

DELIVERING BETTER OUTCOMES FOR CUSTOMERS

Overview of our Electricity Distribution Regulatory Proposal 2022–2026





Managing Director's foreword

This document provides an overview of our proposal to deliver electricity distribution (poles and wires) services to our customers over the five financial years from 1 July 2021 to 30 June 2026.

We have closely involved customers in developing these plans by:

- > Listening to and consulting with our customers on their views throughout the process;
- > Issuing a draft proposal that customers and wider stakeholders could review and respond to; and
- > Negotiating elements of our plans with a Customer Forum capable of representing the perspectives of our customers. We are the first Australian utility to do this.

The proposal responds to our customers' desire for affordable services, continuing reliable and safe electricity supply, improvements in how they experience our services and support for customers' use of solar and other technologies.

Supporting the provision of affordable services, revenue per customer is expected to fall by \$110 or 12% from December 2020 to July 2021, and then will only increase in line with inflation over the following five years to 30 June 2026. In addition, residential and small business customers would pay \$30 less on average for their annual metering bill.

Our customers have made it clear to us and to the Customer Forum that they are seeking improvements to the way they experience our services. We have reached agreement with the Customer Forum on how to respond through

practical actions such as improving communications and making the delivery of our services more customer-friendly (such as better supporting customers when the power goes off). We are using our technology, including advanced meters, to deliver service improvements at minimal cost to our customers.

Finally, our proposal reflects the fact that the energy sector is going through an unprecedented transition. A growing number of our household and business customers are installing solar panels and exporting electricity onto our network. Our network must adapt to unlock the benefits of these changes. Allowing excess solar to be shared via the network benefits all customers by reducing energy costs and pollution.

I would like to thank the Customer Forum for their significant commitment and contribution to this proposal. I would also like to thank the many customers and other stakeholders who have given their time and valuable insights through our many customer research and engagement processes.

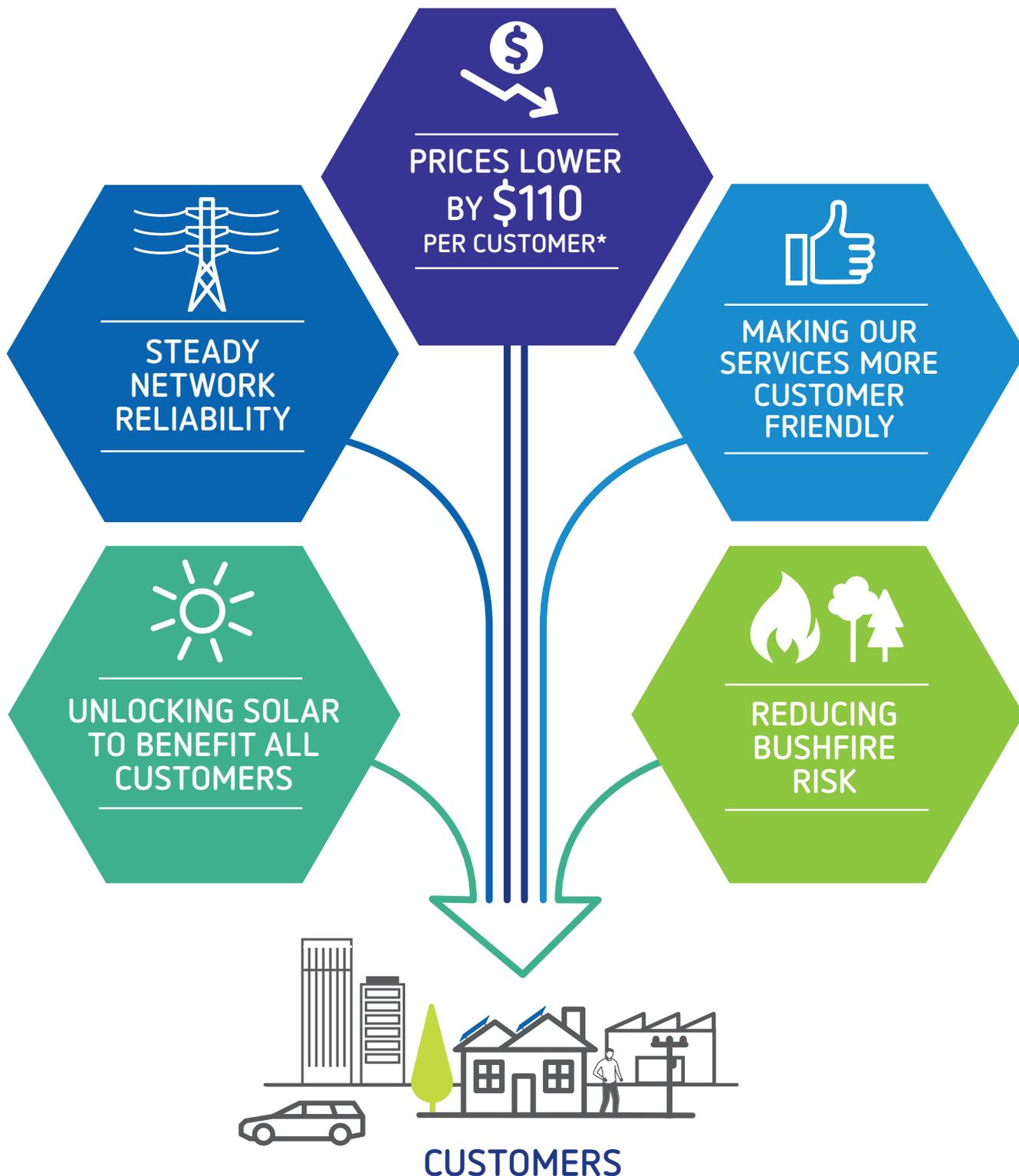
Our regulator, the Australian Energy Regulator (AER), will now review the proposal and will seek further feedback, including from all customers. You can engage with this process on the AER website.

A handwritten signature in black ink, appearing to read 'Tony Narvaez', written over a thin horizontal line.

Tony Narvaez
Managing Director
AusNet Services

HOW WILL OUR PLANS BENEFIT CUSTOMERS?

Click on each tile below to find out more



**This is the reduction in revenue per customer in real \$2021 from December 2020 to July 2021. Revenue per customer will remain at this lower level through to the end of the regulatory period in 2026, only rising in line with inflation.*

POSITIVE OUTCOMES FROM WORKING WITH A CUSTOMER FORUM

The Customer Forum is helping us to better understand and meet our customers' needs and expectations.

Click on each tile below to find out more



**DRIVING
DESIRED CULTURAL
CHANGES AT
AUSNET SERVICES**

The Customer Forum has helped us to design and deliver our services in a customer-friendly way.



**REFLECT CUSTOMER
NEEDS AND
EXPECTATIONS**

The Customer Forum has worked with us to reflect customer views in the proposal including making services more affordable while maintaining service quality.



**OPEN AND
TRANSPARENT
PROCESS**

Far more information on how we have developed our proposal has been shared with the Customer Forum and publicly than ever before. There has also been many more opportunities provided to customers and their advocates to have a say.



**A SUCCESSFUL
NEGOTIATION**

AusNet Services and the Customer Forum have reached agreement on ways to meet customer needs and expectations in our proposal.

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1 OUR CUSTOMERS AND NETWORK

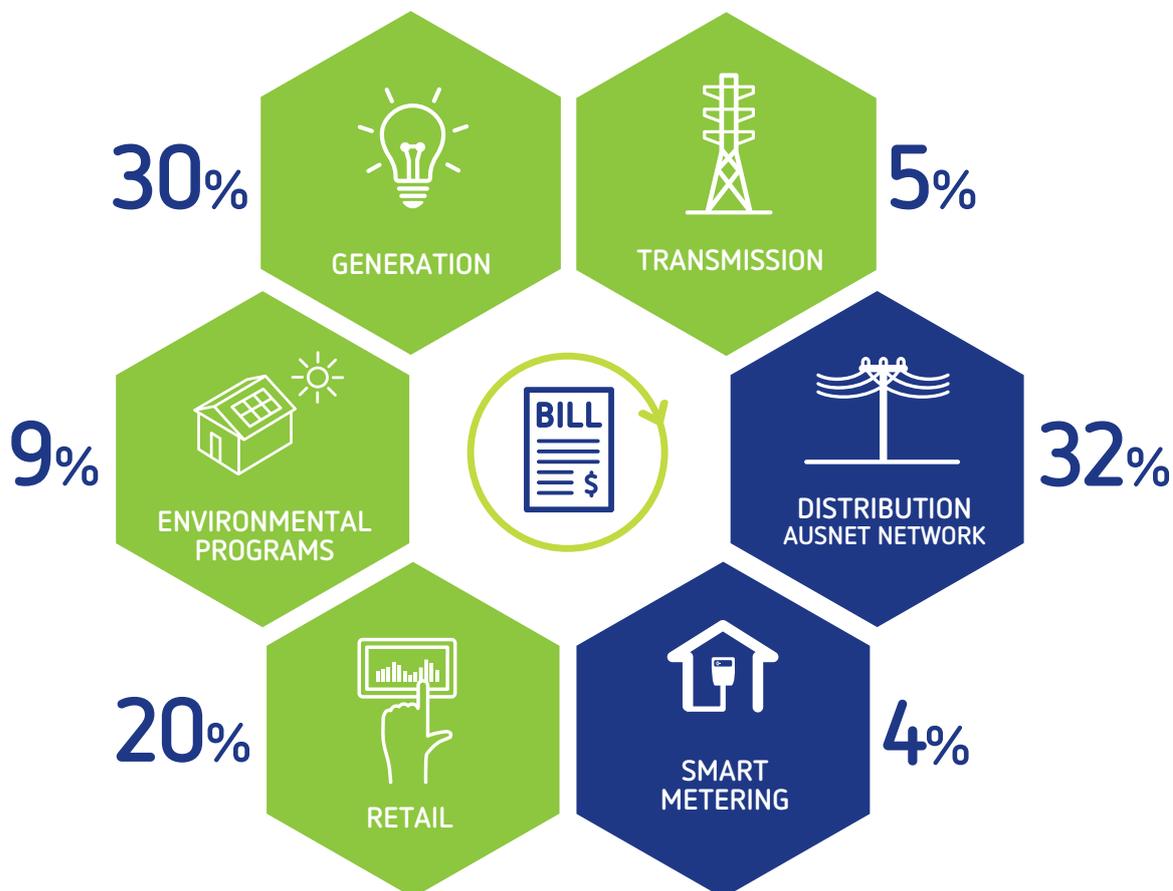


Our electricity distribution network serves around 737,000 customers across the east of Victoria, from the edge of Melbourne to the border with New South Wales. It has some fast-growing areas and a lot of the network is in rural areas. The main mountain ranges and areas with high bushfire risk in Victoria are in our network area.



AusNet Services owns and operates one of the five electricity distribution networks in Victoria. We also operate Victoria's electricity transmission network (covering the whole of Victoria) and a gas distribution network in the west of Victoria.

