

# **Customer Advisory Panel report on CitiPower's Regulatory Proposal 2026-31**

**April 2025**

## **Acknowledgment of Country**

The CAP acknowledges and respects the Traditional Owners as the original custodians of the lands and waters where CitiPower operates. We recognise First Peoples' unique rights as Traditional Owners and their deep spiritual connection to Country, and thank them for continuing to care for it. We honour Elders past and present whose knowledge and wisdom has ensured the continuation of culture and traditional practices.

## Foreword

This report sets out the views of the Customer Advisory Panel (CAP) established by Powercor, CitiPower and United Energy on CitiPower's Regulatory Proposal for 2026-31. The business lodged the Proposal with the Australian Energy Regulator (AER) at the end of January 2025.

CitiPower delivers electricity to over 285,000 households and over 56,000 business, commercial and industrial customers in Victoria, and the proposal includes plans for capital investment worth over \$1.2 billion.

It is a particularly challenging period for electricity distribution networks preparing for the future. Electricity networks face a major challenge in consistently meeting the changing (and in many instances growing) needs of all customers while maintaining affordability. The energy system will shift to a greater reliance on renewables, with significant moves away from gas to a greater dependence on electricity by both households and businesses, including greater penetration of electric vehicles, solar panels and batteries.

Alongside this, the increasing frequency and severity of extreme weather-related events, such as major storms and bushfires will impact the reliability of services and network resilience. There are other challenges related to technology, particularly cyber security along with the explosion in use of digital tools and AI.

In considering all of this, the business needs to work out how best to meet customer needs and deliver value to customers – and understand what value really means from a customer perspective. So, it is critically important that the Proposal is informed by extensive and wide-ranging input from customers and other stakeholders and reflects customer preferences.

The CAP has worked closely with CitiPower since 2022, scrutinising and advising on the network's emerging plans and in particular its approach to engaging its customers and other stakeholders.

This report provides an overview of the CAP's perspective on CitiPower's engagement as it developed its investment plans and the extent to which these are in the customer interest and supported by customers.

There is much to commend in CitiPower's extensive and sustained program of customer and stakeholder engagement on a range of key issues.

Last year the network published its draft proposal and we flagged key areas where CitiPower could improve prior to lodging its regulatory proposal, including:

- Further dialogue with a range of large commercial and industrial customers to ensure their views and challenges are adequately considered.
- Making a clearer connection between customers' views and the relative weighting given to investment priorities of the business.
- Explaining how the business will cope with inevitable uncertainties associated with the energy transition, including uncertain demand forecasts and increased pace of enabling technology uptake. The pace of change appears to be increasing every regulatory period and this has significant implications for decision making and ways of working.
- The need for a more strategic and holistic approach to vulnerability, backed by sufficient resources.

We are pleased to report that the business has taken significant steps forward in many of these areas. We are particularly pleased about increases in the customer assistance package, as well as the commitment to create a vulnerability strategy with an emphasis on partnerships with community organisations who already support people in vulnerable circumstances.

Since the CAP wrote its initial report, the business has engaged further with C&I customers and representative bodies, as well as increasing internal resources to support ongoing stakeholder engagement more generally.

We also welcomed the initial steps taken by the business to engage with First Peoples, while noting that much remains to be done following this reset process.

We consider that there is a clearer connection between customer views and investment proposals presented in the final submission, compared to the initial proposals.

We'd like to thank our nine fellow Panel members for the drive, expertise, customer insight and collaborative spirit which they have brought to the work of the CAP. We continue to benefit from ongoing dialogue and debate with CitiPower's Regulation division, Executive Leadership Team members and other subject matter experts in the business.

The CAP exists to advance the interests of Powercor, CitiPower and United Energy customers, and a number of CAP members live and/or work in the CitiPower area; but we're just 11 people out of the millions of Victorians who rely on electricity as an essential service.

So above all, our thanks go to the many customers and other stakeholders who have provided input to the development of the Regulatory Proposal which we comment on in this paper. As a result of their involvement, we can confirm that CitiPower's Proposal has been informed by customer views and that the key elements the CAP has focused

on reflect customer preferences. In the CAP's view the business' engagement has been sincere, thorough and sustained.

*Philip Cullum, Chair*

*Hilary Newstead, Deputy Chair*

**April 2025**

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# 1 Executive summary

## 1.1 Context for this report

The CitiPower Customer Advisory Panel (CAP) has prepared this report in response to the network's Regulatory Proposal lodged with the AER at the end of January 2025.

Our report focuses on those areas that were in scope for CAP and is in line with the business' engagement approach that informed its proposal. We also note that the AER has recently (in April 2025) published its Issues Paper on the CitiPower proposal which contains several questions pertinent to the business's proposal. Whilst our report is not intended as a response to the AER's Issues Paper, it includes CAP views on a number of the questions raised, particularly those around customer engagement.

## 1.2 Effectiveness of engagement

- We consider that CitiPower has undertaken a sincere, thorough and sustained engagement program, involving diverse customer groups and other stakeholders. This has been underpinned by a clear and staged engagement strategy and a workplan which gradually focused more tightly on identified topics, with the proposed overall package then being tested with customers. The business developed its engagement approach with CAP input and the business allowed the approach to evolve as necessary over time.
- CitiPower accepted CAP feedback and provided thoughtful, well-considered responses. Examples include:
  - a review of the business' engagement with C&I customers to hear their perspectives
  - focusing more on its role in relation to vulnerability
  - deepening engagement across a greater diversity of customer segments to hear more differing viewpoints.
- Diversity of customer experience has been considered well when designing engagement activities. The business worked hard to design inclusive engagement activities, in particular working with historically underserved communities including First Peoples, rural farmers, and customers in vulnerable circumstances.
- CitiPower has made appropriate use of a range of engagement approaches designed around both the subject matter and customer and stakeholder groups.
- The CitiPower staff team has consistently shown integrity and commitment in their dealings with the CAP. Senior staff were involved in both the CAP's discussions and at customer other engagement events.

- The Regulatory Proposal demonstrates that customers support investment in the key areas on which they were engaged, a notable improvement on the draft proposal. The Regulatory Proposal does more to reveal the ‘golden thread’ that shows a clear connection between the outcomes of customer engagement and the business’ detailed plans.
- CitiPower has focused strongly on its engagement with residential customers and, to a lesser extent, small businesses. We noted in our report on the draft proposals that the business’ engagement with large Commercial and Industrial (C&I) customers appeared to have been less focused and sustained. Since publishing its draft proposals, the business has increased its engagement with C&I customers, and we welcome a commitment to sustain this level of engagement.
- The business has taken some important first steps in engagement with First Peoples in developing its Regulatory Proposal, including the establishment of the First Peoples Advisory Committee. This is one element of the business’ new Reconciliation Action Plan, which represents a strong foundation on which to build over the next few years.

