and CPU businesses have talked about "the golden thread" running though the regulatory proposals. (We have also noted previously a genesis of this idea to Sharon D'Arcy from UK agency Sustainability First as presented in the Gill Owen Lecture in February 2018). We understand the golden thread to be the application of consumer derived principles throughout the regulatory processes. CCP thinks that this notion is very helpful and an apt summary of the approach taken by CPU businesses in applying a principles based approach to their regulatory proposal, with affordability first and then value (rather than reliability) as the key principles.

The following comments were provided to CCP32 by CAP members over various discussions.

> *"CAP helped CPU to understand the feedback they got through their engagement."*
>
> *"CPU did well at hearing the tensions and coming back and testing their thinking – golden thread there but hard to see."*
>
> *"One of the better ways I've seen a network think through the range of issues," from a seasoned advocate and CAP member.*
>
> *Last time, AER said to CPU, they were not sure how the engagement all hung together. This time there has been a considered response which has been the "golden thread",*

There was some debate about the role of engagement vs the role of research within the CAP and with CPU business staff. CCP32 observes that high quality engagement is informed by sound research and that the CPU balance has been appropriate.

The CAP was supportive of the approach taken by the CPU businesses telling us:

> *In general there was a plan, it was followed and techniques were tweaked a bit overtime, appropriately"*

When asked about how the golden thread was applied, CAP members said:

> *"The "golden thread" was not that visible in the Draft Proposal, it was better in regulatory proposal, much clearer. The draft proposal lacked sense of priority and scale, the proposal was better."*

We observed, and this was supported by the CAP, that a principles first methodology meant that there was less engagement on the detail, and the focus was on general customer views. The CAP also said that:

> *"CPU did a good job in balancing customer preferences e.g. Affordability / reliability, CER. They landed on bill impacts being minimal which suggests they got a fair bit right."*

The CAP highlighted the value of engaging with C&I customers along with small and medium size businesses, as well as with households.

In its 5th December report to the CAP, CPU businesses discussed their engagement with C&I customers stating that:

> *"Targeted engagement with C&I customers through our test and validate program, with a multi-pronged approach involving:*
>
> *1. Partnership with industry groups such as Energy Users Association of Australia (EUAA) and regional industry groups such as the Committee for Greater Shepparton (United Energy only).*

This is in line with our broader partnership-based approach optimisation, to assist in recruitment of customers and reduce engagement fatigue.

2. One on one interviews with C&I customers, utilising customer contacts in collaboration with our Major Accounts management team and prior engagement participants."

CPU also talked about the ongoing bilateral relationships with large use customers that helps inform United Energy and their 'sister businesses' on an ongoing basis.

There was agreement between CPU staff and CAP members about the usefulness of engaging with SME's, recognising that this is difficult while greater efforts should be made in the future.

For the CAP, in summary, some questions remain about the extent to which testing and validation occurred on some of the detail, with overall satisfaction about the engagement undertaken.

CCP32 observations

CCP32 recognises that the engagement for United Energy was part of an engagement program for the three CPU businesses. It was not always clear cut to us where engagement was United Energy specific and more general to the three businesses. We note that specific engagement relating to Powercor was easier for us to identify, for good reasons – its the largest of the CPU businesses and includes regional and rural communities that are a smaller part of the United Energy customer base. We have sought to identify United Energy specific engagement where we can and note that some of our reflection is blurred between United Energy specific detail and broader CPU approaches.

United Energy used responses to the Draft Plan well and incorporated feedback into the final proposal with a significant range of 'Test and Validate' discussions and events. CCP32 had limited visibility of these, but received feedback about them and we observed the impact on the regulatory proposal as lodged in January 2025

We also observe that the objectives of the Handbook were met though both the recent "Test and Validate" stage and also from the earlier breadth of the engagement program, The Handbook's intent was delivered, including to engage with a broad diversity of consumers. Particularly noteworthy were efforts to meet with and explore perspectives from First Nations people.

CCP32 thinks that it is worth noting that the methodology for consumer engagement that CPU has applied is different in focus, to the consumer engagement approaches that have been applied by many other energy network businesses. The engagement process was commenced very early, with CPU keen to apply lessons learned from their engagement for the 2021-26 regulatory period. There have been three aspects to the proposal development:

1. Principle based: There was a very strong focus on the principles that customers expected to be applied to developing the regulatory proposal. There was a firm commitment in taking this approach "broad and wide" to interact with a diversity of consumer and stakeholder interests.
2. Much of the development of the detail of what would become the regulatory proposal was undertaken internally by the CPU businesses, with a commitment to rigorously apply the principles that had been developed. CPU businesses describe this internal process as being based *"on a robust governance framework."*
3. Test (and validate) the conclusions reached by CPU businesses in applying the principles to more specific aspects of the proposal.

This approach does not provide as much detailed perspective on many specific expenditure items before the draft plan release, with the detail of specific options and expenditure levels largely developed through internal processes. This means that there is likely to be less observable, direct consumer input to 'bottom up' expenditure items but it does provide a more rigorous consumer based "top down" perspective of expenditure levels and priorities. Some CCP subpanels in reviewing network expenditure proposals have asked "where's the pub test?" We suggest that the CPU businesses have applied the "pub test" consistently in developing their regulatory proposal, albeit some of the application has been to internal work processes.

3. Demand forecasts

Q1. CCP32 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 proposed for AusNet and United Energy?
Q2. CCP32 views on 'customer experience' ICT capex proposals
Q3. CCP32 views on how to consider demand risk in assessing expenditure proposals

In general, we observe that demand forecasts have been a constant throughout the reset focused engagement across the 3 CPU businesses. Demand forecasts have been regularly updated, in part in response to uncertainty about future demand including impacts of the transition from gas.

United Energy observed, as part of their 'key engagement findings"

> *"There were mixed views on the speed of electrification of gas, with some stakeholders suggesting forecasts were too conservative and that net-zero targets would be missed, where others suggested that cost and industry logistics to decarbonise were prohibitive."* (Page 17)

The CPU businesses partnered with Monash University in 2023 to "better understand longer term behavioural trends to inform electricity sector planning." This effort to delve into behavioural aspects likely to influence electricity demand is valuable and indicates a firm CPU businesses commitment to trying to get demand forecasting as right as they can.