Many customers think of our electricity distribution services as the 'poles and wires' that bring power to their homes or businesses. We also provide the meter and carry electricity that has been exported back to the grid from our customers' solar systems. Together these services account for around 36% of a total electricity bill for a household.



We transport electricity to and from a quarter of Victorians. We serve Melbourne's north and eastern fringe (which has some fast growing suburbs), regional communities throughout eastern Victoria and remote customers in the alpine areas of Victoria. Nearly 60% of our customers are in rural towns.

While most of our customers are households (around 90%), our network also supports many businesses and critical institutions such as rail and water utilities, universities, hospitals and diverse industries. Many of our customers and communities are increasingly installing solar. Close to 20% of households in our network have solar.

In order to deliver a safe and reliable service, we build and maintain an extensive system of network assets with a skilled workforce. Our network covers 80,000 square kilometres (km) and consists of around 46,000 km of powerlines and 400,000 power poles. Our service area is physically challenging, covering some of Australia's most bushfire-prone regions.

The following page provides facts and figures on our current assets and the services we provide.

AUSNET SERVICES' ELECTRICITY DISTRIBUTION CUSTOMERS, NETWORK AND SERVICES



DISTRIBUTION NETWORK



CUSTOMER SERVICES

46,000km OF POWERLINES

400,000 POLES

EACH YEAR

115,000 POLES & POLE TOP ASSETS INSPECTED

3,000+ POLES REPLACED

220km+ OVERHEAD CONDUCTORS REPLACED

35,000 STREET LIGHTS REPAIRED & MAINTAINED

4,000 CROSS ARMS REPLACED

>10,000 SOLAR ALERTS SINCE 2017

2.25m TEXT MESSAGES TO CUSTOMERS

EACH YEAR

12,800 NEW CONNECTIONS

14,000+ METERS REPAIRED & REPLACED

268,000 INCOMING & OUTGOING CALLS ANSWERED



DELIVERING **21%** OF VICTORIA'S TOTAL ENERGY



737,000 CUSTOMERS

42% URBAN

Low customer density of 18.9 customers per km

58% RURAL



BUSHFIRE SAFETY & VEGETATION MANAGEMENT

70% OF NETWORK IS IN HIGH BUSHFIRE RISK AREAS

32,000km IN HIGH BUSHFIRE RISK AREAS

89% HOUSEHOLDS

100 LARGE INDUSTRIAL



SOLAR

22 REFCLs INSTALLED BY 2023

Technology that rapidly cuts the power to fallen lines preventing bushfires

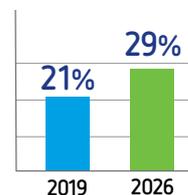
EACH YEAR

268,000 POWERLINE SPANS ASSESSED FOR VEGETATION

5,000 HAZARDOUS TREES REMOVED



HOUSEHOLDS WITH SOLAR



COMMERCIAL & INDUSTRIAL CUSTOMERS WITH SOLAR



SOLAR INSTALLED BY CUSTOMERS



2 WORKING WITH THE CUSTOMER FORUM

We are working closer than ever with our customers to build our future plans. We have set up a group called the Customer Forum to work with us, spoken directly to thousands of people across our area, and shared our draft plans with customers before they have been finalised. This has made sure that the major focus of our plans is what matters to customers.

In an Australian-first trial, AusNet Services has negotiated elements of our proposal with an independent Customer Forum. Our regulator, the AER, has been involved in the trial and will consider the agreements we have made with the Customer Forum when reviewing this proposal.¹

The Customer Forum Chair is a former Consumer Affairs Minister for Victoria, and the four other members have significant skills and experience in vulnerable customer support, customer research, finance and community leadership and engagement.

Their different skills and experience, understanding of consumer issues and their analytical ability allows the Customer Forum to strongly represent the perspectives our different customers from the biggest to the smallest. The Customer Forum has used information from our customers about their views and expectations to help them represent customers in their negotiations with AusNet Services.

We established the Customer Forum nearly two years ago and have worked closely with them ever since.



Customer Forum: Left to right: Dianne Rule (*Forum member*), Greg Camm (*Forum member*), Tom Hallam (*General Manager Regulation, AusNet Services*), Tony Robinson (*Forum Chair*), Helen Bartley (*Forum member*), John Mumford (*Forum member*).

CUSTOMER FORUM MEMBERS

Tony Robinson, Chair

Experienced consumer advocate and former Victorian Minister for Consumer Affairs.

Helen Bartley

Experienced market and social researcher with specific experience in customer engagement processes for utilities.

Dianne Rule

Broad experience across education, publishing, politics and community projects.

John Mumford

Experienced consumer advocate and financial counsellor. John and his family run a small beef cattle and hazelnut farm in South Gippsland and is a customer of AusNet Services.

Greg Camm

Experienced financial sector executive and former Director of Yarra Valley Water, which pioneered the Citizens Jury process in the water sector.

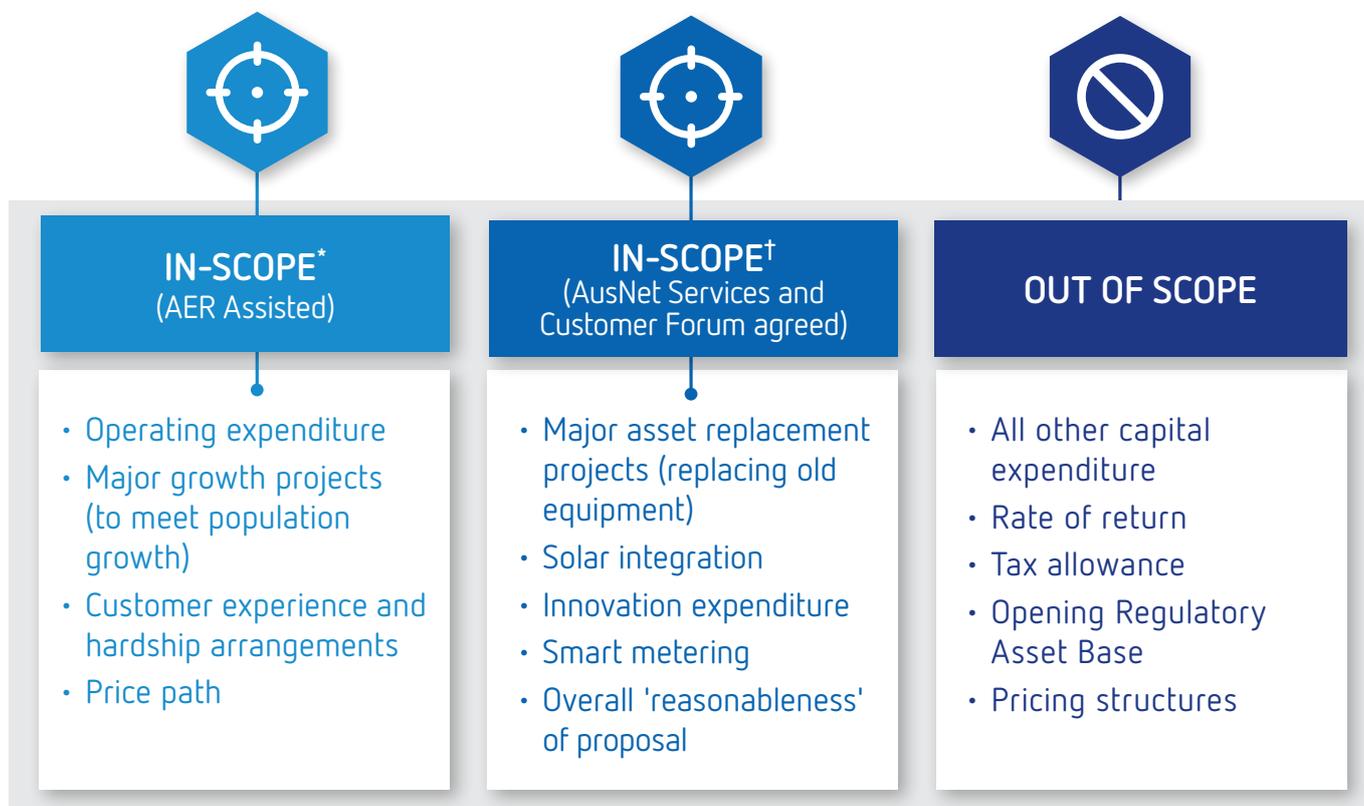
1. The Customer Forum trial is overseen by customer representatives and the AER. More information is available on our website: <https://www.ausnetservices.com.au> and on the AER's website: <https://www.aer.gov.au/networks-pipelines/new-reg/ausnet-services-trial>.

The picture below shows the areas of our spending that have been included in the negotiation between the Customer Forum and AusNet Services – these areas of negotiation are “in-scope”. The “out of scope” areas have not been negotiated with the Customer Forum. In-scope issues are those areas where the Customer Forum could add most value by applying customers’ views. The Customer Forum has negotiated around 40% of the forecast revenue for our electricity distribution services and all revenue for metering services.

A summary of the agreements reached with the Customer Forum is provided in an attachment at the end of this report. The Customer Forum has also written its own report with their views on the negotiation and what they agreed with us. It is available at: <https://www.ausnetservices.com.au/Misc-Pages/Links/About-Us/Charges-and-revenues/Electricity-distribution-network/Customer-Forum>.

AusNet Services has committed to upholding the headline price cuts that have been agreed with the Customer Forum throughout the rest of the review process.

SCOPE OF CUSTOMER FORUM NEGOTIATIONS



"The Customer Forum has probably spent more time considering the regulatory proposal than any previous consumer focused group in Australia... We are impressed by the impact which the Customer Forum has already had in realigning AusNet Services business towards a more customer-centric mode of operation."

Consumer Challenge Panel 17

*AER assisting Customer Forum by providing information and independent advice. †AER not advising on these topics. Note: Customers are being consulted on pricing structures. Details of this separate process are provided on our website: <https://www.ausnetservices.com.au>

POSITIVE OUTCOMES FROM WORKING WITH A CUSTOMER FORUM



DRIVING DESIRED CULTURAL CHANGES AT AUSNET SERVICES

Working with the Customer Forum has strengthened the cultural change already underway at AusNet Services to design and deliver our services in a customer-friendly way.

Our business has always sought the best decisions for customers, including to provide reliable network services. But the way we provided our service wasn't always designed with customers in mind.

Working with the Customer Forum we have made simple improvements such as providing a dedicated contact person for Councils, businesses and communities that are in frequent contact with us. We are making many processes easier, whether connecting new solar or making a claim.

We will continue to make improvements. As an example, we are working on ways to minimise customers' inconvenience when we have to interrupt supply to repair or maintain the network. This will focus on providing the most accurate information possible (how long will the power be off and when will it come back on), using customers' preferred communication (mobile or social media) and avoiding repairs when supply is crucial to the impacted community (such as the day of an annual fete).

REFLECT CUSTOMER NEEDS AND EXPECTATIONS



The Customer Forum and our business have worked harder than ever to understand our customers' needs and expectations and to reflect this in the proposal.

