

AusNet Services 2021-2025 Electricity Distribution Price Review

Customer Forum Final Engagement Report

31 January 2020

Chairman's foreword

This *Final Engagement Report* is the culmination of almost two year's work by the AusNet Services Customer Forum. The Customer Forum is part of a trial (NewReg trial) to achieve a more customer focussed electricity distribution price determination. This report details the agreements negotiated by the Customer Forum with AusNet Services. On behalf of AusNet Services 737,000 customers the Customer Forum concentrated its efforts not only on the price and reliability of the network delivering electricity to them, but also the customer service they need and rightly expect.

The support and enthusiasm of fellow Customer Forum members Helen Bartley, Greg Camm, John Mumford and Di Rule, through a process elongated by the Victorian Government's decision to defer the Energy Distribution Pricing Review starting date by six months, has been invaluable. On behalf of the Customer Forum, I wish to also acknowledge the assistance of many AusNet Services staff, especially Alistair Parker, Tom Hallam, Charlotte Eddy, Deirdre Rose, Rob Ball, Greg Hannan, Namrata Powale, Michael Larkin, Penny Gray, Stephanie Judd and Tom Langstaff.

The support of recently retired Managing Director Nino Ficca, who was instrumental in AusNet Services participating in the NewReg trial, is acknowledged and I also wish his successor, Tony Narvaez, every success as he leads the company into the new EDPR era which will see the delivery of many agreements negotiated over the past two years. AusNet Services' Chairman Peter Mason also played a key role in 2019 as negotiations advanced, meeting regularly with the Customer Forum to offer strong ongoing support for its work.

The Australian Energy Regulator (AER) also contributed substantially to our work, in particular Mark McLeish, Andrew Ley, Clare Stark, Seamus O'Byrne-Inglis and Anthony Seipolt. Amidst a plethora of performance data and regulatory documents, the guidance provided by this team was greatly appreciated.

I also acknowledge the contribution of industry bodies including Energy Consumers Australia, Energy Networks Australia, Energy Users Association of Australia and Major Energy Users Association, as well as two advisory groups: the Consumer Challenge Panel 17 and AusNet Services' Customer Consultative Committee. Of course it goes without saying, but I thank AusNet Services' customers for their contribution. Throughout our engagement we have been able to access invaluable insights from the people who really matter. Whether they lived in the suburbs or the country, spoke as business owners or residents, all have had a story to tell. Their feedback sometimes challenged AusNet Services, but always for the better. The clarity with which customers expressed their needs and expectations meant that the Customer Forum was well informed as we entered negotiations.

Like the *Interim Engagement Report*, this report includes case studies constructed from the experiences AusNet Services' customers related to members of the Customer Forum. However, one case study that appeared previously has been held over. For some customers, new connections take inordinately long to complete. The Customer Forum initially believed reforms suggested to and accepted by AusNet Services would provide the required remedy, but we have since come to understand that the reasons for protracted delays are numerous and reflect a range of commercial and regulatory roles across the electricity system including councils, retailers and Energy Safe Victoria. The Customer Forum, supported by AusNet Services, believes the delays require more specialised attention and for this reason a separate report will be finalised in early 2020 for the Victorian Commissioner for Red Tape Reduction.

AusNet Services is to be commended for being the first Australian utility to engage a Customer Forum as part of a revenue application. It is evident to the Customer Forum that AusNet Services genuinely wants to better understand the way it impacts the lives and livelihoods of its customers. A serious effort to re-orient the business towards its customers commenced shortly before the Customer Forum was established and it is clear to us that our work is complementing that internal reform.

The Customer Forum acknowledges that the 2019-20 summer bushfires have impacted parts of AusNet Services' network, which will require repair. The extent of repairs is yet to be assessed and may have cost implications for customers.

In relation to its work with AusNet Services for the 2022-26 regulatory period, the Customer Forum is confident its negotiated position will lead to significant cost reductions for customers. For customers to benefit fully from the negotiated cost reductions it is vital that electricity retailers pass them on. It will be incumbent on the industry, government and regulators to ensure these benefits flow through fully to customers.

Tony Robinson

January 2020

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1 Executive summary

The Customer Forum has negotiated elements of AusNet Services' 2022-2026 Electricity Distribution Price Review (EDPR) which will deliver significant benefits to customers. The outcomes recognise key concerns of AusNet Services customers,¹ and include:

- an overall average cost reduction of at least \$110 per customer per annum (\$2021), representing a fall of around 12% from currently anticipated prices at the end of 2020;
- cost increases limited to inflation only after the initial fall; and
- for the first time in many years, a reduction in the Regulated Asset Base (RAB) per customer, which lays the foundation for lower costs for customers in the future.

Additionally, AusNet Services has agreed to the following:

- a range of new customer service initiatives commencing from 2019, including the introduction of a new Customer Service Incentive Scheme (CSIS) which exposes AusNet Services to a greater revenue risk if it fails to achieve a range of customer service targets;²
- AusNet Services will be held to account for the customer service improvements it has agreed to through the publication of an annual *Customer Interaction and Monitoring Report*;³
- customers will save an estimated \$500,000 (\$2021) over the EDPR period as a result of AusNet Services agreeing to self-fund Guaranteed Service Level (GSL) payments for missed appointments and connections not completed by the agreed date. AusNet Services is the first distributor to agree to self-fund GSL payments;⁴
- a \$43 million (\$2021) DER augmentation program will address voltage impacts on customers arising from increasing solar exports and minimise the number of customers whose export of solar energy is constrained; all customers should benefit through the downward pressure this enablement places on wholesale electricity prices;⁵
- elimination of the remote connection and de-energisation charges undertaken during business hours from no later than the end of 2021, saving customers around \$750,000 per annum;⁶
- reliability for customers served by seven zone substations across the network will be improved by a \$78.3 million (\$2021) repex program;⁷
- the preservation of reliability for customers served by the Clyde North Zone Substation through the installation of a new transformer by 2023;⁸

¹ These outcomes are also detailed in AusNet Services, *Delivering Better Outcomes for Customers, Overview of Our Electricity Distribution Regulatory Proposal, 2022 to 2026* (January 2019).

² See Section 7 for details of these outcomes.

³ See Section 7 for details of these outcomes.

⁴ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 105.

⁵ AusNet Services, *Delivering Better Outcomes for Customers, Overview of Our Electricity Distribution Regulatory Proposal, 2021-22 to 2025-26* (January 2019), 29.

⁶ *Ibid.*, 32.

⁷ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 63.

⁸ *Ibid.*, 18.

- a modest innovation allowance to fund a range of research and development activities intended to deliver increased benefits to customers.⁹

Comparing the AusNet Services position at the commencement of the Customer Forum’s engagement with what was ultimately negotiated, significant savings have been achieved for customers without compromising customer service levels. Major savings include:

- average cost saving per customer rising from \$58 (\$2021) in February 2019 to \$110 (\$2021) at the final negotiation;
- augex falling by 36% to \$8 million (\$2021) following the deferral of the augmentation of the Doreen Zone Substation to 2028;¹⁰
- repex falling by 27% to \$78.3 million (\$2021) following the deferral of two zone substation replacement projects from 9 to 7 without significantly compromising reliability for customers;¹¹
- metering charges falling from an average of \$96 per customer (\$2021) over the 2016-20 period to an average of \$66 per customer (\$2021) from 2022-2026, a reduction of 31%;¹²
- opex cost absorption of \$21 million (\$2021) resulting in AusNet Services achieving a productivity saving greater than the AER mandated 0.5%.¹³

The Customer Forum’s negotiations with AusNet Services will contribute to cost savings for customers of at least \$490 million (\$2021) over 2022-2026.

⁹ Ibid., 28, 37.

¹⁰ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 45-46.

¹¹ Ibid., 52-53.

¹² Ibid., 160. The figures in the final negotiating notes were presented in \$2020, but for consistency with AusNet Services’ final proposal they are presented in \$2021.

¹³ Australian Energy Regulator, *Final Decision Paper: Forecasting productivity growth for electricity distributors* (8 March 2019), 76.

2 Background

2.1 Overview

An explanation of the Customer Forum’s rationale, history and scope is contained in its *Interim Engagement Report*, available on the AusNet Services’ website.¹⁴ Following the release of this report, the Customer Forum consulted further with customers, their representatives and other stakeholders. The Customer Forum also initiated further customer research and resumed negotiations with AusNet Services.

Negotiations concluded in January 2020. This *Final Engagement Report* documents the final negotiated positions reached between AusNet Services and the Customer Forum.

It is important to note that this model of negotiating revenue and services between a customer representative group and an energy distribution business is a joint initiative of the Australian Energy Regulator (AER), Energy Networks Australia, and Energy Consumers Australia. This model aims to ensure customers’ needs and preferences are reflected in the process and is referred to as *New Reg: Towards Consumer-Centric Energy Network Regulation (New Reg)*. AusNet Services is the first Australian utility to participate in a voluntary trial to develop its regulatory proposal for the 2022-26 period. The Customer Forum was established to represent the perspective of AusNet Services’ customers.

As this was a “first” for AusNet Services, the AER, other stakeholders and the Customer Forum, many learnings have emerged, which will help inform future negotiation processes. Beyond documenting the negotiations, the Customer Forum has documented these learnings and suggestions for future processes as *Reflections*, in Section 14 of this report.

2.2 Change of pricing period

On 12 April 2019, the Victorian Minister for Energy, Environment and Climate Change announced that future pricing periods for Victorian energy distribution businesses would be changed to a June financial year end, instead of a calendar year end; aligning Victoria with other States.¹⁵

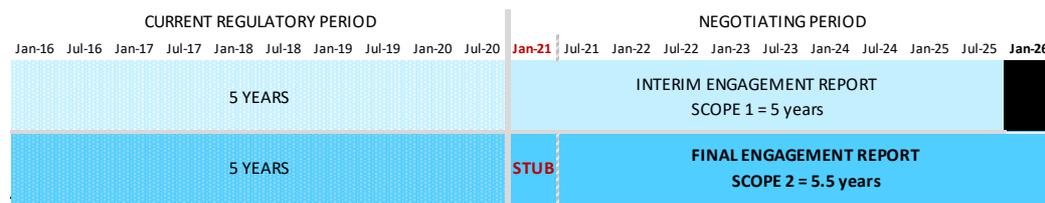
Until this announcement, the pricing period under negotiation was 1 January 2021 to 31 December 2025. References to the Interim Engagement Report are based on the 2021-25 period and costs are expressed in \$2020 (unless otherwise stated).

As the EDP was scheduled to finish on 31 December 2020, the six-month extension from 1 January 2021 to 30 June 2021 necessitated an adjustment. This was resolved by treating the six month “stub” period as an extension of the current pricing period, as shown in Figure 2-1. Accordingly, the period under negotiation was amended to 1 July 2021 to 30 June 2026, hereafter referred to as the 2022 to 2026 regulatory period, shortened to 2022-26. To keep the final negotiations based on “real” dollars, rather than inflation-included dollars, all dollar amounts were converted to \$2021 (unless otherwise stated) – approximately a 1.01% change to all values previously negotiated.

¹⁴ “Industry leading trial of direct negotiation with a Customer Forum,” AusNet Services, 2019, <https://ausnetservices.com.au/en/Misc-Pages/Links/About-Us/Charges-and-revenues/Electricity-distribution-network/Customer-Forum>.

¹⁵ Australian Energy Regulator to AusNet Services, *Victorian Government intention to change the electricity distribution regulatory year from a calendar to financial year*, 30 May 2019, <https://www.aer.gov.au/system/files/Letter%20from%20AER%20to%20Vic%20DBs%20re%20intention%20to%20change%20the%20timing%20of%20annual%20Victorian%20network%20price%20changes%20-%2030%20May%202019.pdf>.

Figure 2-1: Explanation of stub and negotiating periods



This adjustment to the pricing period, and consequent change in real dollars, explains any apparent numerical discrepancies between the Customer Forum’s *Interim Engagement Report* and this *Final Engagement Report*.

2.3 Scope

The scope of negotiations was detailed in the Customer Forum’s *Interim Engagement Report*.¹⁶ No changes were made to the scope through the final negotiations.

¹⁶ AusNet Services Customer Forum, *Interim Engagement Report* (6 February 2019), 7.

3 Evidence for negotiations

Since its establishment in March 2018, the Customer Forum has been presented with much information and evidence for negotiations including:

- extensive background information about AusNet Services' day-to-day operations, the regulatory framework and access to operational managers who deal with customer processes;
- information from AusNet Services to support its proposals and responses to numerous information requests from the Customer Forum to clarify those proposals;
- information from the AER about the Energy Distribution Price Review (EDPR) process, economic modelling tools and how it determined matters in and out of scope. Details can be found on the AER's website;¹⁷
- meetings conducted with numerous AusNet Services customers (see Section 3.2);
- market research commissioned by both AusNet Services and the Customer Forum; and
- input from other stakeholder groups, advocates and individual customers including the AER's Consumer Challenge Panel and AusNet Services' Customer Consultative Committee.

The *Interim Engagement Report* provides a more detailed description of these sources of information and evidence. Further, copies of the meeting agenda, information presented to the Customer Forum, negotiating notes and minutes are available on the AusNet Services' website.¹⁸ A list of presentations to the Customer Forum is found in Appendix B. The Customer Forum's evaluation of information presented in these background sessions is found in Section 14.

3.1 Insights into AusNet Services' customers

The Customer Forum received aggregated data on customer numbers and their locations, customer service and complaints, and an overview of AusNet Services' customer research. Periodically, both at the request of the Customer Forum and through AusNet Services' initiative, this information was updated to ensure the Customer Forum's negotiations were based around the most current information.

Additionally, AusNet Services and its consultants presented the Customer Forum with updates on its customer research projects as referenced in this report. Copies of key research reports are found on the AusNet Services' website.¹⁹

Given an understanding of customers' issues, needs and expectations was paramount to negotiations, the Customer Forum undertook a detailed appraisal of AusNet Services' customer research program.

3.2 Customer Forum initiated evidence

The Customer Forum initiated a third source of evidence to inform negotiations, which comprised:

- a review of additional information, including complaints data from AusNet Services, the AER and other agencies, such as the Essential Services Commission (ESC) and the Energy and Water Ombudsman Victoria (EWOV), the 2016 Australian Bureau of Statistics Census of Population and Housing and other publicly available statistical data;

¹⁷ "AusNet Services Trial," Australian Energy Regulator, n.d., <https://www.aer.gov.au/networks-pipelines/new-reg/ausnet-services-trial>.

¹⁸ "About Us," AusNet Services, n.d., <https://www.ausnetservices.com.au/misc-pages/links/about-us/charges-and-revenues/electricity-distribution-network/customer-forum>.

¹⁹ Ibid.

- independent field visits throughout AusNet Services’ region to directly gather evidence of issues affecting customers,²⁰ interviewing customers and their representatives such as Members of Parliament and local council officers;²¹
- additional market research to address key knowledge gaps, and independently measure customer expectations, perceptions and satisfaction with AusNet Services;²²
- observing focus groups, deep dives²³ and workshops with AusNet Services’ customers, stakeholders and staff, in various locations throughout AusNet Services’ region.

3.3 Other activities

The Customer Forum engaged with AER representatives and its Consumer Challenge Panel (CCP), and AusNet Services’ Customer Consultative Committee (CCC),²⁴ to gather additional information to assist in its negotiations. The Customer Forum also contributed to various AER stakeholder workshops to develop an improved Value of Customer Reliability (VCR) benchmark that would reward Distribution Network Service Providers for improving their customer service and penalise them if their service deteriorated. Details are available on the AER’s website.²⁵

3.4 Final report layout

The Customer Forum used the structure of its *Interim Engagement Report* as the basis of this *Final Engagement Report*.

A summary of each negotiating topic is included at the beginning of the relevant sections of the report to provide the reader with a snapshot of scope, matters agreed, matters disagreed and customer benefits.

The Customer Forum has made every effort to ensure the accuracy of the figures presented in this report and their references.

²⁰ A list of customer meetings by customer group and location is in Appendix C1.

²¹ These are in Appendix B2.

²² The Customer Forum has commented on this research in Appendices C2 and C3 and provide a summary table of research in Appendix D.

²³ AusNet Services commissioned Seed Advisory to moderate a series of five ‘deep dive’ workshops, which aimed to share detailed information with stakeholders, consult with stakeholders on aspects of AusNet Services proposals and provide an opportunity for AusNet Services to consider stakeholder feedback in the development of its proposals. Various members of the Customer Forum attended these deep dives as observers.

²⁴ A list of other meetings appears in Appendix C4.

²⁵ “Customer Service Incentive Scheme: Initiation,” Australian Energy Regulator, n.d., <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/customer-service-incentive-scheme/initiation>.

4 Overview of customer research

AusNet Services and its consultants presented the Customer Forum with background information from various customer research studies. AusNet Services also gave the Customer Forum access to a library of market research reports and associated documents. The library included research undertaken by NSW distribution business, Essential Energy, in preparation for its 2019-2024 EDPR.

Relevant research gathered dating back to 2014 provided the Customer Forum with historical insights. Research topics included customer attitudes and behaviours, awareness and expectations of AusNet Services, importance of reliability, renewable energy and use of smart meters. Most of that research was qualitative.

After the Customer Forum was established AusNet Services continued to commission research. The Customer Forum had the opportunity to influence some research and observe focus groups. The recent research provided the Customer Forum with contemporary insights into customers' needs, issues and expectations.

The Customer Forum initiated, designed and managed five customer surveys as follows:²⁶

- a telephone interview survey of 300 AusNet Services' business customers to provide insight and statistical evidence into the needs and expectations of small to medium business customers (referred to as the *Business Customer Survey*);
- a telephone interview survey of 300 residential customers serviced by the Clyde North and Doreen Zone Substations to provide insight into their expectations of reliability and preferences associated with AusNet Services' augmentation proposals (referred to as the *Clyde North and Doreen Customer Survey*);
- a telephone interview survey of 506 customers residing in locations serviced by zone substations with ageing infrastructure that AusNet Services identified for replacement in the 2022-26 regulatory period. The survey aimed to understand customers' perceptions of current reliability, their expectations around reliability and willingness to pay for replacement infrastructure to improve reliability (referred to as the *Major Projects Customer Survey*);
- a telephone interview survey with 20 Healesville customers affected by a high voltage incident in June 2018, and 22 Bundoora customers who subsequently experienced a similar incident. The survey aim was to evaluate changes in customers' experiences and perceptions as a result of AusNet Services revising its communications and claims procedures associated with such events after the Healesville incident in 2018 (referred to as the *Healesville and Bundoora Customer Survey*); and
- a telephone interview with 200 residential and 100 business customers in September 2019 to establish their views as to who should pay for network upgrades to cater for growth in rooftop solar panels, and support for demand management (referred to as the *Who Should Pay Survey*).

When the Customer Forum commenced work, AusNet Services did not have a program in place to monitor customer satisfaction. This meant there were no prior benchmarks for customers' perceptions of AusNet Services' performance. Significantly, in April 2018 AusNet Services embarked on a formal and structured program of customer satisfaction monitoring, known as its "C-Sat" program. This program of quarterly customer surveys measures customer satisfaction with planned and unplanned outages, new connections and customer complaints. At this stage, overall satisfaction among the "average" customer is not monitored²⁷. The surveys initiated by the Customer Forum have included overall satisfaction measures to help address this void.

²⁶ See Appendix D for more details of each survey.

²⁷ AusNet Services is considering approaches to more widely measure customer satisfaction.

Additionally, either of its own initiative or at the request of the Customer Forum, AusNet Services has undertaken desk research involving secondary analysis of internal data. This includes outage data by location, AusNet Services' Call Centre customer contact data, as well as further analysis of qualitative and quantitative research data collected by AusNet Services contractors. The results of AusNet Services' desk research were incorporated into AusNet Services' presentations to the Customer Forum and as such do not form part of the research library.

Customer Forum observations about AusNet Services' customer research can be found in its *Interim Engagement Report*.

Overall, the Customer Forum concludes the customer research evidence it has been able to access, combined with research it has initiated, provides a reasonable evidence base. Further, through its customer and stakeholder engagement activities, the Customer Forum has been able to validate and enhance its understanding of customers' needs, expectations and issues.

5 Operating expenditure

Opex summary

Scope

Opex was within the scope agreed to by the AER and AusNet Services.

Matters agreed and disagreed

After extensive negotiation the Customer Forum agreed with AusNet Services:

- the base, step, trend approach should be used;
- for the trend parameter, AusNet Services' population and labour cost escalation estimates, supporting Opex trend growth of 1.46% per annum, were reasonable;
- two step changes as follows:
 - \$2.6 million (\$2021) of IT cloud transition expense; and
 - \$3.6 million (\$2021) of costs associated with the transition to 5-minute metering;
- AusNet Services would absorb significant costs to achieve higher productivity.

The Customer Forum disagreed with AusNet Services' original position that the productivity component should be limited to 0.5% (the Customer Forum initially sought at least 1.5% but agreed to a compromise final figure of around 1%) but was unable to agree that 2018 was an efficient base year as determined by the AER. The Customer Forum notes the AER will determine the base year efficiency.

The Customer Forum was unable to comprehensively determine the REFCL testing step change of \$6.0 million (\$2021) due to its highly technical nature but agreed to it subject to the AER being satisfied it was warranted.

In relation to the cyber security step change, the Customer Forum was unable to comprehensively consider the cyber security opex step change request (\$4.7 million in \$2021) due to time restrictions, given the Commonwealth Government is yet to publish a mandatory standard. While agreeing with AusNet Services that the changing global cyber threat environment could justify customer sourced expenditure, the Customer Forum referred the matter to the AER for decision.

Key customer benefits arising from the opex negotiations are as follows:

- a higher productivity target and hence lower costs were accepted by AusNet Services which reduces opex by \$21 million (\$2021); and
- customer experience improvements by reprioritising opex, rather than imposing additional costs.

5.1 Interim Engagement Report summary

The draft proposal for opex was approached using the standard AER building blocks of “base”, “step” and “trend”.²⁸

Base

AusNet Services proposed, and the Customer Forum accepted 2018 as the base year, subject to the AER confirming 2018 could be regarded as an “efficient” year using its benchmarking methodologies.

The Customer Forum has since received advice from the AER on this question, which will be covered later in this section.

Step changes

AusNet Services proposed the following five step changes:²⁹

1. *Changes in the accounting treatment of leases will reduce opex by \$31 million (\$2020) (with a consequential rise in capital expenditure).*³⁰

The Customer Forum accepted this step change.

2. *Reallocation of costs associated with shared data and communication infrastructure used by the smart meter network and the distribution business. This is anticipated to add \$31.7 million (\$2020)³¹ to distribution opex but will be offset by an equivalent reduction in metering charges, making this change neutral for the average residential customer.*

The Customer Forum accepted this step change.

3. *Testing and maintenance of Victorian Government mandated Rapid Earth Fault Current Limiters (REFCL) to mitigate the risk of bushfires, requiring an additional \$8.5 million (\$2020) expenditure.*³²

The Customer Forum accepted AusNet Services’ REFCL bushfire mitigation step change proposal, subject to the AER being satisfied this level of expenditure was required for the mandated works and was not already embedded in base year expenditure.

4. *Moving some IT applications to cloud based software services will increase opex by \$7.85 million (\$2020).*

The Customer Forum did not accept AusNet Services’ step change proposal of \$7.85 million (\$2020) for cloud-based software services, as it considered AusNet Services had not adequately identified the customer benefits the expenditure would deliver, in either quantitative or qualitative terms.