The appendix to the proposal, "Demand forecasting methodology"[3] provides assurance that a broad range of inputs has been used to generate and text demand forecasts.

United Energy expects electricity demand to increase for a range of reasons including:

- Electrification of transport

  "Collectively, the electrification of transport will increase Victoria's electricity usage by 5 per cent in 2031." Page 20 of regulatory proposal

- Electrification of gas

  "AEMO forecasts that the electrification of gas will result in an additional 2,600GWh of electricity being consumed per year by Victorians, primarily for space and water heating. This is expected to increase consumption by 7 per cent, improve utilisation and shift areas of our network to winter peaking." Page 20

- Population growth
  "By 2031, AEMO forecast population growth of 13 per cent, or an additional 880,000 people calling our state home. In our network area, this is equivalent to an additional 280,000 people." Page 20

Q1. Reliability / Affordability Trade-off

Demand increases are particularly important for customers as an expansion in customer base helps to reduce bills per customer, also meaning that a material increase in customer demand allows for

[3] https://www.aer.gov.au/system/files/2025-02/PAL%20ATT%202.02%20E2%80%93%20Demand%20forecasting%20methodology%20E2%80%93%20Jan2025.pdf

an increase in revenue that the businesses will argue allows for great customer value, while maintaining steady bill impacts.

The risk is that demand doesn't go up to the extent expected and so bills per customer increase. This potential outcome was not observably discussed. Should demand forecasts change between now and the revised revenue Proposal, we'd expect businesses to re-engage with their customer base on customer impacts and trade-offs between expenditure items.

We note that the notion of reliability was reframed as "value" for customers and observe that CPU businesses frame the discussion as how to make reliability happen within an affordability lens, ie "affordability first" – our words not the CPU businesses, but we'd expect them to agree.

The United Energy engagement on value (reliability) / affordability tradeoffs was ongoing, part of the "golden thread" running through the CPU engagement program. United Energy's commitment to an affordability focus has been laudable and reflects that they very clearly heard from customers that this was the priority principle from very early on in the engagement.

CCP32 expects demand forecasts to be a significant aspect of revised revenue proposals, in line with the CPU businesses forecasting methodology and also noting that the 2025 ESOO will be published before the revised proposal, giving high quality electricity demand updates from AEMO, one of the key forecasting inputs.

Q2. 'customer experience' ICT capex proposals

CCP32 was not able to observe much engagement regarding ICT capex requirements and costs. We are satisfied, through United Energy documentation and CAP discussions, that a breadth of engagement has been undertaken. With about 18% ICT capex increase proposed, based on the current period, we have not observed that there has been strong customer reaction for this level of ICT capex increase. We opine that customers regard ICT expenditure as necessary and that it delivers some value, whether the quantum of expenditure is right, consumers, in general, cannot say. We accept that, in part, some ICT costs are exogenously set (by suppliers).

The United Energy ICT capex increase is moderate when compared to other DNSPs, providing some comfort for their customers.

Q3. Demand risk in assessing expenditure proposals

A key principle that should apply in any risk consideration is symmetrical risk sharing, including for re-openers for either much less demand / much more demand.

Forecasting demand, including demand up to 7 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. We were pleased to learn that the AER and DNSPs are working closely together to get a better understanding of demand forecasts and associated risks.

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. Unexpected price increases will only erode customers' trust in the business and in the regulatory process.

CCP32 is not aware of substantial engagement with the CAP or customer groups in which these scenarios, the possible implications and risk sharing were discussed.

We suggest that the following actions be considered:

- AER and Victorian DNSPs 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.
- Should sizeable changes to the demand forecasts become evident prior to submission of CPU businesses Revised Proposals, 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 period, as they were discussed in response to the draft plan

4. Resilience

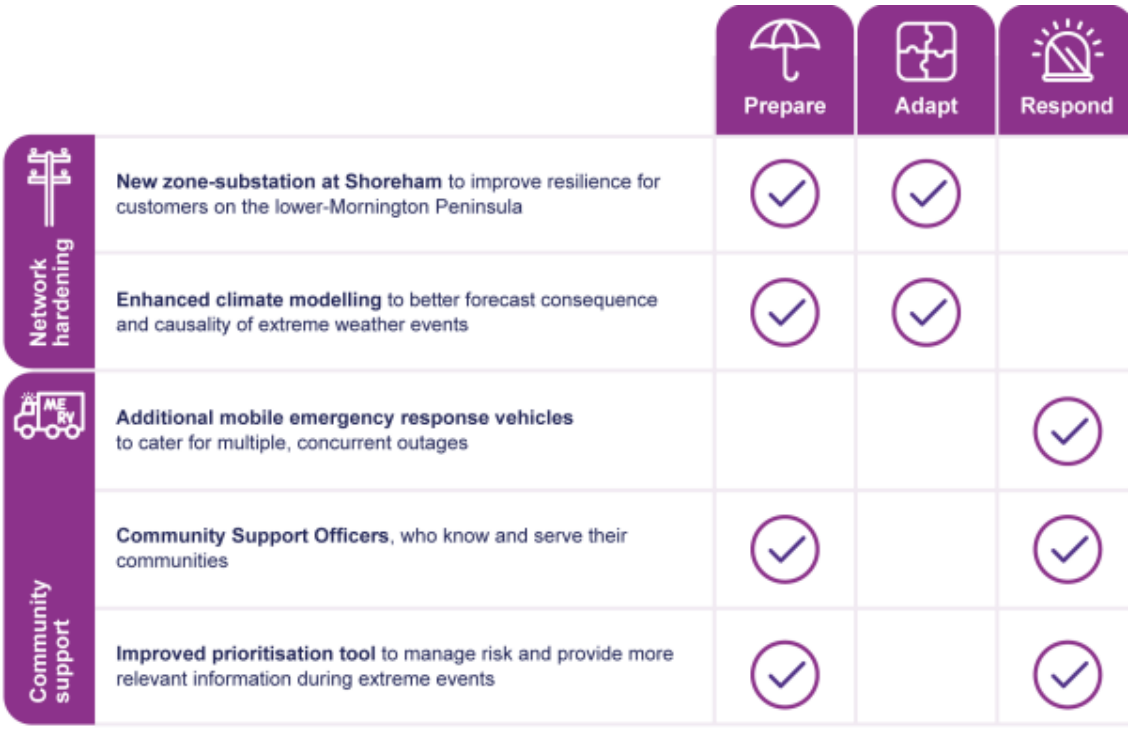
In Appendix 1 we outline resilience considerations for Victoria, including some of the shared DNSP engagement. This section focusses on United Energy, which along with AusNet Services are the two DNSPs most impacted by resilience considerations as the networks covering most of Victoria's rural districts.