Ways in which customers' views have been included are:

- > **Make services more affordable:** We agreed with the Customer Forum to reduce operating costs now and into the future to address this primary customer concern.
- > **Maintain reliability and safety:** Customers don't want this compromised.
- > **Support customers' rooftop solar investments:** We have agreed to allow more solar exports onto the network in line with customer expectations – but using technology and targeted investment to keep the costs down.
- > **Innovate to support the energy future:** Responding to customer views, this is focused on energy transition to benefit customers and ensuring there is industry collaboration and knowledge-sharing.
- > **Use the smart meters to benefit customers:** Working with the Customer Forum we have identified more ways to use this existing technology to benefit customers.



OPEN AND TRANSPARENT PROCESS

The Customer Forum trial has been an open one. It has provided customers, their advocates and other key stakeholders with extensive information about our services and their costs.

Virtually all of the information provided to the Customer Forum has been published on our website.

There have been many more opportunities for customers to have a say and this has influenced our plans.

A SUCCESSFUL NEGOTIATION



The Customer Forum has negotiated directly with our business to develop key parts of our plans. They have had input on around 40% of the forecast revenue for network services and all revenue for smart metering services.

Our regulator can have confidence that the agreements with the Customer Forum reflect the outcomes of a rigorous process that has focused relentlessly on reflecting customers' needs and expectations.

3 CUSTOMER CONSULTATION AND ENGAGEMENT

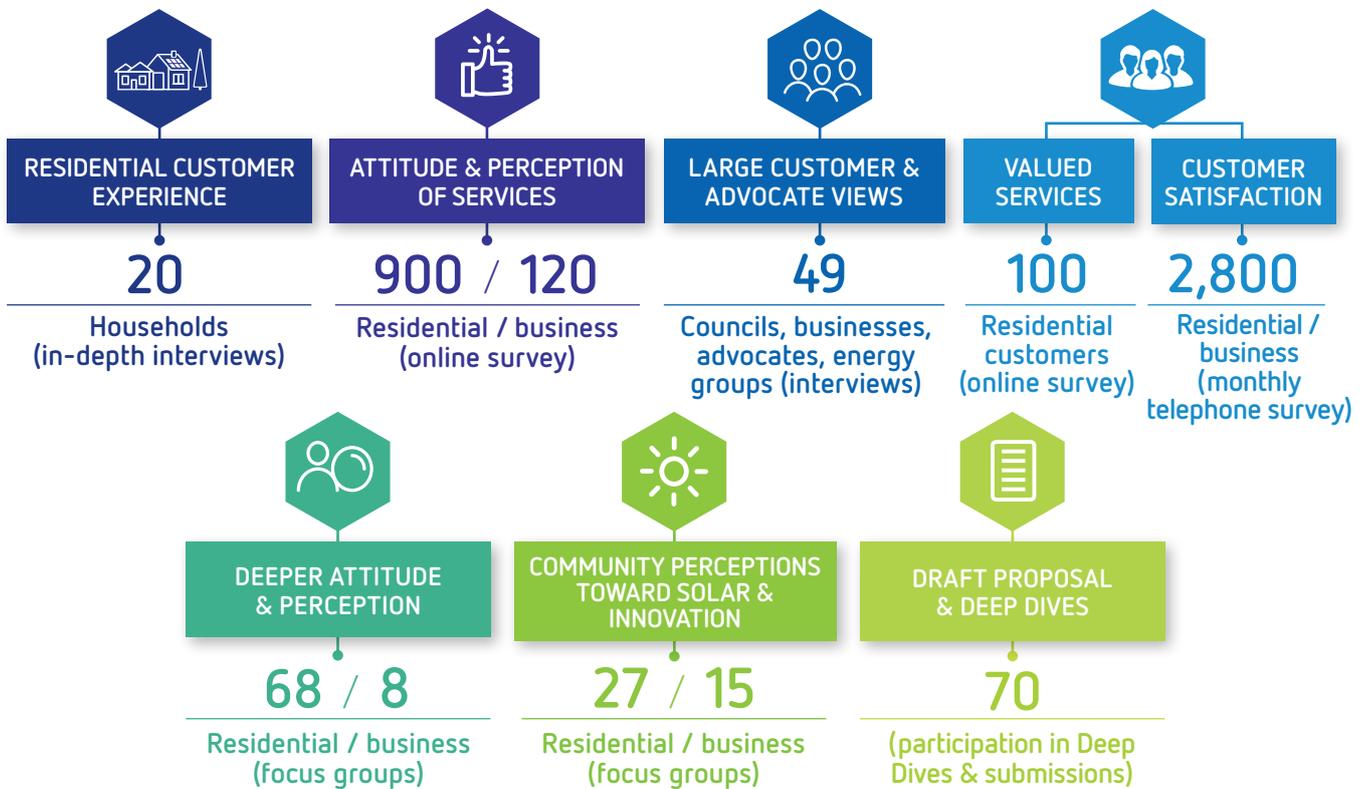
Both our business and the Customer Forum have sought the views of many of our customers to understand what they want from their electricity distribution services. We heard from over 5,500 individual customers and their advocates. The Customer Forum has also heard from many more customers, as indicated throughout its report.

AusNet Services' and the Customer Forum's key consultation and engagement activities are

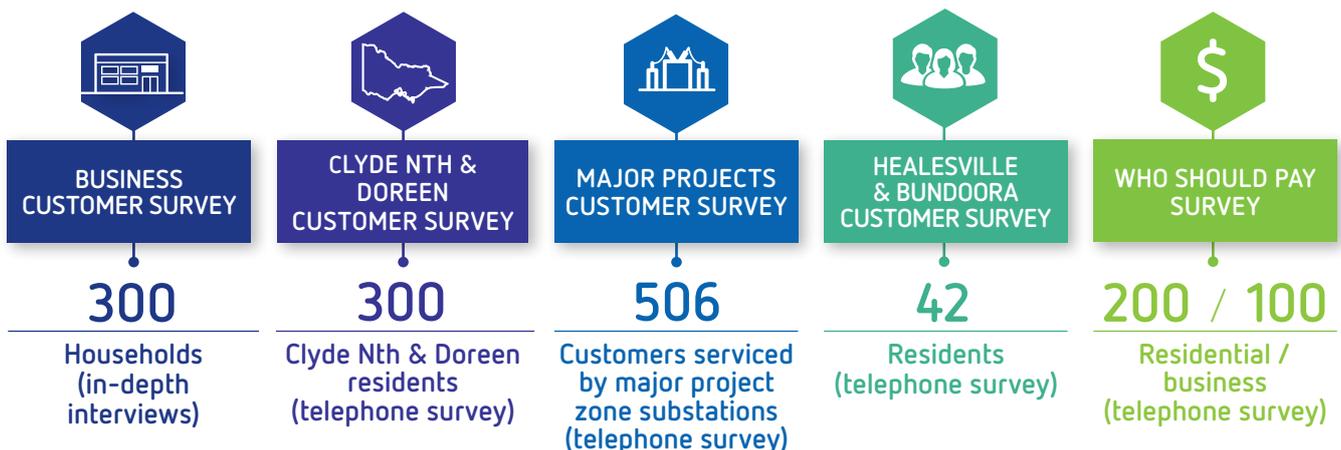
shown in the figures below and documented in AusNet Services' Regulatory Proposal and the Customer Forum's Final Engagement Report.

In addition to the Customer Forum's research activities shown in the picture below, the Customer Forum met with more than 80 individual residential and business customers, advocates, Members of Parliament, council officers and others.

AUSNET SERVICES' KEY CONSULTATION AND ENGAGEMENT ACTIVITIES



CUSTOMER FORUM'S KEY CUSTOMER RESEARCH ACTIVITIES



Key messages from customers are summarised below.

What customers value most

VIEWS OF HOUSEHOLD CUSTOMERS:

Affordability

The total electricity bill including distribution costs is a key concern for our household customers and is top of mind for them. Most customers we surveyed, and their advocates, told us their bills are continuing to increase and that affordability of electricity, particularly for vulnerable customers, is a major concern.

Reliability

Household customers were generally satisfied with network reliability, that is, they generally considered they did not experience too many blackouts or outages. AusNet Services acknowledges that some customers are not satisfied. All households desire better communication when outages do occur. Customers expect the reliability to remain much the same and recognise that population growth and high demand in summer place pressure on network reliability.

Safety

As with reliability, customers expect their electricity distribution business to provide a safe network and effectively manage bushfire risk.

VIEWS OF BUSINESS CUSTOMERS:

Electricity is a major cost for many businesses, so they expect us to be efficient. Access to a reliable electricity supply is vital for many businesses, and when outages occur they can suffer significant direct losses, which can also

affect their employees, customers and their communities. Business customers would like it to be easier to communicate with AusNet Services and have welcomed our recent improvements in this area.

VIEWS OF COUNCILS:

As with business customers, many councils are seeking improved communication with AusNet Services, ideally through a dedicated contact person. Councils would like to work more closely on new development areas and to support increasing use of solar in their communities.

Customer views on in-scope topics

Customer experience

Our customer satisfaction surveys and complaints identified three key “pain points” for customers in their dealings with us. These were the process to connect solar panels to the network, establishing a new electricity connection and the management of planned and unplanned outages. Customers also expect AusNet Services to better manage communication and claims processes during a High Voltage Injection event,² which could damage or destroy customers’ electrical appliances.

Overall customers expect more timely and accurate communication from their electricity distributor. Large customers and Councils would like a dedicated contact person and more pro-active support on network service issues.

Support for solar exports

Customer feedback indicated they did not always understand that when excess electricity is generated from rooftop panels it can cause problems for the reliable operation of the

2. The mains voltage in homes and most businesses is 230V. Occasionally for a variety of reasons, such as a lightning strike or an equipment issue, a power surge will occur when homes and businesses receive more than 230V. When a high voltage power surge occurs, appliances that are connected to the power receive more voltage than they can handle, which can lead to those appliances developing a fault or failure.

distribution network. They also expect they can export excess solar and most would be unhappy if the amount of energy they could export was restricted. Customers supported sensible investment by AusNet Services to allow solar exports, so this energy is not wasted and helps reduce all customers' bills. Further, they supported sharing the costs among customers and with government to ensure the network is able to accept solar exports.

Innovating to transform the network

Customers understand the energy system is transitioning, for example with rapid growth in rooftop solar and other renewables. They support modest innovation to assist this change – provided the investment results in tangible benefits for all customers and the wider community. Most customers we consulted see the need to prepare for mass market electric vehicle (EV) uptake as a less urgent issue.

Network expansion plans

Customers were concerned that delaying network expansion projects to reduce costs in the short term could result in more outages. Importantly the customer research suggests customers have a strong preference for maintaining reliability.

Feedback on our Draft Proposal

AusNet Services published its Draft Proposal for consultation in February 2019. It contained our preliminary plans and agreements reached with the Customer Forum at that time, including our commitments to improve our customer service.

