

20 May 2020
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Via email: sebastian.roberts@accc.gov.au
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Dear Sebastian

Re: Extension of Submission Date for AusNet Services' Transmission Revenue Proposal

Due to the unprecedented impacts of COVID-19, AusNet Services is seeking the AER's agreement to extend the date for submission of its Revenue Proposal for the regulatory period commencing 1 April 2022 by three months, from 31 October 2020 to 31 January 2021.

The ability of AusNet Services to submit a high-quality Revenue Proposal informed by the views of our customers to the AER on 31 October is adversely impacted by the pandemic, for two main reasons:

- The disruption caused by the lockdown measures and likely subsequent economic slowdown will impact AusNet Services' short- and medium-term transmission investment plans, but the impact will not be known or forecast with sufficient certainty for inclusion in a Revenue Proposal by 31 October 2020.
- Due to the time it will take to understand the impact of COVID-19 and incorporate in our plans, the current timeline precludes us from undertaking customer engagement on significant parts of our Revenue Proposal (including network capex) prior to submission.

In contrast, an extension would allow the assessment and incorporation into the Final Proposal of important additional information on the effects of COVID-19 including policy announcement from the Federal Budget and updated demand forecasts.

In the absence of an extension being granted, the Revenue Proposal submitted to the AER on 31 October 2020 will include a range of caveats on significant parts of its content, including network capex. The result would be a Proposal that did not reflect the best forecast of the future. Therefore, material changes would likely be made between the Revenue Proposal and the Revised Revenue Proposal, which would create more work for the AER, stakeholders and AusNet Services.

In light of these unique circumstances, which are impacting our transmission plans and our ability to consult effectively on them, an extension to our submission lodgement would deliver important benefits relative to the status quo.

Several members of our Transmission Customer Advisory Panel (CAP), including two of our three direct connect customers, several consumer advocates and one distributor, have expressed support for the extension as an appropriate response to the current circumstances. The remaining members did not provide views.

We are also grateful to the members of CCP23, who provided valuable insights and guidance on this issue, and would welcome further discussions with this group.

In supporting the proposed extension, Energy Consumers Australia (ECA) sought a commitment that we would:

- Assist the AER with completing its review during the more compressed timeframes by sharing key data and information underpinning our plans prior to lodgement; and
- Seek to minimise changes to non-expenditure related building blocks between our Draft and Final Revenue Proposals.

AusNet Services is comfortable making these commitments. In respect of the first, we are happy to share key data supporting our plans as part of pre-lodgement engagement with the AER, such as repex modelling data. This has been our practice for the Electricity Distribution Price Review, where we undertook extensive pre-lodgement engagement with the AER and stakeholders.

Regarding the second commitment sought by the ECA, our request for an extension reflects our preference to publish a set of draft plans that require minimal change, outside of customer and stakeholder feedback or changes to obligations, prior to their formal lodgement with the AER.

We recognise this provides customers and stakeholders with certainty and enhances the effectiveness of the early engagement processes. Where changes to our draft plans are made, we will be transparent with stakeholders about these changes and the reasons they are required. In this way, our intended engagement approach is consistent with the ECA's preferences.

The COVID-19 Pandemic Has Created Exceptional Circumstances

COVID-19 has been unprecedented in its impacts on the economy, triggering a significant response effort from governments and many sectors of the economy, to help mitigate its effects. The Victorian Government declared a State of Emergency from Monday 16 March until Monday 11 May 2020. This granted government officials extraordinary powers to take actions to assist combat the spread of COVID-19, and under these powers a series of strict lockdown measures were put in place for this period.

The restriction of movement has effectively shut down several sectors of the economy, and it is unclear when, and to what degree, they will open up again. The impact on longer term electricity usage in Victoria will not be known for some time.

Networks have responded to COVID-19 by prioritising the needs of their customers. AusNet Services has signed up to the energy network sector's energy relief package, which is supporting affected households and businesses through these challenging times. Further information can be found on this package [here](#). AusNet Services has also made significant changes to its electricity distribution planned outage program, to minimise disruption to our customers during this time. Further information on these measures can be found [here](#).