United Energy and Powercor conducted 3 resilience workshops with customers, supported by engagement company Forethought, during March 2024 held in Red Hill, Ballarat and online with 37 people participating across the workshops. The joint DNSP resilience framework activities included an additional 136 people. Solutions most strongly supported included:

- United Energy
  - Community Liaison Officers
  - MERV – Mobile Emergency Response Vehicles
  - Single Pane of Glass" – IT program to support decision making during wide-scale outages
  - Targeted undergrounding and Aerial Bundled Cabling. An emphasis on collaboration and engagement to determine best options on a location by location basis.

What's proposed?

The United Energy regulatory proposal gives the following summary of its resilience focused expenditure proposals.



Proposed resilience specific expenditure 2026-31 for United Energy are given in the regulatory Proposal as being:

- Network Hardening (capex) $25m

- "Community support" (Capex $3m, opex $4m) $7m
  Total **$33m**

Responses from Consumers and reference Groups

CPU CAP members made the following comments about resilience engagement and their perspectives of the resilience considerations:

> "There was more focus early on resilience. CPU took a good big picture and forward looking approach. There were early joint forums on resilience, including bushfire management."
>
> "The engagement talked about local level solutions"
>
> "Opex responses were a focus, eg MERV was talked about more than some of the network hardening perspectives." (Note MERV is Mobile, Emergency Response Vehicle)
>
> "The resilience topic probably was lost a bit in our reports, it was more of an issue for United Energy"
>
> "CPU got it about right."
>
> "CAP is continuing to ask what is the longer term plan re reliability and resilience? Its much more than a one period issue."

CCP32 echoes the observations of the CAP in their observation that "CPU got it about right". We also anticipate further engagement on resilience expenditure before a Revised Proposal is prepared, with an expectation of Victorian Government policies being announced during 2025 that will impact resilience spending.

5. Network prices and revenue requirement

What does United Energy propose?

United Energy is seeking $3,025m (nominal) over the 5 year regulatory period, a 15% increase on the current period while average annual distribution charges are forecast to rise by $3.03 pa for residential customers and $7.87 pa for small business with a reduction of $1.04 pa for metering charges for both customer categories.

The United Energy regulatory proposal again emphasises that these modest cost increases are being proposed with clear attention to affordability concerns.

CCP observations

At first glance a 15% increase in total revenue requested seems moderate, particularly in the current costs environment for both customers and businesses alike. The increase is largely tied to demand forecasts, so should these forecasts prove to be moderately accurate, a very modest bill impact will be experienced by consumers while they receive (longer term) value as United Energy progresses the network for greater electrification which will eventually lead to lower household and business energy costs. (energy = electricity + gas + transport fuels)

6. Capital expenditure

Q4. CCP32 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 proposed for AusNet and United Energy?

Q5. CCP32 views on 'customer experience' ICT capex proposals

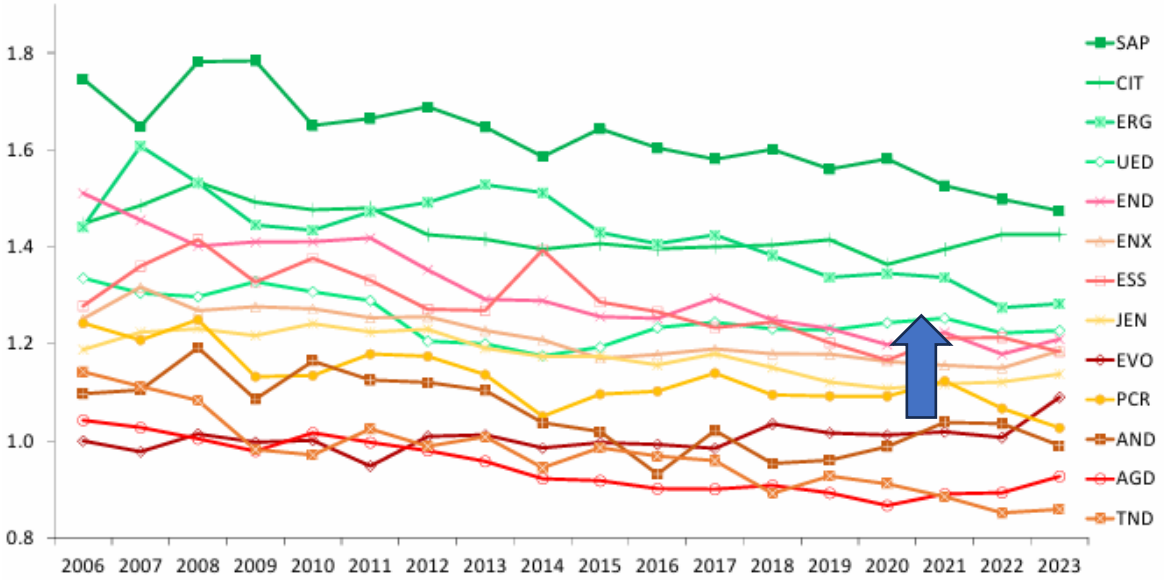
United Energy is proposing a significant increase in capital expenditure of 17% across augex and repex.

Capex $M 2026	**2021-26**	**2026-31**	**% change**
Augmentation	106	142	34%
Replacement	426	480	12.7%
Total	532	622 I,873	17%

Source" United Energy regulatory Proposal, Part B

The AER's annual Benchmarking report provides very useful comparative data for network performance and some perspective against which to consider this level of proposed increase:

Figure 13 Individual DNSP Capital MPFP indexes, 2006–23



Source: Quantonomics; AER analysis.