We received direct feedback from customer advocates and stakeholders representing a diverse range of customer interests. AusNet Services also

held "deep dive" workshops to explore our Draft Proposal plans in greater detail. Customers, the Customer Forum and other stakeholders (such as local Councils) gave the following key feedback:

- > A desire for us to achieve greater efficiency to lower our operating costs and further reduce costs for customers;
- > Strong support for improving customer service and better incentives for this into the future;
- > Generally they supported plans for us to invest to allow solar exports where the benefits to customers outweigh the costs, although some expressed concern about imposing these costs on vulnerable customers;
- > On the proposed modest innovation expenditure there should be:
 - Strong project governance that involves customers in project oversight and that guarantees all learnings are shared across the industry;
 - Collaboration with other distribution businesses and research organisations, rather than repeating innovation projects done elsewhere; and
 - Confidence customers would be likely to benefit from the projects.

Implications for our plans

Working with the Customer Forum, our customers, their advocates and stakeholders has had a positive impact on our plans .

Section 2 and 5 explain in more detail the benefits for customers of our plans and how our plans incorporate and respond to our customers' views and input.

4 EXPECTED DEMAND FOR OUR SERVICES

We are serving an increasing number of customers, the amount of electricity demanded from our network on the hottest days continues to grow and our customers are sending more solar energy back into our network.

Energy system transition

Transformation of the energy system is changing the way customers use our network. In the past, customers only purchased or 'imported' electricity from large scale generators that were remote from their homes, offices, factories and businesses. Now, a growing number of customers are also using solar panels to generate their own electricity. Solar electricity that customers do not use themselves is being sent back or 'exported' into the network. Allowing solar energy to be shared on our network reduces the wholesale cost of electricity, providing a benefit to all customers.³ This means the network had one-way flows in the past (and was designed for this), but now has two-way flows. This changes the way our network must work.

Over 140,000 of our customers already have rooftop solar. The Solar Homes Policy in Victoria is providing households with additional financial support to install solar. We forecast that the number of solar customers in our network will be around 225,500 by 2026, or around a 60% increase. Also, with the size of solar systems getting larger, the solar energy produced is forecast to double in size.

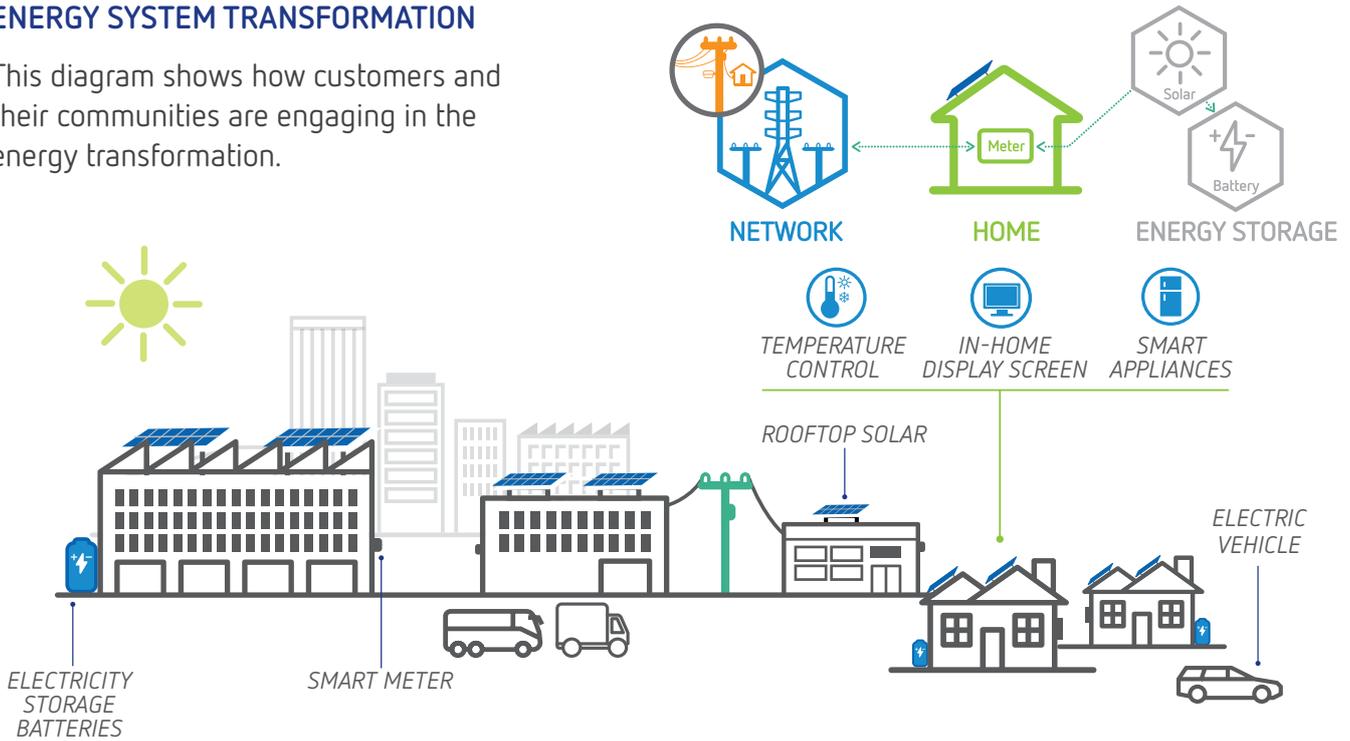
3. AEMC, *Integrating distributed energy resources for the grid of the future, Economic regulatory framework review*, 26 September 2019.

As well as solar, customers are using more new energy technologies such as batteries, smart appliances, energy management systems and electric vehicles. This gives customers more control over the energy they generate, use and export into the network or store for another time. This will add to the change customers are making to how they use our network.



ENERGY SYSTEM TRANSFORMATION

This diagram shows how customers and their communities are engaging in the energy transformation.

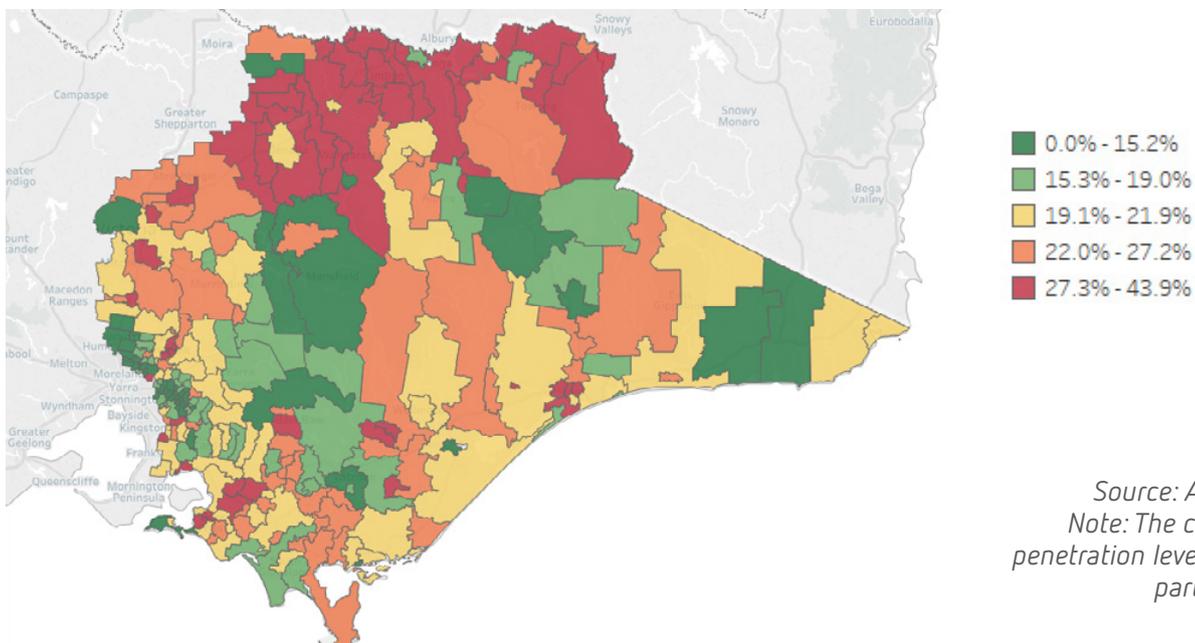


High solar penetration in parts of our network

The map below shows that the level of solar penetration varies across our network. However, there are areas of our network with solar penetration greater than 27% (the red areas on the map), which is as high as areas in South Australia and Queensland.

This increase in the size and quantity of solar is creating some problems on our network such as voltage rises, that if not managed, can damage customers' appliances (for solar and non-solar customers). High voltage can also cause solar systems to shut off. Two ways of managing this problem are to prevent customers from connecting solar to the network or from exporting their solar energy onto the network. Neither of these solutions are acceptable to customers.

Figure 1: Residential solar penetration in our network by postcode



Source: AusNet Services.
Note: The chart groups the penetration level into five equal parts (or quintiles).

Instead, our plans propose a way to allow more solar in a network at an acceptable cost. This modest investment will also reduce the voltage problems that would be experienced by many of our customers, will reduce wholesale electricity costs for all customers and will reduce carbon and air pollution.

The growth in battery storage and electric vehicles is expected to be slower than rooftop solar (as forecast by the Australian Energy Market Operator), but they will have an increasingly important impact over time.

Customers are consuming less overall but more at peak times

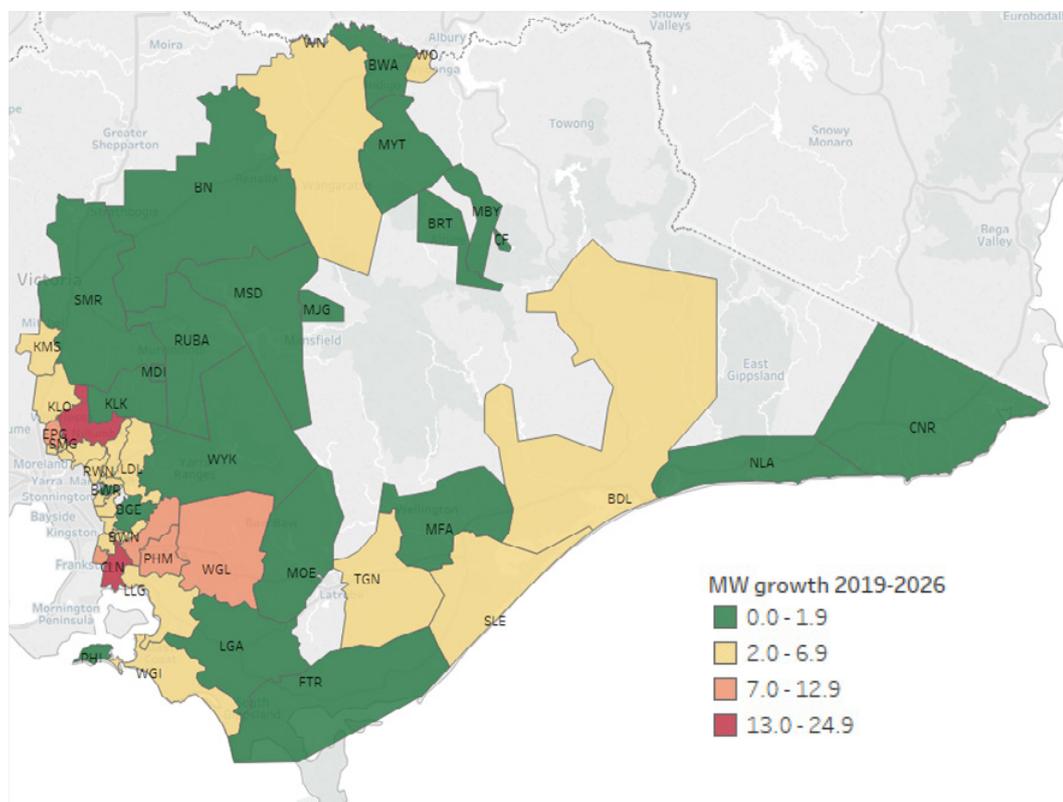
Over the 2022–2026 regulatory period, we are forecasting that the total amount of electricity used by our network customers will gradually decline – mainly as new appliances use less electricity and as rooftop solar will meet more electricity needs.

