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Dear Kris

Response to Draft Better Resets Handbook

AusNet welcomes the release of the AER's Draft Better Resets Handbook. This is an important step to further embed robust consumer engagement at the heart of the regulatory process. We recognise the AER is placing increasing weight on the outcomes of high-quality consumer engagement in its decision making (subject to meeting its requirements under the National Electricity and Gas Rules), which is a positive development for networks and their customers.

As the Draft Handbook sets out, networks across the NEM now routinely undertake high quality research and engagement as part of their revenue proposal processes. Best practice engagement continues to evolve over time as networks' skills and expertise in engagement continue to develop.

Our experience during the New Reg trial highlighted the benefits of deep pre-lodgement engagement allowing a targeted review during the formal review process. Over two years of intensive pre-lodgement engagement and negotiation with the Customer Forum enabled us to develop and submit a Revenue Proposal that reflected the preferences of our customer base. During this process the Customer Forum were supported by research and independent technical advice, their own direct engagement with many of our customers, our internal Customer Consultative Committee and stakeholder representatives, and had the benefit of regular AER staff advice. This meant that the AER's formal assessment was able to be relatively targeted compared to our previous review processes, with detailed assessment focusing on new categories of expenditure (e.g., Distributed Energy Resource (DER) integration capex), areas outside of the direct scope of the Customer Forum (such as depreciation) and necessary technical assessments (such as ICT-related opex).

We support the AER's recognition that consumer engagement has become more innovative, and its intent to more formally recognise this when it is undertaking a targeted review of a networks' revenue proposal, either in its entirety or a component of it. We understand this would occur where the AER is able to rely on robust and high-quality engagement that has been undertaken pre-lodgement and where parts of the proposal meet the AER's expectations and, therefore, do not need to be a focus of the assessment. Formalising the intent for a targeted review will provide stakeholder clarity on the reasons for the assessment process undertaken by the AER, and why this may appropriately differ between networks.

Best Practice Engagement Is Grounded in Robust Research

High-quality research must form the basis of consumer engagement suitable for reflecting in a revenue proposal. Networks serve almost the entire population of Australia. Within this population, customer segments are extremely diverse, and their expectations, needs and preferences are also diverse. Sound research, which seeks to develop a deeper understanding of the customer base, is required to ensure that the full range of voices can be heard, reflected in revenue proposals, and considered by the AER in its decision making.

The need for research to underpin the conclusions reached by the Customer Forum was a critical part of the New Reg trial which enabled the AER to place weight on its conclusions. The role of the Customer Forum was to represent the perspectives of customers, as understood through significant research and other engagement activities, and ensure these were reflected in AusNet's plans. Research is particularly important to corroborate the conclusions of smaller forums, reference groups, roundtables or committees, such as the Customer Forum in the New Reg trial.

While smaller stakeholder engagement bodies are critical parts of regulatory engagement processes, as they allow for focused and detailed discussions by more informed individuals (either due to pre-existing experience or experience built over the course of the review), it is best practice to be able to validate that the preferences expressed are reflective of the networks' broader customer base and not simply strongly held personal views.

The expectation that views expressed in the Independent Report and consumer views relied upon by networks should be based on reliable evidence of customer needs and preferences should be more explicitly recognised in the Final Handbook.

Who is the Consumer?

We fully support high quality customer engagement to ensure we provide the services that meet our customers' needs. In some cases, engagement is appropriate directly with end customer segments, including residential, small business and commercial and industrial customers. However, some topics and deep dives are more appropriately navigated when working with customer advocates e.g., development of initiatives to address the needs of customers in vulnerable circumstances.

We suggest that the Final Handbook recognises in the 'Multiple Channels of Engagement' section (section 4.3.3 of the Draft Handbook) that networks should also target engagement with end use consumers vs consumer advocates vs other stakeholders, depending on the topic and feedback sought, and tailor this engagement (content and channel) accordingly. This will ensure we appropriately balance deep insights with consumers, with expertise from consumer advocates.

The new Targeted Review Stream should be able to be accessed regardless of likely Revenue Proposal content

There is a need more clarity on when a proposal will be eligible for the Targeted Review Stream, especially regarding the AER's expectations around capex, opex and depreciation. The fast-paced energy transition will likely lead to more complex regulatory proposals over the next 5-10 years. This may mean that some of the AER's expectations may be more challenging to meet than if the energy sector were operating in a steady state – for example, the 'steady and stable

regulatory asset base' which forms part of the capital expenditure expectations and the expectation that the standard approach to depreciation will be applied.