United Energy is in the 4th best of Australian DNSPs with regard to partial factor productivity for capex expenditure – and so one of the better performing networks. There has been a modest decline against trend over the last two years, suggesting some room for improvement of network productivity.

This data poses the question as to why capex productivity is declining and whether there is scope for a reduced amount of capital expenditure and an increase in productivity using current assets? It is understood that this is not a straightforward question to answer and CCP32 is satisfied that United Energy has anguished internally over this question – they are historically one of Australia's more efficient networks, using benchmarking data, and are a network that prides themselves in being

efficient. This said, we did not observe engagement that explored more efficient use of the existing network.

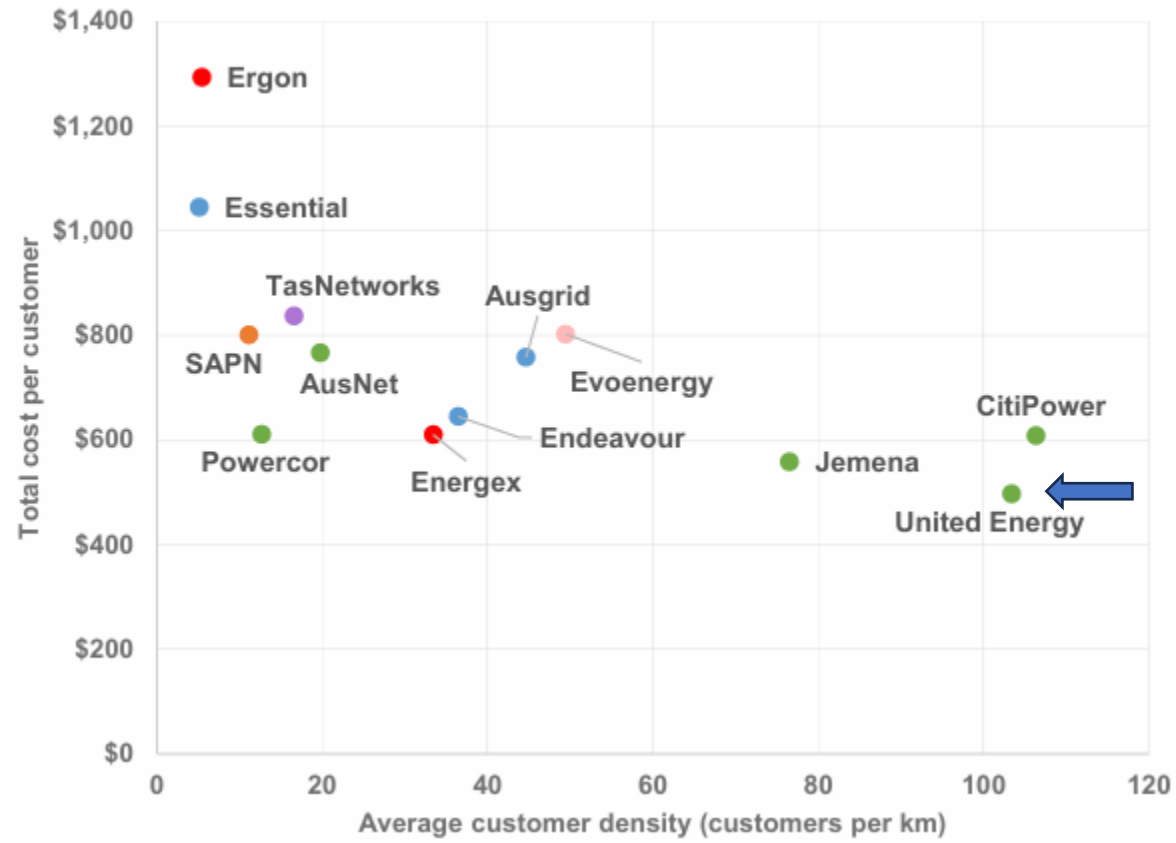
Q4. Reliability / affordability: consumer considerations of regional reliability uplifts

In responding to Q1 earlier in this submission we considered the reliability (value) / affordability trade-off and highlighted that the CPU businesses have applied a customer affordability priority as a 'golden thread' through their engagement and proposal expenditure considerations.

The second part of Q4 is about consumer views on paying for extra capital costs to increase regional reliability. The question is less relevant to United Energy than networks with greater regional coverage. Still, it is worth noting from the AER's 2024 Benchmarking report that United Energy as having one of the lowest costs per customer, the lowest of all DNSPs over the 2019-23 period.

This result reflects commitment from United Energy to keep costs down

Figure 16 Total cost per customer ($2023) (average 2019–23)



Q5. Customer Experience ICT capex

United Energy is proposing an increase in total ICT expenditure of $274m a 18.6% increase on the $231m for the current period.

We confirm that there was some engagement on ICT over the duration of the lengthy engagement program and an acceptance that ICT was an enabler of value for customers. We accept United Energy's "key engagement finding" that customers valued the following ICT enabled functions:

1. *Capacity for PV exports and better utilisation of smart metering*
2. *Capacity to extend services to customers*

3. *Robust cyber security*
4. *Recognition of need to update some systems*

(Table 7.2 summarised, page 62)

It is the last of these where there are substantial cost proposals with updating ERP and billing systems to cost $68m, capex and a further $22m for opex to maintain currency of key systems.

What is not clear to us is the extent to which ICT investment and capabilities are shared across the three CPU businesses.

The proposed ERP and billing system replacement cost for the three businesses, as proposed in the three regulatory proposals are:

	Powercor	**United Energy**	**CitiPower**	**Total**
Capex	$68m	$64m	$29m	$161m
Opex	$24m	$22m	$10m	$56m
Total	$92m	$86m	$39m	**$217m**

Powercor, United Energy and CitiPower each describes the benefits of this expenditure as being:

> *"Moving to modern systems will ensure we continue to safely support and manage our assets. It will also provide us with core systems that are better able to integrate new and innovative services to customers. These services, such as new and dynamic tariffs, will be needed to support the energy transition and better maximise the value of CER.*
>
> *An upgraded billing system is also critical to allow for changes in future tariffs. Without investment in the 2026–31 regulatory period, we will be unable to provide dynamic tariffs until ~2035, well beyond when these tariffs will likely be required."*

A total of $217m for just this one aspect of ICT expenditure does seem too high and we did not hear any discussion with consumers about whether $217m of value was being generated or how efficiencies across the three businesses, for this proposed expenditure were being generated and shared with customers.