However, peak demand is still expected to grow. Peak demand is the highest amount of electricity demanded from the network at the same time. In our network, peak demand typically occurs for short periods in the afternoon and evening when it has been extremely hot over two to three days.

Solar generation falls in the late afternoon as the sun loses its strength. So in the late afternoon the peak demand for electricity is not brought down by solar. So while solar generation is reducing overall energy consumption it has had little impact on reducing demand at peak times.

The map below shows the specific areas on our network where high demand growth is projected. Peak demand is growing particularly strongly in the parts of our network with strong population increases. This is in the northern and south-eastern fringes of our metropolitan Melbourne network (the red areas and orange on the map).

Figure 2: Peak demand growth 2019-26 (MW)



Source: AusNet Services.

To ensure that our customers do not face an increased risk of interruptions to their electricity supply, we plan to increase the capacity of the network in the bottom red area on the map (Clyde North) and we have arrangements with customers to reduce their demand at peak times (and customers get reduced bills in return).

Total customer numbers are forecast to grow by around 7% from 2022 to 2026, which is just over 13,000 additional new customers each year. This will increase our costs.

Implications for our plans

We must ensure that we continue to meet the needs of our customers for reliable electricity supply, especially at times of the highest demand on hot days. We are also seeking to support the export of solar onto the network where it provides a benefit to all customers. How our spending plans do this over the 2022 to 2026 regulatory period are outlined in Section 6.



5 OUR PLANS FOR 2022 TO 2026



Improving outcomes for customers

At the heart of our plans are a range of actions and initiatives designed to deliver our services in the way that our customers have told us they expect. This means:

- 1) Ensuring that services are as affordable as possible;
- 2) Maintaining the quality of the core service customers want from us, which is reliable and safe electricity supply;
- 3) Improving the way that customers experience our services, e.g. when customers need to contact us or when there is an outage; and
- 4) Responding to the changing ways that our customers are using our network, e.g. by installing solar panels and exporting solar energy.

How we plan to deliver on these expectations is explained below.

1) LOWER PRICES TO DELIVER AFFORDABLE SERVICES

Distribution network prices lower by \$110



Our plans will deliver lower bills for customers. From December 2020 to July 2021, the network bill will reduce by \$110 per customer (\$2021). Revenue per customer will stay at this lower level for the five year regulatory period to 30 June 2021 (as shown in Figure 1 which excludes inflation).

This is a much more significant reduction than reflected in our Draft Proposal of \$58 per customer (from December 2020 to January 2021). The further reduction reflects tightened regulatory settings, cost savings including those agreed with the Customer Forum, and lower bond rates.

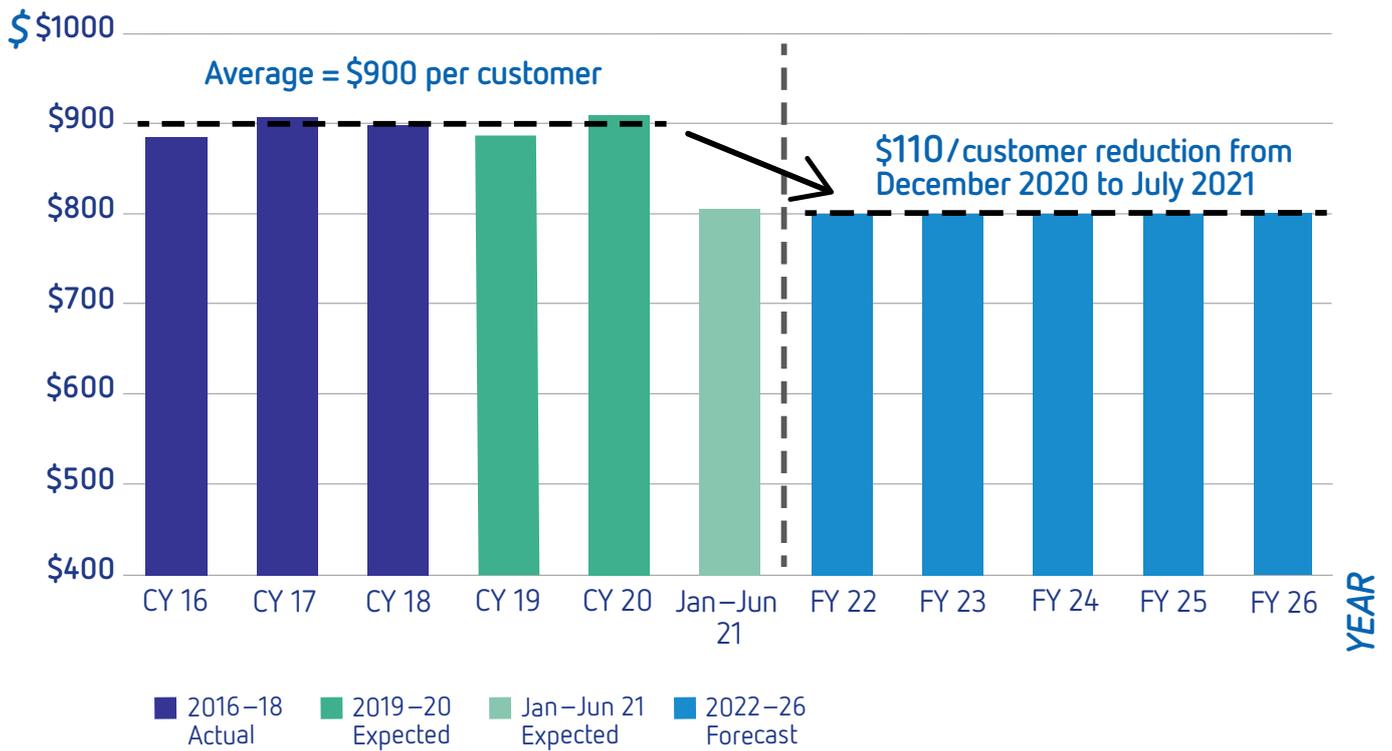
The charge for electricity distribution services (excluding inflation) will be:

- > \$48 (\$2021) or 10% less for a residential customer on average; and
- > \$627 (\$2021) or 13% less for a non-residential customer on average.

In addition, residential and small business customers will pay \$30 less (\$2021) on average for their annual metering bill.

AusNet Services has abolished business hours remote disconnection and reconnection fees saving customers \$750,000 each year. This is one less irritant at a stressful time when our customers are moving house or business location and one of the many benefits now being delivered by smart meters.

Figure 3: Proposed reduction in average revenue per customer (\$2021)



Source: AusNet Services. Note: The current regulatory period starting on 1 Jan 2016 has been extended by 6 months to include Jan to June 2021. For easier comparison, the Jan to June 2021 data is presented as an annual number on the chart.

In nominal dollar terms (that is, including inflation), prices will be:

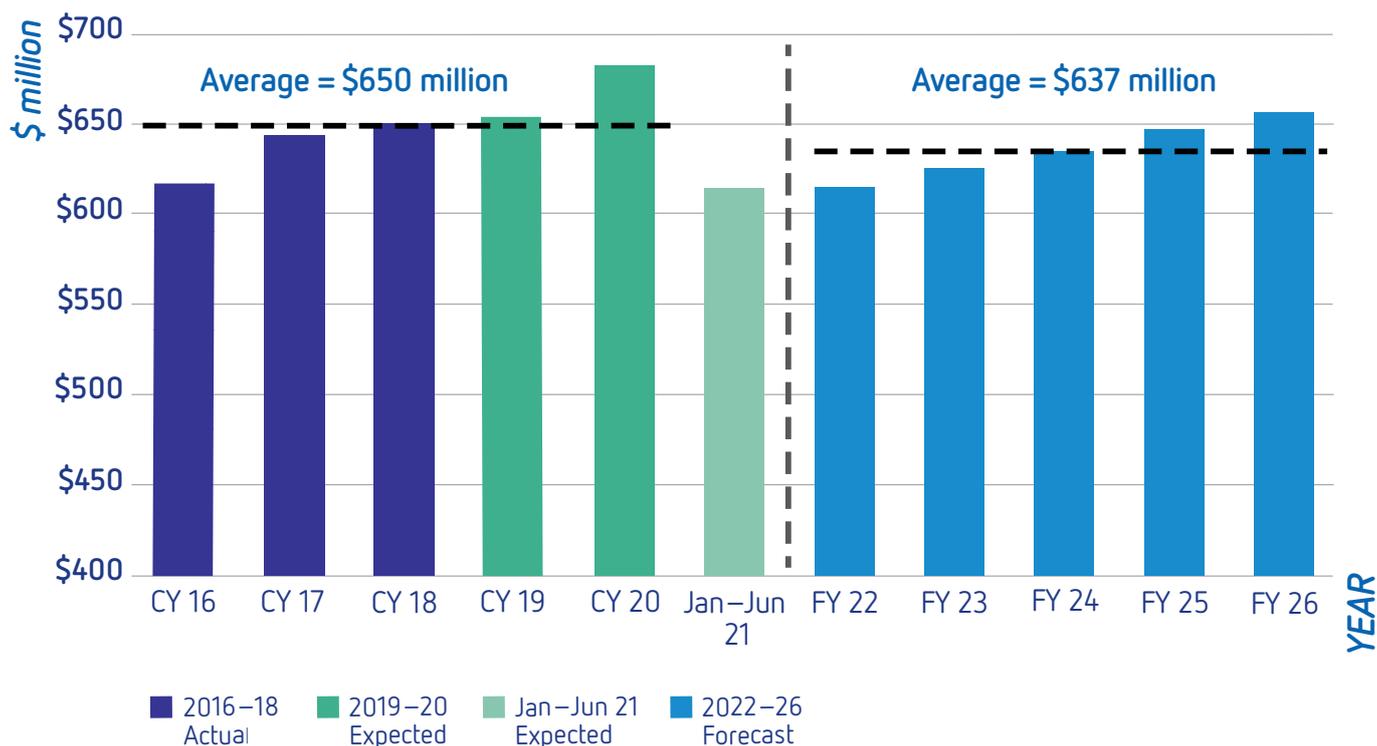
- > \$27 or 6% less for a residential customer on average; and
- > \$430 or 9% less for a non-residential customer on average.