The Draft Handbook is not clear whether regulatory proposals that the network expects to be more complex are still eligible for the Targeted Review Stream. We encourage the AER not to limit the ability for networks to access the Targeted Review Stream based on the anticipated content or complexity of the regulatory proposal. There is an even greater role for robust consumer engagement when developing regulatory proposals that are more complex. There is also more benefit in some of the features of the Targeted Review Stream – such as AER staff support for consumers during the pre-lodgement engagement process, and Consumer Challenge Panel engagement – for more complex regulatory proposals, than for steady-state proposals. Nonetheless, we recognise that the scope for a targeted review of individual components may be more limited in these circumstances.

We are concerned that if too much weight is put on the likely content of the revenue proposal in deciding if the Targeted Review Stream can be accessed, a two-track review process of resets will be created based on complexity rather than the quality of engagement. Steady-state proposals would attract a higher degree of pre-lodgement AER and CCP engagement and have a very light formal assessment process, while more complex proposals would get far less AER and CCP pre-lodgement engagement (which would have greatly improved the efficiency of the formal review process given the nature of the proposal), leading to a very intensive formal review process. This may occur even if pre-lodgement consumer engagement on both the steady-state and complex proposal had been very high quality.

It is inevitable that the AER's review will always be required on certain topics

While we consider the Targeted Review Stream should be able to be accessed by networks with more complex proposals, we understand that the AER's review of complex issues will continue to be required, notwithstanding the quality of the consumer engagement process undertaken and the effective incorporation of its findings in a revenue proposal. We agree with the AER on many of the issues it highlights in the Draft Handbook where a more detailed review would be required, such as changes to depreciation schedules and new categories of capital expenditure. Opex step changes are another area where detailed AER assessment of prudent costs may be needed as many consumers will not have the technical expertise to undertake this assessment themselves. Nonetheless, we would agree with the AER that more complex issues generally are in more need of early engagement, not less.

The role of the Consumer Challenge Panel in providing assurance over a networks' Customer Engagement Process

It would only be appropriate for the CCP to provide formal assurance to the AER over a networks' customer engagement process if the following conditions held:

- The CCP were appointed right at the start of the engagement process
- CCP members attend the vast majority of the customer engagement activities. Whether an engagement session has or has not been effective cannot be deduced from a report.

In addition, we encourage the AER to ensure that a CCP member with expertise in engagement (both qualifications and experience) is appointed to each Sub-Panel.

The AER should also provide guidance on how BAU engagement will be taken into account in these assessments, particularly given the CCP is appointed for the duration of the reset process, rather than ongoing.

Need for Further Guidance on the Independent Report

Further guidance on the nature of the Independent Report is required in the Final Handbook. This should include detailed expectations in terms of content and authorship. This will provide networks with necessary guidance to inform the design of future engagement processes and set out for stakeholders the features of the report that will enable the AER to place weight on it.

Specifically, the AER should clarify:

- The need for the Independent Report to link conclusions to research and evidence (as explained above), to provide confidence to the AER and stakeholders that the views are reflective of the networks' customer base.
- That the report can be authored by a group that, while appropriately qualified, do not necessarily need to have previous experience in regulatory processes. The Customer Forum is an example of a group who had been informed and supported by ourselves and the AER over an intense two year process to ensure they were well-equipped to provide an Independent Report on our Revenue Proposal.

Expectations for the Tariff Structure Statement targeted review – consumer choice

We do not agree that the AER should consider whether a proposed change would reduce consumer choice when deciding whether to undertake a targeted review of the TSS¹. While we agree that the AER should consider whether there are significant consumer impacts from proposed changes in tariff structures that haven't been otherwise addressed, we disagree with the implication that reducing choice is prime facie undesirable.

A reduction in choice may be desirable where, for example, networks are rationalising tariffs by consolidation to promote simplicity in tariff offerings, benefiting both customers and networks.

In addition, as we transition to more cost reflective pricing, there may be trade-offs between allowing choice and sending customers cost reflective signals.

This issue arose in our most recent EDPR when we expressed concern with the AER's view that we should introduce a new tariff for medium and large business customers with the sole objective of providing choice, despite these customers already being assigned to highly cost reflective Critical Peak Demand tariffs. It was not clear how our TSS violated the Revenue and Pricing Principles of the NER due to the absence of choice. In addition, in this instance providing choice may have compromised the cost reflectivity of our tariffs.

Noting that the need to provide customers choice is not required by the National Electricity Rules, while the need to consider customer impacts is (NER 6.18.5(h)), we suggest the AER should remove the consideration that refers to choice, while retaining the consideration of customer impacts.

¹ AER, *Draft Better Resets Handbook – Towards Consumer Centric Network Proposals*, 21 September, p.31

Shortening the formal regulatory review process

While the Better Resets Handbook is necessarily prepared to be consistent with the current Rules, longer-term a shortening of the formal regulatory process is likely warranted due to the substantial pre-lodgement engagement between networks, consumers and the AER. This would increase the end-to-end efficiency of the regulatory process, which is currently around 4 years long (6 months of planning, 2 years of pre-lodgement engagement followed by a 15-month formal review process and 2 months of implementation).