The significance of the pandemic's impacts on the energy sector is also highlighted by the AER's unprecedented step to propose a Rule change to introduce re-opener provisions specifically for COVID-19, which would seek to address its impacts on current regulatory determinations. The AER has also deferred some of its own regulatory processes due to the COVID-19 pandemic, including reviews of the transmission and distribution ring fencing guideline and profitability reporting RIN. This underscores the extraordinary nature of the pandemic and the need for flexibility in existing processes and frameworks.

We acknowledge that uncertainty is an unavoidable part of the regulatory process and that some change between a Draft and final Revenue Proposal is inevitable. We also recognise that the Revised Revenue Proposal is a mechanism by which new information coming to light during the regulatory process can be addressed (noting that it is generally preferable to avoid this where possible, owing to the shorter timeframes within which the Revised Revenue Proposal must be prepared and assessed). Nonetheless, COVID-19 has created a substantial level of economic uncertainty, causing significant disruption to our business planning processes. The proposed extension is an appropriate response to these circumstances, which will help manage uncertainty and provide stakeholders with greater confidence in our plans.

More Time is Required to Understand COVID-19 Impacts and Address These in our Regulatory Proposal

An extension is required so the Revenue Proposal can have regard to AEMO's late 2020 energy and demand forecasts, which are expected to account for the economic impacts of COVID and the longer-term changes to population growth. Demand forecasts are a key input into our transmission capital program and influence the economic timing of major station replacement projects, which account for almost half of our preliminary capex forecast. In the absence of an extension, the Revenue Proposal would reflect forecasts released by AEMO in late 2019, before the onset of COVID-19.

With a 31 January 2021 submission date, new information on several other key inputs can also be incorporated in our Revenue Proposal, such as more recent placeholders for market based WACC and inflation parameters, which are also expected to be impacted by COVID. **Attachment A** identifies the updated information that could be reflected in our plans with an extension.

We note that following the South Australia system black event on 28 September 2016, the AER granted an eight-week extension to ElectraNet for submission of its Revenue Proposal for the 2018-23 regulatory period. In granting the extension, the AER recognised the material impact the system black event would have on ElectraNet's forecast expenditures. COVID-19 has created a similarly unique set of circumstances for AusNet Services' transmission reset, including material impacts on our expenditures. As discussed below, the extension is also crucial to ensuring an effective early engagement process, building on the engagement undertaken so far with our CAP.

More Time is Required to Undertake Robust Customer Engagement

An extension would provide the time needed to deliver an effective customer engagement program, given the deferral of key elements of our engagement program in response to the pandemic, and enhance our ability to develop a Revenue Proposal with customer input.

Critically, an extension would allow us to publish a Draft Revenue Proposal in approximately 4-5 months' time (e.g. September) that reflects a more advanced understanding of the pandemic's implications for our plans than is possible at present. Under current review timeframes, we do not expect to be able to publish a Draft Proposal which, while not required by the NER, is a crucial engagement mechanism that has added a lot of value to recent engagement processes we have conducted, including for our electricity distribution price review.

As updated demand forecasts are expected to be available in September, we would be unable to consider these forecasts until after a Draft Proposal is published. However, we would consult on capital expenditure forecasts that have regard to the updated forecasts through a Deep Dive workshop in October or November, prior to lodgement of the Revenue Proposal in January 2021. The materials for all Deep Dives would be made available on our website.

Without an extension, there may be a need for additional or extended engagement opportunities during the formal review process post submission, to ensure stakeholders are provided with sufficient opportunity to see and respond to the pandemic's impacts on our plans, as these impacts become apparent. For example, building in a stage between the Revenue Proposal and the AER's Draft Decision, which allows AusNet Services to amend parts of its Revenue Proposal, including network capex, and seek views on these amendments, would likely be a useful stage during the formal review process. We would be happy to discuss with the AER how this could be accommodated.

We understand that our transmission review is the first process where the planned customer engagement activities are impacted by the lockdowns. Businesses with submissions due in mid-2020 completed the bulk of their engagement prior to the lockdown measures being put in place.