While not expressed this way, we suggest that customers in general and the CAP members may see ICT expenditure overall as a bit like bitter medicine: necessary but still hard to swallow. Whether the 'cost bitterness' to too great, is up to the AER to determine through 'prudency and efficiency' review.

7. Operating expenditure step changes

Q6. 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.

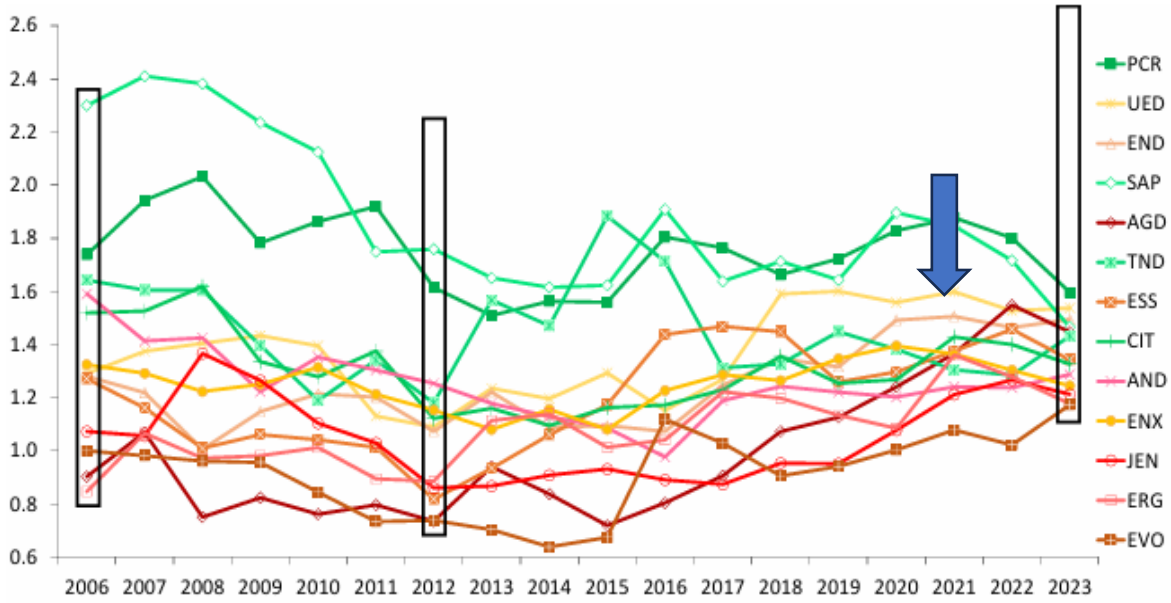
Q7. Views on quality of customer engagement, especially for step changes the DNSPs claim are supported by or consistent with consumer wishes, including if / how costs and benefits of the step change were consulted on, affordability and vulnerable customers were engaged, and if / how DNSPs responded to customer views in their proposals

Q8. 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.

United Energy is seeking $166m in step change increases for the 2026-31 period, with these proposed step changes being the major factor in the opex increase from the current period.

Returning to the AER's 2024 Benchmarking report, it is noteworthy that United Energy currently has the second best opex partial factor productivity of all Australian DNSP's. The decline in opex productivity over the past 2 years is of concern, even though the rate of decline is not as great as for some other DNSPs. To our observation this decline has not been discussed during consumer engagement, though it may have been questioned by the CAP.

Figure 12 Individual DNSP opex MPFP indexes, 2006–23



Source: Quantonomics; AER analysis.

Q6, Q7 Do proposed Step Changes meet step change criteria and are they supported by customers?

CCP32 are guided by the expectations for step changes set out in the AER's Better Resets Handbook[4]. The Handbook identifies three possible drivers for step changes:

- New regulatory obligation
- Capex/opex substitution
- Major external factors outside the control of the business.

This is an interesting question, whether step change criteria are met, and one that was considered in detail by CCP17 in response to a suite of step changes proposed for the 2021-26 regulatory period.

The proposed step changes are given in the proposal as follows (page 79)

STEP CHANGE	AER CATEGORY	COST
Customer package	Major external factor	$15M
Vegetation management	Major external factor and regulatory obligation	$72M
CER integration	Major external factor	$19M
Cloud services	Capex / opex trade-off	$24M
ICT modernisation and new capability	Major external factor and capex / opex trade-off	$32M
Network and community resilience	Major external factor	$4M
Fleet electrification offset	Major external factor	-$0.2M

The four step changes that we give some attention to are the first two on this list then the fourth and fifth.

Vegetation management

Vegetation management is a large increase on an already substantial operating cost item with a proposal of $72m over the regulatory period.