As inevitably (and particularly during the energy transition) circumstances develop that impact the Revenue Proposal, delaying lodgement until closer to the start of the regulatory period would help manage the degree of change required between the pre-engagement process and the Final Decision. While we understand this would compress the AER's formal assessment timeline, its involvement during the pre-lodgement phase and targeted review process should reduce the work required post-lodgement while maintaining the currency of the customer agreements and stakeholder support.

Responses to the AER's specific questions are attached. Please contact me on 0434 893 873 with any questions about this submission.

Sincerely,

A handwritten signature in black ink that reads "C. Eddy". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Charlotte Eddy
General Manager Regulatory Strategy and Policy
AusNet Services

Responses to Specific Questions

1. Do you consider the Handbook as set out will achieve the AER's aim of incentivising proposals that reflect consumer preferences and are capable of acceptance

a) If yes to 1, what do you see as the main benefits of the Handbook? Are they the same as those set out in this document or do you consider there additional benefits which are not listed?

b) If no to 1, what are your reasons for this? Further, what changes do you consider could be made to the Handbook to achieve the aim of incentivising proposals that reflect consumer preferences and are capable of acceptance?

The Handbook will increase the incentive for networks to develop proposals that reflect customers preferences and are therefore capable of acceptance. This is because it will provide guidance on what the AER considers to be sound customer engagement and features of a proposal that are amenable to a targeted review.

Notwithstanding this we note that the incentives for networks to develop a proposal capable of acceptance are already strong, evidenced by the increasingly innovative, high quality engagement networks have undertaken.

2. Do you agree with the proposed targeted review stream and that this a positive change to how we regulate networks? Please include reasons for your views in the answer provided.

We agree that the Targeted Review Stream will be beneficial. The early and formal signalling of whether the AER will target its review at particular parts of the proposal, and stronger pre-lodgement engagement from the AER and the CCP will improve the efficiency of the regulatory process.

However, we are concerned that if too much weight is applied to the likely content of the proposal rather than the engagement, this may leave networks with more complex issues without access to the Targeted Review Stream, despite these more complex resets receiving a potential greater benefit from pre-lodgement engagement from the AER and the CCP.

3. Do you consider the Handbook will improve the level of consumer engagement undertaken by network businesses and result in consumer preferences being better reflected in proposals? Please include reasons for your views in the answer provided.

Yes, as it emphasises the importance of engagement to the AER, which will further drive networks to continue to innovate and improve their engagement practices.

4. Are the incentives offered by the Handbook sufficient for network businesses to seek access to the targeted review stream process? If you do not consider the incentives are sufficient, then what additional incentives do you think could be provided within the current regulatory framework?

The incentives to access the Targeted Review Stream are relatively strong, although the eligibility criteria for this access need to be clearer. Importantly networks should have access to

the Targeted Review Stream even when they are expecting some complex issues and/ or required expenditure increases to form part of their revenue proposals.

5. The targeted review stream is a new process which we expect to refine and improve as we learn from each iterative application. Therefore our preference would be to first apply the targeted review stream process to a limited number of network businesses. This approach would allow us to better manage the risks of introducing a new process, maximise learnings and manage resourcing constraints. What approach or criteria should we use to determine which network businesses should be selected?

The key criteria should be that the business shows Board-level support to access the Targeted Review Stream and has a track record of delivering genuine customer engagement, and evidence of consumer preferences being reflected in past Revenue Proposals.

6. Do you agree with the approach to commence the full application of the targeted review stream process to the revenue proposals due in January 2023?

a) We would be open to considering applying of the targeted review stream process partially to a proposal which is submitted before January 2023. This would allow us to test the process before it is fully applied. Would you be supportive of this approach? Please include reasons for your views in the answer provided.

b) For stakeholders that answered yes to 6(a), what approach or criteria should we use to determine which network business' proposal should be considered for a partial application?

We would welcome further discussions with the AER on whether aspects of our gas distribution access arrangement review, due 1 July 2022, may be assessed via a 'targeted review' to gain experience on the approach.

The same criteria set out in our response to question 5 should apply to networks seeking to access the Targeted Review Stream prior to January 2023.

7. Do you agree with the expectations for the topics set out in sections 4 to 8 of this document? If not, what changes do you consider need to be made to the expectations? Please include your reasons for any proposed changes.

Comments on these are set out above.

8. Is there any further clarification or issues which the Handbook should set out?

Yes. As outlined above, the definition of consumer, eligibility for Targeted Review Stream and guidance around the Independent Report would be valuable additions to the Draft Handbook.