### 1.3 Changes since the draft proposals

- In 2024, the business published its draft proposals for public consultation. The CAP flagged some areas where CitiPower could improve its plans in the Regulatory Proposal lodged with the AER. The business has taken significant steps forward in many of these areas. The CAP particularly welcomes increases in the Customer Assistance Package, as well as the commitment to create a vulnerability strategy with an emphasis on partnership with community organisations.
- In addition to the further engagement with C&I customers and representative bodies, mentioned above, we welcome increases in resources to support ongoing stakeholder engagement more generally. We commend the business for recently employing a highly experienced engagement specialist to build its in-house engagement capacity and skill set.

### 1.4 Coping with uncertainty

- The Proposal rightly notes that we are in a time of unparalleled change, as the economy moves towards net zero, and that this poses substantial challenges and uncertainty for electricity networks. Whilst the Victorian government has established a Gas Substitution Road Map, customers’ ability to respond and therefore the pace of electrification is uncertain. Additionally, evolving

customer expectations, the growth of electricity-intensive sectors such as data centres, and population growth in rural and regional areas add to the challenges for the business. Since the draft proposal electricity demand forecasts have changed as a result of new data and more contingent projects have been proposed to reflect uncertainties.

## 1.5 Key aspects of the proposals

- Customers will welcome CitiPower’s emphasis on affordability, which underpins the proposal. This message was a strong and consistent theme in CitiPower’s engagement for both residential and business customers. Accordingly, CitiPower has rightly focused on keeping costs under control and operating as efficiently as possible.
- One challenge here is that for many customers affordability includes some consideration of value – they are happy to pay a bit more for better service. Notably, this principle operated beyond customers as individuals and to the collective good – fairness for all was the priority. But for other customers, affordability is about prices being as low as possible. The business has tried to get the balance right between affordability and the service provided, with a suitable level of ambition.
- The proposal sets out a number of actions in relation to customers in vulnerable circumstances, reflecting customer feedback. It is notable that many regional customers defined vulnerability more broadly than the business, with those customers including concepts such as ‘energy poverty’ (inability to access enough reliable electricity for their needs) in their feedback.
- We suggested that the business take a holistic approach, underpinned by a vulnerability strategy which focuses where CitiPower is uniquely placed to have the greatest impact, and we are pleased that it has committed to do precisely this. We are also pleased that CitiPower’s proposed funding of the Customer Assistance Package is now enough to make a meaningful difference. We will be monitoring how effectively it is delivered.
- The CAP supports CitiPower’s proposed innovation allowance and initial projects. We agree with the business that it would not be reasonable nor in the customer interest to define specific projects for the latter part of the regulatory period. This is because inherent in the design of the program is the role of a stakeholder committee to help identify and prioritise projects, and the capacity to respond to emerging needs. The CAP commends the business for listening to customer and stakeholder feedback when developing the scheme and including key features such as the independent advisory committee, use-it-or-lose-it funding (with any underspend returned

- to customers), and self-funding 10 per cent of the budget.
- We would however like to see the business set out fully developed governance arrangements soon, with clarity around how customers, communities and other stakeholders will be able to influence decision-making and participate in implementation where appropriate. This should be supported by an explanation of how the benefits of successful projects will be shared between the business and customers.
  - The five Victorian electricity distribution business' initial plan for default time of use residential tariffs (with customers permitted to revert back to a flat tariff if they wished) was in the interests of customers and reflective of the preferences of customers consulted. This was not retained due to Victorian government policy against mandatory reassignment to time of use tariffs. Given this context, we support the position finally adopted following the Victorian Government ruling and welcome the businesses' commitment to continue to work with the Victorian Government on tariffs. There may be scope for CitiPower to do more to facilitate increased customer understanding and take-up by households who would benefit from being on an opt-in time of use tariff.
  - Finally, the proposal includes increased spend on vegetation management in line with Energy Safe Victoria requirements. The CAP acknowledges this is the result of the greater availability of information now available from CitiPower's industry-leading LIDAR surveillance techniques. The Panel supports this expenditure to improve safety around line clearance in accordance with regulatory requirements and notes this proposal was consistently supported by CitiPower customers.

## 2 The Customer Advisory Panel

The Powercor, CitiPower and United Energy Customer Advisory Panel (CAP) advocates in the interests of customers of three of the five Victorian electricity distribution networks (AusNet and Jemena being the other two businesses). The current incarnation of the CAP has been in place for over two years. Some CAP members participated in earlier iterations of a smaller Panel representing customers of the three businesses.

Our Terms of Reference state that we exist to *‘provide focus, expert challenge and insight on customer issues and engagement, to inform and influence strategic decisions and operational delivery’* by the three networks. This *‘covers the diverse interests of household, commercial and industrial customers.’*

We have four key functions:

- We provide expert advice and assurance on customer and community engagement, research, and insights
- We provide information flows and insights from the organisations and communities where CAP members work and members' broader professional backgrounds and relationships
- We identify significant consumer issues and provide informed and knowledgeable debate and advice about them.
- We aim to ensure customer and stakeholder views are captured, tested, and embedded in the networks' decision-making processes, challenging the business to deliver for customers.

We provide a customer perspective on a range of issues. However, our focus since September 2022 has predominantly been to give a customer-oriented perspective on proposed investment plans for 2026-31, given the high costs involved and the importance of the future network to customers.

The 11 members of the CAP are: Philip Cullum (Chair), Hilary Newstead (Deputy Chair), Helen Bartley, Natalie Collard, Keicha Day, Gavin Dufty, Dean Lombard, Emma Lucia, Lynda Osborne, Tennant Reed, and Dr Winnie Waudou.

We have mainly worked as a full Panel, although when the business was developing its overarching engagement strategy and approach, we formed an engagement sub-committee to provide more detailed guidance. This comprised Gavin (Chair), Helen, Philip and Winnie. We also briefly formed sub-committees on tariffs and resilience.

CAP members bring diverse skills and experience that allow us to consider

energy customer interests from a range of perspectives. We include:

- Customers of each of the three networks
- People with backgrounds in consumer advocacy, economic regulation and government
- Experts in energy and climate change / sustainability policy and projects
- Professionals with research, engagement and insight expertise (including a Fellow of the Research Society and two IAP2A members)
- Professionals with energy and broader technology expertise relevant to the energy sector
- Members with knowledge and experience representing different customer segments including commercial and industrial customers, representatives from welfare organisations, a First Peoples member, and a member with a rural / agriculture background
- An AER Consumer Challenge Panel and former Consumer Reference Group member
- People with substantial experience as members of similar regulatory consumer panels, including several members of other electricity and gas networks' customer advisory groups.