In recognition of the expected benefits to customers and after further negotiation, the Customer Forum supported, in principle, AusNet Services’ proposed investment in Customer Relationship Management and Outage Management systems. These proposed step changes totalled \$2.6 million (\$2020). However, the Customer Forum concluded the proposed budget and scope for these projects was outside its expertise. It further concluded that the AER would be better equipped to analyse these aspects of the proposals.

5. *Five-minute metering is a mandated network rule change coming into effect in 2021, which will increase opex by \$2.6 million (\$2020).*³³

²⁸ Australian Energy Regulator, *New Reg: Towards Consumer-Centric energy Network Regulation, AusNet Trial – AER Staff Guidance Note 4: Opex* (29 August 2018), 1.

²⁹ AusNet Services Customer Forum, *Interim Engagement Report* (6 February 2019), 19-21.

³⁰ In May 2019, AusNet Services refined this cost to \$22.5 million (\$2020).

³¹ In May 2019, AusNet Services refined this cost to \$29.1 million (\$2020).

³² In September 2019, AusNet Services refined this cost to \$6.0 million (\$2020).

³³ In May 2019, AusNet Services refined this cost to \$3.61 million (\$2020).

The Customer Forum accepted AusNet Services' five-minute metering step change proposal, subject to the AER being satisfied the revenue sought fairly covered the cost involved of this mandatory change.

Trend

AusNet Services proposed an average real increase of 2.1% per annum in opex.³⁴

With one exception, following extensive questioning of AusNet Services, the Customer Forum was satisfied the trend factors submitted by AusNet Services were a realistic reflection of its working environment and would be acceptable to customers. Labour costs³⁵ and customer growth numbers³⁶ appeared reasonable but will be subject to AER scrutiny once AusNet Services lodges its submission.

The Customer Forum did not accept AusNet Services' position that because network productivity had declined in recent years it should make no allowance for any productivity improvement between 2021 and 2025. It appears the argument against productivity growth arises from additional expenditure imposed upon distribution businesses, most notably expenditure associated with bushfire mitigation.

In its *Interim Engagement Report*, the Customer Forum took the position that a 1.5% productivity reduction should be applied to opex.³⁷ Subsequent to publication of the Customer Forum's *Interim Engagement Report*, the AER announced a mandatory 0.5% productivity adjustment for all distribution businesses.³⁸

5.2 Final negotiations

Opex is a key aspect of the EDPR negotiation. It is fully in scope for the Customer Forum and is a material driver of final cost to customers.

The negotiations commenced in 2018 with AusNet Services presenting total opex for the period of \$1,199 million (\$2020). Throughout the negotiations, AusNet Services uncovered a series of errors, which it had not included in that figure, largely due to errors made under the accelerated time frames associated with the Customer Forum process (compared to the historical EDPR process) and final due diligence checks. The Customer Forum notes these errors were in both directions. A number of proposed step changes were not accepted or reduced during the negotiations – these are covered below. AusNet Services' final total proposed opex reached \$1,222 million (\$2021).³⁹

5.3 What does the evidence say about customer needs and expectations?

After several years of significant real increases in energy costs, customer research and consultations found that customers and their advocates expected price relief on their electricity bills. This evidence is detailed in Section 13.2. The evidence supported the Customer Forum pursuing a proposal that was prudent, affordable and delivered real benefits for customers.

Stakeholders discussed AusNet Services' opex proposal in Deep Dive One held in February 2019, and Deep Dive Five held in May 2019. In Deep Dive One, stakeholders questioned AusNet Services' assumptions around labour and materials growth and other elements of its proposal and suggested a minimum productivity growth assumption of 1%.⁴⁰ In terms of the specific components of opex,

³⁴ Following the 0.5% AER mandated productivity adjustment and other refinements, the final average real increase is 1.46% per annum (see also Note 13).

³⁵ AusNet Services, *Operating expenditure: Negotiating position for the Customer Forum* (8 August 2018), 4.

³⁶ Ibid.

³⁷ AusNet Services Customer Forum, *Interim Engagement Report* (February 2019), 21.

³⁸ Australian Energy Regulator, *Final Decision Paper: Forecasting productivity growth for electricity distributors* (8 March 2019), 76.

³⁹ Excluding debt raising costs.

⁴⁰ Seed Advisory, *Deep Dive Workshop One – Summary Report, AusNet Services Electricity Distribution Price Review, 2021-2025* (20 August 2019), 6.

stakeholders were indifferent about the choice of 2018 or 2019 as the base year. However, stakeholders requested more information about AusNet Services' proposed step changes, including the proposed cloud-based customer relationship management system and AusNet Services' ICT proposals.

At Deep Dive Five stakeholders discussed AusNet Services' proposed ICT step changes.⁴¹ The Customer Forum reviewed the stakeholder feedback on opex, with the relevant customer research presented elsewhere in this report and has used the findings to challenge the business on various aspects of its operating expenditure proposals.

5.4 Does AusNet Services' final proposal adequately recognise needs and expectations of customers?

The Customer Forum has concluded that the final position adopted by AusNet Services on opex is acceptable from a customer perspective, within the context of an average price reduction of at least \$110 (\$2021) per customer per annum. But customers want and expect AusNet Services to be ambitious for further efficiencies.

Compared to other distribution businesses, AusNet Services serves one of the fastest growing outer metropolitan regions in Australia, where an expanding and largely underground network is being funded by other parties. It therefore enjoys a steady upward trend in customer numbers and line length, bringing with it added revenue every year.

This revenue tailwind should allow further productivity improvement over time through economies of scale and scope.

5.5 What is the customer benefit and is it tangible?

The evidence shows customers value price reductions more than any other aspect of service. Opex is a key driver of the end price customers pay. A dollar saved in opex is an immediate dollar benefit for customers. In the context of the proposed minimum average customer price reduction of at least \$110 per annum, the opex proposal appears to represent overall value for money. Further productivity improvements to opex would flow directly to customers.

Base year movements and productivity

The Customer Forum noted a prima facie significant cost jump from the last year of the current regulatory period (2020) to the first year of the new period under negotiation.

Opex in 2019 and 2020 is just over \$200 million per annum (\$2020). Ignoring the stub period, AusNet Services proposed an apparent significant increase – from approximately \$205 million (\$2021) in 2020 to \$239 million (\$2021) in 2021 – 16.5% in real (before inflation) terms.⁴²

AusNet Services argued this lift was merely an extension of the trend line using 2018 as a base year, which AusNet Services claimed the Customer Forum had accepted. AusNet Services explained that the AER's Efficiency Benefit Sharing Scheme (EBSS) interacts with this dynamic to create an incentive for continuing efficiency gains.⁴³ The Customer Forum understands and accepts this argument.

⁴¹ Seed Advisory, *Deep Dive Workshop Five – Summary Report, AusNet Services Electricity Distribution Price Review, 2021-2025* (20 August 2019), 4-5.

⁴² AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), derived from Figure 1, 90.

⁴³ "Incentive Schemes: An Introduction," Australian Energy Regulator (22 March 2018), www.ausnetservices.com.au/-/medi/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/Week-1/AER----incentive-schemes.ashx?la=en.

However, the Customer Forum previously indicated that it accepted 2018 as a base year, *subject to* AER confirmation that it regarded 2018 as “efficient” for the purposes of the EDPR process.⁴⁴

In September 2019 the Customer Forum provided feedback to AusNet Services that it observed the AER had not endorsed 2018 as an “efficient” year, and indeed noted that 2018 was deemed “materially inefficient” under two of the four AER benchmarking models.⁴⁵ Instead, the AER had advised that it was likely that it would deem 2018 merely as a “not materially inefficient” base year.

AusNet Services later countered the AER’s claim that it is the lowest cost rural distribution business in Australia, as measured by opex per customer.⁴⁶ AusNet Services also asserted its 2018 operating expenditure was \$35 million lower than its closest comparable network – Powercor.⁴⁷ The Customer Forum accepts that Powercor is a good comparator, given it operates a similar scale network in Victoria over similar topography. However, opex per customer is a simplistic metric relative to the sophisticated and heavily tested AER benchmarking methods.

AusNet Services mounted a spirited critique of the AER benchmarking methodology, citing differences in cost drivers between distribution businesses that are not captured in the models, such as differing topographies, regulatory obligations and climate; and inconsistencies in data collection and accounting treatments (in particular, in respect of overheads).

AusNet Services claimed bushfire mitigation, for example, via vegetation management and inspection protocols, is a major driver of opex, and has unique cost impacts for AusNet Services and Powercor. The Customer Forum accepted the principle behind this assertion but AusNet Services provided little evidence to support the claim.

Whilst the Customer Forum accepts that AusNet Services may believe it is inaccurately measured by the AER’s benchmarking methodology, it remains the strongest objective evidence available to the Customer Forum to judge the efficiency of AusNet Services relative to its peers.

Composition of the base

Over the course of negotiations, AusNet Services agreed to a range of changes to its customer service delivery, and to some customer policies. These are detailed in Section 7.

Accordingly, the Customer Forum influenced AusNet Services’ allocation of resources within its opex base, shifting its expenditure towards activities that deliver greater customer benefit. An example of this is AusNet Services’ significant increase in resources devoted to improving customer experience and dedicated customer engagement and research.

⁴⁴ AusNet Services Customer Forum, *Interim Engagement Report* (February 2019), 19.

⁴⁵ Australian Energy Regulator, *Annual Benchmarking Report* (29 November 2019), www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/annual-benchmarking-report-2019.

⁴⁶ AusNet Services, *Operating Expenditure, Further information for the Customer Forum: response to feedback* (21 October 2019), 1.

⁴⁷ *Ibid.*

Step changes

1. IT cloud opex

The Customer Forum had earlier supported step changes for IT cloud expenditure proposed for CRM and Outage Management of \$2.6 million in total (\$2021).⁴⁸ Support for these projects was conditional on evidence being provided that other IT capex is reduced in a compensating amount to the cloud opex. This evidence has since been provided,⁴⁹ and the Customer Forum now supports this step change.

2. Cyber security

AusNet Services modified its position as negotiations unfolded, reflecting an emerging view that the majority of the expected additional cost burden for cyber security would fall on its transmission business. It therefore reduced its proposed step change to \$4.7 million (\$2021).^{50, 51}

The Customer Forum has not been provided with a detailed or compelling case to support this step change, and at the date of this report, AEMO had not published expected new cyber security requirements for distribution businesses.

However, the Customer Forum recognises the escalating risk in relation to the global cyber threat environment and considers a step change of some kind could be justified. Given the highly technical and sensitive nature of the subject matter, along with the uncertainty of the emerging regulatory requirements, the Customer Forum believes this issue should be resolved directly with the AER as part of the later stages of the EDPR process.

3. REFCL testing

The Customer Forum had earlier supported this step change, subject to AER validation of the technical and financial aspects.

Considerable uncertainty remains regarding the cost (and the capex/opex mix) required for REFCL testing in the EDPR period, including some unresolved matters relating to proposed investments in Kalkallo Zone Substation and the new Kilmore North Zone Substation. This is a complex technical and commercial issue.

The uncertainty makes it impossible for the Customer Forum to offer an opinion at this time.

4. Other step changes

Other possible step changes were posited by AusNet Services and in the context of the Customer Forum's desire for further productivity improvement, the Customer Forum and AusNet Services agreed all these potential step changes would be absorbed by AusNet Services. These include:⁵²

- costs associated with an increase in the superannuation guarantee from 1 July 2021, which AusNet Services forecasts to be approximately \$6.5 million (\$2021) over the 2022-26 regulatory period;
- increases in bushfire insurance, which AusNet Services forecasts to save customers around \$7 million over the 2022-26 regulatory period;

⁴⁸ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 110. The \$2.6 million (\$2021) quoted includes \$2.3 million (\$2021) for the CRM plus \$0.3 million (\$2021) for the outage management system.

⁴⁹ AusNet Services, *Operating Expenditure, Further information for the Customer Forum: Responses to feedback* (21 October 2019), 10.

⁵⁰ See note 48.

⁵¹ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 107.

⁵² AusNet Services, *Electricity Distribution Price Review 2022-26* (2020), part III, section 10.9.

- the costs to implement a demand management solution at Cranbourne Terminal Station, which AusNet Services forecasts to be approximately \$1.5 million (\$2021) over the 2022-26 regulatory period;
- the costs involved in complying with the amended *Environment Protection Act*,⁵³ which AusNet Services forecast to be approximately \$1 million (\$2021) over the 2022-26 regulatory period; and
- Most of the costs associated with AusNet Services transitioning to cloud base IT systems, which are forecast to be approximately \$5.2 million (\$2021) over the 2022-26 regulatory period.

AusNet Services claimed these changes were equivalent to a further 0.5% productivity adjustment.

Outstanding matters that may change opex

As noted above, some of the step changes proposed by AusNet Services were not finalised at the conclusion of negotiations and are subject to AER assessment. Should the AER decline these step changes sought by AusNet Services, its total opex allowance will be reduced.

AusNet Services flagged a number of other matters that could drive further opex changes after the proposal is lodged in January 2020. These include:

- council rates increases; and
- GSL changes resulting from the ESC review of the Electricity Distribution Code.

The Customer Forum notes these potential issues.

5.6 Does the Customer Forum believe AusNet Services' final proposal represents overall value for money?

The Customer Forum has concluded that the final position adopted by AusNet Services on proposed opex is acceptable, although it may be insufficient to satisfy some customers' expectations.

Customers are keen to see a greater ambition from AusNet Services for more efficiency, as reductions to opex would flow directly to customers as price relief. For this reason the Customer Forum continued to push AusNet Services for additional price reductions until the final negotiating day.

In the closing days of the final negotiation, the AER released its 2019 *Annual Productivity Benchmarking Report*,⁵⁴ which revealed AusNet Services had slipped further down the Multilateral Total Factor Productivity table to eleventh out of thirteen DNSPs.

In light of this, the Customer Forum asked and AusNet Services agreed to increase the average customer price reduction to at least \$110 per annum (\$2021).

In the context of the proposed minimum average customer price reduction of at least \$110 per annum (\$2021), taken together with other expenditure savings, the opex proposal appears to represent overall value for money.

⁵³ Parliament of Victoria, Environment Protection Amendment Act 2018 (28 August 2018).

⁵⁴ Australian Energy Regulator, *Annual Benchmarking Report* (November 2019), <https://www.aer.gov.au/system/files/D19-187221%20AER%202019%20distribution%20network%20service%20provider%20benchmarking%20report%20-%20November%202019.PDF>, 13.

6 Augmentation expenditure

Augex summary

Scope

The portion of AusNet Services' proposed augex expenditure involving the installation of new transformers at the Clyde North and Doreen Zone Substations was within the scope agreed to by the AER and AusNet Services.

Matters agreed and disagreed

After extensive negotiation the Customer Forum agreed with AusNet Services that a new transformer should be installed at Clyde North by 2023. Prior to final negotiations, AusNet Services reconsidered the Doreen proposal and announced it would be deferred until 2028.

Customer benefit

The Customer Forum identified that all customers would save modestly from the deferral of the Doreen Zone Substation upgrade, without any material impact on reliability outcomes, while customers served by the Clyde North Zone Substation would enjoy enhanced reliability by the project proceeding.

6.1 Interim Engagement Report summary

AusNet Services originally proposed the installation of new transformers at both Clyde North and Doreen Zone Substations. After lengthy scrutiny, the Customer Forum offered qualified support for the proposals subject to an independent consultant's review that would identify whether alternative treatments were possible to meet anticipated demand growth at both locations. Subsequently AusNet Services engaged WSP Consultants to undertake an independent review of the augmentation deferral options for projects at Clyde North and Doreen Zone Substations. The scope of the review was to assess the reasonableness of AusNet Services method, data sources and assumptions used to determine the costs and benefits of the deferral options of each zone substation.

6.2 Final negotiations

WSP was appointed to undertake the review in early 2019. Before finalising its report, AusNet Services advised it had updated its estimates of demand growth and concluded that the economic date for the third Doreen transformer had moved to 2028, outside the 2022-26 regulatory period. As such, the question of whether customers should bear the cost of the further investment was removed.

The effect of deferring the Doreen transformer is minimal. AusNet Services advised the Customer Forum that a two-year delay would result in unserved energy growing by only 0.012% and customers experiencing an additional 23.5 minutes of interruptions per annum.⁵⁵

In relation to Clyde North the Customer Forum requested WSP investigate whether increasing uptake of battery storage, demand management or network reconfiguration would enable the proposed third transformer to be deferred beyond 2025. WSP advised that approximately 8MW of demand reduction was required to justify deferral. In its investigation WSP found that:⁵⁶

⁵⁵ AusNet Services, *Customer Forum Negotiations, Further Information for the Customer Forum* (3 December 2019), 7.

⁵⁶ WSP, *AusNet Electricity Services: Augex Deferral Review for Clyde North and Doreen Zone Substations* (May 2019), ii.

- currently, less than 100 kW of storage capacity existed in the network served by the Clyde North Zone Substation;
- currently, commercial and industrial customers are partnering AusNet services in achieving a maximum of 3MW demand management through the use of the Critical Peak Demand tariff; and
- the Clyde North Zone Substation, as well as adjacent substations were heavily loaded and it was not feasible to transfer load.

WSP concluded there was no reason to believe the evidence provided, assumptions made and approach to modelling used by AusNet Services in respect of the proposed Clyde North transformer were unreasonable. The Customer Forum was therefore able to satisfy itself that proceeding with a third transformer by 2023 was justified.

The Customer Forum believes that AusNet Services' decision vindicates its interest in rigorously assessing the proposals while observing the need to meet customer expectations that reliability would not suffer. AusNet Services advised that the Doreen deferral had negligible reliability impacts.

6.3 What does the evidence say about customer needs and expectations?

The Customer Forum's *Interim Engagement Report* considered evidence related to both Clyde North and Doreen Zone Substations. AusNet Services subsequently advised the Customer Forum that its Doreen augmentation proposal had been deferred beyond 2026. Consequently, the evidence presented only considers Clyde North, although the customer survey captured feedback from customers in both locations.

In Clyde North, in the City of Casey, between 2016 to 2026 the population is expected to increase from 2,902 to 13,193, and the number of dwellings from 964 to 4,104.⁵⁷

The Customer Forum accepts Clyde North Zone Substation services customers in one of Victoria's most rapidly growing areas.

Of relevance from the *Clyde North and Doreen Customer Survey*:

- overall, 65% of customers (61% of Clyde North customers) indicated *the current frequency of outages is acceptable*;⁵⁸
- most customers (65%) indicated they can tolerate an outage of up to an hour or more without a significant impact;⁵⁹
- consistent with other research,⁶⁰ reliability is important to customers – most Clyde North customers (93%) believed it is *very important* the current reliability is maintained;⁶¹
- most (91%), believe AusNet services should be addressing reliability issues *in the next 5 to 7 years* – only 5% would be happy if AusNet Services did nothing;⁶²
- 71% of Clyde North customers indicated a willingness to pay to reduce the risk of outages increasing, and most (71%) believed it is fair to share the cost among all AusNet Services'

⁵⁷ "City of Casey: Population, households and dwellings," .id – the population experts, March 2019, <https://forecast.id.com.au/casey/population-households-dwellings?WebID=430>.

⁵⁸ AusNet Services Customer Forum, *Clyde North and Doreen Customer Research: Service Reliability and Perceptions* (October 2019), 18.

⁵⁹ *Ibid.*, 19.

⁶⁰ Such as the Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research* (August 2018), 5.

⁶¹ AusNet Services Customer Forum, *Clyde North and Doreen Customer Research: Service Reliability Perceptions and Expectations* (October 2019), 20.

⁶² *Ibid.*, 22.

customers,⁶³ consistent with the Newgate Research focus groups⁶⁴ which indicated costs should be shared;

- 41% of Clyde North customers indicated they were aware of incentives to reduce peak demand, 78% support these initiatives in the next one to two years and 73% in the next 3 to 5 years, but only 54% support them in the long term,⁶⁵ and
- importantly, 74% of Clyde North customers indicated they would participate in demand management simply to reduce the risk of a blackout (without any other incentives).⁶⁶

While the *Clyde North and Doreen Customer Survey* provided useful insights, the Customer Forum noted the survey non-response was high and only 110 Clyde North customers participated,⁶⁷ despite three weeks allowed for the data collection at varying times of the day throughout the week. As the survey findings specific to Clyde North have not been independently validated the Customer Forum is treating them with caution.

Following the *Clyde North and Doreen Customer Survey*, the results from the *Who should Pay Survey* demonstrated that most customers (74%) believe when augmentation expenditure is required to support more solar exports, the costs should be borne by all customers.⁶⁸ Notably, 72% of customers without rooftop solar panels indicated they were willing to pay an additional \$1 per annum (residential customers) / \$7 per annum (business customers) to support more solar exports – 62% of customers who do not have rooftop solar panels believe the burden should be shared by all AusNet Services' customers.⁶⁹

6.4 Does AusNet Services' final proposal adequately recognise needs and expectations of customers?

The Customer Forum believes the amended proposal recognises the needs and expectations of customers by reducing the cost originally proposed while maintaining reliability standards. With respect to cost, proposed augex has fallen from \$13 million (\$2021) to \$8 million (\$2021)⁷⁰ and now represents an average cost of \$0.57 (\$2021) per customer per annum.⁷¹

6.5 What is the customer benefit and is it tangible?

Customers served by the Clyde North Zone Substation can expect continued reliability and an acceptable level of outages. Customers' desire for reliability to be maintained is well supported by customer research.

6.6 Does the Customer Forum believe AusNet Services' final proposal represents overall value for money?

The Customer Forum believes this investment represents value for money for customers.

⁶³ Ibid., 23.

⁶⁴ Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research* (August 2018), 6.

⁶⁵ AusNet Services Customer Forum, *Clyde North and Doreen Customer Research: Service Reliability and Perceptions OR Service Reliability Perceptions and Expectations* (October 2019), 24.

⁶⁶ Ibid., 25.

⁶⁷ The initial aim was to survey 300 customers in each location to produce survey results that had a reasonable degree of statistical accuracy for each location (+/-5.7% at the 95% confidence level). However, the results for a sample of 100 per location are only accurate to within +/-9.8%, and assuming no non-response bias.

⁶⁸ AusNet Services Customer Forum, *Customer Attitudes Research: Solar Connections – Who should pay for network upgrades and demand management through air-conditioning control* (October 2019), 28.

⁶⁹ Ibid.

⁷⁰ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 8.

⁷¹ As verbally advised by AusNet Services.

7 Customer experience and hardship arrangements

Customer experience summary

Scope

Customer experience was within the scope agreed to by the AER and AusNet Services. Although not traditionally an element of EDPR proposals, the Customer Forum chose to include it within the negotiations because of concern that without a specific customer focus, services customers expect and value may not receive the attention they deserve.

Matters agreed and disagreed

After extensive negotiation the Customer Forum agreed with AusNet Services on a range of new and enhanced services, including:

- Fixing customer pain points including the management of new network connections, solar connection and planned and unplanned outages;
- Enhanced training for customer contact centre staff;
- An ongoing customer research program to monitor customer perceptions and changes in their needs and expectations;
- Aligning internal performance incentives with customer outcomes;
- Incentivising AusNet Services to improve key customer service interactions through an enhanced Customer Satisfaction Incentive Scheme;
- Improving the claims processes when AusNet Services inadvertently damages or destroys customers' appliances or equipment ;
- Employing dedicated business customer relationship staff;
- Establishing accountability and transparency through the annual publication of a Customer Interaction and Monitoring Report; and
- AusNet Services self-funding GSL payments for missed appointments and connections not completed by the agreed date.