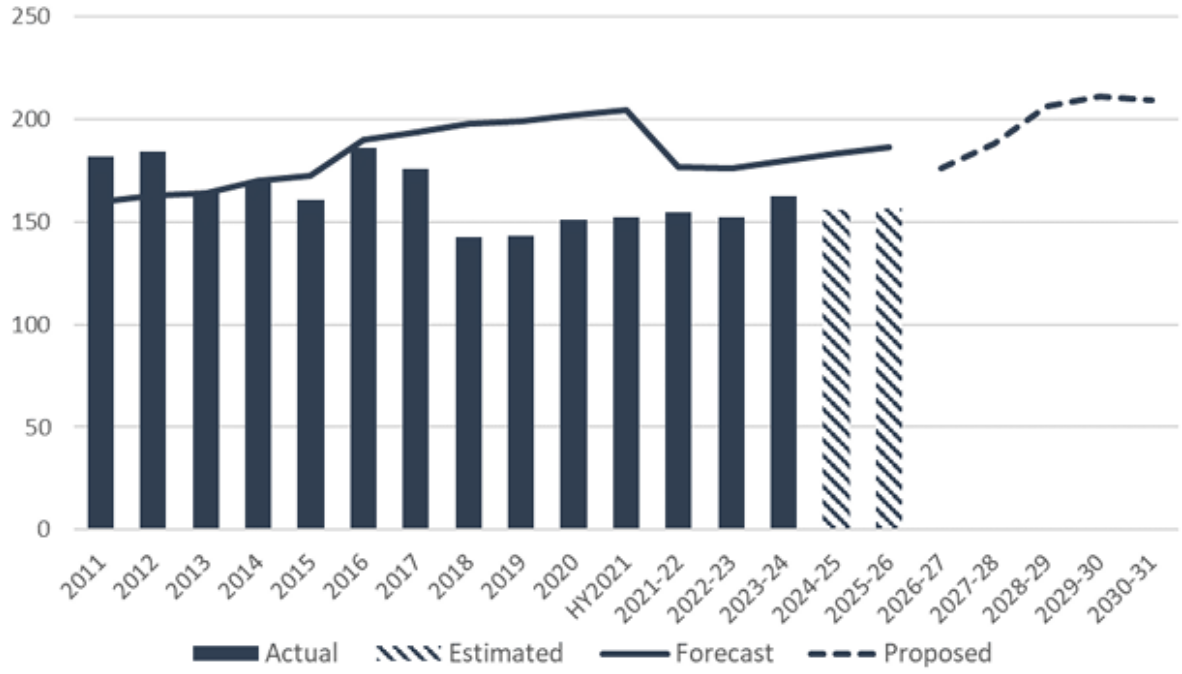
It's an interesting question as to whether this is an exogenously imposed cost, which has previously meant exogenously imposed by government or changes in National Electricity Rules. We suggest that this increase is imposed by external forces, but more by expectation than edict or rule.

Particularly since the Black Summer of 2019-20, there have been widespread community concerns about reducing the risk of bushfires and electricity networks can be a source of bushfires starting. The Victorian Government has also been active is seeking to reduce bushfire risk from electricity wires, with the mandated REFCL program being an example.

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

CCP32 is concerned that United Energy's actual and estimated opex expenditure has been materially below forecast expenditure for every year since 2015 – a decade, as presented in the AER's Issues Paper.[5]

Figure 3-18 Trend in forecast and actual opex over time – United Energy ($million, 2025–26)



Source: United Energy, *UE Mod 1.05 – opex*, January 2025; AER analysis.

With this under expenditure being of the order of 20% below forecast for a decade, we cannot determine whether consumer and maybe Government feedback is saying that:

1. United Energy needs to spend much more on vegetation management (than their current budget permits) or
2. United Energy has underspent consistently over recent years and needs to get back to spending at the levels forecast/committed or
3. Whether attitudes have changed and what was previously regarded as acceptable is no longer acceptable.

We are not in a position to determine which of these criteria apply, based on our observations of engagement, but would expect that if the proposed step change is due (at least in part) to United Energy underspending their forecast budget on vegetation management, option 2 above, then this would not be considered to be a reason for a step change being accepted. The community and stakeholder expectation would be that United Energy spends every cent allocated to vegetation management.

If the reason for the proposed vegetation management step change is aligned with options 1 or 3 above, then the following comments apply.

United Energy is obliged, at very least by expectation, to respond to community and government expectations. Whether a $72m additional response is the appropriate level, we are unable to say –

[5] https://www.aer.gov.au/system/files/2025-03/AER%20Issues%20paper%20-%20CitiPower%2C%20Powercor%20and%20United%20Energy%20electricity%20distribution%20determinations%202026-31%20-%20March%202025.pdf

this is for AER and likely Victorian Government consideration. We do however accept that increased vegetation management is both a response to external expectation and is likely sound risk mitigation too. It may go close to fitting the Step Change criteria of "major external factors outside the control of the business."

Customer package

The Customer Package of $14.7m over 5 years is also a challenging question as to whether it meets the Step Change criteria. Maybe it doesn't meet a strict step change definition, but we suggest that there are two (at least) factors that, as with vegetation management, reflect a strong externally applied expectation:

1. Consumer support

In its Draft Plan, United Energy identified a series of programs that could be included in a "Customer Package" that would *"improve services to our customers, especially those at risk of some form of energy poverty."* (regulatory proposal page 93)

Feedback, including from CCP32 was for United Energy to engage more broadly and provide greater focus to the Package.

This engagement has been undertaken with CAP members (and some of their networks) and with consumers more broadly, with strong support for the proposed set of measures, which United Energy lists as:

- *"expenditure has been uplifted to reach a meaningful number of customers to provide tangible customer impact*
- *a vulnerable customer strategy is being developed, to further identify where we are uniquely well placed to support customer in vulnerable circumstances. The CAP will be consulted in the development and implementation of this vulnerable customer strategy.*
- *incorporated partnerships with organisations and community groups to deliver our programs.*
- *established an internal working group to refine the principles, governance and operation of all elements of the customer assistance package."*

CCP32 observed strong consumer support for the proposed package, particularly by CAP members and the networks associated with some of them, and from United Energy's broader engagement.

2. AER Game Changer intent

The AER responded to cost of living pressures, energy poverty and growing consumer vulnerability by developing what became the "game changer" initiative which was reported on to Energy Ministers in November[6] 2023 saying:

> *"The aim of the Game Changer initiative is to: Better balance cost and risk within the sector so that consumers experiencing vulnerability are identified early and get the support they need to improve outcomes."*

While Game Changer was overtly retailer focused, there was also a desire that:

> *"More needs to be done to improve outcomes for consumers experiencing vulnerability, particularly given cost-of-living pressures."*

A pre-cursor to the "Game Changer" program was the development of "A strategy for an inclusive energy market,"[7] released in October 2022 by the AER and also referred to as the "vulnerability

[6] https://www.aer.gov.au/system/files/2023-11/Game%20Changer%20Report%20-%20November%202023.pdf

[7] https://www.aer.gov.au/system/files/AER%20-%20Towards%20energy%20equity%20strategy%20-%20October%202022.pdf

strategy." The Victorian Government also changed their "framework" for customers experiencing payment difficulties in 2019.

We suggest that it is reasonable and indeed responsible for network businesses to also consider how they can respond to vulnerable customers. Again, an implied external 'prod' rather than an edict to network businesses.