The CAP has met with the business over 20 times (half and full-day meetings), and individual members have participated in the sub-committees mentioned above. In addition, the CAP has often considered issues and consultation approaches offline, via email and conversations. Members have observed and/or participated in numerous customer and stakeholder sessions, as well taking part in joint engagement events run by the five Victorian distribution businesses together on cross-cutting issues such as tariffs and vulnerability.

We have a positive and constructive relationship with CitiPower staff. The CAP Chair and Deputy Chair meet the business' regulation team every fortnight to shape CAP meeting agendas and comment on CAP draft papers before they are widely circulated to the CAP.

As we note elsewhere in this report, our influence on the business has had a tangible impact. This includes inputs to the regulatory proposal, such as the design of research and engagement approaches, increased C&I engagement and the funding and staff available to the reset team to support their ongoing engagement activities, and on outcomes such as increases in the regional and rural energy supply program, the customer assistance package, and holding the business to a commitment to create a

vulnerability strategy.

This report is not the end of the CAP's work. Our terms of reference make clear that we have a continuing role, both in the next stages of this reset and in holding CitiPower to account for its commitments to the CAP as well as engaging and advising on business-as-usual activities. As the business recognises, it is critical that customer interest sits at the heart of decisions about how CitiPower delivers its services and provides value for money to customers.

### 3 Regulatory context: the AER's Better Resets Handbook

The AER's Better Resets Handbook seeks to encourage networks to engage extensively with customers to develop regulatory proposals that are in line with customer preferences. This reflects the AER's increased focus on ensuring consumers are an integral part of the regulatory process, which will *'lead to regulatory outcomes that better reflect the long-term interests of consumers'* and is consistent with the National Energy Objective. The AER also considers that an increased focus by networks on consumer engagement will improve relationships between networks and consumers to the mutual benefit of both parties.

The AER expects networks to engage with consumers:

- Sincerely, to the extent consumers can effectively contribute to the development of proposals
- Broadly and deeply, using accessible, clear and transparent methods and to consult on the outcomes then the inputs

The AER does not prescribe how networks should engage with consumers, but it expects networks to tailor their engagement to align with the Better Resets Handbook's expectations. The Handbook also expects networks to consider the influence customers can have on a regulatory proposal, in line with the International Association for Public Participation (IAP2) Public Participation's Spectrum. The IAP2 Spectrum broadly defines five stages of public participation and the public's role in an engagement program, from informing consumers, consulting with them, involving, collaborating and ultimately empowering the public.

The AER assesses network engagement and consumers' influence on regulatory proposals by:

- 1) assessing networks' evidence of consumer preferences and how they link to network proposals, including explaining how any divergent views are balanced in the proposal.
- 2) considering the views of the Consumer Challenge Panel, which the AER appoints to provide advice guided by the Better Resets Handbook on:
  - a) whether the long-term interests of consumers are being appropriately considered in regulatory proposals and the AER's decision making

- b) networks' consumer engagement, including the extent to which regulatory proposals reflect consumer preferences.
- 3) considering direct support for a network's proposal from consumers and their view of the network's engagement, via a submission or detailed written report prepared independent of the network.

Accordingly, the CAP has produced this report as independent evidence of the CAP's view on CitiPower Regulatory Proposal 2026-31, which the business lodged with the AER in January 2025.

Consistent with the Better Resets Handbook expectations, we provide our view on:

- The effectiveness of CitiPower's pre-lodgement engagement process in identifying consumer preferences
- How CitiPower Powercor United Energy incorporated those preferences into its proposal

We have not provided detailed commentary on the individual building blocks in CitiPower's proposal as this is beyond our scope of work.

## 4 Market context: Emerging challenges and the future network

The rapid development of energy production, consumption, and management technologies and the urgent need to reduce emissions are driving ongoing change in the energy system – a transition from a centralised system with the distribution networks as a conveyance for one-way flows of electricity to passive users, to a decentralised system with the network as a platform managing multiple flows and exchanges between grid-scale energy services and active customers.

Dynamics of this transition with a critical impact on distribution networks include:

- Electrification – replacing fossil-fuelled appliances, vehicles, and commercial and industrial equipment with electric alternatives
- Energy efficiency – improving efficiency of electric appliances and thermal performance of buildings
- Community energy resources (CER) – rapid uptake of solar PV and batteries by homes and businesses

In Victoria, the state government has been developing policy frameworks to support and encourage these dynamics as part of its broader objectives to progress decarbonisation by reducing reliance on fossil fuels and transitioning to a primarily electricity-based energy system. All of these will add extra impetus to what is already happening in these areas.

### **Electrification**

- The Gas Substitution Roadmap is a medium to long term strategy to transition away from equipment connected to reticulated gas networks to electric alternatives. Policies and programs to implement this strategy range from assistance to upgrade infrastructure to prohibitions on installing gas-powered equipment and connecting to gas networks. The new State Electricity Commission (SEC) also has programs to help households electrify.
- The Zero Emissions Vehicle Roadmap aims to accelerate the transition from internal combustion engine vehicles to electric alternatives with a range of policies and programs to facilitate and encourage uptake among households and businesses.

## Energy efficiency

- Victorian building regulations require thermal performance of new buildings to conform to the standards articulated in the National Construction Code (NCC), last updated in 2022. Existing buildings must also comply to an extent if undergoing significant renovation. Increases in thermal performance as stipulated by the NCC, should lead to lower energy use, primarily from heating and cooling.
- The Victorian Energy Upgrades (VEU) program – part of the Victorian Energy Efficiency Target (VEET) scheme – subsidises energy efficiency upgrades and appliance electrification in households and businesses to reduce energy consumption and greenhouse emissions in existing buildings. Recent and imminent changes to the Residential Tenancies Act will also reduce energy use in rental dwellings – occupied by around 30 per cent of households.

## Community energy resources

- The Solar Homes program delivers rebates and/or interest-free loans on a wide range of CER installations including rooftop solar, heat pump and solar thermal hot water systems, and household batteries.

Some of these dynamics will put either upward or downward pressure on energy consumption and demand, with an expected net result of increases, especially in the medium term. Together, they materially impact the types and levels of investment required to operate distribution networks. Overall, the growth in annual electricity consumption due to the energy transition and population growth by the end of the period is expected to be 26%, with peak demand up 7%.

The growth of cloud-based information technology platforms and artificial intelligence is also putting additional demands on electricity systems, with always-on data centres forecast to have a significant additional impact on electricity usage. Uptake of these technologies is also likely to have a direct impact on operations across the business.