While we have found new ways to engage with our stakeholders during the lockdown period, a three-month delay will allow us to engage in greater depth on more settled parts of our plans, as explained in **Attachment 1**, which sets out the customer engagement program we will deliver with an extension.

Consideration of the Impacts on the AER and its Assessment Process

Under the current timeframes, after we submit our Revenue Proposal, the AER has 15 months to carry out its assessment and make its Draft and Final Decisions.

We are conscious that deferral of our submission would reduce the time the AER has available to conduct the review. While a longer deferral would enable the short and medium term economic impacts of COVID 19 to be better understood, we consider that an extension of three months strikes a balance between minimising the impacts on the AER's review process and having sufficient time to ensure an effective engagement process.

Furthermore, the publication of a robust Draft Revenue Proposal prior to lodging our final Revenue Proposal will allow the AER to begin its assessment of our plans. We are happy to share key data supporting our plans as part of pre-lodgement engagement with the AER, such as repex modelling data, as we have done for the Electricity Distribution Price Review. Again, this will allow the AER to commence its assessment of key parts of our submission prior to lodgement of the final Revenue Proposal. We would welcome further discussions with the AER about this approach.

We note that the assessment process was previously 11 months in length but in 2013 was extended by four months to enable more time for stakeholder engagement during the formal review period. However, as we found in our distribution process, the 15-month timeline to facilitate more stakeholder engagement is less warranted if more quality engagement is undertaken upfront. We anticipate that by spending an extra three months refining and consulting on our transmission plans, the need for extensive customer engagement during the formal review process will be reduced.

In 2017, the AER granted the NSW electricity distributors a three-month extension for submission of their proposals for the 2019-24 regulatory period. These extensions were sought by the networks primarily to undertake enhanced customer consultation prior to lodgement of their Revenue Proposals. In approving Endeavour Energy's request, the AER recognised the support it had received from key stakeholders and that the delay would:¹

¹ AER, Letter from Mark McLeish to Andrew Schille, 15 December 2017

“...enable Endeavour Energy to undertake more extensive customer and stakeholder engagement, especially in relation to its proposed capex program, to formulate a better informed regulatory proposal for the benefit of consumers.”

The AER also considered that Endeavour Energy's proposal could be assessed within the shorter timeframe, consistent with an open, transparent and consultative process. We consider that these conclusions equally apply to AusNet Services' transmission review, given the circumstances.

While the current submission deadline of 31 October 2020 is stipulated by NER 6A.10.1, the proposed extension could be given effect to via written agreement from the AER approving a submission date of 31 January 2021. This has been the approach taken by the AER when previous extensions have been granted in similarly exceptional circumstances, as described in this letter.

As the resolution of this matter is vital to the delivery of an effective customer engagement program and the development of a high-quality Revenue Proposal, we would appreciate the AER's decision by **17 June**.

Should you wish to discuss this matter further, please contact [REDACTED], Principal Economist, on [REDACTED]

Sincerely,

[REDACTED]

[REDACTED]
General Manager Regulation and Network Strategy
AusNet Services

Attachment A: Benefits of Three-Month Extension for Submission of AusNet Services' Transmission Revenue Proposal

A More Effective Customer Engagement Program

In light of the unprecedented and widespread impacts of COVID, which began to escalate in Australia in March, AusNet Services deferred several key elements of its customer engagement program. The key activities deferred include:

- **Publication of a Draft Revenue Proposal.** Originally planned for release by 30 April, in late March the decision was made to postpone the release of the Draft Proposal until the implications of COVID both for our business, including our capital program, and for our customers' circumstances, are better understood. This decision also reflected our understanding that, due to the pandemic, customers and consumer advocates would, appropriately, have more immediate priorities to address in the short term.
- **Customer Advisory Panel meeting #4.** Originally scheduled for 21 April, the fourth CAP meeting was intended to focus on discussion of our draft plans, building on the preliminary forecasts presented at CAP#3. CAP members were to have been provided an advance copy of the Draft Revenue Proposal on an embargoed basis. Reflecting the decision to delay release of the Draft Proposal, this meeting was postponed.
- **Deep Dives.** A series of Deep Dive workshops were planned for June and July to explore key aspects of our draft plans, particularly areas where increased expenditure is being forecast, with sufficient time for the Deep Dive outcomes to be incorporated in the final Revenue Proposal. Invitees were to include CAP members, Customer Consultative Committee members, Consumer Challenge Panel 23 members, consumer advocates (tailored to the topic in question), AER staff, AEMO staff and the Victorian Government. The following topics would be covered:
 - **The role of transmission** in balancing affordability with maintaining system security and reliability and helping to achieve a lower carbon future
 - **Network capex.** Major stations replacement projects, tower and conductor replacement programs
 - **Operating expenditure.** Step changes and expenditure to manage growth assets
 - **Technology capex.** Transmission-specific and cyber security ICT programs
 - **Innovation.** Potential projects to be funded by the Demand Management Innovation Allowance being developed by the AER
 - **Revenue and price path.** Total forecast revenue and price path.

The deferral of the activities and milestones outlined above has significantly impacted the critical customer engagement program intended for the six-month period leading up to submission of the Revenue Proposal. In particular, the postponement of the Draft Proposal as a result of COVID-19 has made the important task of developing a Revenue Proposal with customer input more challenging. By providing stakeholders with a well-developed and accessible position for engagement on prior to the start of the formal AER process, the Draft Proposal is a crucial part of our engagement toolkit.

Given the relatively short time remaining before our Revenue Proposal is required to be lodged and the significant uncertainty arising from COVID, which is expected to persist for some time, we do not expect to be able to publish a robust Draft Proposal under the current review timeframes. We would instead rely solely on other engagement methods to understand and incorporate customer views in our plans, including Deep Dives and CAP meetings (likely to be held virtually), as well as one-on-one meetings with customers and stakeholders. While these methods are not without benefit, we consider they are more effective when complemented with and informed by a robust Draft Proposal.

In contrast, a three-month extension would allow publication of a Draft Proposal to be deferred until later in the year (e.g. September), providing valuable time to work through and reflect the implications of COVID-19 in our draft plans, before undertaking a program of consultation involving the activities described above. Importantly, with an extension, the capital expenditure forecasts we consult on will reflect the most recently available demand forecasts (expected in September 2020). This is particularly important given the pandemic's potential impacts on future energy and demand patterns, which will in turn influence our forecast expenditures. Due to their timing later in the year, these consultation sessions would also be held face-to-face, which in our experience is more effective than virtual engagement.

As a “no regrets” step, and to avoid an overly back-ended engagement program that would place strain on resourcing for AusNet Services, CAP members and Deep Dive attendees, we intend to commence engagement shortly on the elements of our plans that are less likely to be impacted by the effects of the pandemic (e.g. operating expenditure, innovation). If an extension is granted, the remaining topics, including capital expenditure, would be consulted on after the release of the Draft Proposal. This is reflected in the engagement plan shown in Table 1 on the following page.

Overall, an extension mitigates the risk of material changes being needed between the various phases of the proposed engagement program, being the Draft Proposal, Deep Dives, CAP meetings and final Revenue Proposals. This provides more certainty to customers/stakeholders throughout the review process and promotes a “no surprises” Revenue Proposal. A robust Draft Proposal, with less likelihood of material change, will also provide a useful starting point for the AER's assessment.

The table below sets out our proposed customer engagement plan, assuming a submission date of 31 January 2021. The plan demonstrates how the additional time would be used to deliver an effective engagement process, in particular by allowing us to:

- Publish a robust Draft Proposal in September, with sufficient time for consultation before lodgement of the Revenue Proposal; and
- At Deep Dive #4, present a capex forecast that reflects updated demand forecasts taking account of COVID-19 effects (subject to AEMO releasing these forecasts in September).