No matters were the subject of disagreement.

Customer benefit

A number of self-evident benefits arise from the Customer Experience initiatives. Importantly, they commenced in 2019 and come at no additional cost to customers.

7.1 Interim Engagement Report summary

AusNet Services and the Customer Forum reached agreement in late-2018 that a series of customer service improvements requested by the Customer Forum would be developed and introduced by 2021. These improvements were listed in the Customer Forum's *Interim Engagement Report* as follows:⁷²

1. Establishing a clearer accountability for customers
2. Aligning our incentives with customer outcomes
3. Building our understanding of our customers' needs and expectations
4. Fixing customer pain points and improving the customer experience
5. Collaborating with the community
6. Making our organisation easier to deal with
7. Taking care of our most vulnerable customers
8. Making the claims process easier for all customers
9. Holding themselves to account

In 2019 the Customer Forum sought to build a series of measurable service levels around these initiatives and AusNet Services responded positively.

7.2 Final negotiation

As noted in the Customer Forum's *Interim Engagement Report*, customer experience negotiations were largely concluded in 2018. However, the following three items were refined in 2019:

1. In the final negotiation, AusNet Services agreed to the Customer Forum's request to make the organisation easier for customers to deal with by AusNet Services recording customer calls no later than 1 July 2021. The Customer Forum sought this commitment as it did not believe AusNet Services could achieve best practice in customer relations without doing this.
2. The Customer Forum noted the customer satisfaction (C-SAT) targets adopted by AusNet Services will only apply to approximately 80% of the company's management and urges AusNet Services to extend the targets across its entire business. The Customer Forum believes universal application will improve the effectiveness of the measure by aligning incentives across the business, contributing to better outcomes for customers.
3. The Customer Forum welcomes the development by AusNet Services of a new customer portal that will, in the first instance, offer improved service to larger customers involved in multiple connections, such as land developers. The new portal also intends to provide all customers seeking new connections improved transparency about the progress of their application. AusNet Services advised the Customer Forum it will further develop the portal to accommodate other customer groups, although the initiative at this stage does not intend to by-pass electricity retailers. AusNet Services acknowledges that, over the past two years, Powercor has developed a portal for customers to directly lodge applications for solar pre-approval and new connections with Powercor, rather than having to apply via a retailer,⁷³ but AusNet Services does not currently accept that the benefits of this service outweigh the costs that would be imposed on customers to deliver a similar service.

⁷² AusNet Services Customer Forum, *Interim Engagement Report* (February 2019), 27.

⁷³ "Industry: eConnect," CityPower: Powercor Australia, 2019, <https://www.powercor.com.au/industry/econnect/>.

Following its earlier negotiation with AusNet Services to develop a Customer Satisfaction Incentive Scheme that would replace the telephone answering element of the existing Service Target Performance Incentive Scheme (STPIS), the Customer Forum discussed the proposal with AusNet Services and the AER in more detail. It was agreed the CSIS should include four measures relevant to customers' experience: unplanned outages, planned outages, new connections (basic and standard) and customer complaints. Under the scheme, AusNet Services will have at risk \$3.5 million (\$2021) if its performance in these agreed areas does not achieve predetermined benchmarks.⁷⁴ Performance measurement will be based on customer feedback via a monthly telephone interview survey (reported quarterly) of a representative sample of business and residential customers who contacted AusNet Services in relation to an unplanned outage, a planned outage, a new connection or following a complaint.⁷⁵

AusNet Services had earlier advised the Customer Forum it had commenced work in 2017 on a "customer experience roadmap" which was intended to improve the experience of its customers in dealing with the business. In mid-2019 AusNet Services provided details of this program. The Customer Forum was impressed with AusNet Services' effort to better understand and respond to customer needs. The roadmap work complements the Customer Forum initiatives negotiated with AusNet Services in 2018.

Additionally, the Customer Forum will prepare a more detailed study of new connection difficulties early in 2020. This study has arisen out of feedback from various builders and electricians who told the Customer Forum about their current frustration with a convoluted multi-stage process, significant delays and lack of communication associated with new connections to AusNet Services' distribution network. Their frustration was exacerbated by an apparent lack of willingness by retailers or AusNet Services to take responsibility for new connections. Further, energy rules can prevent customers from dealing directly with AusNet Services. Any process which has multiple steps involving multiple parties increases the likelihood of mistakes. The Customer Forum in agreement with AusNet Services will provide a report on new connection delays to the Victorian Commissioner for Red Tape Reduction in early 2020.

7.3 What does the evidence say about customer needs and expectations?

Customer needs and expectations vary by circumstance and customer segment. The Newgate Research focus groups found customers had "mixed views" as to the importance of customer service but it established the importance of customer service and information provision increases when planned and unplanned outages occur.⁷⁶ The research showed the importance of customer service also increases when customers are trying to resolve issues, including those associated with new connections. These findings were consistent with the May 2018 Quantum Market Research customer survey, which found 83% of customers want to be notified of outages, and 77% want to be notified when their electricity supply will be returned after an outage.⁷⁷

Beyond the provision of timely and accurate information associated with supply interruptions, customers have basic expectations customer service staff will be professional, have a pleasant manner, treat customers with respect and show empathy. Over the last 18 months, the Customer Forum received feedback from numerous customers whose experience dealing with AusNet Services' customer call centre staff fell well short of expectations.

A common theme articulated by many customers related to the scheduling of planned outages. Customers appreciate planned outages are periodically required to enable AusNet Services to

⁷⁴ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 36.

⁷⁵ Ibid.

⁷⁶ Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research, Qualitative Research Report* (August 2018), 23.

⁷⁷ Quantum Market Research, *AusNet Services Customer Profiles Full Report, Draft* (May 2018), 10.

undertake work on its network. However, traders in Rutherglen, Benalla, Dalyston and Warburton as well as some council business liaison staff told the Customer Forum about AusNet Services' lack of consultation regarding the scheduling of these outages. The Customer Forum heard communities were rarely consulted about the timing of planned outages. Most are scheduled to minimise disruption to schools with no regard for traders who have to close businesses, send staff home and forfeit revenue often during key trading periods, such as school holidays.

Further frustration occurred when planned outages were cancelled with insufficient notice for a business to resume trading. These stories were borne out in the Customer Forum initiated *Business Customer Survey*, with 36% of business customers indicating they have to stop work and even send staff home if an outage is significant.⁷⁸ Notably, 27% of business customers rated AusNet Services' customer service in general as "poor" (i.e. They rated AusNet Services' customer service between 1 and 4/10)⁷⁹ – and when asked about their information needs 21% spontaneously commented they wanted [adequate] notice of planned outages.⁸⁰

The most significant feedback related to outages was received from Healesville customers following a high voltage power surge,⁸¹ which demonstrated a gap between customer expectations and AusNet Services' customer service, including its claims processes. Comments such as "we are not required to provide you with a full fault report", when detailed information was requested about a long unplanned outage do not appear to be isolated.⁸²

Building practitioners told the Customer Forum about numerous delays and expense incurred with new connections. One rural residential customer initially received a \$25,000 to \$30,000 quote for a new connection from AusNet Services, despite a suitable transformer being located just 50 metres from their property boundary. When the customer pursued the matter, the cost was reduced to \$5,000.

The Customer Forum heard that new connection delays are exacerbated by an apparent lack of willingness by retailers or AusNet Services to take responsibility. The Customer Forum is preparing a report on new connection difficulties to be published early in 2020.

This lack of effective communication occurs in other areas. Further, energy rules can prevent customers from dealing directly with AusNet Services.⁸³ Any process which has multiple steps involving multiple parties increases the likelihood of mistakes occurring. Newgate Research and one Customer Forum member's direct experience with AusNet Services illustrates this issue. When an outage occurs, AusNet Services sends texts to "selected" customers to keep them informed. Although not documented in the Newgate Research report, a customer commented in one of the focus groups that although the bill was addressed to the customer *and* her husband, he was the only one to receive text messages from AusNet Services.⁸⁴ She further commented that she was usually at home with her children and had no way of being kept informed about an outage because AusNet Services is not supplied with her number. Further, when her husband is at work he does not have access to his phone to keep his wife informed. The Customer Forum member reported similar issues, whereby only the first named person on the bill receives messages from AusNet Services when an outage occurs. However, both members of the household requested to be informed as they live in a rural property

⁷⁸ AusNet Services Customer Forum, *Business Customer Survey Results* (August 2018), 30.

⁷⁹ *Ibid.*, 45.

⁸⁰ *Ibid.*, 47.

⁸¹ For details see Case Study in Appendix E4.

⁸² The Customer Forum acknowledges AusNet Services is proposing a number of initiatives to address customer services, as listed in Appendix F.

⁸³ AusNet Services advised a Customer Forum member living in its region, that his retailer was responsible for updating his customer record.

⁸⁴ These customer comments were recorded by a Customer Forum member who attended one of the Newgate Research focus groups in June 2019. However, Newgate Research did not specifically reference this issue in their report.

where safety is paramount. Investigations by the Customer Forum established that for AusNet Services to have more than one person's number registered per billing name, customers must first inform their retailer of the secondary contact's details. Customers cannot simply contact AusNet Services to register a second phone number associated with a given biller. It is apparent that retailers do not or cannot supply two mobile phone numbers to AusNet Services, even if the customer believes they have registered more than one number with their retailer. Clearly this issue could have safety implications for customers and the Customer Forum has raised it with AusNet Services.⁸⁵ However, the issue appears to be outside AusNet Services' control.

Following meetings with dairy farmers and the Victorian Farmers' Federation the Customer Forum learned some dairy farmers are severely impacted by momentary outages. Such outages result in milking cups detaching from cows, interrupting the milking process necessitating cleaning and re-sterilising and can cause a fall in cows' milk supply if interruptions are repeated.

The Customer Forum also learned large energy consuming industrial customers have no dedicated AusNet Services contact number. It was clear to the Customer Forum that these businesses expect better customer service, especially given the cost of their network charges.

The needs of vulnerable customers were also considered by the Customer Forum. Some of these customers were represented in the Newgate Research focus groups (e.g. Low-income earners, customers on aged and disability pensions, and some tenants).⁸⁶ The Customer Forum also met with representatives of the Dialysis and Transport Association (DATA) to gain insight into the needs and expectations of AusNet Services' most vulnerable life support customers as well as financial counsellors, EWOV, and other advocates. It is apparent from their collective feedback, that:

- reliable and timely information about planned outages is critical for life support customers; and if an unplanned outage occurs, they also need to be updated so they can manage their situation;
- some low-income and fixed-income customers who are eligible for government assistance with their energy bills are not receiving it, largely due to lack of information;
- customers need to register with their retailer to obtain concessions on their energy bills, and when they change retailer, they need to renew their eligibility for a concession with their new retailer;
- many eligible concession cards have an expiry date and if a customer does not update their details, or changes address, or switches retailer, their eligibility for concessions ceases;
- retailers do not always offer vulnerable customers assistance through hardship schemes and utility relief grants.

This evidence, with other anecdotal feedback, clearly indicates the service provided by electricity distributors and retailers falls short of customer expectations. Importantly, none of these customers believe they should be paying any more on their bill to simply receive a reasonable standard of customer service.

As previously mentioned, in April 2018, AusNet Services engaged Customer Satisfaction Benchmarking Australia (CSBA) to undertake a monthly telephone interview survey of representative samples of four distribution network customer groups. The survey includes customers who experienced planned or unplanned outages, new connections or complained and measures their satisfaction with AusNet Services. While AusNet Services has provided the Customer Forum with regular updates of these results, it is premature to determine if there is any statistically significant improvement in customer satisfaction.

⁸⁵ Further thoughts on this issue are contained in the Customer Forum's reflections in Section 14.

⁸⁶ Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research, Qualitative Research Report* (August 2018), 43.

Stakeholder feedback in Deep Dive One⁸⁷ further highlighted concerns for customers in relation to customer experience around the need to balance affordability, reliability and customer service and for AusNet Services to:

- generally, improve customer information;
- better support customers when outages occur (e.g. replace spoiled food);
- better utilise technology to improve customer service;
- align customer experience programs with customer needs (rather than focus on the easy-to-fix problems);
- better demonstrate the value of smart meters;
- address communication gaps and customer engagement with non-English speaking customers; and
- make better use of customer data to help improve customer service.

Stakeholders' feedback around customer experience has been considered in the Customer Forum's negotiations with AusNet Services.

7.4 Does AusNet Services' final proposal adequately recognise needs and expectations of customers?

The Customer Forum believes the range of measures agreed to by AusNet Services adequately recognises customer needs and expectations. Further, customers expect AusNet Services will continue to meet these improvements. Consequently, at the Customer Forum's request, AusNet Services has agreed to produce an annual Customer Interaction and Monitoring Report (CIMR) to hold itself to account. The first CIMR will be published by the end of March 2020. The measures contained in the CIMR are aimed at delivering improved customer service, for no additional cost to customers. They include the following:

- establishing clear accountability for customer outcomes; listening to customers;
- aligning AusNet Services incentives with customer outcomes;
- AusNet Services building its understanding of customers' needs and expectations;
- fixing customer pain points and improving the customer experience;
- collaborating with the community;
- making AusNet Services an organisation that is easier to deal with;
- AusNet Services taking care of its most vulnerable customers;
- making claims processes easier for all customers; and
- being held to account.

Further details of these measures are contained in Appendix F.

7.5 What is the customer benefit and is it tangible?

Customer benefits arising from the customer experience negotiations as outlined above are self-evident.

⁸⁷ Seed Advisory, *Deep Dive Workshop One – Summary Report, AusNet Services Electricity Distribution Price Review, 2021-2025* (10 April 2019), 4-5.

7.6 Does the Customer Forum believe AusNet Services' final proposal represents overall value for money?

This question only applies to the incentive scheme as other initiatives have no additional cost to customers. The Customer Forum expects customers will receive better value for money from an enhanced incentive scheme that provides greater incentive for AusNet Services to continually improve customer service.

8 Replacement expenditure

Repex summary

Scope

The portion of AusNet Services' proposed repex expenditure involving zone substation refurbishments was not within the scope agreed to by the AER and AusNet Services, but the Customer Forum chose to include it because of the large number of customers served by the assets proposed to be upgraded and the reliability consequences.

Matters agreed and disagreed

After extensive negotiation, the Customer Forum agreed with AusNet Services, that AusNet Services would refurbish seven zone substations across its network.

Through negotiations, AusNet Services refined its portfolio of repex projects from nine to seven. The refinements included project deferrals proposed by the Customer Forum, where they did not materially impact on likely reliability outcomes for customers.

No matters were the subject of disagreement.

Customer benefit

The Customer Forum identified a number of customer benefits arising from the agreed position:

- A reduction in the cost by 27% to \$78.3 million (\$2021) over the 2022-26 regulatory period;
- A more modest total cost per customer through the period of \$12.84 (\$2021);
- Reliability improvements for over 115,000 customers served by the zone substations; and
- Safety improvements through the replacement of some deteriorating and potentially dangerous assets.

8.1 Interim Engagement Report summary

AusNet Services' proposals

AusNet Services initially presented its replacement expenditure (repex) proposal in August 2018.⁸⁸ Although the total repex sought was around \$600 million, the agreed scope only permitted the Customer Forum to consider the ten zone substation refurbishments totalling \$112.9 million (\$2020) over the 2021-25 period. AusNet Services advised the balance of its proposed repex was largely dedicated to poles and conductor expenditure, for which a similar presentation was impractical due to safety, particularly bushfire mitigation.

Before the October 2018 repex negotiation, AusNet Services withdrew the Moe Zone Substation replacement, as it had scheduled Rapid Earth Fault Current Limiter (REFCL) work to proceed before 2021.⁸⁹ AusNet Services subsequently advised the Bairnsdale Zone Substation proposal might also be brought forward for the same reason.

⁸⁸ AusNet Services, *Replacement expenditure: major projects: Negotiating position for the Customer Forum* (8 August 2018), 4.

⁸⁹ AusNet Services, *Repex major projects: Final negotiating Position for the Customer Forum* (10 April 2019), 13.

Customer Forum's position

The Customer Forum did not form a final view on the proposed repex projects as it planned to test with customers a modified option that would offer a modest reliability decrease for a cost saving.

At the Customer Forum's request, AusNet Services agreed to develop an alternative set of zone substation upgrades, involving the deferral of some of these. The Customer Forum sought customer feedback to the modified proposal in early 2019.

In considering the repex proposal, the Customer Forum was unclear how AusNet Services had prioritised the projects. Subsequent discussion revealed equipment condition rating system and algorithms had been used by AusNet Services, but no reference to the criteria used was documented. AusNet Services acknowledged the absence of criteria and project rankings was related to limitations of its Distribution Annual Planning Reports, which were a primary reference source for the Customer Forum. AusNet Services agreed to incorporate criteria and rankings into future publications.

Individual projects also lacked a clear link between expenditure, work and customer benefit. None of the projects featured in the repex presentation articulated how customers would benefit from the projects beyond maintaining reliability, including life support customers affected by the proposed works. AusNet Services acknowledged this as a weakness and agreed to include a customer benefit summary in future publications.

At the time the *Interim Engagement Report* was published, the Customer Forum had not formed a final view on AusNet Services' repex proposal for the following reasons:

1. An alternative repex proposal had yet to be tested;
2. The timing of the Bairnsdale project was uncertain; and
3. Beyond general reliability improvements, AusNet Services acknowledged that it could not describe the tangible benefits to specific customer groups served by the zone substations.

8.2 Final negotiation

The Customer Forum agreed with AusNet Services in April 2019 that Option 2 of the repex expenditure proposals should form part of its final EDPR submission. Option 2 entails upgrades of seven zone substations: Thomastown, Benalla, Bayswater, Maffra, Traralgon Stage 2, Watsonia, and Warragul. The total cost is estimated at \$78.3 million (\$2021).⁹⁰

Option 2 was not presented to the Customer Forum in 2018, but it arose after AusNet Services considered the Customer Forum's feedback on the original options. Changes reflected in Option 2 include removal of transformer replacements at Maffra and Watsonia, bringing forward the Bairnsdale project to the current EDPR period, and deferring Newmerella until early in the next EDPR period. This deferral is forecast to have a minimal impact on reliability.⁹¹

8.3 What does the evidence say about customer needs and expectations?

With some notable exceptions, customers are generally satisfied with the current level of reliability apparent from focus group evidence⁹² and the Customer Forum's consultations with customers. This evidence indicates customers generally accept outages (both planned and unplanned) will occur periodically. However, as noted by Newgate Research, customers are:⁹³

⁹⁰ Ibid., 2.

⁹¹ AusNet Services, *Customer Forum Negotiations: Further Information for the Customer Forum* (3 December 2019), 7.

⁹² Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research, Qualitative Research Report* (August 2018), 19.

⁹³ Ibid., 20.

“more tolerant if they are provided with accurate, up-to-date information about the likely duration, and if they can see efforts to reduce blackouts.”

The Customer Forum also confirmed through discussions with customers and an appraisal of customer research that customers expect current reliability to continue. Subsequently, in early 2019 the Customer Forum initiated the *Major Projects Customer Survey* of 506 customers serviced by the affected zone substations which established that:

- 71% of customers believe it is very important that their current reliability is maintained and 24% believe it is quite important (therefore important to 95% of these customers overall);⁹⁴
- regardless of the cost, 87% believe AusNet Services should be addressing the risk of reduced reliability in their area in the next 5 to 7 years;⁹⁵
- most of the 382 surveyed residential customers (75%) indicated they are willing to pay up to \$0.17 per annum in 2022 to around \$0.70 per annum in 2025 to improve reliability in *their* location; likewise, most of the 124 surveyed business customers (79%) indicated they are willing to pay up to \$1.54 per annum in 2022 to around \$6.95 per annum in 2025 to improve reliability in *their* location;⁹⁶ and
- most residential customers (70%) and business customers (68%) are also willing to contribute to the cost of improving reliability across all affected locations, rather than accept a 50% increased risk of power outages if the works were deferred beyond 2026.⁹⁷

The impact on residential customers served by a zone substation that fails is no power at home. It is evident from the *Major Projects Customer Survey*, and the *Clyde North and Doreen Customer Survey*, that most residential customers can cope with relatively short duration outages. For example, for 60% of the 506 customers who participated in the *Major Projects Customer Survey*, an outage was only significant if it lasted more than an hour; although 15% of business customers indicated any outage of even a few seconds was significant and an additional 26% indicated an outage of a few minutes or more was significant.⁹⁸

Life support customers form a unique group. The AER's *Energy Made Easy* website⁹⁹ identifies seven categories of life support equipment that require electricity to operate.

The impact of outages on life support customers is evident from Customer Forum discussions with DATA. DATA advised that life support customers should have a contingency plan if a power outage occurs, but life support customers need as much notice as possible about the timing and duration of planned outages and the expected duration of unplanned outages to implement their plans. Some life support customers have their own battery back-up to cater for short duration planned and unplanned outages or they leave home for the duration of a planned outage. If they are given sufficient notification, some dialysis customers will reschedule their dialysis around a planned outage.

The Customer Forum also gathered considerable feedback on the consequences of outages for business customers associated with poor reliability. While some small retail businesses may be able to keep trading, others are forced to close as they have no lighting, cooling or heating, refrigeration is compromised, or they lose the ability to process sales. At a minimum, employees may be assigned

⁹⁴ Ibid., 29.

⁹⁵ Ibid., 30.

⁹⁶ Ibid., 31.

⁹⁷ Ibid., 33.

⁹⁸ AusNet Services Customer Forum, *Clyde North and Doreen Customer Research: Service Reliability and Perceptions* (October 2019), 19.

⁹⁹ “Customers Using Life Support Equipment,” Australian Government: Energy Made Easy, n.d., <https://www.energymadeeasy.gov.au/get-energy-smart/energy-bills/customers-using-life-support-equipment>.

alternative duties, or worse they are sent home, forced to take annual leave or lose income. In small country towns these outages can have major impacts on the local economy.¹⁰⁰

It is evident from some customer interviews that the current frequency and duration of outages in some areas and for some business customers is unacceptable. For example, the Customer Forum heard about the multiple impacts of outages on dairy farmers.¹⁰¹

The evidence highlights AusNet Services needs to recognise that the consequences of power outages vary between customers, and this should be factored into its prioritisation of repex projects, along with its operational risk assessments.

Given the importance of reliability to most customers affected by an increased risk of outages, it was also important for the Customer Forum to consider whether unaffected customers would also be willing to contribute to the costs of replacing ageing infrastructure in affected areas. Although not specifically related to replacement expenditure, the *Who Should Pay Survey* established that regardless of whether they have rooftop solar panels, most customers believe the costs of upgrading the network should be shared among all customers.¹⁰²

Major replacement expenditure was briefly discussed with stakeholders in Deep Dive Three held in June 2019. Stakeholders queried whether AusNet Services had considered alternatives to the replacement of assets in the next regulatory period, such as demand management.¹⁰³ They acknowledged the value and limitations of the *Major Projects Customer Survey* but did not comment on individual projects.