As shown in Figure 3, the total revenue we are seeking for the future five year period from 2021–22 to 2025–26 is \$3,186 million (\$2021), which is \$64 million or 2% less than the revenue we expect to earn in the five years from 2016 to 2020. AusNet Services is seeking less revenue even though we have cost pressures associated with:

- > Serving more customers;
- > Installing new bushfire safety equipment on the network;
- > Making our services more customer friendly; and
- > Adapting the network to manage the solar being installed by customers.



Figure 4: Our proposed total revenue (\$2021)



Source: AusNet Services. Note: The current regulatory period starting on 1 Jan 2016 has been extended by 6 months to include Jan to June 2021. For easier comparison, the Jan to June 2021 data is presented as an annual number on the chart.

Revenue is lower because we have reduced our costs and because our regulator has tightened some of our revenue settings. As a result of the cost savings we have made, total forecast expenditures over 2021–22 to 2025–26 are around \$490 million below what they would otherwise have been.

The changes made by our regulator (and lower interest rates) have reduced forecast revenue by a further \$420 million.

This clearly makes services more affordable for customers but will need to be carefully managed to ensure that the quality of services and our ability to finance our business is not compromised.

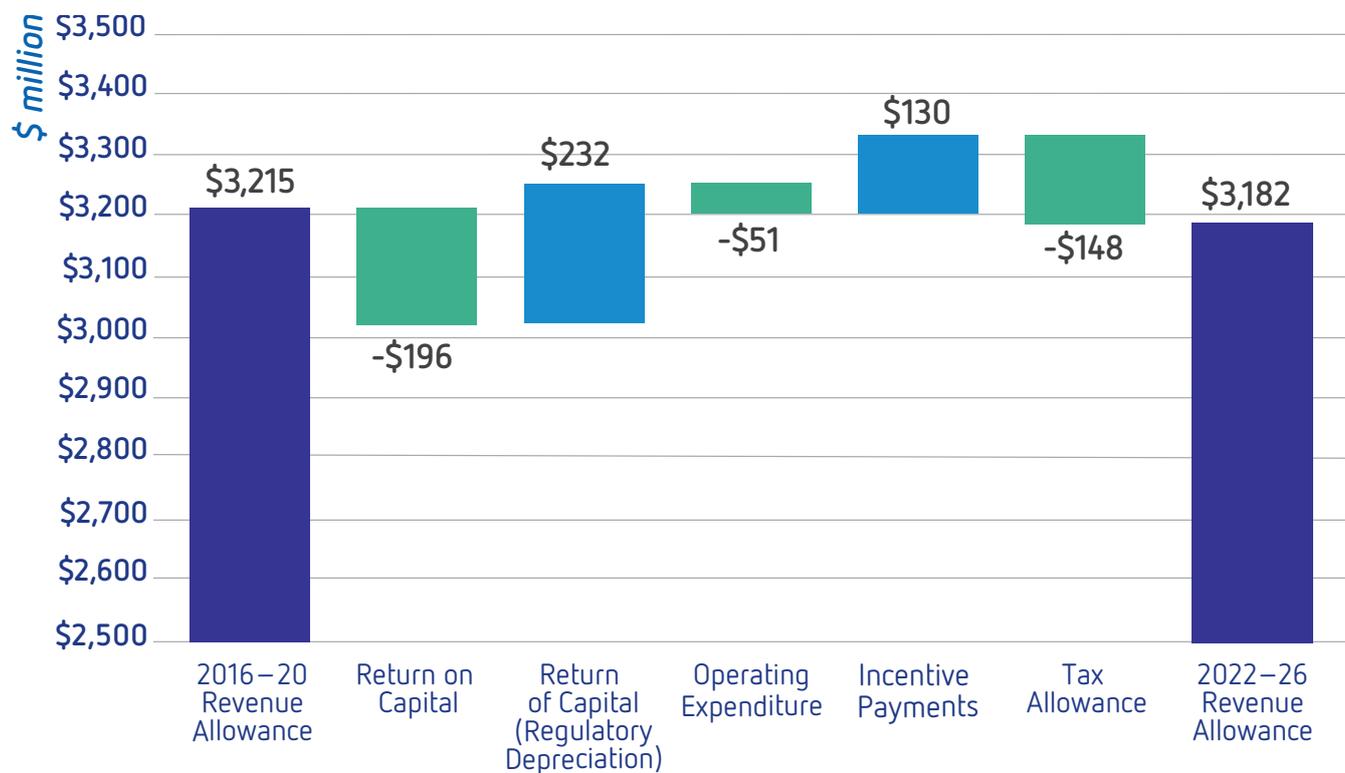
More information on our proposed efficient revenue and costs

Our total revenue consists of different kinds of costs known as building blocks. Broadly, these are:

- > **Capital and asset costs**
 - **Return on investment:** the ongoing cost of financing our assets.
 - **Depreciation:** the initial value of assets returned to debt and shareholders each year, reflecting the decline in value of assets over their useful life.
- > **Operating expenditure:** the cost of operating our business and maintaining our assets.
- > **Other expenditure:** A range of other costs and incentive scheme penalties or credits related to regulated network expenditure and performance incentive schemes.

The figure below shows the proposed changes in the cost elements compared to our current period revenue allowance.

Figure 5: Changes in the revenue building blocks (\$2021)



Source: AusNet Services. Note: The chart shows unsmoothed revenue.

The reduction in the return on capital and the tax allowance reflect the changes made by our regulator and lower interest rates. The incentive payments are rewards that our business expects to earn under the regulatory framework for being more efficient in the current 2016-20 regulatory period.

Further information on the remaining revenue building blocks is provided on the following two pages.



Operating expenditure

AusNet Services has listened to customers and worked with our Customer Forum to develop an operating expenditure proposal that balances our obligation to provide safe and reliable electricity supply with the affordability concerns of customers.

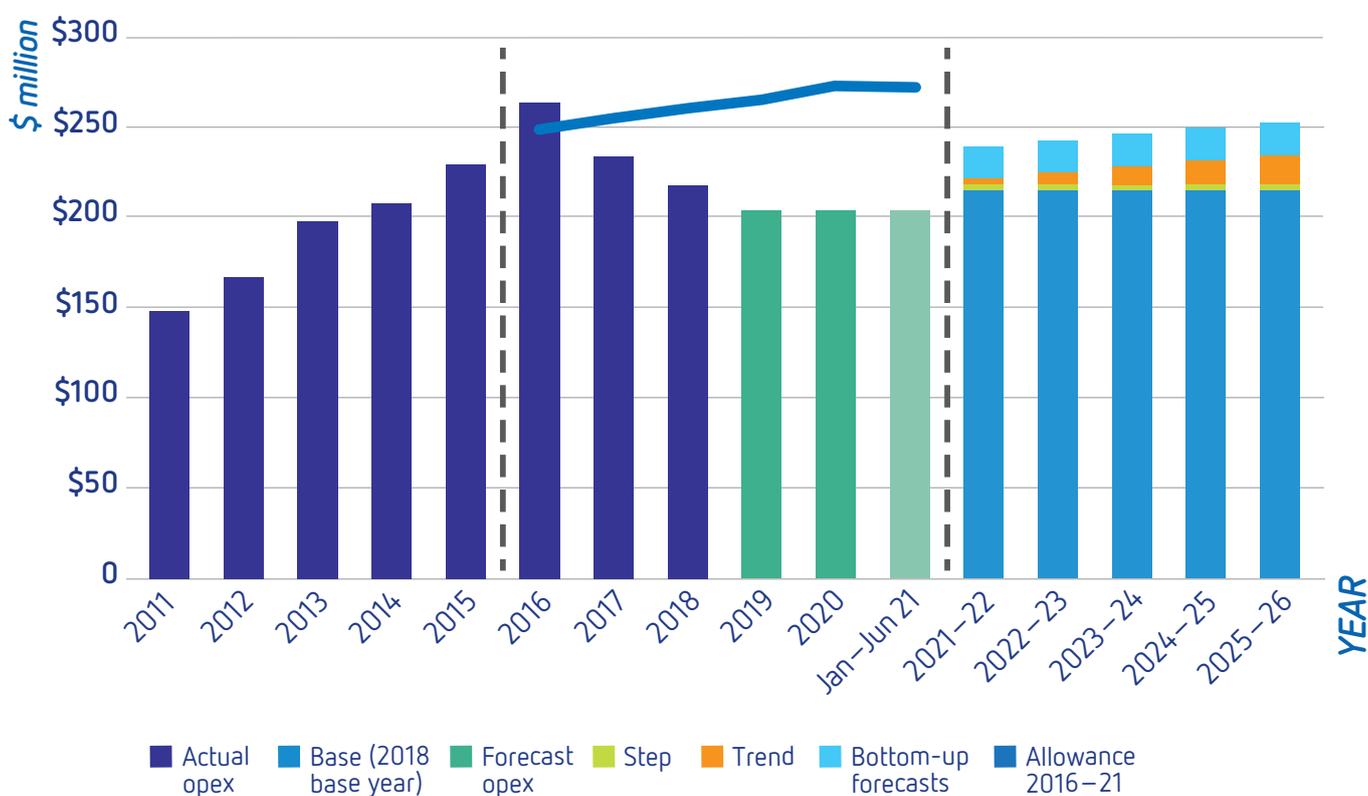
Over the last three years, AusNet Services has undertaken a ground-up cost efficiency program which is delivering lasting cost savings for customers. A combination of smarter work practices, new workforce contracts and a continual focus on cost management has delivered these savings.

This is allowing us to control costs, even while our customer base and obligations are growing.

AusNet Services agreed with the Customer Forum to double the minimum productivity improvement set by our regulator at 0.5% to just over 1% by absorbing a range of new operating costs.

The efforts to reduce costs, and the collaboration with our customers, results in a forecast of total opex of \$1,222 million (\$2021) over the 2022–26 regulatory period.⁴ This is 5% lower than our opex allowance (shown in the blue line) in the current (2016–20) regulatory period.

Figure 6: Actual and forecast operating expenditure (\$2021)



Source: AusNet Services.

Notes; 1. The current regulatory period starting on 1 Jan 2016 has been extended by 6 months to include Jan to June 2021. For easier comparison, the Jan to June 2021 data is presented as an annual number on the chart. 2. The bottom up forecasts include Guaranteed Service Level payments (non-controllable), debt raising costs and metering costs allocated to the distribution business.

4. This excludes debt raising costs.

Capital expenditure

In an increasingly complex environment, driven by unprecedented change, customer engagement has been important to help us shape our capital expenditure (capex) proposal. For example, we have consulted extensively with customers and negotiated with the Customer Forum on how best to manage the cost impacts of rooftop solar while allowing as many customers as possible to connect and export.