### 4.1 Meeting the challenges

Managing the net increase in demand for electricity requires augmenting the network to increase capacity or developing techniques to serve the increased demand within the existing capacity. Doing the latter requires improving utilisation of the network across the day and year – reducing the differential between maximum and minimum demand

by lowering peaks and raising troughs – using a range of techniques including encouraging demand response and using storage to decouple load from supply.

## 4.2 Customer preferences

In developing its approach to manage these challenges, the business undertook targeted engagement on the energy transition with stakeholders including industry, government, customers and customer representatives. It also partnered with Monash University's Future Home Demand team to engage more directly with customers (surveying 1,325 CitiPower, United Energy and Powercor customers and engaging in depth with 36 customers) to better understand the general direction and the range of household customer views. In the main, customers generally:

- supported greater equality of service levels, guided by response to the climate emergency;
- highlighted the importance of capacity increases were justified;
- supported a measured approach to electric vehicle (EV) charging enablement; and
- considered electrification forecasts were too conservative for reaching net-zero by 2050 but recognised the logistical difficulties in preparing the network to cater for the transition.

In more detail:

- **Solar exports:** customers supported strategic investment for capacity, flexible exports, fairness and equity (including avoiding costs landing on non-solar customers). Customers also felt strongly about responding to the climate emergency, many customers prioritised emissions reduction, and supported network capacity increases to enable solar exports and increase hosting capacity. Solar customers prioritised self-consumption of the energy they produced over exports and opposed export charges. 71 per cent of customers supported bill increases to enable more solar exports for all customers<sup>1</sup>
- **Electrification:** some customers considered electrification forecasts were too conservative, others thought they were too ambitious. Many were concerned about the impact of electrification on grid stability, especially during evening cooking and winter heating. 79 per cent of small and medium business customers and 53 per cent of residential customers planned to replace their gas appliances with electric appliances over the next five years.
- **EVs:** 73 per cent of customers expected/preferred to charge their EVs at home (68 per cent of those prefer fast (level 2) charging while 32 per cent prefer slow

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<sup>1</sup> Stats from S 2.1.1 test and validate in proposal B paper.

(level 1) charging). Customers generally support network-managed charging but they expect to be able to override charger management when required.

- **Commercial and industrial customers** were concerned about power quality and reliability. Some were concerned about access to future load.
- **Value for money:** although having one of the lowest network tariffs in Australia, CitiPower customers are still concerned about costs – but for a majority this concern was more focused on value rather than affordability, with concern about facilitating the energy transition a central consideration. 24 per cent of small and medium business customers and 31 per cent of residential customers felt that the expected bill impacts did not represent value for the service that they received.

In summary, it is apparent that customers want a number of things from their electricity distribution network that are potentially in tension with each other: support for getting value from their CER investments and using them as they see fit; fair cost allocation across CER and non-CER equipped customers; investment in the network to improve services; and lower network charges. Threading this needle is a huge challenge for CitiPower.

### 4.3 Developing electrification and CER integration strategies

A key message from the business's customer engagement is that customers value CER enablement but are also concerned about their energy costs. The business's response – which also reflects the AER's regulatory approach – is to meet demand in the most cost-effective manner and enable CER hosting to the extent that it is of net benefit to all (not just CER-equipped) customers.

A range of operational strategies have been proposed by the business to minimise the augmentation needed. These strategies generally come at lower overall cost than building higher capacity and include:

- Encouraging take-up of cost-reflective tariffs to encourage consumption and discourage solar exports during low demand periods (and vice versa).
- Optimising energy flows via demand initiatives (such as shifting hot water systems to daytime operation) and enforcing inverter compliance with standards.
- Dynamic voltage management to improve stability and power quality
- Using systems required to deliver the Victorian Emergency Backstop Mechanism for CER monitoring and management at other times where required
- Establishing a network services market to procure least-cost support services

- Enhancing network data visibility to better guide CER investment and network services offerings
- Introducing flexible exports for CER and flexible load control for relevant appliances.

Apart from the tariff proposal, which requires negligible expenditure, these strategies generally require primarily operational expenditure, with some capital expenditure. In many cases the capital expenditure is for systems that support a number of strategies over a large area. This contrasts with augmentation options, which are localised and capital intensive.

With the focus on operational strategies, such as flexible exports and load management, there is less need for augmentation. Where augmentation is needed, steps are being taken to optimise the capital expenditure such as:

- HV (high voltage network) solutions if they can remove multiple LV (low voltage network) issues
- Balancing proactive and reactive work based on lowest long-term cost
- Integrating planning for electrification-driven augmentation with replacement programs
- Deferring upgrades based on increasing non-network service provision over time.

The impacts of electrification are already being felt in parts of the CitiPower network. This provides an opportunity for CitiPower to develop and refine the operational strategies to manage electrification, that can then be adapted to other Victorian networks as needed.

Overall, the CAP considers that CitiPower's proposal to enable CER and support electrification are responsive to the issues and balance customer preferences for capacity growth and affordability.

#### 4.4 Hosting capacity and flexible exports

To meet the new requirement for distribution networks to provide export services where there is a net customer benefit – calculated using the customer export curtailment value (CECV) and value of emissions reduction (VER) determined by the AER – networks are required to determine their total intrinsic hosting capacity, and their median intrinsic hosting capacity per customer – i.e. the export capacity available to half their customers, but to which the other half are constrained below. CitiPower's total intrinsic hosting capacity is 460 MW (with scope to become more utilised) and median intrinsic hosting capacity is 1.6 kW per customer

The proposed flexible exports program will enable 95% of CitiPower customers to export power unconstrained 99% of the time. The 5% of customers who will have constraints more than 1% of the time will still have a higher service level than under the alternative of a static zero export limit. This is a good outcome for customers.

The draft plan also included some augmentation to support growth in solar exports. But subsequent analysis by the business found that additional investment in flexible exports was more cost effective. In the Regulatory Proposal, no export-driven augmentation is proposed because flexible exports will already deliver improved export outcomes, and no efficient augmentation sites were identified (using CECV and VER to assess value) beyond what flexible exports delivers.

The CAP commends CitiPower or its commitment to managing costs to customers without compromising service standards by finding and implementing cost-effective alternatives to infrastructure augmentation where possible.

## 5 Research and engagement

### 5.1 Our assessment

There is much to commend in terms of how the business (encompassing CitiPower, Powercor and United Energy) has engaged with customers and other stakeholders. The business has engaged in a sustained, rigorous and evolving way to develop its proposal, generally reflecting the aspirations of the AER's Better Resets Handbook.

#### **Sincerity of engagement**

The CAP has observed genuine and sincere commitment to, and delivery of, engagement by the business, including involvement by members of the business's executive team, with both its broader customer base and the CAP. The Reset team has demonstrated openness and integrity in its engagement with us, individually and as a collective across formal and informal dialogue.