8.4 Does AusNet Services' final proposal adequately recognise needs and expectations of customers?

The Customer Forum determined Option 2 best meets the needs and expectations of customers for the following reasons:

1. Ignoring the option of not proceeding with any zone substation upgrades in 2022-26, which the Customer Forum felt was not aligned with customer expectations to maintain current reliability, and the option of deferring the Warragul project with the addition of diesel generation, Option 2 has the lowest total cost to customers. The Customer Forum measured the cost saving to customers in the following ways:
 - a) The total cost was estimated at \$78.3 million (\$2021)¹⁰⁴ a reduction of \$35.7 million (\$2021).¹⁰⁵ compared to the original AusNet Services proposal of \$114.0 million (\$2021),
 - b) The estimated total cost per customer of \$12.84 (\$2021)¹⁰⁶ compares favourably to the original proposal.
2. Option 2 meets customer expectations of reliability as it imposes a lower outage duration (158.7 minutes) than any other option, with the exception of the significantly more expensive option of proceeding with all projects in 2021. In reaching this view, the Customer Forum noted its early-

¹⁰⁰ The Customer Forum notes customers and businesses do not have access to real time updates on planned outages. This can result in a business being forced to close for a planned outage only to find that the outage has been cancelled. For many businesses, such late notice means they do not have time to reconsider their options and remain open for business.

¹⁰¹ For details see case study in Appendix E2.

¹⁰² AusNet Services Customer Forum, *Customer Attitudes Research: Solar Connections – Who should pay for network upgrades and demand management through air-conditioning control* (October 2019), 28.

¹⁰³ Seed Advisory, *Deep Dive Workshop Three – Summary Report, AusNet Services Electricity Distribution Price Review, 2021-2025* (21 June 2019), 7-9.

¹⁰⁴ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 63.

¹⁰⁵ *Ibid.*, 52.

¹⁰⁶ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 60.

2019 customer research which found 95% of customers located within the relevant zone substation locations considered it either quite important or very important that current reliability be maintained. Other customer research including the Customer Forum's *Business Customer Survey* also highlighted the importance of reliability and the flow-on effects to businesses, customers and communities when reliability is compromised.¹⁰⁷

3. Option 2 best balances customer concern about reliability with their concern about cost. Option 2 improves reliability for customers while containing costs. Early-2019 customer research showed affected customers are prepared to bear a modest cost for improved reliability; 75% of residential customers indicated a willingness to pay an additional \$0.80 (\$2021) per annum. Further, 70% of business customers were prepared to pay up to \$3.38 (\$2021) extra per annum to improve the reliability. Option 2 imposes an annual additional cost of \$2.56 (\$2021) per customer which, adjusted for business and residential users, meets these expectations.¹⁰⁸

The Customer Forum noted the AER advice that the view of *all* customers, not just those served by the zone substations to be upgraded, should be considered.¹⁰⁹

Although customer research, such as the *Business Customer Survey* and the Newgate Research focus groups established the importance of reliability to customers, the Customer Forum recognised no research to date had established the willingness to pay among customers not benefitting directly from the zone substation upgrades. However, it is evident from several surveys – including the *Clyde North and Doreen Customer Survey*,¹¹⁰ the *Major Projects Survey*¹¹¹ and the *2019 Who Should Pay Survey*¹¹² - that customers generally believe the costs of upgrading the network should be shared among all customers even if they are not direct beneficiaries of network improvements.

8.5 What is the customer benefit and is it tangible?

The final negotiation position achieved a lower cost than originally proposed and improved reliability for the 115,000 customers served by the zone substations. Customers and AusNet Services staff and contractors also benefit through the replacement of some deteriorating and potentially dangerous assets.

8.6 Does the Customer Forum believe AusNet Services' final proposal represents overall value for money?

The Customer Forum believes the final proposal represents value for money for customers.

¹⁰⁷ AusNet Services Customer Forum, *Business Customer Survey Results* (August 2018), 30.

¹⁰⁸ AusNet Services Customer Forum, *Major Replacement Projects Customer Survey Results* (March 2019), 31.

¹⁰⁹ Australian Energy Regulator, *New Reg: Towards Customer-Centric Energy Network Regulation, AusNet Trial – AER Staff Guidance Note 5: Major Augex Projects* (29 August 2018), 5.

¹¹⁰ AusNet Services Customer Forum, *Clyde North and Doreen Customer Research* (October 2019), 23.

¹¹¹ AusNet Services Customer Forum, *Major Replacement Projects Customer Research* (March 2019), 33-34.

¹¹² AusNet Services Customer Forum, *Customer Attitudes Research: Solar Connections – Who should pay for network upgrades and demand management through air-conditioning control* (October 2019), 29.

9 Innovation expenditure

Innovation expenditure summary

Scope

Although the AER did not agree innovation expenditure would be within scope, AusNet Services and the Customer Forum included it because the Customer Forum believed innovation could potentially deliver significant additional benefits to customers, particularly if the expenditure was modest and the benefits were clearly aligned with customer needs and expectations.

Matters agreed and disagreed

The Customer Forum agreed to an innovation expenditure, in the form of a dedicated innovation allowance, totalling a maximum of \$7.5 million, to be spent on nine projects focussed on meeting the numerous network challenges that increased DER take up presents.

Customer benefit

The Customer Forum identified a number of customer benefits arising from the agreed position. Because the innovation projects are focussed on enhancing DER uptake, the benefits amplify the following benefits stated in Section 10.5, namely:

- The opportunity for more solar customers to export to the grid more often;
- Enhanced network balance including voltage compliance; and
- Additional downward pressure on wholesale electricity prices.

9.1 Interim Engagement Report summary

AusNet Services' proposals

AusNet Services initially sought the Customer Forum's support for \$11.4 million (\$2020) of innovation expenditure, for 15 projects over the 2021-25 period.¹¹³ The potential impact of electric vehicles on the network was a central feature of the initial portfolio. The proposal accounted for 0.3% of opex and 0.5% of capex and was separate to the allowance for demand management innovation under the existing Demand Management Incentive Allowance (DMIA), which AusNet Services advised would be approximately \$3.5 million (\$2020) over the 2021-25 period¹¹⁴.

Customer Forum's position

AusNet Services failed to convince the Customer Forum that its rationale for innovation expenditure was sufficiently connected to tangible customer benefits, notwithstanding innovation expenditure involves the design and testing of new technology and processes which cannot guarantee the sought objective. To this point, the Customer Forum noted only seven of AusNet Services' 15 innovation project descriptions specifically mentioned customers. Accordingly, the Customer Forum believed AusNet Services' initial list of projects did not reflect a consistent customer centric focus. Further, the Customer Forum was unclear how AusNet Services had determined the amount of \$11.4 million (\$2020).

¹¹³ AusNet Services, *Innovation Expenditure: Negotiating position for the Customer Forum* (8 August 2018), 1. Note the amount sought was expressed in \$2018 in AusNet Services negotiating note.

¹¹⁴ Ibid.

To progress the negotiations, the Customer Forum made two requests. First, it sought an allowance based on a modest contribution per customer and determined that an average contribution of \$2 per customer per annum (\$0.95 per residential customer and \$5.14 per business customer) would provide sufficient funding (approximately \$7.5 million over five years) to undertake a range of projects. Second, the Customer Forum requested a refined list of projects based on the following principles:

1. Innovation projects/outcomes should directly benefit and result in improved service to customers.
2. Innovation needs to be driven by customer needs and expectations which should be identified through customer research. Customers will support innovation if they see the benefits.
3. The language surrounding innovation must be easy for customers to understand and offer a compelling potential benefit.
4. Innovation needs to be strategic and should include an evaluation.
5. All initiatives to be published on AusNet Services' website and shared with industry.
6. Projects must show evidence of collaboration with retailers and other distribution businesses and/or retailers.

9.2 Final negotiation

The Customer Forum maintained its belief that innovation is a necessary and beneficial objective for distribution businesses, particularly at a time when network capability is being tested by the growing uptake of distributed energy resources (DER) and the opportunities for enhanced load management that technology brings. The Customer Forum believes customers support a modest expenditure and in 2018, the Customer Forum identified \$7.5 million (\$2020) as an appropriate allowance. Importantly, the Customer Forum stipulated this figure was a ceiling and AusNet Services agreed to return funding to customers for any nominated projects that did not proceed. The Customer Forum advised AusNet Services that proposed innovation portfolio projects must satisfy the criteria detailed above.

AusNet Services presented updates of proposed projects using feedback from the Customer Forum through to January 2020. Towards the end of 2019 AusNet Services presented the Customer Forum with a list of nine projects, all of which addressed DER related issues. The focus is significant. In the DER negotiation the Customer Forum agreed to a proposal addressing the majority of new solar connections, solar export and voltage compliance issues that are expected to arise between 2022 and 2026. The DER negotiation noted that the cost of "building out" all DER constraints was in excess of \$600 million, an option the Customer Forum rejected because of the unreasonable burden this would place on customers. The Customer Forum acknowledges that the more modest DER expenditure will not meet the expectations of all customers. AusNet Services verbally advised the Customer Forum¹¹⁵ that, compared to the rejected option, the agreed DER proposal will result in:

- 7,000 fewer customers will experience voltage performance improvement; and
- 2,000 fewer solar customers will experience voltage performance improvement.

The Customer Forum believes the high level of customer interest in solar installation (as evidenced in Section 10.4), along with the demands this places on networks, requires AusNet Services to actively investigate how it can, beyond the negotiated DER funding, address future constraints that impact its customers. The Customer Forum considers the portfolio of projects proposed to be funded under the innovation allowance will help realise this objective.

¹¹⁵ The Customer Forum understands these figures will be included in AusNet Services final EDPR.

The proposed projects are interrelated and complementary. Collectively they address a range of impacts that increasing solar uptake presents to networks, including voltage compliance, network balancing, predictive management and the development and testing of more efficient management platforms. Importantly, the portfolio seeks beneficial outcomes for both residential and non-residential customers.

In its negotiations the Customer Forum encouraged AusNet Services to shape its individual projects collaboratively through identification of potential partners. The number of partners has grown significantly as a result of the Customer Forum's feedback and the individual project descriptions feature completed or anticipated letters of support from a number of entities.

AusNet Services' innovation portfolio features one project (Project 9) which aims to build a platform for enhanced DER service offerings through new applications of customer data. The project objectives include the development of appropriate privacy protections for customers, which the Customer Forum believes will be required in coming years as this type of endeavour is repeated across the distribution industry. The Customer Forum acknowledges broad and enduring community interest in information privacy and notes endeavours of this kind must comply with information privacy legislation. The Customer Forum welcomes AusNet Services' recognition of this imperative within its innovation proposal.

The Customer Forum acknowledges AusNet Services has, as part of its innovation proposal, developed a governance plan in response to Customer Forum concerns about the effectiveness of innovation expenditure. As requested by advocates and the Customer Forum, AusNet Services will establish governance arrangements based on Ausgrid's governance approach for innovation, which includes customer input and systematic sharing of innovation learnings across the industry. As requested by the Customer Forum, AusNet Services has also gained agreement from the other Victorian distribution businesses to participate in its Innovation Advisory Committee.

An additional development leading to the conclusion of negotiations is worthy of mention. It concerns the Customer Forum's long-standing view that networks need to be continually encouraged to become more productive. This view informed opex negotiations in particular but also resonated through the DER and innovation allowance negotiations. The Customer Forum believes the innovation portfolio offers productivity benefits if new and enhanced management systems enabling more two-way flows to be handled by existing network infrastructure can be realised. The Customer Forum notes that the quantum of electricity delivered is one of several factors determining network productivity as measured by the AER's *Annual Benchmarking Report*¹¹⁶. Networks are increasingly required to deliver electricity in two directions and an increasing capacity to do this efficiently is important to customers. Innovation has a role in meeting this challenge.

The Customer Forum recognises that despite innovation expenditure contributing to more efficient networks, the history of network-funded innovation spending in Australia over recent decades has been patchy. The Customer Forum acknowledges AusNet Services' work to build an innovation allowance proposal that aligns with the agreed criteria and therefore supports the proposal.

9.3 What does the evidence say about customer needs and expectations?

Because AusNet Services initially focused on innovation projects that would respond to the potential impact of electric vehicles on the network, this was the early focus of discussions with customers around innovation expenditure.

The Newgate Research focus groups explored the extent to which customers believe AusNet Services should be investing in innovation. Although Newgate Research found a few customers supported innovation expenditure, especially in relation to connecting customers with electric vehicles to the

¹¹⁶ Australian Energy Regulator. *Annual Benchmarking Report*. www.aer.gov.au. (29 November 2019).

network, it was a low priority. In relation to AusNet Services investing in technology to support a possible (but unknown) growth in electric vehicles, customers did not believe this was important, nor did they believe innovation in this area was AusNet Services' responsibility.¹¹⁷ However, according to Newgate Research, a larger proportion of participants supported AusNet Services investing in research and development into renewable energy.¹¹⁸

The May 2018 Quantum Market Research survey of 1,020 business and residential customers found only 1% of residential customers and 4% of small to medium enterprises have an electric vehicle.¹¹⁹ Notably 27% of residential customers and 35% showed an interest in buying an electric vehicle into the future (undefined period). However, price, limited range and perceived lack of charging stations were clear barriers.

The Customer Forum understands customers would support innovation if there were direct benefits, including improved productivity and efficiency. Further, customers find it difficult to value investment in innovation projects related to speculative projections of growth in the demand for electric vehicles – at least over the next regulatory period.

As negotiations continued, AusNet Services' innovation expenditure proposal focused on DER issues. The Customer Forum noted a range of research findings related to customers' expectations of DER in Section 10.3. In summary, customers expressed strong interest in installing rooftop solar and an overwhelming expectation that any solar exports would be unrestricted.

The Customer Forum also notes that customer research findings show strong support for safe network operation are relevant to the innovation expenditure proposal, in that the innovation project portfolio seeks to address voltage and network balancing concerns.

Throughout the negotiations AusNet Services has remained enthusiastic about its innovation expenditure proposals. In September 2019, it commissioned JWS Research to undertake focus groups to explore customer perceptions toward its revised innovation propositions.¹²⁰ In the focus groups, AusNet Services' innovation proposals were presented to customers under three themes:

- unlocking the potential of the network to support new customer needs;
- improving remote supply and addressing bushfire safety through the use of stand-alone power systems; and
- preparation for the impact of electric vehicles.

Overall, JWS Research established “support for the three innovation projects described, at a cost of \$7.5million”, and “a cost per household of \$1 per annum is acceptable”.¹²¹ Importantly, JWS Research also established that customers want AusNet Services to be accountable for this expenditure and to demonstrate expected benefits of outcomes for customers.

Innovation expenditure was also discussed with stakeholders in Deep Dives One¹²² and Four. In Deep Dive Four stakeholders were presented with AusNet Services' individual project proposals.¹²³

¹¹⁷ Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research, Qualitative Research Report* (August 2018), 25.

¹¹⁸ *Ibid.*

¹¹⁹ Quantum Market Research, *AusNet Services Customer Profiles Full Report, Draft* (May 2018), 42. Customers were asked “Do you (or your business) currently own an electric vehicle (that is a fully electric vehicle and not a hybrid that uses petrol or diesel)?”. Despite the qualification in the question, the Customer Forum believe these percentages are exaggerated, given statistics published by ClimateWorks Australia and Australia's Electric Vehicle Council, *The State of Electric Vehicles in Australia* (June 2018), indicate electric vehicles only account for 3% of sales.

¹²⁰ JWS Research, *Community Perceptions Towards Solar and Innovation Propositions* (September 2019), 42.

¹²¹ *Ibid.*, 8.

¹²² AusNet Services, *Deep Dive No. 1, Network innovation: pre-reading pack* (1 February 2019), 16-18.

¹²³ AusNet Services, *AusNet Services Deep Dive Innovation Presentation pack* (23 May 2019), 11-13.

Stakeholders generally supported customer-oriented innovation, with customer oversight. As noted in the Customer Forum's *Interim Engagement Report*,¹²⁴ some customers wondered why AusNet Services did not self-fund innovation. Workshop participants also queried whether AusNet Services would retain the approved funding if it subsequently did not proceed with a nominated project.

9.4 Does AusNet Services' final proposal adequately recognise needs and expectations of customers?

Given the customer research evidence about both innovation and DER, the Customer Forum believes the innovation projects proposed by AusNet Services respond well to customer needs and expectations. The proposed expenditure represents around \$2 per customer per year and is a far more cost-effective means of attempting to address DER related constraints than building out the network.

9.5 What is the customer benefit and is it tangible?

Many of the benefits of this type of investment are difficult to quantify and as such are not well catered for in the regulatory framework. Nevertheless, the Customer Forum believes a modest amount of expenditure for innovation projects is beneficial to customers as it is capable of producing significant future tangible benefits.

The customer benefits being pursued by AusNet Services through the proposed projects include:

- increased opportunity for solar export;
- quicker approval times for solar installation;
- lower prices for all customers; and
- improved voltage compliance (i.e. a safer network).

The Customer Forum's criteria includes a requirement that approved innovation projects be published by AusNet Services and shared with industry (principle 6 as mentioned in Section 0). The Customer Forum has requested that AusNet Services include in the annual Customer Interaction and Monitoring Report a summary of progress achieved on approved innovation projects. This would provide customers with an additional benefit of being able to track how projects they are funding are progressing.

9.6 Does the Customer Forum believe AusNet Services' final proposal represents overall value for money?

The Customer Forum believes this modest investment has the potential to deliver value for money services for customers. This is the nature of innovation.

¹²⁴ AusNet Services Customer Forum, *Interim Engagement Report* (6 February 2019), 34.

10 Distributed Energy Resources

DER summary

Scope

Although the AER did not agree DER would be within scope, AusNet Services and the Customer Forum agreed to include DER because of increasing customer interest in installing rooftop solar systems, particularly in view of the Victorian Government's enhanced subsidies through its Solar Homes program.

Matters agreed and disagreed

After extensive negotiation, it was agreed:

- \$42.85 million (\$2021) of DER augmentation will help more customers take up solar installation and allow more to export their excess solar power onto the network where it is economic; and
- AusNet Services will produce a map in the annual *Customer Interaction and Monitoring Report*, to show where DER expenditure occurred.

Customer benefit

The Customer Forum identified a number of customer benefits arising from the agreed position:

- increased solar uptake opportunities for AusNet Services customers;
- reduced solar export constraints; and
- reduced cost of electricity for all customers.

10.1 Background

The Customer Forum understands networks do not have unlimited capacity to accept solar installations without further investment. The increased uptake of DER poses a fundamental challenge for all networks due to the consequent increased reverse power flows. The ability of a network to continue accepting solar generated flows is a product of the physical characteristics of the assets that make up the network. Networks are obliged to maintain voltage levels within a mandated range. Increased solar energy flows push network voltage levels up, increase the variability of voltage throughout the day and, if not addressed, lead to networks more often rejecting or constraining new DER applications.

The Customer Forum's *Interim Engagement Report* noted that AusNet Services deferred its DER proposal to allow further consultation in 2019. Feedback received from Deep Dive Three conducted in May 2019, and from industry stakeholders enabled AusNet Services to present a DER proposal to the Customer Forum in July 2019. At subsequent meetings, the Customer Forum requested additional information to clarify elements of the proposal. In particular, the Customer Forum sought a better understanding of how all AusNet Services' customers would benefit from the proposed expenditure, and the alignment of network and non-network components of the proposal. Specifically, the Customer Forum sought the following:

1. Identification of the network challenges arising from projected solar uptake and how these challenges impacted customers.
2. A clear explanation of how the proposed expenditure would benefit customers.

3. Clarity around the network and non-network components of the proposed expenditure, in line with AER guidance.¹²⁵
4. An explanation of how the proposal would deliver a superior outcome to other options.
5. A cost/benefit analysis of the proposal.

AusNet Services presented a revised proposal to the Customer Forum in mid-November 2019.

10.2 AusNet Services' proposal

The AusNet Services' DER proposal totals \$42.85 million (\$2021), comprising augmentation components of \$41.60 million (\$2021) and non-augmentation of \$1.25 million (\$2021). The cost per residential customer is less than \$0.72 (\$2021) per annum and \$6.78 (\$2021) per annum per commercial customer¹²⁶. The augmentation expenditure includes \$4.5 million (\$2021) for Distributed Energy Network Optimisation Platform (DENOP) solutions, while non-augmentation revenue will be used for DENOP development costs.¹²⁷

The revised proposal is considerably lower than the \$57 million (\$2021) proposed in July 2019.¹²⁸ AusNet Services transferred part of the original request to its IT expenditure plan, believing it was more appropriately aligned with its IT proposal. In addition, the Customer Forum's scrutiny of the earlier proposal helped AusNet Services identify a double entry of around \$4.5 million (\$2021) in network sensor costs.¹²⁹

The proposed expenditure reflects the economic cost of addressing the unserved energy identified by AusNet Services through estimates of future asset constraints. Details of the future constraints within the network were provided to the Customer Forum in the final negotiation. The resulting economic cost (through foregone energy exports) relies on the mandated Victorian feed-in price, which is currently \$0.12 per kWh¹³⁰. Both AusNet Services and the Customer Forum acknowledge any change to this value through the ESC's annual tariff review will affect the benefit case, and therefore the total that AusNet Services seeks to spend on DER.

10.3 What does the evidence say about customer need and expectations?

Various sources of evidence indicate an increasing prevalence of rooftop solar panels in Victoria. As at December 2018, the Australian Energy Council estimated 15% of all Victorian homes had rooftop solar panels.¹³¹ In October 2019, AusNet Services advised the Customer Forum that 18% of its customers have rooftop solar panels. Several factors have contributed to this growth. In 2018, the Victorian Government announced its Solar Homes Program¹³² to subsidise installation of rooftop solar systems for 650,000 households across Victoria. This initiative has helped double the number of solar installation applications received by AusNet Services over the last 12 months. Further, JWS Research

¹²⁵ Australian Energy Regulator, *Consultation paper: Assessing DER integration expenditure* (19 November 2019), <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/assessing-distributed-energy-resources-integration-expenditure>, 11-16.

¹²⁶ Verbal advice from AusNet Services.

¹²⁷ AusNet Services, *Customer Forum Negotiations: Further Information for the Customer Forum* (3 December 2019), 6.

¹²⁸ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 60.

¹²⁹ AusNet Services, *DER Update* (November 2019), 13.

¹³⁰ Victoria State Government Environment Land Water and Planning, "Victoria feed-in tariff", n.d., <https://www.energy.vic.gov.au/renewable-energy/Victorian-feed-in-tariff>

¹³¹ Clean Energy Council, "Number of Australian homes with rooftop solar tops 2 million," n.d., <https://www.cleanenergycouncil.org.au/news/number-of-australian-homes-with-rooftop-solar-tops-2-million-and-counting>.

¹³² "Welcome to the Solar Homes Program," Solar Victoria, (n. D.), <https://www.solar.vic.gov.au>.

identified a customer expectation that “the future of electricity supply will comprise a greater reliance on renewables”.¹³³

Various customer surveys, such as the 2018 Quantum Market Research survey and the *Business Customer Survey*, and qualitative research projects, such as the Newgate Research focus groups identified a range of factors contributing to this growth. These include customers’ desires to:

- save money as mentioned by 86% of participants in the Quantum Market Research survey;¹³⁴ and 95% of customers who participated in the *Business Customer Survey*;¹³⁵
- become more environmentally friendly;¹³⁶
- make money, by feeding energy back into the network;¹³⁷ and
- maintain/improve reliability (especially for businesses).¹³⁸

In 2018, Newgate Research established “customers are genuinely excited about decreasing costs and increasing uptake of small-scale solar generation”.¹³⁹

Despite customers’ enthusiasm for rooftop solar panels, both qualitative and quantitative research highlighted considerable confusion over the concept of “rooftop solar panels”. For example, the Customer Forum’s surveys consistently over-report the prevalence of rooftop solar panels, despite customers being asked to differentiate between a solar hot water system and rooftop solar energy generation.¹⁴⁰ Further, awareness of two-way electricity flow issues is low, as evidenced in both the 2018 Newgate Research focus groups¹⁴¹ and the 2019 JWS Research focus groups.¹⁴² Customers are not generally aware network constraints could limit both the amount of energy they can export and their ability to install rooftop solar.