Our capex proposal for the next regulatory period (from 1 July 2021 to 30 June 2026) is \$1,468 million (\$2021) excluding contributions from customers – this is the net capex in Figure 6 below. This is around 21% lower than our actual/expected capex (excluding customer contributions) in the current regulatory period (2016–2020).

Capex is lower for a few reasons:

- > Customer and peak demand growth is limited to pockets of our network, so the broader network doesn't need to be built out to carry a lot more electricity;

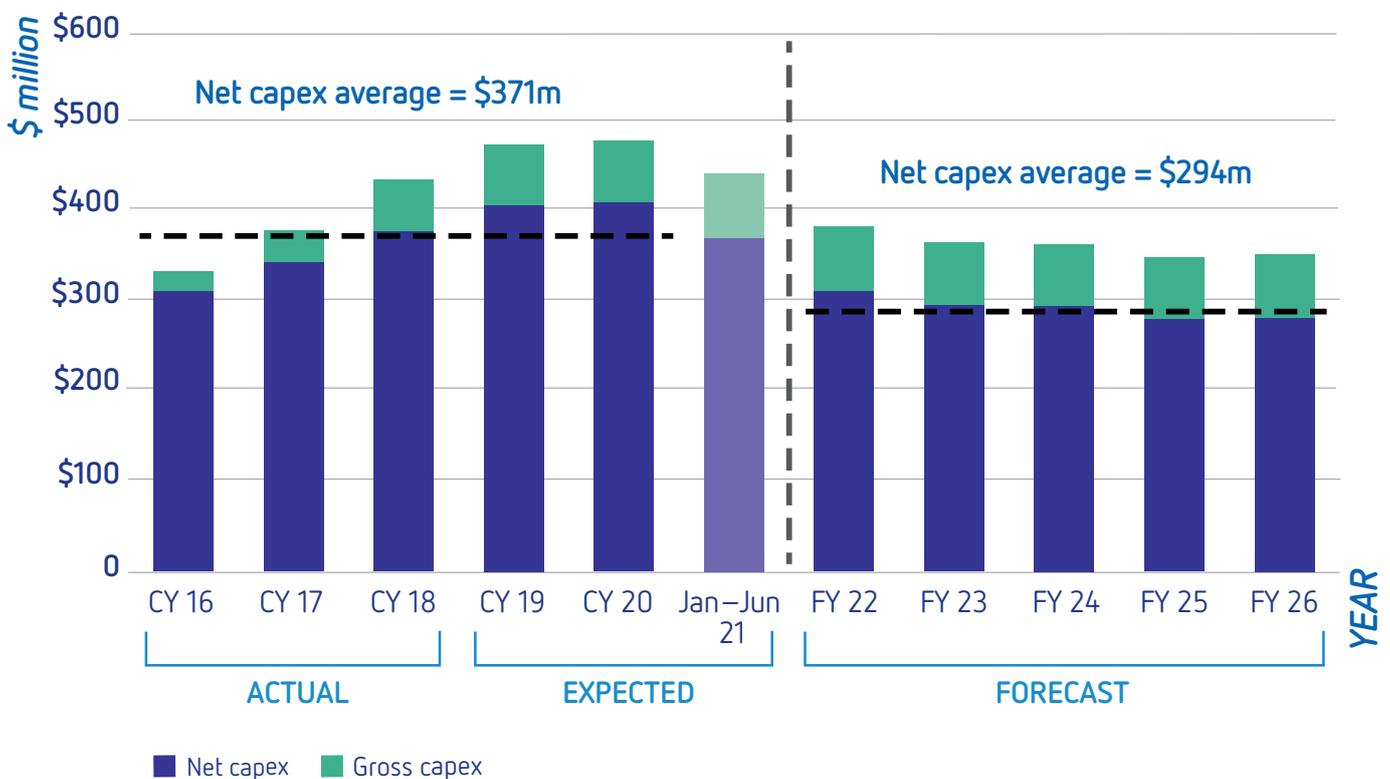
- > Information technology or IT costs are 12% lower (excluding smart meter systems but compared on a like-for-like basis); and
- > The completion of safety investments programs mean that these costs will fall.

However, the proposed level of capex will allow us to meet the significant new challenges that lie ahead, including managing more solar exports.

Depreciation

Recognising that our proposal delivers significant reductions in customer bills and improved service outcomes, our depreciation allowance has been set in a way that reduces the burden on future customers and to smooth our businesses' cash flows. AusNet Services intends to take into account the views of stakeholders on this aspect of our proposal, including customer advocates, throughout the rest of the review process.

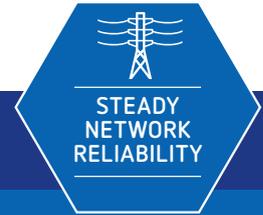
Figure 7: Total capital expenditure requirement (\$2021)



Source: AusNet Services. Notes; 1. The Jan to June 2021 data is presented as an annual number on the chart. 2. Gross capex includes customer contributions (typically from developers of new suburbs). Net capex excludes customer contributions.

2) MAINTAINING THE QUALITY OF CORE SERVICES

Our plans will continue to focus on maintaining, and where possible, improving our performance on delivering reliable network services and customer safety (particularly in relation to bushfire risk management).

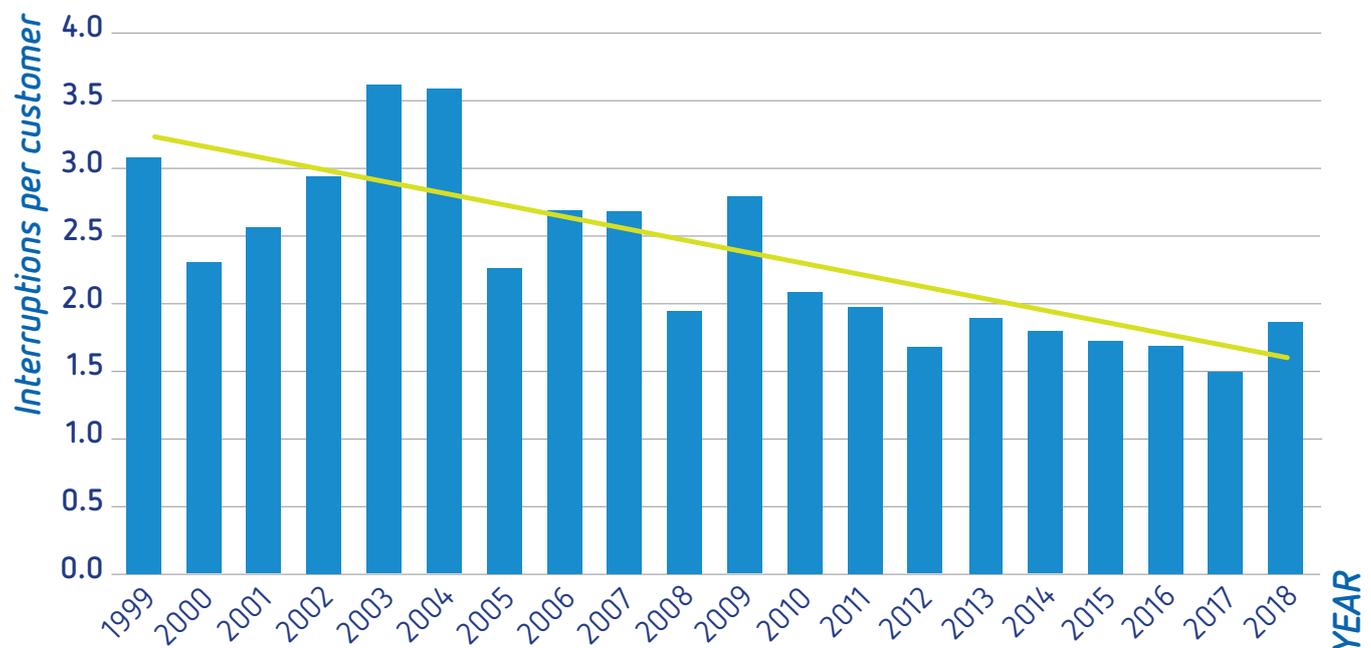


Network reliability maintained

Reliability means keeping the lights on by minimising the times our network cannot deliver electricity. Sometimes our network cannot supply electricity (e.g. if a storm damages our network) or we need to turn off the network to fix it – but we try to keep this to a minimum. As an example, we want to keep the number of interruptions caused by the distribution network to less than two per customer per year (other than major storms).⁵

Over a significant period, our reliability (measured in terms of the number of unplanned interruptions per customer) has steadily improved. Our customers have indicated that they expect that levels of reliability should be maintained and our plans target this continued level of distribution network reliability.

Figure 8: Total number of unplanned interruptions per customer (excluding major storm events)



Source: AusNet Services.

5. It should be noted that our network is only one part of the electricity supply chain. We are only referring to supply interruptions due to the distribution network, not to problems elsewhere in the system.