Table 1: Proposed customer engagement plan with 3-month extension

	Deep Dives	Customer Advisory Panel meetings	Other engagement activities / milestones
May 2020		CAP#4 – To update CAP on process and seek feedback on proposed engagement plan	
June 2020	Deep Dive #1 – Role of transmission, possible implications of COVID-19 for our plans and operating expenditure ¹		
July 2020	Deep Dive #2 – Innovation ²		
August 2020		CAP#5 – To agree how insights from Deep Dives #1 and #2 should be reflected in our draft plans	Annual customer satisfaction survey – Interviews with direct connect customers, DNSPs, AEMO and generators to gauge satisfaction and identify any concerns. Covers perceptions of affordability, reliability and customer experience
September 2020			Publish Draft Proposal – Reflecting more informed view of COVID impacts and insights from Deep Dives #1 and #2
October 2020	Deep Dive #3 – Overview of Draft Proposal, technology capex ³		One-on-one meetings - to seek feedback on Draft Proposal from key stakeholders and discuss any key issues, concerns or topics not covered at Deep Dives
November 2020	Deep Dive #4 – Network capex* and price path ⁴ * Reflecting updated demand forecast, expected to be released by AEMO in September	CAP#6 – To agree how insights from Deep Dives #3 and #4 should be reflected in our Revenue Proposal	
December 2020		CAP#7 – To recap insights from engagement program and provide overview of Revenue Proposal positions	
January 2021			Submit Revenue Proposal to AER - Reflecting updated demand forecast and updated data for several other key inputs (discussed further on next page)
February 2021			Customer Consultative Committee – Present Revenue Proposal to AusNet Services' CCC

- Deep Dive #1** will focus on (1) the important role transmission is playing in balancing affordability with maintaining system security and reliability and helping to achieve a lower carbon future, (2) areas of our plans that may be impacted by COVID-19, and (3) proposed opex for step changes and to manage growth assets.
- Deep Dive #2** will focus on potential innovation projects, including those that could be funded by the Demand Management Innovation Allowance being developed by the AER.
- Deep Dive #3** will focus on (1) an overview of our draft plans, and (2) transmission-specific and cyber-security technology projects. The majority of the transmission technology program overlaps with our electricity distribution technology program, which was submitted to the AER on 31 January and, therefore, will not be covered at this session.
- Deep Dive #4** will focus on (1) major stations replacement projects, which account for around half of the capex forecast, and tower and conductor programs, for which higher expenditure is being forecast, and (2) total forecast revenue and proposed price path. Importantly, the capital expenditure programs and projects presented at this session would reflect updated demand forecasts that account for the impacts of COVID-19, provided these are released by AEMO in September 2020.

Ability to Reflect the Most Current and Best Available Information in our Final Revenue Proposal

As explained previously, an extension would allow updated demand forecasts to be considered in our Revenue Proposal. These forecasts are a key input to the transmission capital program, and other aspects of our proposal. In addition to this, however, there are several other important inputs to our plans for which updated information would be available with a submission date of 31 January 2021. While not the primary reason that an extension is sought, the ability to reflect up to date data for these inputs in our plans is a further benefit of an extension. These inputs include:

- **The AER's 2020 TNSP benchmarking report** (expected November 2020), which provides valuable insights into industry-wide productivity trends and will inform the productivity forecast applied in our Revenue Proposal
- **The RBA's November 2020 Statement of Monetary Policy**, which will provide an inflation forecast that best reflects the economic circumstances going into the next period. We note that on 30 April, the AER announced it would delay releasing final decisions for several businesses by approximately one month, to be able to reflect the RBA's May 2020 Statement of Monetary Policy in the decisions
- **September quarter Wage Price Index data** (expected November 2020), which is a key input into the labour cost forecasts that underpin our expenditure forecasts
- **More representative placeholders for market based WACC parameters**, given current intervention by the RBA is distorting the market, which may continue for some time.

While the above data would ordinarily become available during the review process, being able to reflect it in our Revenue Proposal will result in a more accurate and complete submission being lodged, providing greater certainty to stakeholders and requiring fewer changes later in the process. This may also assist the AER with conducting its assessment during the shorter timeframes required by an extension.