The 2018 Quantum Market Research survey found 95% of solar customers who currently feed energy into the grid do not expect the amount of solar power they can export to be limited.¹⁴³ In September 2019, the JWS focus groups established that customers support network improvements to allow greater export of rooftop solar energy. Regardless of whether they have rooftop solar panels, customers generally believe the cost of network improvements to accommodate solar connections should be a shared responsibility.¹⁴⁴ These findings were also supported by the Customer Forum initiated *Who Should Pay Survey* as documented in Sections 6.3 and 8.3 and feedback from stakeholders who attended Deep Dive Four.¹⁴⁵

¹³³ JWS Research, *Community Perceptions Towards Solar and Innovation Propositions* (September 2019), 20.

¹³⁴ Quantum Market Research, *AusNet Services Customer Profiles Full Report, Draft* (May 2018), 29.

¹³⁵ AusNet Services Customer Forum, *Business Customer Survey Results* (August 2018), 21.

¹³⁶ Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research* (August 2018), 29.

¹³⁷ Ibid.

¹³⁸ AusNet Services Customer Forum, *Business Customer Survey Results* (August 2018), 31.

¹³⁹ Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research* (August 2018), 6.

¹⁴⁰ To account for this issue, where appropriate survey results have been weighted to reflect the correct population proportions of solar customers as advised by AusNet Services.

¹⁴¹ Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research, Qualitative Research Report* (August 2018), 29.

¹⁴² JWS Research, *Community Perceptions Toward Solar and Innovation Propositions* (September 2019), 29.

¹⁴³ Quantum Market Research, *AusNet Services Customer Profiles Full Report, Draft* (May 2018), 32.

¹⁴⁴ JWS Research, *Community Perceptions Toward Solar and Innovation Propositions* (September 2019), 36.

¹⁴⁵ Seed Advisory, *Deep Dive Workshop Four– Summary Report, AusNet Services Electricity Distribution Price Review, 2021-2025* (20 August 2019), 7.

10.4 Does AusNet Services' final proposal adequately recognise needs and expectations of customers?

AusNet Services' proposal is responsive to the following well-established and documented customer expectations:

1. As previously mentioned, a key reason customers install rooftop solar panels is to save money.¹⁴⁶ AusNet Services estimates that 720GWh of solar power generation will be enabled by its proposal¹⁴⁷ which will enable more customers to install rooftop solar panels.
2. A corollary is that increased PV flows into the network help reduce prices for all customers regardless of whether they have installed solar panels at their premises. The Customer Forum accepted this argument with one important qualification - lower wholesale prices do not automatically result in lower retail prices, which are often set in customer contracts into the future.

Nevertheless, the Customer Forum accepted AusNet Services proposed DER expenditure would create a welcome downward price pressure for customers. In forming this view, the Customer Forum noted the Victorian Energy Policy Centre's commentary on the relationship between growing renewable generation capacity and falling prices.¹⁴⁸

Customers have demonstrated interest in cleaner electricity energy production, for example the Quantum Market Research survey found 28% of customers with rooftop solar panels installed them to be more environmentally friendly.¹⁴⁹

As the evidence has established a strong customer preference for unconstrained solar energy export, AusNet Services' proposed DER expenditure addresses this expectation by enabling customers to export an additional 270 GWh to the network. This will help meet the forecast increase in demand in total solar exports in line with customer expectations.¹⁵⁰

10.5 What is the customer benefit and is it tangible?

The customer benefits arising from the proposed expenditure include:¹⁵¹

- the augmentation component will improve voltage performance for approximately 228,000 customers (93,000 solar customers and 135,000 non-solar customers); and
- the implementation of DENOP solutions will improve voltage performance for approximately 32,000 customers (14,000 solar customers and 18,000 non-solar customers).

The Customer Forum acknowledges the first responsibility of an electricity distributor is to operate a safe network and part of this obligation is to ensure voltage compliance standards are maintained.¹⁵² AusNet Services advised that currently around 7%, or over 50,000 of their customers experience voltage issues.¹⁵³ Notably, an intangible benefit of AusNet Services' DER proposals includes voltage compliance.

¹⁴⁶ See Section 10.3.

¹⁴⁷ AusNet Services, *Customer Forum Negotiations: Further Information for the Customer Forum* (3 December 2019), 4.

¹⁴⁸ Bruce Mountain, Steven Percy, Asli Kars, Hugh Saddler, and Farhad Billimoria, *Does renewable electricity generation reduce electricity prices?* (Melbourne: Victoria Energy Policy Centre, Victoria University, 2018), 5.

¹⁴⁹ Quantum Market Research, *AusNet Services Customer Profiles Full Report, Draft* (May 2018), 30.

¹⁵⁰ AusNet Services, *Customer Forum Negotiations: Further Information for the Customer Forum* (3 December 2019), 4.

¹⁵¹ *Ibid.*, 5.

¹⁵² AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 78. Under Australian Standard AS 61000.3.100, it is expected that 95% of customers will have voltage less than 253 volts 99% of the time and 95% of customers to have a voltage greater than 244 volts 95% of the time.

¹⁵³ *Ibid.*, 85.

Insufficient investment in the network at a time of growing DER pressure will increase the risk homes and businesses will be subjected to irregular voltages capable of damaging appliances. Importantly, this risk applies to all AusNet Services' customers, not just those who have or wish to install solar. Customers reasonably expect electricity distributors will oversee a safe network and voltage-compliance intrinsic to this. AusNet Services advised the Customer Forum the proposed expenditure would avoid adverse voltage impacts for 228,000 customers.¹⁵⁴

A further customer benefit is an improved capacity for AusNet Services to manage its network dynamically, which will be increasingly important as the volume of solar energy feeding into the network increases.

Before concluding the DER negotiation, the Customer Forum raised the issue of transparency. Previous EDPR submissions have not included a specific DER component. While AusNet Services has presented a well-argued case, the Customer Forum believes customer confidence will be enhanced through dedicated reporting on the expenditure of the approved revenue. To this end the Customer Forum requested, and AusNet Services agreed to:

1. Publish an annual statement, including a map, in the *Customer Interaction and Monitoring Report*, showing where the DER specific revenue is spent. This will enable customers to understand the DER expenditure is within the boundaries of what is economical and is allocated across the network rather than being confined to small parts of the network.
2. Recover only the full \$42.85m (\$2021), including IT expenditure on DENOP of DER funding if it is spent on benefits for customers. Any remaining funding will not become part of the regulated asset base (RAB).¹⁵⁵
3. If more customers than expected want to connect solar panels to the network, and it becomes economic for AusNet Services to augment the network to enable additional export, AusNet Services will partially fund this.¹⁵⁶

10.6 Does the Customer Forum believe AusNet Services' final proposal represents overall value for money?

The Customer Forum supports the principle that most consumers should be free to connect a reasonable level of solar energy to the network, without constraints. Customer research indicates customers believe it is reasonable that augmentation costs to support solar connections should be shared among customers. With this in mind, and the agreements reached as detailed above, the Customer Forum supports AusNet Services' proposed investment as value for money for customers.

¹⁵⁴ AusNet Services, *Customer Forum Negotiations: Further Information for the Customer Forum* (3 December 2019), 4.

¹⁵⁵ *Ibid.*, 6.

¹⁵⁶ *Ibid.*

11 Metering

Metering summary

Scope

Although the AER did not agree Metering would be within scope, AusNet Services and the Customer Forum agreed to include it within the negotiations because of the unique role that smart meters (AMIs) play in Victorian networks, and the potential for enhanced metering services to benefit customers.

Matters agreed and disagreed

After extensive negotiation it was agreed:

- \$8.4 million (\$2021) transition costs to Telstra’s 4G system were justified; and
- AusNet Services would eliminate charges for remote connection and de-energisation undertaken during business hours from no later than the end of 2021

Customer benefit

The Customer Forum identified the following customer benefits arising from the agreed position:

- a 31% (\$2021) reduction in metering charges;
- the abolition of some remote connection and disconnection charges will save customers an anticipated \$750,000 (\$2021) per annum; and
- a continuing capacity to provide solar alerts and support real time energy usage information to customers.

11.1 Interim Engagement Report Summary

AusNet Services’ proposals

The average annual metering charge proposed by AusNet Services for 2022-26 was \$23 (\$2020) per customer less than the current period.¹⁵⁷

At the same time, AusNet Services advised the Customer Forum it intended to transfer some of its metering opex charges to its distribution business. This was a result of the completion of the smart meter roll out, and AusNet Services’ assertion that the metering infrastructure is increasingly being used across the network. AusNet Services contended this move would reduce annual metering charges by \$7 (\$2020).¹⁵⁸

¹⁵⁷ AusNet Services, *Delivering Better Outcomes for Customers, Draft Electricity Distribution Regulatory Proposal, 1 January 2010 to 31 December 2025* (December 2019), 79.

¹⁵⁸ AusNet Services, *Metering expenditure: Updated negotiating position for the Customer Forum* (14 May 2019), 7.

Customer Forum's position

The Customer Forum acknowledged AusNet Services was proposing a decrease in metering charges compared to the current EDPR, but it challenged AusNet Services on one point. AusNet Services sought \$10 million to facilitate the planned Telstra transition from 3G to 4G, to enable continuous smart meter functionality from 2021.¹⁵⁹

The Customer Forum questioned the timing of the expenditure given the uncertainty of Telstra's changeover timing and the possibility of delay.

The Customer Forum remained unconvinced the timing of the 4G upgrade expenditure was appropriate. Specifically, the Customer Forum believes AusNet Services' customers deserve a more robust interrogation of Telstra and a firm changeover date before agreeing to the timing of the funding.

Apart from this reservation, given the annual average metering charge is decreasing and customer benefits are increasing,¹⁶⁰ the Customer Forum concluded AusNet Services' proposal represents value for money and will be enhanced through improved communication of metering benefits to customers.

In its *Interim Engagement Report* the Customer Forum agreed with AusNet Services' intention to reduce metering service charges to an average \$72 per customer (\$2020), a fall of \$23 per annum, noting about half of this saving was due to a transfer of metering charges to its distribution business.¹⁶¹ The Customer Forum requested AusNet Services undertake further work on ensuring the benefits of smart meters be explained to customers.

11.2 Final negotiation

In April 2019 AusNet Services advised the Customer Forum that it had revised its metering cost and expected it to fall by an additional \$4 to \$5 million per annum.¹⁶² In August 2019, AusNet Services advised the anticipated cost of its transition to Telstra's 4G system was also lower.¹⁶³

In the final negotiation, AusNet Services proposed an average metering cost of \$66 per customer per annum (\$2021), which represents a 31% reduction from the average cost customers are bearing in the current regulatory period.¹⁶⁴

At the same time, AusNet Services advised it was participating in discussions with other Victorian networks about future abolition of remote connection and disconnection charges, made possible by smart meters. AusNet Services currently completes around 95% of reconnections remotely, at a cost of \$7.34 (including GST) per reconnection¹⁶⁵. The charges apply to services provided during weekday business hours. In the final negotiation the Customer Forum requested AusNet Services commit to abolishing the charges no later than 31 December 2021. AusNet Services agreed to this request for standard weekday business hours connections and disconnections.¹⁶⁶

¹⁵⁹ AusNet Services, *Delivering Better Outcomes for Customers, Draft Electricity Distribution Regulatory Proposal, 1 January 2010 to 31 December 2025* (December 2019), 89.

¹⁶⁰ As detailed in Section 5.1.

¹⁶¹ AusNet Services Customer Forum, *Interim Engagement Report* (6 February 2019), 37-40.

¹⁶² AusNet Services, *Metering Discussion* (15 April 2019), 4.

¹⁶³ AusNet Services, *Final negotiation notes for the Customer Forum* (2 September 2019), 163.

¹⁶⁴ *Ibid.*, 45-46.

¹⁶⁵ As verbally advised by AusNet Services. This charge is collected by retailers and its it also understood some may mark up this charge when they bill customers.

¹⁶⁶ Charges will remain for connections and disconnections outside business hours.

11.3 What does the evidence say about customer needs and expectations?

In 2018, AusNet Services explored customer awareness of smart meters and the benefits of smart meter data in the Quantum Market Research survey and subsequently in the Newgate Research focus groups. This also included customer awareness, use and the value of AusNet Services' *myHomeEnergy* portal. The Customer Forum reviewed both reports and noted customer feedback from the focus groups. It gathered further evidence from customers during its direct customer engagement.

The Quantum Market Research customer survey established 79% of residential customers and 78% of businesses were aware they have an electricity smart meter (91% of customers with solar were aware they had a smart meter).¹⁶⁷ From that research, it was unclear whether customers are as interested in the value of these benefits as AusNet Services suggests. The customer survey established few customers were aware of the benefits available with smart meters, or even the existence of web portals such as AusNet Services' *myHomeEnergy* portal. Only 47% of residential customers who were aware they had a smart meter were aware of AusNet Services' "customer web portals" (37% overall), and only 13% of residential customers used them.¹⁶⁸ However, from the research it was not clear if customers truly understood the benefits of having a smart meter.

Overall, few customers currently identify little value in having a smart meter and many customers believe smart meters have been installed primarily for the benefit of distributors.

Newgate Research found few customers used *myHomeEnergy* to access data about their energy use. Mostly this small group has solar power and has used it only to check their solar power is working.¹⁶⁹ The 2018 *Business Customer Survey* established only 25% of businesses were aware of the *myHomeEnergy* portal, and only 12% had used it. Among the 151 non-users; less than half (45%) expressed any interest in using the portal.¹⁷⁰

The Customer Forum visited customers with rooftop solar panels. These customers were aware of *myHomeEnergy* and identified value in having access to their data, although it was apparent their use of the data was greatest soon after they installed their rooftop solar and wanted to check it was working as expected. After a week or two, few regularly used *myHomeEnergy*. Some customers suggested a *myHomeEnergy* app may increase customer interest in accessing data. However, customers would need to be made aware of the app, and the Customer Forum would require evidence that customers would value and benefit from an app, if AusNet Services were to proceed with this idea.

Benefits of smart meters include the ability to alert customers of changes in their energy usage and if their rooftop solar panels are not working. The Quantum Research survey established that 79% of the 900 residential customers and 74% of the 88 business customers who were surveyed would be interested in such a service.¹⁷¹ This potential benefit was also tested in the *Business Customer Survey*. Although only 42 customers in that survey indicated they had rooftop solar, 88% were interested in receiving alerts to notify them when their rooftop solar panels were not working.¹⁷²

DER was also discussed with stakeholders in Deep Dive Four. Stakeholders acknowledged with the growth in solar PV, networks need to ensure customers can benefit from their solar panels. Likewise, they accepted some augmentation may be required to reduce constraints on customers connecting

¹⁶⁷ Quantum Market Research, *AusNet Services Customer Profiles Full Report*, Draft (May 2018), 20.

¹⁶⁸ *Ibid.*, 21.

¹⁶⁹ Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research, Qualitative Research Report* (August 2018), 46.

¹⁷⁰ AusNet Services Customer Forum, *Business Customer Survey Results* (August 2018), 33.

¹⁷¹ Quantum Market Research, *AusNet Services Customer Profiles Full Report*, Draft (May 2018), 24.

¹⁷² AusNet Services Customer Forum, *Business Customer Survey* (August 2018), 46.

their solar panels to the network. However, stakeholders noted non-solar customers need to better understand the benefits of solar.

11.4 Does AusNet Services' final proposal adequately recognise needs and expectations of customers?

The Customer Forum believes this expenditure adequately recognises the needs and expectations of customers.

11.5 What is the customer benefit and is it tangible?

In its initial proposal, AusNet Services outlined a range of metering benefits. These benefits were aimed at either delivering tangible benefits to customers or were identified as future benefits. At the time of preparing its *Interim Engagement Report*, the Customer Forum reported AusNet Services had done a poor job communicating the benefits of smart meters to customers and needed to improve its communications.

Since February 2019, the Customer Forum notes AusNet Services has progressed its Customer Experience roadmap program¹⁷³ for 2021 to 2026 to improve its customer experience in the following areas:

- notifying customers when their energy use is unusual, including loss of solar PV;
- fast tracking solar connection applications;
- identifying and fixing faults before they become safety issues;
- maintaining critical supply in an outage for traffic lights, hospitals, nursing homes etc.;
- enhancing outage notifications and alerts; and
- reducing response times to wire faults.

The Customer Forum commends AusNet Services for the work it has undertaken on metering as part of its roadmap program and believes customers will value these services. Customers will also save an estimated \$750,000 per annum, through AusNet Services' agreement to remove some connection and disconnection charges.

11.6 Does the Customer Forum believe AusNet Services' final proposal represents overall value for money?

The Customer Forum believes the additional customer benefits secured through the final negotiation with AusNet Services represent value for money. Costs have fallen further; a current charge is set to be abolished by the end of 2021; and the benefits of smart meters will be better explained to customers.

¹⁷³ The Customer experience roadmap is a map of AusNet Services dealings with customers, from a customer perspective. Its purpose is to identify ways AusNet Services can make it simpler, quicker and more transparent for customers to deal with the business to ultimately improve the customer experience.

12 Price path

Price path summary

Scope

Price Path was within the scope agreed by the AER and AusNet Services.

Matters agreed and disagreed

As part of the Price Path negotiation the Customer Forum agreed with AusNet Services that customers strongly preferred to receive the maximum cost reduction early in the EDPR and avoid any subsequent real increases.

Customer benefit

The Customer Forum identified the key customer benefit as receiving maximum cost pressure relief at the earliest possibility.

12.1 Interim Engagement Report summary

AusNet Services' proposals

AusNet Services offered the Customer Forum three price path options and it indicated indifference to the preferred option, as all had the same Net Present Value. Broadly, the three price path options presented by AusNet Services (expressed in real \$2020 as average revenue per customer) were:

1. A 5.4% reduction in year 1 of the new regulatory period (2021, compared to 2020), followed by 0.5% reduction each year thereafter.
2. A 4.1% reduction in year 1, followed by annual reductions of 1.2%.
3. A 3.0% reduction in year 1, followed by annual reductions of 1.8%.

Customer Forum's position

The Customer Forum's negotiated position was a variation of Option 1.

The Customer Forum proposed AusNet Services bring forward the annual reductions of 0.5% per annum into the first year (2021), thus delivering a one-off real reduction of 6.5% in year 1, with zero change in real terms thereafter.

Therefore, the only routine price changes customers would face from year 2 to year 5 would be due to inflation.

12.2 What does the evidence say about customer needs and expectations?

As discussed in Section 5.3 and other areas of this report, affordability of electricity is a significant concern to customers, and as JWS Research noted from the focus groups:

“when people discuss electricity, the first topic of conversation is typically about affordability and increasing costs.”¹⁷⁴

This concern was also articulated throughout the Deep Dives, and in particular Deep Dive One in February 2019 where stakeholders were asked to comment on the average revenue reduction of \$38,

¹⁷⁴ JWS Research, *Community Perceptions Towards Solar and Innovation Propositions* (September 2019), 9.

being proposed by AusNet Services at that time.¹⁷⁵ Some participants clearly indicated this reduction was inadequate. Customer Forum meetings with customer advocates and stakeholders also highlighted affordability issues for customers, particularly for AusNet Services' most vulnerable customers.

It is therefore evident to the Customer Forum customers expect a real price reduction as soon as possible.

12.3 Does AusNet Services' final proposal adequately recognise needs and expectations of customers?

The final position between the Customer Forum and AusNet Services was a minimum reduction in average price per customer in year 1 (2021/22) of \$110 (\$2021) or a 12% reduction in the price from the 2020 calendar year to the start of the new regulatory period followed by no further increases in real terms in later years, that is inflation increases only.

The Customer Forum believes this agreement responds to the primary need of customers for early and significant price relief, whilst also being easy to communicate and understand.

¹⁷⁵ Seed Advisory, *Deep Dive Workshop One – Summary Report, AusNet Services Electricity Distribution Price Review, 2021-202510* (April 2019), 4.

13 Overall ‘reasonableness’ of proposal

13.1 What does the evidence say about customer needs and expectations?

To inform the Customer Forum’s criteria to establish the overall reasonableness of AusNet Services’ proposals, the Customer Forum considered the available evidence associated with customers’ needs and expectations.

Foremost, AusNet Services’ customer research highlighted customers’ concerns about the cost of energy. The cost of energy has remained a significant concern for customers. In May 2018, 67% of residential customers and 64% of small to medium enterprises reported an increase in their electricity bills over the last two years.¹⁷⁶ More than a quarter reported they had increased “a lot”. The 2018 Newgate Research qualitative research also found customers were conscious of significant price rises with “many concerned it was becoming increasingly unaffordable and hard to pay their bills”.¹⁷⁷ Likewise, in 2019, qualitative research undertaken by JWS Research established “when people discuss electricity, the first topic of conversation is typically about affordability and increasing costs”.¹⁷⁸

Ethnographic research conducted by RMIT Centre for Urban Research for AusNet Services highlighted the significance of rising electricity prices on customers, especially low-income households.¹⁷⁹ Notably, customers did not associate price rises with peak demand or any change in their usage patterns. The key impacts of a price rise on vulnerable customers, as identified in the RMIT research, include:

- compromising thermal comfort, such as living with lower winter temperatures or tolerating longer periods of hot weather by not using air conditioners or using a fan instead; and
- financial stress, which meant prioritising the payment of energy bills over other expenses, to avoid falling behind in payments or disconnection.

In the June 2018 *Business Customer Survey*, 14% of business customers across Victoria commented energy costs were a key challenge facing their business, and 51% believed their energy bills had increased “a lot”.¹⁸⁰ For example, one business customer commented:

“The electricity and gas prices keep going up ... it’s a burden on most people not just people in business, everyone has to pay extra. Basically, it’s too expensive to turn on power. Certainly, I’m sure not many people have that kind of money sitting in their account to pay the bill. If you don’t pay on time you have to pay extra money to settle.”

Consequently, only 6% of those surveyed rated their electricity as 7 or more out of 10 in terms of value for money. Further, highlighting affordability concerns, 95% of surveyed business customers who had installed solar, did so to help reduce their energy costs.¹⁸¹

Other customer surveys initiated by the Customer Forum throughout 2019 continued to identify affordability as a key issue for customers, including the March 2019 customer survey of 506 customers living in locations with ageing infrastructure in which 70% indicated their bills had increased;¹⁸² and 27% of customers rated their electricity affordability as “poor” (that is, they rated the affordability of

¹⁷⁶ Quantum Market Research, *AusNet Services Customer Profiles Full Report*, Draft (May 2018), 4.

¹⁷⁷ Newgate Research, *AusNet Services 2021-2025 EDPR Customer Research* (August 2018), 20.

¹⁷⁸ JWS Research, *Community Perceptions Towards Solar and Innovation Propositions* (September 2019), 9.

¹⁷⁹ RMIT Centre for Urban Research, *Understanding Diversity in Electricity Customers* (April 2018), 40.

¹⁸⁰ AusNet Services Customer Forum, *Business Customer Survey* (August 2018), 14.

¹⁸¹ *Ibid.*, 38.

¹⁸² AusNet Services Customer Forum, *Major Replacement Projects Customer Survey Results* (March 2019), 23.

electricity between 1 and 4 out of 10).¹⁸³ Similarly, in the October 2019 Customer Forum initiated *Who Should Pay* survey, 66% of customers indicated their bill had increased a little or a lot.¹⁸⁴

This evidence highlighted to the Customer Forum, that across the diversity of AusNet Services' customer base affordability was a key concern to customers and therefore should be a primary indicator of the overall reasonableness of AusNet Services proposals.