#### **Fit for purpose approach**

CitiPower has worked closely with research, engagement, customer experience and marketing strategy company Forethought. The business made a pragmatic decision to bring a small number of Forethought staff in-house, to build internal capacity within the business whilst developing its proposal, to ensure customer views were appropriately captured and considered at all stages in the development of the proposal.

The business has used a range of different research and engagement approaches tailored to suit different customer groups and topics. For example, the business has met with some customers on location to learn first-hand about customers' experiences; it has conducted more formal engagement activities online and face-to-face enabling it to efficiently and cost effectively engage with a diversity of customers. The business has combined its qualitative forms of engagement with statistical evidence gathered through surveys and other business-as-usual performance data.

#### **Structured approach**

CitiPower defined three main phases of engagement and structured its program around these.

- **Broad and Wide:** which allowed broad conversations with customers to identify key themes and critical issues for customers.
- **Deep and Narrow:** to explore the key themes and critical issues in more detail.
- **Test and Validate:** to test the draft proposals with customers.

The CAP commends CitiPower for genuinely listening to customers in each of the

phases. We observed CitiPower further refine its approach in each subsequent phase in line with customer feedback. For example, the four themes in the initial engagement evolved into the three themes set out in the proposal: reliability, safety and resilience; affordability and equity; and the energy transition.

### **Listening to customers**

CitiPower has listened to customers on a range of topics that it identified through its early engagement as being issues of importance to its customers. CitiPower's broad engagement phase was structured around four key themes: reliability and resilience; affordability and equity; the energy transition; and customer experience. These themes helped create a manageable framework for engagement with residential and small business customers, on a range of topics which could otherwise have felt daunting and unwieldy.

### **Responding to challenge from the CAP**

The CAP recognises the business aims to operate in a lean way, and in many respects this is an admirable ambition to minimise costs which are ultimately borne by customers. However, at times this has created a challenge for the business to engage effectively and consistently with different sets of customers, due to resource challenges, staff turnover and some loss of corporate knowledge.

While the business generally considered each network as a unique entity and identified the different needs and preferences of each network's customers, at times we received generic messages about customer preferences and network proposals, without any detailed disaggregation by network, which meant we were not always confident that the messages were relevant to all three or just some of the networks.

We were pleased to see a significant increase in funding for engagement after August 2023. The CAP advocated to the CEO that the business needed to fund its engagement better, to ensure customers' views were adequately heard and proposals were able to be sufficiently tested. This was actioned by the business and is an example of both responsiveness and tangible commitment.

We noted in our comments on the draft plan that the mass market trade-off survey results were weighted to the Victorian population and not the individual network populations. We expressed concern that the characteristics of the Victorian population did not necessarily reflect customers of a specific network. We are pleased to see that this issue has been resolved in the Regulatory Proposal, which profiles customers by network.

We also noted in our comments on the draft proposals that some of the engagement events such as town halls held in the critical 'Test and Validate' stage suffered from

low attendance among the business's wider customer group. This could potentially have affected the business's ability to gather evidence of customer support or otherwise for the full proposal. We were pleased to see additional work, such as the analysis of customer values which the business undertook following advice from the CAP, to help in this regard.

The business shared the Future Home Demand project, a collaboration with Monash University's Emerging Technologies Research Lab. It provided the business and the CAP with valuable consumer-oriented insights into emerging energy trends, including anticipated changes in peak demand and the drivers of those potential changes. The CAP commends the business for this work, to complement Australian Energy Market Operator (AEMO) forecasts in its consideration of future energy demand.

Although the business has relatively few C&I customers, they have a disproportionately large demand for energy and make a large contribution to the revenue of the business. C&I customers have diverse energy needs and issues (e.g. in relation to power quality and reliability) that are unique to different industry sectors. Therefore, it is important that networks engage effectively with these customers to understand the diversity of their current and anticipated energy needs and consider these in the proposal. In the last year, and especially recent months, the business has embarked on deeper and more diverse engagement with C&I customers to inform the Regulatory Proposal. We welcome this, along with the commitment to make this more of a business-as-usual activity.

The business has collaborated with the other Victorian networks (Powercor, United Energy, AusNet and Jemena). This includes engaging stakeholders on topics of shared interest, such as tariffs, resilience, and consumer vulnerability, and to inform a shared view of the key aspects of service that will be covered in the AER's Framework and Approach.

### **CAP independence and challenge**

The CAP has engaged directly with the business on a range of inputs into its draft proposal. To demonstrate the CAP's autonomy, independence and challenge:

- The CAP has an independent Chair and Deputy Chair, and, unlike some other customer panels, we chaired our own meetings
- The Chair and Deputy Chair shape meeting agendas
- We usually have a private session in meetings to discuss our views independent of the business, and sometimes meet independently of the business to discuss content and form views

- The CAP provides challenge both in meetings and outside (and this is welcomed by the business)
- Almost all meetings were attended by at least one member of CitiPower's executive leadership team, and the CAP had good access to a range of executives across the business as required.
- The CAP has also received additional briefings and other information that allowed us to have informed discussions and pose questions and challenge the business from a range of perspectives.
- CAP members are proactive in seeking evidence of wider customer views, both as direct customers, observing the network's engagement and maintaining and developing their knowledge and understanding of the energy sector and energy regulation.
- CAP members have observed numerous broader consumer and stakeholder engagement activities undertaken by the business to inform the proposal; allowing members to hear from customers directly, rather than rely solely on reports from the business and consultants.
- While the business has funded the CAP to prepare this report, it does not have any influence as to the report's structure and content - the structure and content are developed and agreed by CAP members

### **First Peoples**

The creation of the First Peoples Advisory Council and the appointment of its Chair to the CAP was a positive first step by the business to ensuring First Peoples' needs and issues are heard and reflected in business proposals.

We encourage the business to continue to grow the engagement with First Peoples, as part of its business-as-usual activities and to inform future proposals.

## **5.2 Relationship between the research & engagement and the Proposal**

Beyond being prudent and efficient, a key question for the regulator in making its determination is whether CitiPower's Regulatory Proposal reflects consumer preferences.

As we have noted above, CitiPower's engagement has generally been extensive and rigorous. In our comments on the draft proposals, the CAP expressed concern that the business did not sufficiently and consistently demonstrate specific links between

customer feedback and its proposals– what we term the ‘golden thread’ between customer input and the proposed spending plans.

The draft proposal suggested customers support investment in a range of areas, but less evidence was presented about customer support for the level of each proposed investment, or how large it should be compared to investment in other areas. We suggested to the business that it needed to explain who would benefit and evidence of customers’ willingness to pay, along with more clarity about the hierarchy of customer preferences to identify which investments are more important to customers than others.