CCP32 suggests that there is solid external support for the Customer Package that we observed directly from CAP members who were strongly supportive while the broader community support that we heard about was 'second hand' being reporting from CAP members and CPU staff. We also think that the intent of AER and Victorian Government actions to encourage assistance for vulnerable people are appropriate and have created a climate, if not an expectation that all energy businesses, network businesses included, should be active in seeking to play a role helping to address customer vulnerability. This is tantamount to a major external factor (at least partly) outside the control of the business.

CCP32 thinks that strong customer support along with regulator and government expectations are close enough to meeting step change criteria for this proposal to be actively considered.

We also note that a "First People's Program" is a part of the Customer Package. In our Advice regarding the Powercor regulatory proposal we highlighted their First Nations engagement and observe that United Energy has also sought to respond with their First Peoples program aiming to:

> *"… respond to community feedback with a strong focus on education, access to low energy appliances for vulnerable customers and energy audits. This program also aims to support First Peoples adoption of renewable energy both at a household and community level, as well as putting programs in place for climate emergencies." (page 79)*

Support for this program is described by United Energy as:

> *"Our revised customer package was then tested with both the CAP and FPAC. FPAC endorsed the First Peoples program, and the customer program in its entirety was endorsed by the CAP. Both the CAP and FPAC supported the business intent and value that this aims to bring to both First Peoples customers and customers at risk of vulnerable circumstances." (*page 80)

CCP32 observes the high level of support for the First Nations program in particular and the Customer Package overall. United Energy has proposed $2.1m for their First Nations package which is included in the $14.7m Customer Assistance Package proposal

Other step changes

Cloud services and ICT modernisation are presented as capex / opex trade-offs and as compliance with accounting standards, but the consumer benefit from these trade-offs is not readily apparent for us.

The other proposed Step Changes are more aligned with core business activities that are material additions to existing expenditures, but we accept that view that they fall short of being externally imposed obligations

Q8. Smaller step changes

CCP32 continues to hold the view that step changes for smaller amounts should be covered by base and trend or should be absorbed, where they do not meet a materiality threshold. This threshold is generally, though we don't think formally, set at 1% of total annual revenue. For United Energy that's about 1% of $605m threshold, so rounding down, that we would put the step change materiality threshold for United Energy at a minimum of about $6m.

8. Incentive mechanisms – CSIS

Q9 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?

Q10 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?

United Energy summarises its CSIS discussion as follows:

TABLE 10.5 PROPOSED CSIS FOR THE 2026–31 PERIOD

CSIS MEASURE	REVENUE AT RISK	BASELINE TARGET	INCENTIVE RATE
SMS notification	0.10%	67.3%	0.04
Planned outages	0.15%	SAIDI: 62.38 SAIFI: 0.21	SAIDI: -0.05 SAIFI: -9.35
Grade of service	0.25%	66.7%	0.04

CSIS was discussed with the CAP (12th November 2024) for all 3 CPU businesses. We were told it was the 4th discussion with the CAP over the past 2 years and the CPU intent was to achieve endorsement from the CAP.

We are proposing a minor re-weighting of our CSIS measures

CSIS measure	CitiPower	Powercor	United Energy
SMS notification	0.25%	0.15%	0.15%
Planned outages	-	0.15%	0.15%
Grade of service	0.25%	0.20%	0.20%

↓

CSIS measure	CitiPower	Powercor	United Energy
SMS notification	0.20%	0.10%	0.10%
Planned outages	-	0.15%	0.15%
Grade of service	0.30%	0.25%	0.25%

We are proposing to re-weight our SMS notification and Grade of service measures to better align the weighting of the measures with potential investments to improve performance.

For the 2026-31 period it is harder to identify potential investments to improve SMS notification performance within the revenue at risk provided by the CSIS (i.e. without undertaking major investments, that are better considered outside the CSIS). This means that revenue at risk associated with this measure is less likely to result in customer service improvements.

We consider that there is scope within our Grade of service measure to make additional service improvements if the revenue at risk associated with this measure is increased.

We are therefore proposing to move 0.05% revenue at risk from our SMS notification measure to our Grade of service measure, for each business, to better align our incentives with investment opportunities to improve customer outcomes.

By maintaining the SMS notification measure (even at a lower weighting), we will still have a strong incentive to maintain and improve our customer service level, given the CSIS will still reward us for outperforming our target and the additional costs we face when customers need to use our call centre instead of receiving an SMS message (as mentioned in the previous slide).

The CAP was advised that the latest CSIS iterations were similar to last period, with modest expansion of *"our grade of service measure to capture both contact centre fault calls and general inquiries."*

CCP32 observations were that the CAP was satisfied with what has been proposed for CSIS and the preceding engagement over about 3 years.

9. Tariffs

Q11. 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.

Q12. Whether CCP32 consider there are any specific consumer perspectives/concerns overlooked or not well addressed.

Q13. Based on CCP32 observations on engagement, does CCP32 have any thoughts on the proposed small business tariffs and assignment policies?

CCP32 response

Tariff engagement that was shared by the Victorian DNSPs with some reflections about this collaboration is provided in appendix 3.

Regarding the question of how well were tariffs explained to stakeholders by United Energy? In the engagement that we observed they were presented clearly, recognising that this is not a straightforward task, particularly given the different roles played by DNSPs and retailers in the tariffs space and the sometime awkward relationships between the two.

In discussion with CAP members the following observations were made:

- The main focus was on residential, with CAP members trying to call out lack of engagement with C&I. It was noted that CPU lacked negative feedback from C&I so there didn't seem to be a problem.
- For the top 100 C&I direct relationship customers across the CPU group (by use) there is a dedicated staff member, so the situation is a bit different for them as there is a clear mechanism for tariff discussions. CAP noted a 'big gap' between the 100 biggest users and other larger electricity users.
- In considering the question of who's interests are missing in tariff discussions, the response was SMEs – Small and Medium Enterprises, and particularly SME's based in rural communities.
- It was also observed that households have more change happening regarding tariffs than C&Is, who often can't change usage much, while some (many?) households can shift some load.

10. Conclusion

The overarching question for United Energy customers and the AER can be posed as: is spending $3.025m over 5 years good value for United Energy customers? (the $3.025m is nominal, unsmoothed dollars from table 1.1 Regulatory Proposal Part B)

United Energy says “yes” – but can customers believe them?