Regardless, other evidence as presented in earlier sections of this report also indicated customers generally expect:

- no less than the current level of reliability of their electricity supply;
- a good standard of customer service, including access to timely information especially when issues occur;
- the network will be safe; and
- AusNet Services to be accountable and transparent.

13.2 Does AusNet Services' final proposal adequately recognise needs and expectations of customers?

The final negotiated position satisfies the above criteria in the following ways:

- at least \$110 per annum average per customer cost reduction (\$2021) with no real increases thereafter;
- maintaining current high levels of reliability;
- AusNet Services has initiated a broad range of customer service improvements in line with customer expectations and at no additional cost to customers;
- AusNet Services will eliminate remote connection and de-energisation charges undertaken during business hours from no later than the end of 2021, saving customers around \$750,000 per annum;
- maintaining current high levels of safety; and
- through the annual publication of a CIMR, AusNet Services will be held to an unprecedented level of accountability.

13.3 What is the customer benefit and is it tangible?

See Section 13.2.

13.4 Does the Customer Forum believe AusNet Services' final proposal represents overall value for money?

In recognition of the \$110 (\$2021) minimum average price reduction per customer and other customer benefits listed above, the Customer Forum concludes the revenue proposal represents overall value for money for customers.

¹⁸³ Ibid., 25.

¹⁸⁴ AusNet Services Customer Forum, *Customer Attitudes Research: Solar Connections – Who should pay for network upgrades and Demand management through air-conditioning control* (October 2019), 6.

14 Reflections

The Customer Forum’s involvement in the pricing reset for AusNet Services was a trial under the *New Reg* programme. This was a “first” for AusNet Services, the AER, other regulators, and most of the stakeholders involved in the sector. There was no Australian precedent, although Scottish Water applied a similar model some years ago.¹⁸⁵ These notes are intended to assist the next iteration of this process.

At the time of preparing this report the Customer Forum had been established for more than 22 months. Beyond its formal negotiating role, and especially given the Customer Forum is part of a wider trial, it has been reflecting on the process. This Section brings together the Customer Forum’s thoughts and ideas under the following broad headings:

- Logistics and resources;
- Customer research;
- Customer engagement; and
- How the process can better embrace effective negotiation.

14.1 Logistics and resources

Logistics and administration

The process involved hundreds of documents with thousands of pages, often with multiple versions of the same document. With the benefit of hindsight, the Customer Forum would have benefited from the use of a shared cloud-based server (Dropbox or similar) indexed and maintained by a dedicated administration person. Version control of documents would be optimised in this manner.

The same central contact person could have been responsible for arranging meetings, co-ordinating diaries, setting up conference calls, etc., rather than the “multi-lateral” approach the Customer Forum was required to adopt.

The Customer Forum was aware of its need to remain independent and objective and would have benefitted from a permanent external “home”, not within, but in close proximity to AusNet Services’ offices. A meeting room in a serviced office environment would have given the Customer Forum a “neutral” space for meetings, enabled easier access and more open communication among Customer Forum members.

Additional items to assist future Customer Forums should include availability of Wi-Fi, access to computers, dedicated printing resources, secure document storage space, and a permanent conference call facility.

Induction

AusNet Services’ personnel designed and delivered most of the induction materials with observers from the AER, Department of Environment, Lands, Water and Planning (DELWP), and other stakeholders joining some induction sessions. Although the Customer Forum benefited from the induction process, and it was essential for meaningful negotiations, the Customer Forum believes the process could be improved. In particular, the induction would have been enhanced with early and direct briefings from the AER and DELWP on their regulatory regimes and perspectives, rather than the Customer Forum second-guessing the roles of these and other agencies.

¹⁸⁵ “Customer Forum,” Water Industry Commission for Scotland, n.d., www.watercommission.co.uk/view_CustomerForum.aspx.

Organisation chart

Detailed organisation charts for the distribution business and the AER should be provided to the Customer Forum at the beginning of the process and updated as changes occur to better inform the Customer Forum of the roles and responsibilities within the organisation, and in relation to the matters being negotiated.

Negotiating scope

The scope assigned to the Customer Forum was narrow, yet it was asked to consider the overall reasonableness of the proposal. For example, the Customer Forum negotiated on approximately \$100 million of the repex proposal, but it was not given visibility over the balance, predominantly for replacement poles, cross arms and conductors totalling around \$500 million. Future Customer Forums should be given greater visibility across the proposal.

External expert support

Future Customer Forums should be encouraged to seek independent external expert advice as required to help build or challenge evidence to inform negotiation. Distributors and the AER should continue to respond positively to such requests.

Dates/deadlines/timetable

As far as possible, meeting dates and deadlines should be set early in the process to enable all parties to maximise their participation.

Unexpected benefits

A benefit to AusNet Services which became apparent during the process was, unlike the usual price reset process, they were given insight into the emerging policy views of the AER through the briefing notes it provided to the Customer Forum.

Documenting meetings

Initially the Customer Forum had engaged a notetaker to document the negotiations. However it became apparent this function was redundant as Customer Forum members and AusNet Services were taking sufficiently detailed meeting notes to provide a formal record of negotiations.

Report writing

Although the Customer Forum had the opportunity to engage a report writer, it became apparent the Customer Forum should write the report as this was the most effective way of ensuring an accurate account of negotiations. Fortunately the Customer Forum had the necessary skills required to produce this report, although report writing was not an explicit skill sought in selecting its members. Future Customer Forums should include some members with this skill.

14.2 Customer research

Historical research

The Customer Forum was established, it was given access to a library of market research reports and associated documents collated from March 2014. This was a helpful starting point to identify evidence of customer needs and expectations. However, there was no evidence of any benchmarking of customer satisfaction to indicate the extent to which their needs and expectations were being met. Additionally, the Customer Forum identified a number of other customer research gaps, particularly around small business needs and expectations.

It was apparent to the Customer Forum that historically AusNet Services had mainly undertaken ad hoc research in response to particular issues and this was mostly outsourced.¹⁸⁶ While this allowed customers to provide feedback anonymously and independently, the Customer Forum believes it contributed to the businesses misunderstanding customer needs and expectations, as they were not directly engaging with customers.

Responsibility for research

The Customer Forum was introduced to several AusNet Services' staff members who worked on customer research projects. However, the Customer Forum was not confident who in the business had the ultimate responsibility for customers and customer research, or the strategic role of customer research. Fortunately, these issues have been rectified with the appointment of a General Manager Customer Experience, the introduction of an ongoing customer satisfaction monitor, and the appointment of a dedicated Customer Research Manager.

Customer Forum input into research

As a result of appraisal of AusNet Services' customer research, and as other questions arose, the Customer Forum identified a key need to initiate research to build an evidence base to effectively negotiate with AusNet Services. As negotiations proceeded, the AER further reinforced its expectation that the Customer Forum's negotiating position should be supported by appropriate evidence, in particular customer research.

While the Customer Forum was given ample opportunity to comment on customer research that AusNet Services initiated, no protocol existed to enable the Customer Forum to initiate independent customer research. It was important the Customer Forum independently build its evidence base and test and validate its proposed negotiating positions. With the support of AusNet Services' EDPR team, and in the available, the Customer Forum initiated a number of customer surveys.¹⁸⁷

One of the key challenges in undertaking customer research is confusion among many customers about key electricity industry issues such as solar and PV systems operations. For example, customer research data suggests a greater prevalence of rooftop solar panels, batteries and electric vehicles than other sources of evidence, such as AusNet Services' data. The Customer Forum continually considered whether AusNet Services' customer research and its own initiated research asked customers the "right" question. The Customer Forum has no definitive answer, as there is no direct evidence that customers are confusing solar hot water systems with rooftop solar systems. But it is clear anecdotal evidence suggests this customer segment has a greater interest in participating in research related to energy than non-solar customers.

Customer Forum research budget

As previously mentioned, the Customer Forum initiated five customer surveys. Rather than having to request funding and seek approval each time, the process could be simplified if the Customer Forum had access to a discretionary budget, so that research could be independently undertaken to test or validate proposals.

¹⁸⁶ See also Section 5.2.

¹⁸⁷ As noted throughout this report and listed in Appendix D.

Customer research recommendations

The Customer Forum’s recommendations in relation to future customer research are as follows:

- Ensure the Customer Forum is:
 - introduced to staff members responsible for customers and customer research, and maintains contact with them;
 - provided with an organised and catalogued library of customer research;
 - provided with updates as new research is initiated, has the opportunity to scrutinise it at all stages; and
 - briefed on the AER’s expectations regarding the use of customer research as evidence for negotiations and the extent it is expected to initiate its own research.
- Develop an understanding how a distribution business and the Customer Forum will collaborate to implement customer research in support of the EDPR.
- Establish protocols around:
 - research budget;
 - approval processes;
 - choice of research supplier; and
 - expectations around data analysis, report preparation and delivery.

Finally, the Customer Forum notes apparent confusion among many customers remains about key electricity industry issues and this is a notable limitation which may diminish as distribution businesses become more customer focused. As such, it may affect conclusions about customers’ needs and expectations that are used to form negotiating positions.

14.3 Customer engagement

“You can’t beat stories from the street”

In 2018, the Customer Forum contacted Members of Parliament whose electorates fell within AusNet Services’ region to establish if any constituents had experienced problems with AusNet Services. This resulted in meetings with local members and their constituents throughout the region. Local councils within the area were also approached and the Customer Forum met with many of their economic development officers. Walking into local businesses also provided many customers’ stories about their energy issues and experiences dealing with AusNet Services. Customers’ willingness to engage as a consequence of a lack of opportunity to speak with AusNet Services prior to the appointment of the Customer Forum.¹⁸⁸

The Customer Forum acknowledges that AusNet Services has started to engage with its customers and the communities it serves and this is important to help AusNet Services improve its customer focus.

Some customer contacts revealed significant issues for customers. With customers’ permission, the Customer Forum alerted AusNet Services to those issues. On one of these repeat visits, the former AusNet Services Managing Director and a senior management representative accompanied the Customer Forum. The benefit to both customers and AusNet Services’ management, in providing an opportunity for senior management to have a direct and unfiltered appreciation of customers’ issues cannot be overstated. As a result of this meeting the customer’s issues have been considered and

¹⁸⁸ Lists of the meetings with Members of Parliament, their constituents and local council officers is found in Appendix C.

largely addressed, and the customer now has an improved relationship through AusNet Services Customer Relationship Manager.

One of the most powerful aspects of the negotiation process was the evidence of customer issues gained from these customer meetings that formed the basis of case studies, documented in this report.¹⁸⁹

AusNet Services' Customer Consultative Committee (CCC)

The Customer Forum met with the CCC on several occasions. However, the insights it obtained from the CCC were limited as meetings were not always well attended and some key customer segments were poorly represented on the CCC. Although around 60% of AusNet Services' electricity distribution network customers live outside metropolitan Melbourne, nearly all CCC members reside in Melbourne. This issue has been raised with AusNet Services.

Customer advocates

The Customer Forum would have benefited from greater feedback from customer advocates. The message that "prices are too high" was clearly received, but only limited feedback was received on how AusNet Services could reduce prices. Similarly, apart from the AER's Consumer Challenge Panel, there was little response to the Customer Forum's *Interim Engagement Report*, despite making direct contact with advocates to provide copies of the report.

The Customer Forum is concerned that community and welfare advocates have limited ability to engage with the EDPR process due to their lack of resources.

Indigenous, Culturally and Linguistically Diverse (CALD), worst served and other customers

The Customer Forum is conscious of the lack of information in relation to Indigenous, CALD and worst served customers who experience large numbers of outages.

The Customer Forum notes it had limited engagement with CALD customers and no direct engagement with Indigenous customers, although arguably their needs and expectations may be reflected in feedback from other customer groups. However the Customer Forum had no indication from others it met with such as customer advocates. The Customer Forum similarly notes that neither Indigenous nor CALD customers are directly represented on AusNet Services' CCC.

The Customer Forum would like to see more research undertaken with these groups and any other customer groups who have not had their views adequately captured, to confirm whether its anecdotal evidence is accurate.

14.4 How the process can better embrace effective negotiation

Who are the negotiators for the distribution business?

The Customer Forum found early negotiations challenging. Aside from the large volume and sometimes complex information presented to it, the Customer Forum was not initially clear which AusNet Services' staff members were their negotiators. As previously mentioned, future Customer Forums would benefit from an early introduction to the distribution business staff members according to their roles within the businesses and in relation to customers and their negotiating roles.

Additionally the Customer Forum realised, although it was directly negotiating with AusNet Services' representatives who were staff members, the organisation's board had a significant interest in the process and outcomes. Therefore, for future EDPRs it is important to clarify the board's expectations and interest in the process and ideally establish a direct communication mechanism between the Customer Forum and the Board.

¹⁸⁹ See Appendix D.

Timing of negotiations

In future, the first half of the negotiating period should focus on service, while the distribution business revises its plans, demand forecasts and costs, which have the potential to continue until late in process. These ongoing revisions make negotiations difficult.

Customer interests under the National Electricity Objective (NEO)

The Customer Forum recognised customer views about electricity were more likely to be short-term, in contrast to the NEO's explicit reference to long-term interests. It is clear that long-term interests are important to customers, but when given the opportunity to express concerns, customers focus on their short-term interests. After a decade of rising energy prices this is not surprising.

Importantly, the Customer Forum did not form the view that short-term and long-term interests are incompatible. Indeed, the negotiated repex and augex outcomes demonstrate that refinement of AusNet Services' long-term focused initial requests allowed for both sets of interests to be accommodated. The Customer Forum believes it is also important for regulators to both recognise and respond to short-term customer interests and concerns.

Similarly, the Customer Forum recognised some customer expectations do not directly relate to the traditional price/reliability trade-off. The Customer Forum met numerous customers who were dissatisfied with the level of customer service. For what they pay in electricity charges, customers rightly expect that when a distribution problem arises, they will receive prompt and courteous service. For too many customers this was not the case. This raised the issue for the Customer Forum as to where customer service sits in the NEO.

Value of Customer Reliability (VCR)

The Customer Forum was pleased the AER acknowledged its reflection on the industry's VCR measure. It might suit modellers to divide values between residential and non-residential users but in reality, for some users in some locations, the distinction is a moot point. Employment in many small towns is often centred on one or two significant businesses. For those employees, the business VCR is likely to have a much higher value as their economic future hinges on the business continuing.

14.5 Other reflections

The Customer Forum believes customers should be able to provide their contact details and other critical information directly to their electricity network distribution business, so they receive essential communications, such as outage information. Further, a network distribution business should be able to notify any adult nominated by the biller to receive important outage information, especially as that information could be vital for customer safety.

Currently the National Electricity Rules prevent customers from providing information directly to distribution businesses. As previously mentioned in Section 7.3, customers can only provide a distribution business with their contact details via their retailer; and it is evident that retailers sometimes will not or cannot provide more than one number to AusNet Services. The Customer Forum considers, in the interest of customer safety, the National Retail Energy Rules¹⁹⁰ need to be reviewed to allow customers to deal directly with their distribution business, to improve communication and reduce any risk resulting from inadequate information about potentially critical incidents.

¹⁹⁰ "National Energy Retail Rules Version 18AEMC," Australian Energy Market Commission, 21 November 2019, www.aemc.gov.au/regulation/energy-rules/national-energy-retail-rules/current. As far as the Customer Forum can establish, there is no obligation under the *National Energy Retail Rules* on retailers to provide distributors with customers' contact details, or indeed more than one individual's contact details per biller for outage and communications.

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Acronyms

AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Augex	Augmentation expenditure
Capex	Capital expenditure
CALD	Culturally and Linguistically Diverse
CCC	AusNet Services' Customer Consultative Committee
CCP	Australian Energy Regulator's Consumer Challenge Panel
CIMR	Customer Interaction and Monitoring Report
C-SAT	Customer satisfaction
CSBA	Customer Satisfaction Benchmarking Australia
CSIS	Customer Satisfaction Incentive Scheme
DATA	Dialysis and Transport Association
DELWP	Department of Environment, Lands, Water and Planning
DENOP	Distributed Energy Network Optimisation Platform
DER	Distributed Energy Resources
DMIA	Demand Management Incentive Allowance
DNSP	Distribution Network Service Provider
EBSS	Efficiency Benefit Sharing Scheme
ECA	Energy Consumers Australia
EDPR	Electricity Distribution Price Review
ENA	Energy Networks Australia
ESC	Essential Services Commission
EUAA	Energy Users' Association of Australia
EWOV	Energy and Water Ombudsman of Victoria
GSL	Guaranteed Service Level
ICT	Information and Communications Technology
IT	Information Technology
NEO	National Electricity Objective
Opex	Operating expenditure
RAB	Regulated Asset Base
REFCL	Rapid Earth Fault Current Limiter
Repex	Replacement expenditure
VCR	Value of Customer Reliability

Appendix A: Customer Forum meeting dates

Approximately five days per month were allowed for presentations to the Customer Forum and subsequent negotiations. Some modifications occurred from month to month as occasionally less time was required than originally anticipated.

Meeting dates are listed in the following table.

Table A-1: Meetings pre-Interim Engagement Report publication

Month	Meeting Days (* = Formal negotiation day)
March 2018	20, 21, 22, 26 (field trip), 27
April 2018	16, 17, 18, 26, 27
May 2018	15, 21, 22
June 2018	7, 8, 12, 13, 14
July 2018	18, 19, 20, 23, 24
August 2018	17, 20, 21
September 2018	3*, 4*, 7*
October 2018	5*, 8*, 9*, 11*
November 2018	8*, 9*, 12*, 13*, 22*, 23*, 26*

Table A-2: Meetings post-Interim Engagement Report to Final Engagement Report publication

Month	Meeting Days (* = Formal negotiation day)
April 2019	12, 15, 16
May 2019	13, 14, 16, 28
June 2019	N/A
July 2019	8, 9, 11, 29, 30
August 2019	29, 30, 31
September 2019	23*, 24*, 25*
October 2019	11*, 14*, 15*, 25*, 28*, 29*
November 2019	7*, 8*, 21*
December 2019	5*
January 2020	21*, 22, 23, 29

Outside these formal meeting days, the Customer Forum met independently and undertook various activities such as customer consultations, attending focus groups to gather evidence from customers to assist in their task, evaluating evidence and preparing reports.

Appendix B: Presentations to Customer Forum

The following is a list of all formal presentations to the Customer Forum, in chronological order. Copies of these documents are available on AusNet Services' website.

B1. Lead up to interim negotiations

Date	Week	Presentation title	Author / presenter
20 March 2018	1	Nino Ficca – Our commitment and objectives	AusNet Services: Nino Ficca
20 March 2018	1	The Australian Energy Regulator's role	Australian Energy Regulator: Chris Pattas
20 March 2018	1	Overview of electricity networks	AusNet Services: T Langstaff
21 March 2018	1	Customer, energy and demand insights	AusNet Services: T Hallam & N Cimdins
22 March 2018	1	The Electricity Distribution Revenue Reset Project	AusNet Services: D Rose
22 March 2018	1	Key trends	AusNet Services: T Hallam & M Larkin
22 March 2018	1	Overview of regulation	AusNet Services: R Ball
22 March 2018	1	AER incentive schemes – an introduction	Australian Energy Regulator
22 March 2018	1	AER benchmarking – an introduction	Australian Energy Regulator
22 March 2018	1	AER Capex assessment – an overview	Australian Energy Regulator
22 March 2018	1	AER Opex assessment – an introduction	Australian Energy Regulator
26 March 2018	1	Mooroolbark Mini Grid Innovation Trial	AusNet Services: P Bryant & T Langstaff
27 March 2018	1	Early scoping discussion	AusNet Services: T Hallam, C Eddy, R Ball & Australian Energy Regulator
27 March 2018	1	Measures of success	AusNet Services: R Ball, C Eddy & T Hallam
April 2018	2	Customer segmentation data	AusNet Services
April 2018	2	AusNet Services Final Report RMIT April 2018	RMIT University: Dr L Nicholls & Y Strengers
16 April 2018	2	Smart meter overview and benefits	AusNet Services: E Youill & D McCrohan
16 April 2018	2	ECA – Best Practice Consumer Engagement	Energy Consumers Australia
16 April 2018	2	Deliberative Forums – Memo	AusNet Services: S Judd & D Rose
16 April 2018	2	Customer research findings and outcomes	AusNet Services: S Judd & D Rose
17 April 2018	2	AEMO VCR Presentation	AusNet Services: T Langstaff & AEMO
17 April 2018	2	In-depth Stakeholder Interviews – draft report	AusNet Services: S Judd
18 April 2018	2	Non-networks	AusNet Services: T Langstaff, J Harding & AER
18 April 2018	2	Customer Forum innovation	AusNet Services: D Rose, J Theunissen, M Fisher & AER
18 April 2018	2	CEOT introduction	AusNet Services
26 April 2018	2	Access to data	AusNet Services: E Youill & Energy Consumers Australia: D Hayvatt

Date	Week	Presentation title	Author / presenter
26 April 2018	2	Customer centricity	AusNet Services: P Gray & R Quigley
26 April 2018	2	Customer services hub	AusNet Services: P Gray & R Quigley
26 April 2018	2	How networks make productivity gains	AusNet Services: C Eddy, R Ball & AER
26 April 2018	2	Economic insights – productivity	Economic Insights: D Lawrence
27 April 2018	2	EDPR 2016-20 recap	AusNet Services: T Hallam, C Eddy, R Ball & AER
27 April 2018	2	Scoping discussion	AusNet Services: T Hallam, R Ball, C Eddy & AER
27 April 2018	2	EDPR 2016-20 customer focus groups report	Colmar Brunton
15 May 2018	3 & 4	Asset Management System overview	AusNet Services: J Dyer, A Dickinson & S Owens
15 May 2018	3 & 4	Bushfire safety obligations	AusNet Services: P Bryant & Essential Services Victoria
15 May 2018	3 & 4	Ethnographic research findings – RMIT presentation	RMIT University: Dr L Nicholls
21 May 2018	3 & 4	Operating expenditure 1	AusNet Services: M Larkin
22 May 2018	3 & 4	Solar connections – Issues and pricing options	AusNet Services & Harding Katz
07 June 2018	3 & 4	Augmentation expenditure	AusNet Services: T Langstaff & E Twining
07 June 2018	3 & 4	Capex overview	AusNet Services: D Rose
07 June 2018	3 & 4	Replacement expenditure	AusNet Services: S Owens, J Dyer & A Dickinson
07 June 2018	3 & 4	Safety expenditure	AusNet Services: S Owens, H Williams & J Dyer
08 June 2018	3 & 4	Pricing	AusNet Services: C Eddy, K Jdanova & J Stein (PCR)
08 June 2018	3 & 4	Regulatory protections	AusNet Services: C Eddy
12 June 2018	3 & 4	Distributed Energy Resources integration	AusNet Services: T Langstaff
12 June 2018	3 & 4	Innovation expenditure	AusNet Services: J Theunissen & D Rose
12 June 2018	3 & 4	Metering expenditure	AusNet Services: A Kennan, E Youill & D Rose
13 Jun 2018	3 & 4	Customer Digital Program	AusNet Services: S Judd
13 June 2018	3 & 4	Customer hardship arrangements	AusNet Services: K Gebert & J Betlehem
14 June 2018	3 & 4	Operating expenditure 2	AusNet Services: M Larkin
14 June 2018	3 & 4	Price path	AusNet Services: C Eddy
18 July 2018	5	Metering	AusNet Services: D Rose, A Kennan & N Webb
18 July 2018	5	Newgate Research – EDPR Customer Research Presentation	Newgate Research