We are pleased that the Regulatory proposal more clearly describes how customers preferences have informed various aspects of the proposal. Stronger preferences should affect how other, less important, preferences are addressed. The insights gained through the extensive engagement with customers and other stakeholders are more clearly articulated in the Proposal to support investment decisions. The business cases are particularly helpful in setting out how key aspects of the Proposal are supported by customers.

## 6 Affordability, ambition and uncertainty

In reviewing CitiPower's Regulatory Proposal for 2026–2031, the CAP focused on the way the business balances affordability, ambition, and uncertainty. Demand forecasts are vital data points that interplay with all three of these areas. The CAP's view is that the business has been receptive and responsive to customer and stakeholder feedback and the business has further refined the difficult balance between these often-conflicting objectives in its Regulatory Proposal.

### 6.1 Demand forecasting

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 degree of uncertainty now facing all distribution networks creates 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 sustainability and reliability of the electricity grid in the long-term interests of consumers.

CitiPower has developed sophisticated forecasting tools over the last few regulatory periods, using multiple inputs and data sources to account for greater uncertainty in factors that impact demand. These tools account for numerous change drivers, are nuanced by locational data (accounting for different building stock, industries, tenures, efficiency improvements, variant population growth, etc.), informed by findings of Monash University's Future Home Demand report, and use power flow modelling informed by analysis of AMI data – enabling more detailed future scenarios than traditional network modelling.

Still, under the revenue cap form of regulation, cost impacts on customers depend on energy throughput. If forecasts are materially incorrect, actual costs for individual customers can rise or fall. This is an unavoidable risk with the current regulatory framework in the current context.

With this in mind, the CAP believes that CitiPower has struck an appropriate balance between meeting the needs of consumers today and having the foundations and optionality to serve consumers and communities in the future.

## 6.2 Affordability

In our report on CitiPower's draft proposals, the CAP commended the business's emphasis on affordability, noting that this focus is consistent with the strong and consistent feedback from both residential and business customers.

At the same time, we noted that the overall customer bill impact, on average, was a small reduction, and we urged the business to be more ambitious with respect to cost and value for customers. We believe that CitiPower has better reflected this in the Regulatory Proposal. While the average customer impact is still flat (no change for an average household) projects in a number of areas have been refined to be more efficient and to lock in lower costs going forward. For example, the flexible exports project avoids augmentation that would have ultimately led to higher costs, while delivering more value in hosting capacity and unlocking low-cost renewable energy.

Most customers are significantly concerned with cost, but for some this is primarily about affordability, while for others it is more about value. Finding the balance between cost, affordability and value to meet all customers' preferences is challenging.

The impact of energy costs on commercial and industrial (C&I) customers should also not be underestimated. Healthy businesses support healthy thriving communities – by providing services and amenities, but also by providing jobs. For many businesses energy is now a material concern – especially those that compete in markets where sustainability, decarbonisation, and/or electrification are commercial drivers. It is imperative that they are engaged as deeply as residential customers in these regulatory processes and their views and needs are considered when addressing the affordability and value of network services, otherwise we are missing a part of the economy that enables households to thrive.

It is also worth noting that AEMC recently projected<sup>2</sup> that the net result (including network expenditure as articulated in the Victorian distribution businesses' draft plans from late 2024) of the current shift to electrification of appliances, equipment and vehicles will be a 19 per cent fall in Victorian electricity prices to 2031. This is a reminder that network prices do not exist in a vacuum but interact with wholesale prices and other parts of the energy cost stack.

Maintaining costs at around the same level in an environment characterised by increasing input costs and growing uncertainty is a commendable achievement.

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<sup>2</sup> AEMC Residential electricity price trends 2024 - <https://www.aemc.gov.au/market-reviews-advice/residential-electricity-price-trends-2024>

### 6.3 Ambition and uncertainty

Given the current operating environment of the energy system more broadly and CitiPower's network area in particular, ambition needs to be seen in the foundations of the frameworks to manage the manifold changes being brought about by the energy transition and social and economic change. With so many uncertainties about the growth of energy consumption and demand – and the multiplier effect that material variance from forecasts can have on expenditure – many stakeholders, including the CAP, urged the business to fully explore flexible approaches for managing the network to avoid as much as possible investing in infrastructure that may be over- or under-sized – which could lead to higher ongoing costs or service shortfalls. The CAP believes that focusing on no-regrets investment and fully exploring innovative non-network flexible solutions can meet multiple needs and be readily scalable. CitiPower has struck the right balance between affordability and associated future uncertainties, laying the foundation to support future needs.

## 7 Key issues

### 7.1 A fit-for-purpose service

CitiPower's network is high density and operated to a higher reliability standard than other networks due to its critical role supplying Melbourne's CBD – it has the highest reliability of all networks in Australia. But CitiPower customers, like those in other networks, still worry about reliability and affordability. And because of the high density of the network, changes in customer behaviour have a concentrated effect. CitiPower has already started to experience the impacts of electrification, driven by the increasing uptake of electric vehicles, substitution of residential gas supply and appliances for the residential sector and more data centres and battery storage. This is expected to grow over the next five years and will place increasing strain on the existing network, adding additional pressure to current services.

Anticipating these impacts. CitiPower's upgrade and repairs programs are focused on modernising older parts of the network such as low headroom in older, inner-city parts of the network and bringing older switchgear up to current safety standards, to maintain reliability and service levels.

### 7.2 Vegetation management

Vegetation management standards are driven by Energy Safe Victoria's (ESV) deterministic regulations which require strict clearance limits. CitiPower established a new approach for vegetation management in 2018 using aerial light detection and ranging (LIDAR) technology instead of ground-based inspections. This more effective approach has led to a significant uplift in identified issues and thus compliance orders from ESV to remedy them. This material increase in regulatory obligations has required a step change in vegetation management expenditure – meeting customer expectations for safety but leading to additional cost. Safety is a critical issue for electricity supply, so the CAP commends CitiPower's commitment to improve its vegetation management and supports the program.

### 7.3 Tariffs

CitiPower, along with AusNet and Jemena, engaged widely and deeply with customers and other stakeholders on their tariff proposals. Customers generally saw the value in tariffs to help make costs fairer across customers with different impacts on the network, including between customers with and without CER. At the same time, many residential and small business customers were unfamiliar with the concept of a time-of-use tariff, and many commercial and industrial (C&I) customers did not understand

how their demand charges were calculated. Additionally, many residential and business customers reported a limited flexibility to change consumption patterns.

Responding to these findings, the Victorian electricity distribution networks undertook a cost impact analysis for different types of customers that demonstrated the proposed default time-of-use (ToU) residential tariff with a low-cost 'solar soak' period in the middle of the day would lower costs for most non-CER customers and lead to small increases for CER customers, even if they did not respond to the tariff price signals.