CCP32 suggests that there are three main reasons for accepting the proposed United Energy response, where prudency and efficiency criteria are considered to have been met:

- Benchmarking results give United Energy strong cost per customer results over a number of years
- The CAP says that it is generally supportive of the proposal
- We have no doubt about the sincerity of engagement and the readiness of United Energy staff to ‘look customers in the eye’ and say that they are acting in the interests of customers. In every engagement event that CCP32 has observed the primacy of keeping costs as low as practical was given by staff.

The process of determining the expenditure items to include in the proposal was undertaken by CPU staff and consultants, using the principles determined in engagement. This then suggests another question: could the proposal have been for a lower maximum allowed revenue? United Energy is adamant that there were many projects that were CBA net positive that were not included in the proposal – again, we believe them.

Could the proposal have been for less? We believe that it could have been lower, but assuming prudent expenditure levels to maintain reliability and enable future developments – considered through an affordability lens, we are satisfied that a significant majority of customers would accept the proposed balance of cost and value (reliability), the CAP does. This opinion based on our reading of United Energy engagement documentation, engagement event observations and CAP discussions.

Customers will also expect existing network to be more productively utilised.

CCP32 thinks that the AER should give weighting in considering this consumer perspective in determining prudency and efficiency of the United Energy proposal. This reflection is also conditional on the significant unknown for this regulatory proposal: customer demand being at near to forecast levels.

Most residential customers would say that they can live with an increase of $3.03 (nominal) per year over 5 years (distribution and metering charges), even in a period of dramatic cost of living pressures. (We don’t have enough evidence to comment on a $7.87pa average increase for Small Businesses.)

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 significant 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[8] 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.[9] 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 utilized in pricing determinations."*

[8] https://www.aer.gov.au/system/files/Network%20resilience%20-%20note%20on%20key%20issues.pdf
[9] 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 20th December 2024:[10]

> *"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.

The Victorian DNSPs have been part of the processes to consider regulatory approaches to resilience and have, through CPU businesses clearly recognised the importance of consumer and stakeholder engagement with respect to developing resilience related proposals.

Victoria also experienced major flooding and storm events over 2021-24 with 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 DNSP's 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"*[11]

CCP23 Perspective

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.

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

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.

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 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 United Energy proposed spending on SWER line upgrades in parts of their rural region is a case in point.

The Victorian DNSPs have consulted effectively in resilience concerns and have heard customer and stakeholder concerns an 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 5 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:[12]

- *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.

[12] AusNet EDPR 2026-31, p. 68

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.[13]

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 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.[14]

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.[15]

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:[16]

- 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.

[13] Powercor, Regulatory Proposal 2026-31, p. 11
[14] Jemena Regulatory Proposal, p. 37
[15] Jemena Regulatory Proposal 2026-31, p. 37
[16] Jemena Regulatory Proposal, Attachment 03-01, p. vii

Appendix 3 – Joint DB Engagement on Tariff Structures

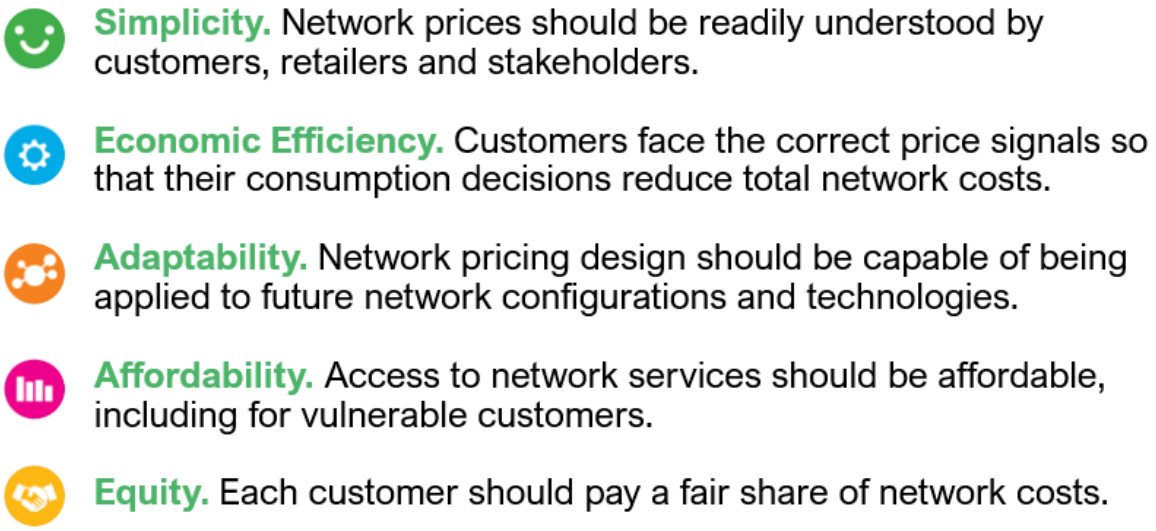
Residential customers

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

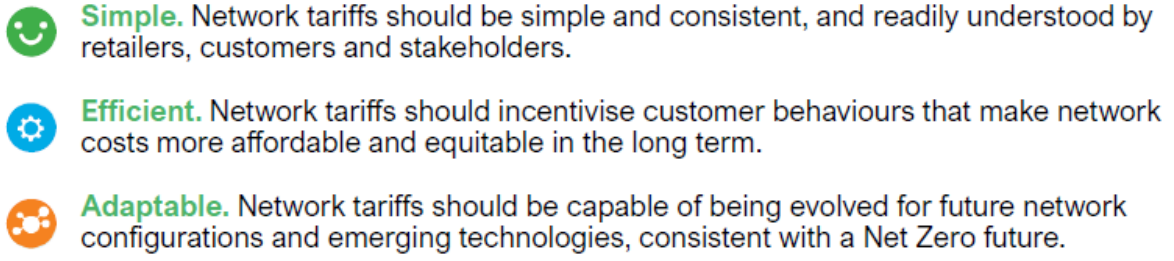
- 10 August 2023
- 16 November 2023
- 16 April 2024

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.

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).