Date	Week	Presentation title	Author / presenter
18 July 2018	5	Objectives and approach for July meetings	AusNet Services: R Ball
19 July 2018	5	Augex major projects	AusNet Services: E Twining, D Rose & T Langstaff
19 July 2018	5	DER Integration	AusNet Services: C Eddy & T Langstaff
19 July 2018	5	Network innovation	AusNet Services: J Harding & D Rose
19 July 2018	5	Repex Major Projects	AusNet Services: S Owens, J Dyer & D Rose
20 July 2018	5	Out of scope revenues	AusNet Services: R Ball
23 July 2018	5	Negotiating approach and next steps	AusNet Services: C Eddy & R Ball
23 July 2018	5	Opex	AusNet Services: M Larkin
23 July 2018	5	Rate of Return guideline review	AusNet Services: C Eddy
08 August 2018	6	Full Stakeholder Insights Report	AusNet Services: S Judd
20 August 2018	6	AusNet Services Business Customer Survey	H Bartley for Customer Forum
03 October 2018	7	Customer experience	AusNet Services: A Parker, A Hill, T Hallam & S Cussen
04 October 2018	7	Innovation	AusNet Services: A Parker & T Hallam
05 October 2018	7	Revised negotiating position note – Customer experience	AusNet Services: A Parker, A Hill, C Eddy & J Driscoll
07 October 2018	7	Metering	AusNet Services: T Hallam, A Hill & A Kennan
08 October 2018	7	Summary of AER September Draft Decisions	AusNet Services: T Hallam, C Eddy & M Aquino
08 October 2018	7	Opex	AusNet Services: T Hallam & C Eddy
09 October 2018	7	Augex – major projects	AusNet Services: T Hallam & S Knowles
09 October 2018	7	Repex – major projects	AusNet Services: T Hallam & S Knowles
11 October 2018	8	Dynamic Solar Management	AusNet Services: J Harding & T Langstaff
11 October 2018	8	Economic approach to charging for solar	AusNet Services: T Hallam & C Eddy
11 October 2018	8	Impact of Solar Subsidies	AusNet Services: T Hallam & C Eddy
11 October 2018	8	2021-25 EDPR Revenue Update	AusNet Services: C Eddy
11 October 2018	8	Overview of proposal	AusNet Services: C Eddy
11 October 2018	8	Price path	AusNet Services: C Eddy
18 October 2018	8	Meeting with St Vincent de Paul Society, South Australian Council of Social Services, Public Interest Advocacy Centre and the EDPR Customer Forum	AusNet Services various
18 October 2018	8	Attitude and Perception Survey – Final Results	Quantum Market Research
19 October 2018	8	Meeting with Energy Users Association of Australia, Major Energy Users Inc. And the EDPR Customer Forum	AusNet Services various
12 November 2018	9	Revised negotiating position note – Augex	AusNet Services: T Hallam, S Knowles & T Langstaff

Date	Week	Presentation title	Author / presenter
12 November 2018	9	Revised negotiating position note – Repex	AusNet Services: T Hallam, S Knowles & T Langstaff
26 November 2018	10	Customer Forum Planned outages	AusNet Services: D McCrohan, L Penaluna, J Lee
26 November 2018 ¹⁹²	10	2019 Planning and resourcing	AusNet Services: C Eddy & R Ball
26 November 2018	10	Major Augmentation Projects: Analysis of Forecast Load Moderation Options: Terms of Reference	AusNet Services: T Hallam, C Eddy & R Ball

B2. Lead up to final negotiations

Date	Week	Presentation title	Author / presenter
14 February 2019	11	Potential changes to 2021-25 Regulatory Proposal	AusNet Services: T Hallam, C Eddy & M Larkin
14 February 2019	11	Deep Dive One: Feedback	AusNet Services: D Rose & S Judd
18 February 2019	11	Innovation proposal: deep dive outcomes and next steps	AusNet Services: J Harding
18 February 2019	11	Customer Satisfaction Incentive Scheme: next steps	AusNet Services: M Larkin
18 February 2019	11	Progress on customer experience initiatives: update	AusNet Services: D Rose & P Gray
18 February 2019	11	Model Standing Offer amendment to require inverter control for solar	AusNet Services: K O’Carroll & J Betlehem
19 February 2019	11	Opex update	AusNet Services: M. Larkin
19 February 2019	11	Independent review of augex options: Update	AusNet Services: T Langstaff
21 March 2019	12	Customer experience initiatives: Update	AusNet Services: D Rose
21 March 2019	12	Customer Satisfaction Incentive Scheme	AusNet Services: M Larkin
26 March 2019	12	Innovation expenditure: Update	AusNet Services: T Hallam, D Rose, J Harding
25 March 2019	12	Opex: Update	AusNet Services: M Larkin
25 March 2019	12	Customer engagement on draft proposal: Update	AusNet Services: C Gip
25 March 2019	12	Repex major projects: Update for the Customer Forum	AusNet Services: R Ball, J Pollock, A Parker, T Hallam
21 March 2019	12	Customer quality program: Update	AusNet Services: J O’Driscoll
March 2019	12	Small Scale Incentive Scheme Document	AusNet Services document provided for consideration
March 2019	12	Small Scale Incentive Scheme Submission	AusNet Services document provided for consideration
12 April 2019	13	Planned Outage YTD Comparison	AusNet Services: T Hallam, J Lee, D McCrohan, C Rodda
12 April 2019	13	Customer Engagement on Draft Proposal: Update	AusNet Services: S Ward, D Rose

¹⁹² Document date 17 December 2018

Date	Week	Presentation title	Author / presenter
12 April 2019	13	Planned Outages: Customer Forum Presentation	AusNet Services: T Hallam, J Lee, D McCrohan, C Rodda
15 April 2019	13	Metering discussion	AusNet Services: A McKennan
16 April 2019	13	Augex deferral options review: Interim report to Customer Forum	WSP Consultants
16 April 2019	13	Repex negotiating position note: Final Negotiating Position for the Customer Forum	AusNet Services: T Hallam, R Ball & J Pollock
13 May 2019	14	Opex Update	AusNet Services: M Larkin
13 May 2019	14	Operating Expenditure: Updated negotiating position for the Customer Forum	AusNet Services: T Hallam & M Larkin
13 May 2019	14	Customer engagement on draft proposal: Update	AusNet Services: D Rose & C Gip
14 May 2019	14	Metering expenditure: Updated negotiating position for the Customer Forum	AusNet Services: T Hallam & A Kennan
16 May 2019	14	Augex Major Projects Update	AusNet Services: T Hallam, J Pollock & WSP
May 2019	14	WSP Report PS113155-ADV-REP-001 Rev C.PDF	WSP Consultants provided for information

B3. Final negotiations

Date	Presentation / document title	Author / presenter
29 July 2019	Customer Experience, Hardship and Metering Initiatives: Customer Forum Update	AusNet Services: P Gray & S Judd
29 July 2019	Innovation program development and key issues for discussion	AusNet Services: J Harding, D Rose & M Aquino
30 July 2019	Distributed Energy Resources Integration: A network for our customers' needs today and into the future	AusNet Services: T Langstaff, M Larkin
30 July 2019	REFCL Program (Commercial in Confidence)	AusNet Services: M Larkin
31 July 2019	Bundoora HVI: Post Implementation Review and HVI management process	AusNet Services: A Ham
16 August 2019	Draft Versions of Final Negotiation Notes	AusNet Services
2 September 2019	Final Negotiation Notes	AusNet Services
18 September 2019	Customer Forum Actions	AusNet Services
18 September 2019	Revenue Update (Confidential)	AusNet Services: G Hannan
24 September 2019	Community Perceptions Toward Solar and Innovation Propositions (Draft)	JWS Research
24 September 2019	Customer Satisfaction Incentive Scheme	AusNet Services: M Larkin
11 October 2019	CRM and Self-Service Strategy	AusNet Services: P Gray
17 October 2019	CSIS: Updated negotiating position for the Customer Forum	AusNet Services

Date	Presentation / document title	Author / presenter
17 October 2019	Draft Regulatory Proposal and Plain English Overview	AusNet Services
22 October 2019	Additional note to the Customer Forum on opex and benchmarking	AusNet Services
22 October 2019	Cyber Security Customer Forum Update (Confidential)	AusNet Services
6 November 2019	Additional note to the Customer Forum on innovation	AusNet Services
8 November 2019	Revenue and Price Path	AusNet Services
18 November 2019	DER – Additional information for the Customer Forum	AusNet Services
21 November 2019	Draft Regulatory Proposal and Plain English Overview	AusNet Services
27 November 2019	Revenue and Price Path	AusNet Services
3 December 2019	Requested information to the Customer Forum	AusNet Services
3 December 2019	Customer Interactions and Monitoring Report – Draft outline for discussion	AusNet Services
9 December 2019	Additions to innovation project descriptions	AusNet Services
9 December 2019	Opex chapter of the Regulatory Proposal	AusNet Services
11 December 2019	Draft Regulatory Proposal and Plain English Overview	AusNet Services

Appendix C: Forum’s customer and stakeholder engagements

Appendix C1: Customer meetings

Residential customers

Date	Who	Location
15 August 2018	Mondo solar customer (n=1), middle aged empty nesters with semi-rural property, talked about their experience with solar and feeding back into the grid	Yackandandah on site at customer’s home
15 August 2018	Mondo solar customers (n=2), retired couple in modern urban home, talked about their experience with solar and feeding back into the grid	Yackandandah on site at customers’ home
15 August 2018	Mondo solar customer (n=1), single woman working from home, cost and environmentally conscious, closely monitors electricity use, talked about their experience with solar and feeding back into the grid	Yackandandah on site at customer’s home
16 August 2018	Residents of Healesville (n=4 over three interviews) who were the victims of a significant AusNet Services unplanned outage, that has resulted in significant angst for these customers related to compensation for damaged/destroyed appliances	Healesville
5 September 2018	Rural family with young children, recently built a new home, learnt about their new connection to rural property experience, talked about their experience with solar and feeding back into the grid	Foster (phone interview)
5 September 2018	Rural customer who had equipment damaged as a result of an unplanned outage and lodged a claim with AusNet Services, learnt about their experience applying for compensation (by phone)	Foster (phone interview)
27 March 2019	Healesville resident, interview to follow-up on customer experience following a significant AusNet Services unplanned outage in June 2018	Healesville

Business customers

Date	Business	Location
14 August 2018	Fruit and vegetable retailer, spoke of impacts on her trade when planned outages were organised, and no opportunity to negotiate outage days to minimise adverse impacts on local traders, offensive customer service from AusNet Services when she contacted them, issues on her home property about AusNet Service tree pruning and lack of professionalism (“cowboy mentality”) shown to her by the contractors	Benalla
14 August 2018	Dairy farmer, central Victoria spoke of his use of electricity and potential impacts if an outage occurred	Wangaratta MPs office
15 August 2018	Rutherglen accommodation owner/operator, spoke about the cost of electricity and impacts on the business if an outage occurred	Rutherglen
15 August 2018	Rutherglen winemaker spoke of her use of electricity and potential impacts if an unplanned or planned outage occurred	Rutherglen
15 August 2018	Aged Care, Wodonga, CEO of newly built retirement village and aged care facility with 301 residents, large user with generator to mitigate risk of outages, also in fire prone area	Wodonga
15 August 2018	Alexandra accommodation operator and café owner (also lives on a rural property with solar), spoke of general experiences dealing with AusNet Services	Alexandra
15 August 2018	School principal whose school was impacted by a significant AusNet Services unplanned outage, that destroyed air-conditioning and other equipment,	Healesville

Date	Business	Location
	spoke of the challenges trying to obtain compensation for appliances that were destroyed	
15 August 2018	Café operator and catering business operating, employs a small team of permanent staff, committed to ethical employment with big impacts on his business when AusNet Services schedules outages and he still has to pay staff	Wesburn
15 August 2018	General practice, practice owner and his manager described the impact that outages have on their practice about sterilisation procedures and storage of vaccines, the practice has installed a generator to counter the effects of an unreliable electricity supply	Warburton
15 August 2018	Warburton traders, small group of local traders discussing the impact of planned outages on their town, and AusNet Services' practice of working with these customers to plan outages to minimise inconvenience to trade	Warburton
30 August 2018	Olive@Loch Café. General discussion with proprietor	Loch
30 August 2018	Middle Hotel, Leongatha. General discussion with proprietor	Leongatha
17 September 2018	Lyrebird Café & Resort. General discussion with proprietor	Balook
17 September 2018	Exxon Mobil Longford. Inspection of the plant and discussion about a range of supply issues for a major electricity consumer	Longford
17 September 2018	Marathon Electrical. Discussion with owner and office manager about protracted delays in securing new connections as well as the consequences these delays have on business cash flows for smaller contractors.	Sale
18 September 2018	Maffra Cheese Company. Discussion with proprietor of her decision to invest heavily in PV as well as the sensitivity of dairy manufacturing processes to supply interruptions.	Maffra
18 September 2018	Macalister Demonstration Farm. Discussion with Chairman about dairy industry electricity supply issues including the herd productivity and OHS impacts of supply interruptions.	Riverslea
18 September 2018	Dairy processor. Discussion about supply reliability	Gippsland
19 September 2018	G J Gardner Homes. Discussion with office staff about protracted delays in new connections	Bairnsdale
19 September 2018	Simmonds Homes. Discussion with office staff about protracted delays in new connections	Bairnsdale
19 September 2018	Australian Sustainable Hardwood. Discussion with Managing Director and staff about impact of supply interruptions and slow distributor response time.	Heyfield
16 October 2018	Master Builders Association of Victoria members. Discussion about protracted new connection delays and consequences of delay.	Wodonga
16 October 2018	Strathbogie General Store. General discussion with staff	Strathbogie
19 December 2018	Poultry producer. General discussion with business owner	Lang Lang
20 December 2018	Australian Sustainable Hardwood. General discussion with AusNet Services Managing Director and Executive General Manager Regulated Business	Heyfield
20 December 2018	Marathon Electrical. General discussion with owner , office manager and investors with AusNet Services Managing Director and Executive General Manager Regulated Business	Sale
27 March 2019	Warburton trader, interview to gather additional feedback on customer experience with unplanned outages	Warburton

Date	Business	Location
25 November 2018 23 February 2019 25 February 2019 28 September 2019	Dalyston General Store. Ongoing discussions associated with the impact of ongoing planned outages on the business and Dalyston residents associated with AusNet Services REFCL works	Dalyston
08 April 2019	Fruit and vegetable retailer, follow-up meeting to discuss impact of AusNet Services planned outages on her business operations	Benalla
09 Apr 2019	Winton Wetlands to discuss issues associated with planned and unplanned outages on the environmental site and associated education and tourist facilities	Chesney Vale
01 April 2019	Marathon Electrical to discuss and progress issues associated with new connections	Sale
03 June 2019	Marathon Electrical to discuss and progress issues associated with new connections	Sale
19 July 2019	Marathon Electrical to discuss and progress issues associated with new connections	Sale
23 August 2019	Various new connection property inspections	Gippsland

Customer representative groups

Date	Group	Location
14 August 2018	Benalla Businesses Network, four BBN representatives of retail and commercial businesses in Rural City of Benalla	Benalla
14 August 2018	Women's Health Wangaratta, CEO, discussion from financial counselling perspective, representing vulnerable customers (especially females escaping family violence)	Wangaratta
15 August 2018	Rutherglen Tourist Office representing tourism in the town, discussed the impact of planned outages without any consultation with the community	Rutherglen
16 October 2018	Master Builders Association of Victoria members. Discussion about protracted new connection delays and consequences of delay.	Wodonga
06 February 2019	Energy and Water Ombudsman of Victoria to learn more about customer complaints related to AusNet Services	Melbourne
18 February 2019	Dialysis and Transplant Association (DATA) to learn about the impact of planned and unplanned outages on life support customers, and AusNet Services responses	Forest Hill
20 March 2019	Victorian Farmers Federation, discussed the impact of momentary outages on dairy farmers	Melbourne
08 April 2019	Benalla Businesses Network, chair to issues associated with AusNet Services consultation and communication associated with planned outages and the impact of planned outages on traders	Benalla
08 April 2019	Master Builders Association of Victoria members. Ongoing discussion about protracted new connection delays and consequences of delay.	Wodonga
21 October 2019	Master Builders Association of Victoria members. Ongoing discussion about protracted new connection delays and consequences of delay.	Wodonga

Customer sessions observed by the Customer Forum

Date	Group observed	Location
19 July 2018	Newgate Research Group 1 Outer Melbourne customers, generally low income, one public housing, one solar (n=8)	Lilydale
19 July 2018	Newgate Research Group 2 Outer Melbourne customers, most employed, one business operator, 2 solar (n=6)	Lilydale
20 July 2018	Newgate Research Group 4 Bass Coast, Phillip Island customers, mix of generally low income/retired permanent residents (n~7)	Cowes
20 July 2018	Newgate Research Group 7 Benalla region customers, generally low income/retired (n~8)	Benalla
20 July 2018	Newgate Research Group 8 Benalla region customers, employed some on acreage outside town, some with solar (n=8)	Benalla
21 July 2018	Newgate Research Group 5 East Gippsland customers, Sale and district, employed including farming, mix homeowners & renting (n=6)	Sale
21 July 2018	Newgate Research Group 6 East Gippsland customers, Sale and district, employed, mix homeowners & renting, 3 solar (n=7)	Sale
21 July 2018	Newgate Research Group 9 Alpine Shire customers (Bright, Myrtleford, Porepunkah, Fribourg), all employed some on acreage with solar panels (n=8)	Bright
21 July 2018	Newgate Research Group 10 Alpine Shire customers (Bright, Myrtleford, Porepunkah, Fribourg), all employed, some renting, one business operator (n=5)	Bright
14 August 2018	AusNet Services organised Chiltern customer meeting (n~10)	Chiltern
15 August 2018	AusNet Services organised Clyde North customer meeting (n=3)	Clyde North
11 February 2019	AusNet Services organised, and facilitated by Seed Advisory, Deep Dive One to gauge stakeholder reactions to its draft Regulatory Proposal for 2021-2025, specifically in relation to customer experience, operating expenditure and innovation (n=27 including 7 customer advocates, 2 AER Consumer Challenge Panel members)	Melbourne
27 February 2019	AusNet Services organised, and facilitated by Seed Advisory, Deep Dive Two to seek stakeholder feedback on its public lighting proposals for its draft Regulatory Proposal for 2021-2025 ¹⁹³ (n~18 including 11 stakeholders)	Melbourne
12 March 2019	AusNet Services organised, and facilitated by Seed Advisory, Deep Dive Three to seek stakeholder feedback on replacement expenditure for its draft Regulatory Proposal for 2021-2025 (n~18 including 11 stakeholders)	Melbourne
23 May 2019	AusNet Services organised, and facilitated by Seed Advisory, Deep Dive Four to seek stakeholder feedback on its replacement and capital expenditure proposals for its draft Regulatory Proposal for 2021-2025 (n~27 including 6 stakeholders)	Melbourne
3 May 2019	AusNet Services organised, and facilitated by Seed Advisory, Deep Dive Five to seek stakeholder feedback on its IT expenditure proposals for its draft Regulatory Proposal for 2021-2025 (n~18 including 11 stakeholders)	Melbourne

¹⁹³ Although public lighting is out of scope for the Customer Forum, Deep Dive Workshop Two provided the Customer Forum with an opportunity to meet with local council officers and more broadly understand their relationship and issues with AusNet Services.

Appendix C2: Stakeholder meetings organised by the Customer Forum

Members of Parliament

Date	MP	Location
23 July 2018	Cindy McLeish MP Member for Eildon	Warburton
23 July 2018	Peter Crisp MP Member for Mildura	Melbourne
23 July 2018	Tim McCurdy MP Member for Ovens	Wangaratta
23 July 2018	Stephanie Ryan MP Member for Euroa	Melbourne
9 August 2018	Russell Northe MP Member for Morwell	Melbourne
9 August 2018	Gary Blackwood MP Member for Narracan	Melbourne
9 August 2018	Danielle Green MP Member for Yan Yean	Melbourne

Local government

Date	Council	Location
18 July 2018	Alpine Shire Council general discussion	Bright
2 August 2018	Bass Coast Shire Council general discussion	Wonthaggi
30 August 2018	Cardinia Shire Council general discussion	Cranbourne
2 August 2018	Latrobe City Council general discussion	Morwell
15 August 2018	Murrindindi Shire Council general discussion	Alexandra
18 September 2018	Wellington Shire Council general discussion	Sale
08 April 2019	Rural City of Wangaratta discussion of council's role in relation to new connections	Wangaratta
09 April 2019	Rural City of Wodonga discussion of council's role in relation to new connections	Wodonga

Peak body consultations

Date	Organisation	Location
2 August 2018	Energy Innovation Co-operative	Leongatha
16 August 2018	Energy Australia	Melbourne
29 August 2018	Eastern Alliance for Greenhouse Action	Melbourne
31 August 2018	Consumer Action Law Centre	Melbourne
31 August 2018	Financial Counselling Australia	Melbourne
5 September 2018	Victorian Employers' Chamber of Commerce and Industry	Melbourne
5 September 2018	Council of Small Business Organisations Australia	By phone
5 September 2018	Business Council of Australia	Melbourne
26 October 2018	Essential Services Commission	Melbourne
18 February 2019	Energy & Water Ombudsman of Victoria	Melbourne
6 March 2019	Energy Safe Victoria	Melbourne
2 April 2019	St Vincent de Paul	Melbourne
23 July 2019	Energy Consumers Australia	Melbourne
15 October 2019	Red Tape Unit – Office of the Commissioner for Better Regulation	Melbourne

Other consultations

Date	Organisation	Location
31 May 2019	AusGrid	Sydney

Appendix C3: Meetings organised by AusNet Services

Date	Organisation	Location
27 March 2018	Workshop with AusNet Services Customer Consultative committee to agree working relationship	Melbourne
13 April 2018	Public Forum with consumer advocates (including representatives from Victorian Council of Social Services, Energy Users Association, Brotherhood of St Laurence), staff from the Victorian Department of Environment, Land, Water and Planning, AER Consumer Challenge Panel members to introduce the Customer Forum, present forward plan and discuss scope of negotiations	Melbourne
17 April 2018	Meeting with Energy and Water Ombudsman of Victoria on key areas of customer complaints	Melbourne
24 August 2018	Meeting with Energy Users' Association of Australia to gain insight into issues affecting large energy users	Melbourne
9 September 2018	Department of Economic Development, Jobs, Transport and Resources	Melbourne
25 September 2018	Workshop with AusNet Services Customer Consultative committee to discuss negotiations	Melbourne
11 October 2018	Workshop with various vulnerable customer advocates from the including Victorian Council of Social Services Utilities Advocacy Group to test negotiating positions	Melbourne
18 October 2018	Workshop with customer advocates including representatives from St Vincent de Paul Society, Public Interest Advocacy Centre and South Australian Council of Social Services to test negotiating positions	Melbourne
19 October 2018	Workshop with Energy Users Association and Major Energy Users to test negotiating positions	Melbourne
29 October 2018	Workshop with Renew, Clean Energy Council of Australia, Eastern Alliance for Greenhouse Action	Melbourne
09 November 2018	AusNet Services "Hackathon" ideas generation session run by Energising Futures and Cognisant	Melbourne
31 July 2019	Phone conference with AusNet Services Adrian Ham and Brent Price and Brendan Gow (electrician) to discuss customer issues associated with the February 2019 Bundoora HVI incident	Teleconference
11 September 2019	Meeting with AusNet Services Customer Consultative committee to seek their input into final negotiations with AusNet Services	Melbourne
19 September 2019	Attendance at AusNet Services Customer Experience Monthly Showcase	Melbourne
15 October 2019	Attendance at AusNet Services Customer Experience Monthly Showcase	Melbourne
15 October 2019	Attendance at vulnerable customer research presentation	Melbourne
11 November 2019	Participation in planned outages customer journey mapping activity	Melbourne
27 November 2019	Attendance at AusNet Services Customer Experience Monthly Showcase	Melbourne