Whole-of-network modelling also showed that even a modest response to the tariffs would lower the amount of augmentation needed to meet demand increases from electrification. These findings allayed customers' concerns about cost impacts and reflected their preference for supporting the transition to net zero and minimising cross subsidies between CER and non-CER customers.

However, the Victorian Government's decision to disallow default ToU tariffs for residential customers (except for households with high capacity EV chargers) means that the new tariff will be voluntary for most customers and only given as default to new connections, homes with a 3.6kW or greater EV charger, homes upgrading to three-phase supply or installing or upgrading solar POV or batteries, and customers already on ToU tariffs.

The business is also proposing an optional CER tariff with charges for solar exports during the daytime solar soak period and payments for exports at other times. This will appeal to customers with solar and batteries who can control when they export.

The CAP supported the original plan to assign all residential customers to the new ToU tariff (with the entitlement to opt-out back to a flat tariff if desired), but with that off the table due to the Victorian Government ruling, the CAP supports the current position adopted.

The CAP recommends that CitiPower continue to work with the Victorian Government to develop an approach to transition all residential customers to the proposed time-of-use tariffs over the 2026–31 period in a way that manages perceived and actual adverse impacts on vulnerable customers; and that in the absence of government support to move forward on time-variant tariffs, to explore other ways to ensure the costs of CER and electrification enablement are distributed fairly – including promoting the benefits of the optional ToU tariff to customers who would materially benefit from it.

## 7.4 Vulnerability

We welcome the commitment by the business to increase support for customers in vulnerable circumstances. This is an area of investment generally supported by

customers, subject to some valid queries about the appropriate role of an electricity distribution network relative to other businesses and agencies.

We also note the AER has done some important work in this area, publishing its strategy on consumer vulnerability in 2022 and more recently drafting a toolkit to support this. However, it has focused on the role of energy retailers and embedded networks, even though distributors have a unique position as customer-facing businesses. We would like to see the regulator expect more of energy networks such as CitiPower.

In our report on the draft proposals, we said that *'There are some positive steps in the proposals, but there is scope for establishing a more coherent, holistic approach to the work of the business on vulnerability. The business should collaborate with expert agencies to create a vulnerable customer strategy that pulls together all the different elements, building on what is here but going further.'*

The CAP is therefore pleased to see that *'a vulnerable customer strategy is being developed to further identify where we are uniquely well-placed to support customer in vulnerable circumstances'*, with a commitment to consulting the CAP in the development and implementation of the strategy. We also welcome the emphasis on partnerships with organisations and community groups that already work with customers experiencing vulnerability to design and deliver these programs.

As CitiPower develops this work, we would like the business to focus most on areas where it is uniquely well-placed to make a difference on vulnerability. This is not only in relation to crisis situations, such as major weather-related outages, where it has already demonstrated real focus and is rightly investing further. We have previously noted that this could for example explore working with others to map vulnerability in its areas, to support not just its own work but also others such as retailers. This is an established function of UK distribution businesses.

## 7.5 Customer assistance package

The CAP continues to support the business's customer assistance package, which will be a key component of CitiPower's work on vulnerability.

This package will support people through the energy transition and provide targeted help for First Peoples communities. Importantly, following publication of the draft proposal, the CAP collaborated with the business to establish customer assistance priorities. We suggested that the initial proposed scope of the package was insufficient given the ambition of the proposed initiatives. We asked the business to reflect on

whether these programs were viable given the limited proposed investment, and whether co-investment with other relevant parties or adjustments to the programs to reflect available resources could be made.

The CAP also supported the combined CitiPower, Powercor and United Energy First Peoples Program as it was developed in partnership with the First Peoples Advisory Committee, which covers all three networks, but was still concerned about the whether the allocated resources were sufficient.

In the draft proposal, the proposed investments were largely unchanged and did not adequately reflect our concerns about the program. We noted then these programs were welcome and needed to support a just energy transition, but would have to be coordinated, responsive to customer and community needs and well-resourced to be effective. Expenditure earmarked for the programs at that point was modest, and we argued that it should be uplifted, perhaps by additional resources from delivery partners.

We are therefore pleased that the business has made some significant improvements to the customer assistance package in its final proposal. We consider that these improvements, though not explicitly tested with a wider customer group, provide a benefit to customers that is more significant than the cost are consistent with the findings of the network’s customer engagement more generally.

<b>Package</b>	<b>Citipower (\$M) – draft proposals</b>	<b>Citipower (\$M) – Regulatory Proposal</b>
<b>Energy Care</b>	\$0.48	\$0.8
<b>Community Energy Fund</b>	\$0.44	\$2.0
<b>Vulnerable Customer Assistance Program</b>	\$0.35	\$2.4
<b>Energy Advisory Service</b>	\$0.79	\$0.8
<b>First Peoples Program</b>	\$0.60	\$0.7
<b>Total</b>	<b>\$2.66</b>	<b>\$6.8</b>

In our response to the draft proposals, the CAP recommended that CitiPower provide more detail about how the package would be designed and implemented, including demonstrating how it would take a more holistic approach, engage with partner organisations in delivery, be underpinned by a vulnerability strategy, and be focused on the aspects of the programs where CitiPower is uniquely placed to have greatest impact. The business case to a large degree does all of this, and the multiple references

to partnership approaches are especially welcome. The CAP expects to continue engagement with the business as the package is further developed and implemented.

## 7.6 First Peoples

The creation of the First Peoples Advisory Committee (FPAC) in 2023 was very welcome. Establishment of FPAC to assist with completion of the CitiPower Reconciliation Action Plan has been essential to future engagement.

First Peoples have a dual role in energy, and in particular the energy transition, as rights holders first as well as customers second. Many may like other customers be in vulnerable circumstances; this stems directly from the ongoing effects of colonisation through structure systems that were historically aimed to oppress.

The FPAC chair Keicha Day joined the CAP and her inclusion has provided a unique and important perspective on the issues facing First People, including the importance of the protection of cultural assets in network planning. A small but impressive unit within CitiPower is main point of engagement for the business.

The First Peoples Program, which sits within the Customer Assistance Package, was developed in partnership with the First Peoples Advisory Committee. As noted above the ambition and funding for this work have increased, reflecting the business' Reconciliation Action Plan.

## 7.7 Commercial & Industrial Customers

Commercial and Industrial (C&I) customers represent 17% of connections and 46.5% of revenue across the CitiPower network.

In our report on the draft proposals, we recommended that CitiPower undertake more comprehensive engagement with C&I customers to understand better the diversity of customers as well as the challenges and opportunities across different types of C&I customers operating in the CitiPower network.

Given the significant revenue contribution of C&I customers to the network and their often complex and challenging energy needs, it is important that the proposals are underpinned by an understanding of key needs of C&I customers in each network alongside the proposals of other customer groups.

CitiPower's Regulatory Proposal provides greater clarity around the extent of engagement with C&I customers. It considers how their needs and preferences can be addressed in through appropriate investments.

The CAP is pleased to see that the golden thread is clearer between engagement with C&I customers and the final investment proposal, ensuring that investment plans and strategies are aligned with customer needs, expectations and preferences.

CitiPower's engagement with C&I customers has included:

- Workshops, focus groups, surveys, and one-on-one interviews with a wide range of stakeholders, including some C&I customers, which provided insight into general customer issues and needs.
- Specific sessions with commercial and industrial customers to understand unique operational challenges facing C&I customers.
- Engagement through mass forums and collaboration with Monash University to understand future energy demand.
- Follow up engagement during Test and Validate with specific stakeholders and industry groups.

Through this engagement C&I customers identified network reliability and power quality (e.g., avoiding voltage sags, surges, harmonics) as their top priorities, due to the financial and operational impacts of even brief disturbances. Additionally, there were concerns about future load access with businesses expressing concern about the ability to scale operations and access reliable power as network demand increases. Many C&I customers are adopting solar and battery storage and supported investments that reduce network constraints and enable smooth integration of renewables. Customers wanted clear explanations of how proposed investments would translate into improved reliability and voltage management.

While the proposed investments are consistent, key areas where C&I customer feedback has influenced plans includes:

- **Prioritised Network Modernisation:** Based on feedback, CitiPower included projects to upgrade and modernize older infrastructure, ensuring unrestricted access to electrical supply for C&I operations.
- **Investment in power quality improvements:** CitiPower included targeted investments to enhance voltage stability and minimize disruptions for businesses to reflect the concerns raised during engagement
- **Non-network solutions:** Customers supported innovative, non-network solutions (e.g., energy storage) to enhance resilience—informing CitiPower's flexible services and marketplace initiatives.
- **Tailored tariffs and data access:** C&I customers' feedback led to a proposal for more tailored tariffs and better access to real-time network data to support planning and efficiency.

During the “test and validate” phase, Citipower C&I customers confirmed support for investments aimed at improving reliability and voltage management. They strongly preferred proactive infrastructure upgrades, ensuring the network could handle future electrification and technological changes.

A number of the business cases submitted alongside the proposals have been improved to reflect the feedback from C&I customers.

We recommend that the business continues to improve its engagement with C&I customers to continue to build a better understanding of the C&I businesses that operate within the network. Establishing trusted partnerships with businesses will help it sustainability manage the energy system. The CAP notes the significant impact that C&I customers can have on communities, both economically and socially.

## 7.8 Innovation Fund

We support the CitiPower proposal for an Innovation Fund and agree with the business that it should not be necessary to specify potential topics at this early stage. However the CAP considers transparency of governance arrangements to be critical and we encourage the business to develop these in advance of preparing its revised proposal. The program’s principles need to be centred on innovation that has a likely benefit for consumers, with clarity on how the benefits of any successful innovations are shared with customers. We support the ‘use it or lose it’ principle set out in the proposal.

The business case for the innovation allowance says: *‘Such is the dynamic nature of innovation that predicting up to seven years in advance (as is required to forecast a full five-year regulatory period) with any degree of certainty is near impossible, with innovation projects undertaken in the back half of a regulatory period likely to differ substantively from what is forecast in a regulatory proposal.’* We agree with this.

Customer interests should sit at the heart of the fund through strong governance arrangements. The business has not yet developed specific arrangements, instead making a more general commitment to *‘a strong governance framework to ensure funding is being used prudently and efficiently.’* It proposes the establishment of *‘a diverse innovation committee’*, with industry representation and *‘customer representatives... to ensure alignment with customer needs and public expectations’*, including at least one CAP member.

Given that the purpose of the innovation allowance is to achieve customer focused innovation, we would like to see more clarity about customer involvement in the committee and are disappointed that there is a commitment to the involvement of just one CAP member, given our role. We would like to see the business firm up its governance plans, with greater CAP involvement, sooner rather than later.

The CitiPower business case sets out projects which might be funded through the first two years of the allowance. These generally look useful but some raise important questions about the relative value to both customers and the business, and how risks and rewards are shared.

For example, the project on customer communication *'would involve utilising AI to seek and gather customer information such as customer data, local outages and network information, to increase speed and accuracy of information transferred to customers. This will also allow data capturing processes to be improved when communicating with customers.'* Benefits to customers are said to include faster and easier resolution of problems, without the need for multiple contacts with the business. Such outcomes would undoubtedly be good for customers, but they would also reduce costs for the business. It is not clear why a project like this needs to receive innovation funding rather than being regular program expenditure.

## 8 Summary

Based on our review of the CitiPower Regulatory Proposal, as well as supporting business case documentation, our industry expertise, and the ongoing engagement we have had with the business, the CAP generally supports the Proposal submitted to the AER. More specifically, the CAP considers that the business has reflected customer preferences – and, importantly, balanced competing preferences – in preparing its proposal. We look forward to the AER’s assessment of the prudence and efficiency of the proposed investment.

We congratulate the business on ensuring that customers and fairness have remained at the forefront of investment decisions to effectively balance the short-term affordability and cost-of-living challenges with the longer-term energy transition to ensure that customers are not left behind.

While providing our support, we also look forward to working with the business on a number of key focus areas, including:

- **Energy transition:** Ensuring that the business establishes dynamic processes so that plans can be modified as we move through and learn more about the pace and scale of the energy transition, including uptake of electric vehicles and electrification.
- **Research & engagement:** Further embedding customer and stakeholder engagement as BAU across all parts of the business, including:
  - Increasing the depth of engagement with commercial and industrial customers
  - Continuing to expand engagement with First Peoples across all networks both directly and through the work of the First Peoples Advisory Committee (FPAC).
- **Tariffs:** Continued engagement with the Victorian Government to develop an approach to transition more customers to the proposed time-of-use tariffs over the 2026–31 period in a way that manages perceived and actual adverse impacts on vulnerable customers; and that in the absence of government support, work to move forward on time-variant tariffs and to explore other ways to ensure the costs of CER and electrification enablement are distributed fairly.
- **Vulnerability:** Creating partnership-based vulnerability strategy with a focus most on where the business is uniquely well-placed to make a difference on vulnerability, along with the development of vulnerability mapping across the network service area, which could be used to further advance partnership-based strategies through information sharing.

- **Innovation fund:** Early development of the governance arrangements, including clarity about customer involvement in the committee; followed by rollout of the innovation fund, ensuring that customers remain at the heart of the purpose and outcomes.