Appendix C4: Other meetings

AusNet Services

Date	Meeting	Location
5 October 2018	Board chair	Melbourne
13 May 2019	Board member	Melbourne
18 January 2019	Board chair	Melbourne
28 May 2019	Board chair	Melbourne
13 September 2019	Board chair	Melbourne
7 November 2019	Board chair	Melbourne
11 September 2019	Customer Consultative Committee	Melbourne
7 November 2019	Board chair	Melbourne
12 December 2019	Customer Consultative Committee	Melbourne

AER

Date	Meeting	Location
Ongoing 2018 and 2019	Fortnightly teleconferences with AER staff	Melbourne
22 May 2018	AER Consumer Challenge Panel (CCP17)	Melbourne
24 July 2018	AER Consumer Challenge Panel (CCP17)	Melbourne
25 September 2018	AER Consumer Challenge Panel (CCP17)	Melbourne
5 October 2018	AER Consumer Challenge Panel (CCP17)	Melbourne/ interstate
13 December 2018	AER Board	Melbourne

Appendix D: Customer research

AusNet Services' initiated customer research

Date	Topic/purpose	Key topics of interest to the Customer Forum
March 2014	Quantitative research , Surveys of 2,000 residential customers and 700 small businesses to gain insight into customer attitudes and behaviours and engage with customers to “preserve long-term value”, and subsequently develop customer segmentation (Deloitte – Nature Research – AusNet Services commissioned research)	<ul style="list-style-type: none"> • Identification of customer segments and differences in needs and expectations between segments
December 2014	Qualitative research , focus groups (n=8) held in Traralgon, Melbourne and Benalla to help AusNet Services ensure their expenditure plans at the time reflected customer views and expectations (Colmar Brunton – AusNet Services commissioned research)	<ul style="list-style-type: none"> • Awareness and expectations of AusNet Services • Importance of reliability, tree pruning and innovation
January 2015	Qualitative research , customer engagement among residents including vulnerable customers, businesses, government, primary producers, environmental groups and alternative energy advocates to understand customer needs to help AusNet Services identify directions and priorities (predominantly AusNet Services internal research)	<ul style="list-style-type: none"> • Energy topics of interest to customers • Customer satisfaction and perceptions of AusNet Services
May 2017	Qualitative research , in-depth interviews (n=10) with Melbourne households screened for higher socioeconomic traits to explore drivers and barriers to uptake of renewable energy, willingness to pay and most appropriate model to encourage renewable energy uptake (Newgate Research – AusNet Services commissioned research)	<ul style="list-style-type: none"> • Barriers and motivators for renewable energy • Interest in battery storage
June 2017	Qualitative research , AusGrid (NSW), qualitative research (phase 1) with the general community and specific groups including SMEs, early adopters and vulnerable customer (14 focus groups) to identify knowledge and perceptions of electricity, and AusGrid, understand customers' needs and expectations and seek reaction to AusGrid's regulatory proposals (Newgate Research)	<ul style="list-style-type: none"> • General background information only
June 2017	Qualitative research , AusGrid (NSW), deliberative forums to identify customers' awareness, needs and expectations of AusGrid, explore attitudes to cost-reflective pricing and tariff reform, changing the fixed vs usage proportions of the network component of their bills and to deliberate on options for managing peaks in network demand (Newgate Research)	<ul style="list-style-type: none"> • General background information only
August 2017	Desk research , Essential Energy (NSW), Customer Consultation and Discussion paper exploring customers' key needs and values, and their reaction to technology to assist with demand management, microgrids, electric vehicles and innovation (Woolcott Research)	<ul style="list-style-type: none"> • General background information only
October 2017	Quantitative research , Essential Energy (NSW) two phase online survey of residential customers (~n=750 per phase), small business operators (n=250 per phase), large customers (11 in-depth interviews per phase) followed by two phases of deliberative forums (n=7 per phase) to gauge customer reaction to Essential Energy's <i>2019-2024 Regulatory Proposal to the AER</i> (Woolcott Research)	<ul style="list-style-type: none"> • General background information only

Date	Topic/purpose	Key topics of interest to the Customer Forum
December 2017	Quantitative research , Energy Consumer Sentiment Survey, national survey of electricity and gas customers to measure satisfaction, consumer confidence about their energy choices and willingness to reduce energy use (external research including n=402 AusNet Services customers) (Essential Research – AusNet Services commissioned research)	<ul style="list-style-type: none"> • Customer satisfaction and perceived value for money • Customer understanding of energy information • Energy appliances in the home including prevalence of roof top solar, battery storage and electric vehicles • Smart meter usage • Disposition to control energy costs/be energy efficient
February 2018	Qualitative research , in-depth interviews (n=20) with diversity of households (including vulnerable customers, owners and renters to Investigate customers' understandings of and experiences with peak demand issues and demand management initiatives (Nicholls – AusNet Services commissioned research)	<ul style="list-style-type: none"> • Understanding motivations and barriers for solar • Demand management • Satisfaction with reliability • Awareness and perceptions of smart meters
February 2018	Qualitative research , in depth interviews with a range of stakeholders including local councils (n = 18), large businesses (n = 12), small to medium businesses (n = 12), customer advocates (n = 14) and community energy groups to understand their unique energy related issues and gather feedback on how they currently engage with the business (AusNet Services internal research)	<ul style="list-style-type: none"> • Affordability • Reliability • Energy efficiency • New technology • Demand management • Access to data
March 2018	Qualitative research , in-depth interviews with energy sharing industry personnel (n=9) and owners corporation managers (n=9) and telephone interview survey (n=1,020 stand-alone home owners and n=503 multi-owned property complex owners), undertaken by Deakin University to empirically investigate the marketing and consumer-behaviour implications of peer to peer (P2P) energy sharing (Deakin University – AusNet Services commissioned research)	<ul style="list-style-type: none"> • Interest in energy sharing
April 2018	Quantitative research , online survey of residential and business customers attitudes and perceptions of AusNet Services (n=900 residents and n=100 small to medium enterprises) (Quantum Research – AusNet Services commissioned research)	<ul style="list-style-type: none"> • Energy appliances in the home including prevalence of roof top solar panels, battery storage and electric vehicles and future interest • Awareness and use of smart meters • Customer satisfaction and perceived value for money • Demand management and interest in going “off the grid” • Disposition to control energy costs/be energy efficient • Interest in notifications when solar panels are not working • Customer communication preferences
April 2018	Qualitative research , case study in-depth interviews with early adopters of solar, energy-vulnerable customers and other customers (n=20) on a range of topics to inform to inform AusNet Services 2021-25 EDPR (RMIT University Centre for Urban Research – AusNet Services commissioned research)	<ul style="list-style-type: none"> • Adoption of solar and battery storage • Energy vulnerability

Date	Topic/purpose	Key topics of interest to the Customer Forum
April 2018	Qualitative research , in-depth interviews with local councils, business customers, advocates and community energy groups (n=45) to understand the electricity related needs of customers from a stakeholder perspective (AusNet Services internal research)	<ul style="list-style-type: none"> • Meaning of affordability • Reliability and impact of outages on different customer segments • Interest in solar and renewable technology • Demand management • Value of smart meter data
April 2018 ongoing quarterly survey	Quantitative research , quarterly customer satisfaction benchmarking samples of customers who had contact or otherwise interacted with AusNet Services about planned and unplanned outages, new connections and/or made a general complaint (n=50) (Customer Satisfaction Benchmarking Australia – AusNet Services commissioned research)	<ul style="list-style-type: none"> • Perceptions of contact with AusNet Services call centre • Perceptions of AusNet Services processes associated with new supply interruptions, new connections and complaints management • Customer satisfaction with reliability of electricity supply
June 2018	Qualitative research , focus groups (10 groups – 81 customers) held in Lilydale, Phillip Island, Sale, Benalla and Bright with mostly residential customers to gain insight into customers’ perceptions of AusNet Services, value for money and performance; and explore customer interest and issues associated with solar connections, demand response and customer communications (Newgate Research – AusNet Services commissioned research)	<ul style="list-style-type: none"> • Meaning and perceptions of reliability • Affordability of services • Interest in and value of solar power • Interest in electric vehicles • Customer expectations around AusNet Services investment in innovation
September 2019	Qualitative research , 4 focus groups (2 face-to face groups held in Berwick one with customers aged 25-54 and one with those ages 55+; 2 online groups with customers across AusNet Services region one residential customer group and one business customer group) to understand likely uptake of distributed energy resources, support for innovation expenditure, demand management, and who should pay for network augmentation	<ul style="list-style-type: none"> • Acceptance of current reliability of electricity supply • Expectations around renewable energy • Awareness of limitations on the grid around two-way flows and solar exports • Support for increasing solar export capacity • Support for innovation projects

Customer Forum initiated research

Date	Topic/purpose	Key topics of interest to the Customer Forum
August 2018	Quantitative research , business customer telephone interview survey (n=300) to provide insight into business customers’ needs, expectations and issues (On behalf of the Customer Forum, AusNet Services commissioned Field Works to undertake the data collection)	<ul style="list-style-type: none"> • Meaning of reliability to business customers • Impacts of outages on business customers • Preferences for engagement with AusNet Services
September 2018	Quantitative research , Clyde North and Doreen customer telephone interview survey (n=300) to provide insight into customer expectations of reliability and preferences associated with AusNet Services augmentation proposals (On behalf of the Customer Forum, AusNet Services commissioned Field Works to undertake the data collection)	<ul style="list-style-type: none"> • Growth corridor customers’ perceptions and expectations of reliability, and future demand management
March 2019	Quantitative research , Major replacement projects, telephone interview survey of 506 customers residing in locations where AusNet Services was proposing replacement of zone substations due to ageing infrastructure affecting reliability. The survey was conducted to establish customer tolerance to unplanned outages and their willingness to pay for replacement infrastructure (On behalf of the Customer Forum, AusNet Services commissioned Field Works to undertake the data collection)	<ul style="list-style-type: none"> • Experience of planned and unplanned outages • Acceptance of current outage frequency and impact of outages • Perceptions of affordability of electricity • Importance of maintaining reliability • Attitudes to replacement of infrastructure and willing
July 2019	Quantitative research , Healesville and Bundoora customer telephone interview survey to evaluate experience with AusNet Service among Healesville customers affected by a high voltage event in June 2018 and Bundoora customers affected by a similar event in February 2019 (n=20 of 27 affected Healesville customers and 20 of 67 affected Bundoora customers) (On behalf of the Customer Forum, AusNet Services commissioned Field Works to undertake the data collection)	<ul style="list-style-type: none"> • Assessment of the impact of major high voltage events on customers and AusNet Services response
October 2019	Quantitative research , “Who Should Pay” telephone interview survey of 200 residential customers and 100 business customers across AusNet Services distribution network to establish who should pay for distribution network upgrades to cater for growth in rooftop solar connections, customer support for AusNet Services to manage demand for electricity on the hottest days and gather broader feedback on customer satisfaction with AusNet Services than is otherwise available through AusNet Services customer satisfaction program	<ul style="list-style-type: none"> • Customer willingness to share the cost of upgrading the network to allow more solar customers to connect • Customer support for demand response enabled devices and other initiatives to aid in demand management • Broad measure of customer satisfaction

Appendix E: Case studies

E1: Outages mean different things to different customers

In 2018 the Customer Forum heard that a community of Gippsland dairy farmers was unhappy about supply reliability. Enquiries made of AusNet Services confirmed only one major outage during the past year, but 17 “momentary” outages.

Momentary outages impact dairy farmers differently from residential customers. A momentary outage during their twice-daily automated milking routine causes the milking cups to immediately drop from the cows. This startles the animals, which can cause farm staff to be injured. Further, the cups need to be re-sterilised and refitted to the cows. The Customer Forum was advised the sudden interruption to milking, if repeated several times, can reduce the cow’s productivity for the rest of the milking season.

Outages impact different customers in different ways, some longer outages causing substantial loss of product for dairy processors. The Customer Forum encouraged AusNet Services to better understand the specific needs of customers such as dairy farmers and notes that a number of measures have been enacted in 2019:

- AusNet Services has recruited a dairy farmer to its Customer Consultative Committee.
- AusNet Services has employed a Customer Relations Manager who will be engaging with regional businesses including dairy manufacturers.
- AusNet Services has agreed to meetings with regional customers each year.
- AusNet Services is undertaking a review to ensure that large business customers are on the cheapest network tariff for their usage.
- seven zone substation upgrades, spread across metropolitan and regional Victoria, will be undertaken as part of the repex negotiation.
- AusNet Services’ adoption of CSAT measures as an internal performance metric should help ensure that customer dissatisfaction with supply feeds back more directly into the day to day activity of the business.

E2: Timber Town

Australian Sustainable Hardwood Pty Ltd (ASH) is located in Heyfield, a town with a long association with the timber industry. In the 1990s the timber industry accounted for a quarter of the town’s employment, growing to more than 50% by 2012. While available sawlog volumes have decreased, ASH has invested heavily in manufacturing and is the largest manufacturer of finished timber components in Australia. ASH must remain globally competitive as market competition is from imported products. For example, ASH is the only domestic manufacturer supplying Bunnings with finished manufactured components such as benchtops¹⁹⁴.

The dependence of a town or region on a single business invites a reconsideration of the role of a distributor in providing a reliable electricity supply. It suggests that the standard regulatory tool for valuing that supply, the Value of Customer Reliability (VCR), fails to recognise the security that business continuity delivers to a large number of households. Equally, it demonstrates the business/residential customer division does not always hold true.

Heyfield residential customers who work at or depend on the mill for their financial security may well empathise more with the mill operator’s concerns about the cost and reliability of supply than their own.

¹⁹⁴ For a two-minute video see <https://vimeo.com/276153270>

Finally, a distributor should be alert to a large business customer in a small town and needs to be proactive in ensuring all supply issues are attended to at the earliest opportunity. The mill owner pointed out this had not happened in recent years.

Since raising the concerns of ASH management with AusNet Services a number of actions have been taken:

- AusNet Services' Managing Director and Executive General Manager Regulated Businesses visited ASH to hear first-hand the concerns of management.
- AusNet Services has employed two Relationship Managers who will be engaging regularly with regional businesses.
- AusNet Services arranged for maintenance of one of the on-site transformer enclosures and has clarified where responsibility lies for this task in future.
- Maffra Zone Substation, which services ASH, is to be upgraded as a result of the Customer Forum negotiation. The upgrade will address a unique supply vulnerability, namely the substation's three transformers being switched as a single group. Currently, any fault on the 66kV transformer bus or any of the transformers results in all customers losing supply.
- AusNet Services is undertaking a review to ensure that large business customers are on the cheapest network tariff for their usage.
- AusNet Services has agreed to include in its asset replacement reports details of the customer base including major business customers served by specific infrastructure. This will ensure that large consumption customers like ASH are recognised in asset planning documentation prepared by AusNet Services.
- The AER review of its Value of Customer Reliability (VCR) tool noted the Customer Forum's concern about the overlap of residential and non-residential VCR values overlap and is preparing a report which will show a much wider range of VCRs which better reflect the views of regional and rural customers.

E3: Customer compensation process for unplanned outages

After a high voltage injection caused the failure of the local supply transformer at 9.30 am on 30 June 2018, many Healesville residents were left without power. Around sixty homes experienced a power surge which resulted in appliances being damaged. Some residents told Customer Forum members AusNet Services did not contact them until 5.00 pm.

Customer service during the incident

One woman concerned about the noise and sparks coming from the transformer rang her local electrician. After testing the household supply, he warned her there were 390 volts coming from the transformer and therefore 400 volts going through their house. She rang the call centre but was told,

“There's nothing wrong at your house, I'm looking at your profile now and it shows me there is nothing going on there.”

Another resident returned home after 8.00 pm, oblivious there was anything wrong. When he found the power was not on, he went to his fuse box where he found the fuse removed. After realising neighbours were also without power, he rang the AusNet Services Contact Centre to enquire why the fuse had been removed and what he should do next. He was told,

“You must have removed the fuse; our men wouldn't do that!”

Customer service during the claims process

Customers suffering household appliance damage from power surges are entitled to compensation but in this case the company's response, although compliant with the regulatory guidelines, was inadequate.

For some affected customers the claims procedure dragged on for months. Beyond their anger over the incident and compensation issues, customers felt further insulted by the responses they received from the AusNet Services call centre, variously described as condescending, arrogant, flippant, rude and dismissive.

Customers' attempts to claim compensation were at times torturous. Electricity services regulations determine there is no replacement of like with like after an "event". Residents reported their appliances were working smoothly on 29 June 2018, with some older customers advising AusNet Services they had bought quality items on retirement "to last for the rest of my life". However, on 30 June 2018, following the fault that caused the damage, customers were aghast to discover they were not entitled to the replacement value of their appliances and would therefore be expected to finance the difference between the amount of compensation AusNet Services would pay and the replacement cost.

Several customers reported that they and others they knew did not have any heating for weeks during July and early August, while they arranged for technicians to verify their items were irreparable, then obtained a quote for replacement heaters and other affected items. Further, they were furious at having to produce original receipts, even for small appliances such as a kettle, to "prove" the original cost of the item and the date of purchase.

Where customers had their own home insurance policies, AusNet Services could not provide a clear reason for the outage over the days that followed, so no insurance company was willing to compensate these customers for their losses. This prolonged their agony.

Some customers, whose claims were processed, felt bullied to accept AusNet Services' compensation offer. These customers felt pressured to unconditionally accept as full and final settlement by signing a declaration there would be no more claims or reject the offer outright. Elderly residents in particular found this process threatening but, since they were cold and anxious, felt they had no choice but to accept what little compensation they were offered.

"We had to have a heater and couldn't afford to replace it with our original quality item as we are now on a pension. Of course, the cheaper heater uses more electricity, so our bill was enormous."

After accepting compensation, some customers subsequently found appliances were breaking down several weeks after the event. Many thought there was nothing they could do as they had waived rights to further compensation by accepting the initial offer.

Regardless, through no fault of their own, these Healesville customers were rendered significantly financially out of pocket:

"I've borrowed money from my father."

Ironically, some unusual claims were expedited, such as a vet bill for a frill necked lizard that caught a cold because the heat lamp in its enclosure failed. In contrast a family of four was left without heating for weeks. Typically, these customers were told they would have to wait 10 working days to receive compensation after AusNet Services received their claim.

Ultimately, they failed to see any justification for AusNet to increase its charges:

“I would strongly resist seeing AusNet apply for price increases in electricity provision by their company as I feel they do not provide the service to customers which we are currently paying for.”

After raising the HVI incident and the ensuing Healesville customer dissatisfaction, AusNet Services responded in a number of ways, including:

- Senior AusNet Services managers met with affected Healesville residents.
- AusNet Services reviewed its claims procedure which now allows electricians attending HVI events to provide immediate assistance, including the provision of vouchers if required. Impacted customers are now provided with the name and phone number of an AusNet Services staff member.
- To receive the maximum financial reward under the proposed Customer Satisfaction Incentive Scheme (CSIS) AusNet Services will need to improve its customer complaints performance.
- AusNet Services call centre staff are being provided with empathy training and this will continue on a regular basis. Senior managers are now required to spend time listening to calls from customers twice a year.
- The customer experience roadmap program within AusNet Services is actively examining customers’ experiences related to claims for compensation to gain further insights into how the response can be further improved.
- AusNet Services has agreed to the Customer Forum’s request that it self-fund GSL payments for controllable contingencies such as missed appointments and connections failing to be done by the advised date.

The way AusNet Services manages claims arising out of HVI incidents will be examined as part of the annual CIMR.

Appendix F: AusNet Services proposed customer experience actions

Action	Description	Timing
Establishing clear accountability for customer outcomes; listening to customers	<p>Implement a major restructure that will:</p> <ul style="list-style-type: none"> Bring together our field services staff responsible for customer-facing interactions (e.g. New connections, planned outages) with our customer contact centre Create a centralised, senior point of accountability within the company for customer experience outcomes, supported by considerable resources Involve regular meetings between senior management and regional customers Include three dedicated staff to manage relationships with our largest business customers, community renewable groups, and large generators seeking to connect to our network 	Effective from December 2018
Aligning our incentives with customer outcomes	<p>Link employee performance and bonus outcomes* with customer satisfaction outcomes across new connections, planned and unplanned outages and complaints.</p> <p>* Subject to Board approval</p>	Effective from April 2019
Building our understanding of our customers' needs and expectations	<p>Commence an ongoing research program, including annual surveys and targeted research, to ensure we have a continuous insight into our customers' needs and expectations, and ensure the insights derived the research are utilised by the business to deliver ongoing customer experience improvements.</p> <p>In designing the research program, ensure a balanced focus is given to conducting research that will improve our understanding of the differing needs of urban and rural customers, and residential and business customers.</p>	Effective from 2019
Fixing customer pain points and improving the customer experience	<p>Work with customers to identify and implement operational and communication changes that address customer 'pain points' associated with solar connections, new connections and outages and result in tangible improvements to customer experience. Ensure these improvements are communicated clearly to our customers.</p>	Being delivered from 2018-2020
Collaborating with the community	<p>Work closely with customer representatives to:</p> <ul style="list-style-type: none"> Identify and prioritise ways we can improve customer experience, including through better use of smart meter data Improve our understanding of vulnerable customer needs Help equip community service organisations to assist vulnerable customers 	Effective from 2019
Making our organisation easier to deal with	<p>Ensure our customer contact centre staff are selected, trained and monitored to ensure they provide empathetic customer service to all customers, and proactively identify and assist hardship customers.</p>	Effective from November 2018
Taking care of our most vulnerable customers	<p>Implement changes to:</p> <ul style="list-style-type: none"> Improve restoration times for life support customers, using smart meter data Provide better communications to life support customers in advance of planned outages (e.g. SMS, social media, and community messaging channels) Proactively engage with customer representatives regarding the best approach to advocating for the needs of life support customers, including the potential establishment of a peak advocacy body 	Effective from December 2018
Making our claims process easier for all customers	<ul style="list-style-type: none"> Significantly reduce claim assessment timeframes and customer discomfort by partnering with contractors that can assist customers on- 	Effective from October 2018

	<p>site with emergency repairs and provide a report to support their compensation claim</p> <ul style="list-style-type: none"> • Provide a voucher for financially vulnerable customers to allow them to purchase a temporary replacement appliance (e.g. a small heater) • Be available for 24/7 phone assistance to help customers complete their claim form • Provide more flexible and timely compensation amounts by paying the higher of market value or second-hand item, rounding up to the nearest \$100 and transferring funds via EFT instead of cheque 	
<p>Holding ourselves to account</p>	<p>Publish an annual Customer Interaction Report. This report will track the progress of the initiatives identified above, present results under the Customer Satisfaction Incentive Scheme, and include other measures that are important for our customers.</p>	<p>Effective from December 2019.</p>