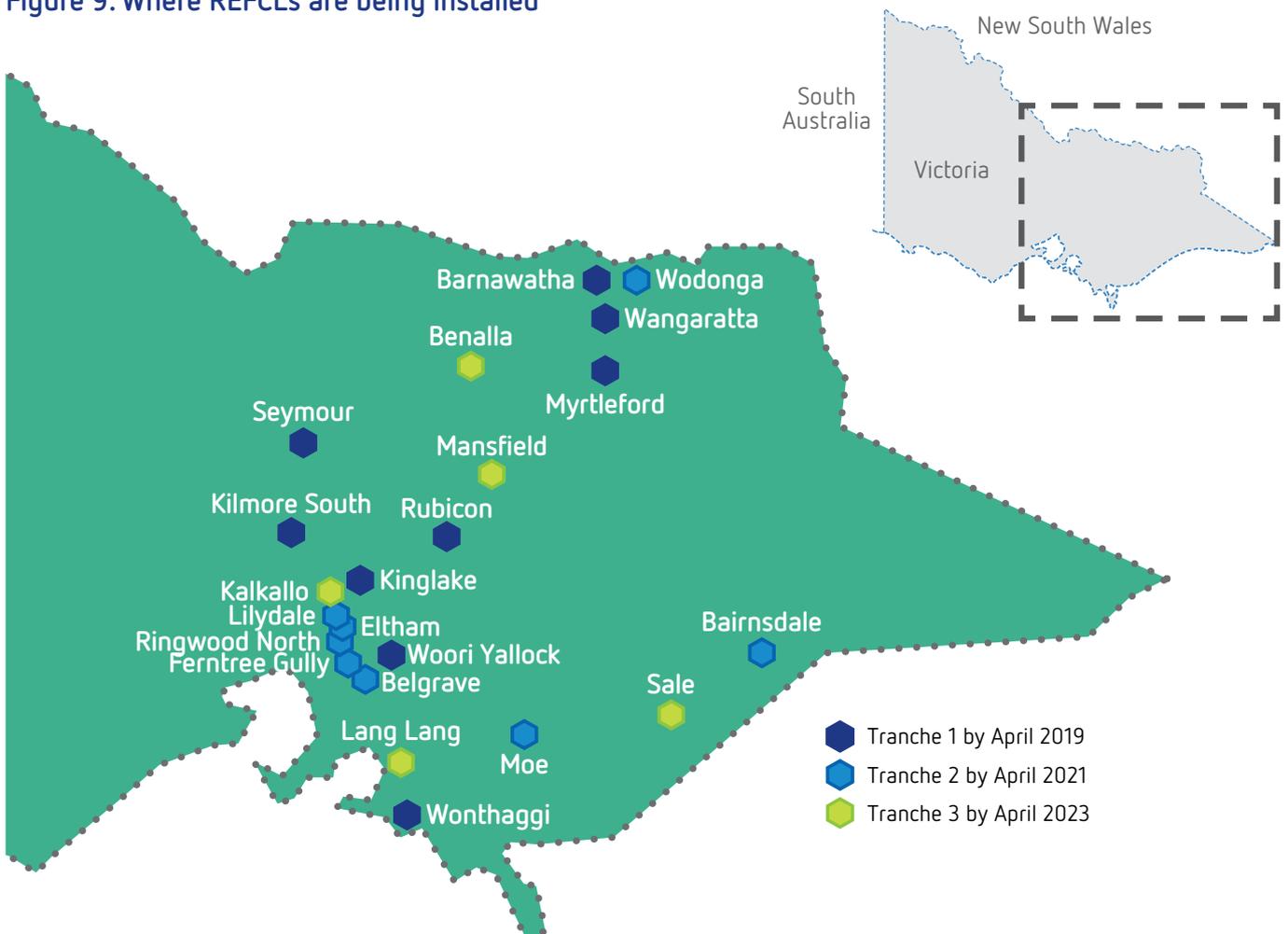
Reducing bushfire risk

In partnership with the Victorian Government, AusNet Services (and other Victorian electricity distributors) is currently installing new technology to reduce the risk of powerline-related bushfires. The technology, known as Rapid Earth Fault Current Limiter or REFCL, is being installed in selected high bushfire risk areas. It is estimated that REFCLs could cut powerline fires in Victoria by about 50% (according to the Victorian Government). We will finish installing this technology by early 2023.

This is the first time REFCL technology has been used at such a large scale in a distribution network worldwide to manage the risk of bushfires. As it is new technology, we are learning how to integrate it into our existing network. Currently nine of the 22 REFCLs to be installed by 2023 are operating and successfully reducing bushfire risk for customers.

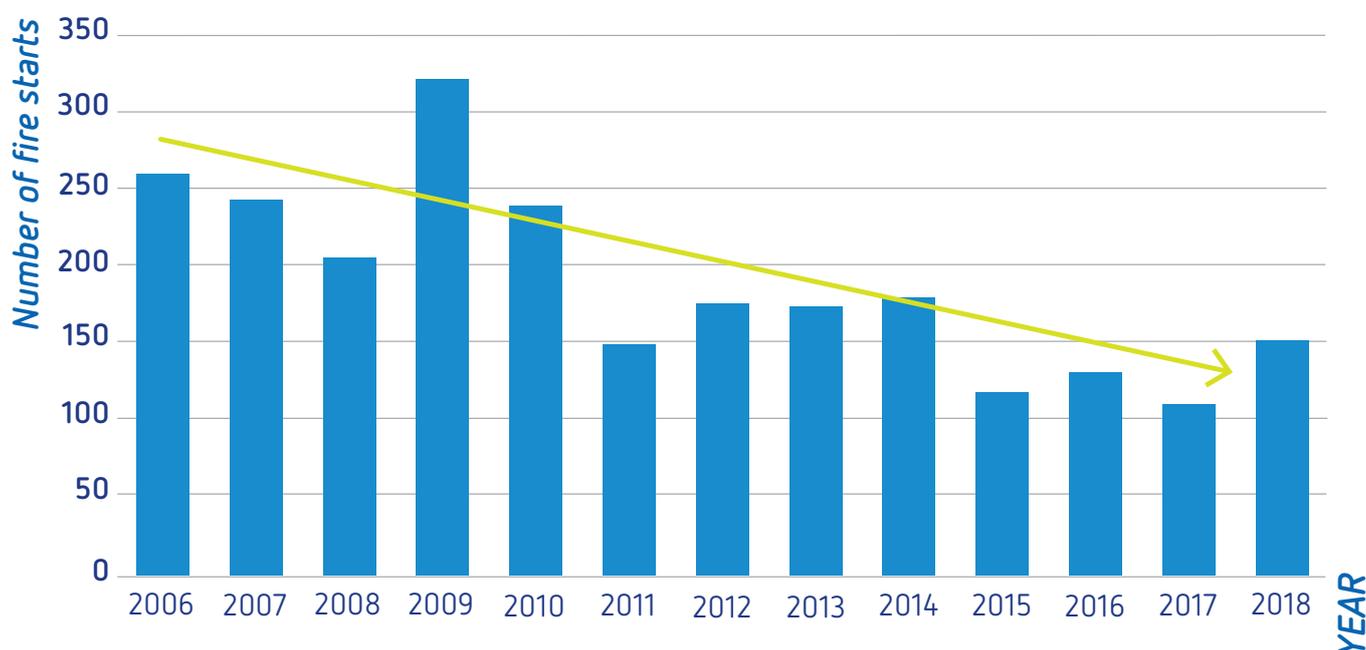
These benefits have come at a cost – approximately \$295 million. This cost will be paid by our customers over the next 45 years.

Figure 9: Where REFCLs are being installed



As shown in the figure below, bushfire starts due to our network have been trending down significantly over time as we have invested to better manage the bushfire risk associated with our network.

Figure 10: Reduction in fire starts (\$2021)



Source: AusNet Services.

3) IMPROVING CUSTOMER EXPERIENCE

Making our services more customer friendly



AusNet Services has agreed a number of initiatives with the Customer Forum to improve service delivery including:

- > more frequent and accurate communication during outages;
- > giving large customers and Councils a dedicated point of contact in our organisation;
- > making it easier for customers to get compensation if we have accidentally damaged their equipment; and
- > continuing to improve the support our call centre provides to customers.

We have also proposed stronger incentives in the regulatory arrangements to improve customer satisfaction.

We are not waiting for the next regulatory period to begin before we put these changes in place. Action is already well underway and is delivering for our customers. We are also committing to continue to improve outcomes for customers with actions across the next nine years and beyond.

Aside from modest investment in new information systems to improve our communications with customers, AusNet Services is not increasing costs to deliver these improved outcomes for customers. Rather, this is being done within our existing budgets.

HOW WE ARE IMPROVING CUSTOMER EXPERIENCE

RESIDENTIAL CUSTOMERS



- > Improving communication and management of planned and unplanned outages
- > Making new connections to our network easier
- > Continuous improvement of management of life support customers including communication and priority restoration during outages
- > Making claims easier if we have inadvertently damaged customer equipment
- > Collaborating with communities to improve the experience of our most vulnerable customers

BUSINESS CUSTOMERS



- > Ensuring customers are on the cheapest network tariff for their usage
- > Resourcing of new customer relationship managers to support our business customers and their specific network needs
- > Making claims easier if we have inadvertently damaged customer equipment
- > Improving communication and management of planned and unplanned outages
- > Dedicated staff to support larger electricity generators wanting to connect to our network (such as wind farms)

SOLAR CUSTOMERS



- > Investment to allow more solar exports onto our network where economic
- > Ongoing innovation and collaboration across the industry to unlock the solar resource
- > On line pre-approval solar tool (up to 30kW) – 95% approved
- > Solar alert so customers know when system not working – over 10,000 alerts
- > Dedicated staff to support local communities going solar
- > Ongoing programs to improve solar connection processes

ALL CUSTOMERS



- > Business hours remote disconnection and reconnection fees abolished saving customers \$750,000 each year
- > Incentives to improve customer satisfaction are embedded in the performance measures for senior managers and teams across the organisation – the satisfaction measures relate to unplanned outages, planned outages, new connections and complaints
- > A new incentive scheme in the regulatory arrangements to improve customer satisfaction
- > Annual reporting on our performance against promised customer improvement outcomes
- > Greater customer research and engagement to better understand the key issues being faced by our customers and how best to fix them

4) RESPONDING TO THE CHANGING WAYS THAT CUSTOMERS WANT TO USE THE NETWORK



Unlocking solar to benefit all customers

The conversations we have had with customers indicates that they want our business to invest to support the changing ways in which they wish to use our network, particularly to support solar exports.

The customers that were surveyed as part of developing our plans indicated that they want this change made in a way that manages costs and ensures that both solar and non-solar customers benefit.

Responding to this, AusNet Services is making smart use of technology and modest investments to allow as much of our customers' solar energy as possible onto the network in a cost-effective way.

AusNet Services propose to invest \$43 million (\$2021) to allow more solar exports onto our network and maintain the quality of supply to all our customers.

In terms of benefits for customers:

- > It is estimated that 31,000 extra customers will be able to export their solar energy onto the network;
- > 228,000 customers will avoid voltage problems that could damage their electricity equipment or cause outages – this includes both solar and non-solar customers;
- > Wholesale electricity price will be lower for all customers⁶; and
- > Carbon emissions and air pollution will be reduced.



6. AEMC, *Integrating distributed energy resources for the grid of the future*, Economic regulatory framework review, 26 September 2019.

What can change from here (key risks for customers)

This section has outlined the expected benefits of our plans for customers. It is important that customers also understand that there may be unexpected changes that could change the intended price and service level outcomes, such as those listed below.

Higher take up of solar and other new technologies

Government policies and the actions of our customers could result in faster adoption of new technologies than we have assumed—including adoption of solar, batteries and electric vehicles. Higher expenditure may be needed to support customers' use of these technologies. However, AusNet Services will always seek to innovate to find ways to minimise the cost of these changes.

Extreme weather events and bushfire risk

The threat of bushfires is an ongoing risk to communities and our network, as has been demonstrated by the recent unprecedented fires in the eastern part of Victoria covered by our network. Climate change is predicted to increase the risk of extreme weather events including floods, storms and fires. The costs to repair the network and to manage these risks may be higher than current predictions and may cause more interruptions to power supply.

Price impact of lower than expected electricity consumption

As we are subject to a revenue cap, our network charges could increase if the amount of electricity consumed by customers is lower than expected.



6 METERING SERVICES



AusNet Services' metering expenditure proposal relates to the regulated metering services provided to residential and commercial customers using less than 160MWh per annum via advanced metering infrastructure or smart meters.

AusNet Services' engagement with the Customer Forum and consultation with customers more broadly has resulted in a balanced smart metering proposal that provides many benefits to customers.

Importantly, average metering charges per customer will be \$30 (\$2021) lower, falling from \$96 per customer in the current period (2016-20) to \$66 per customer over 2022-26.

Although the metering charges are falling, our metering proposal will:

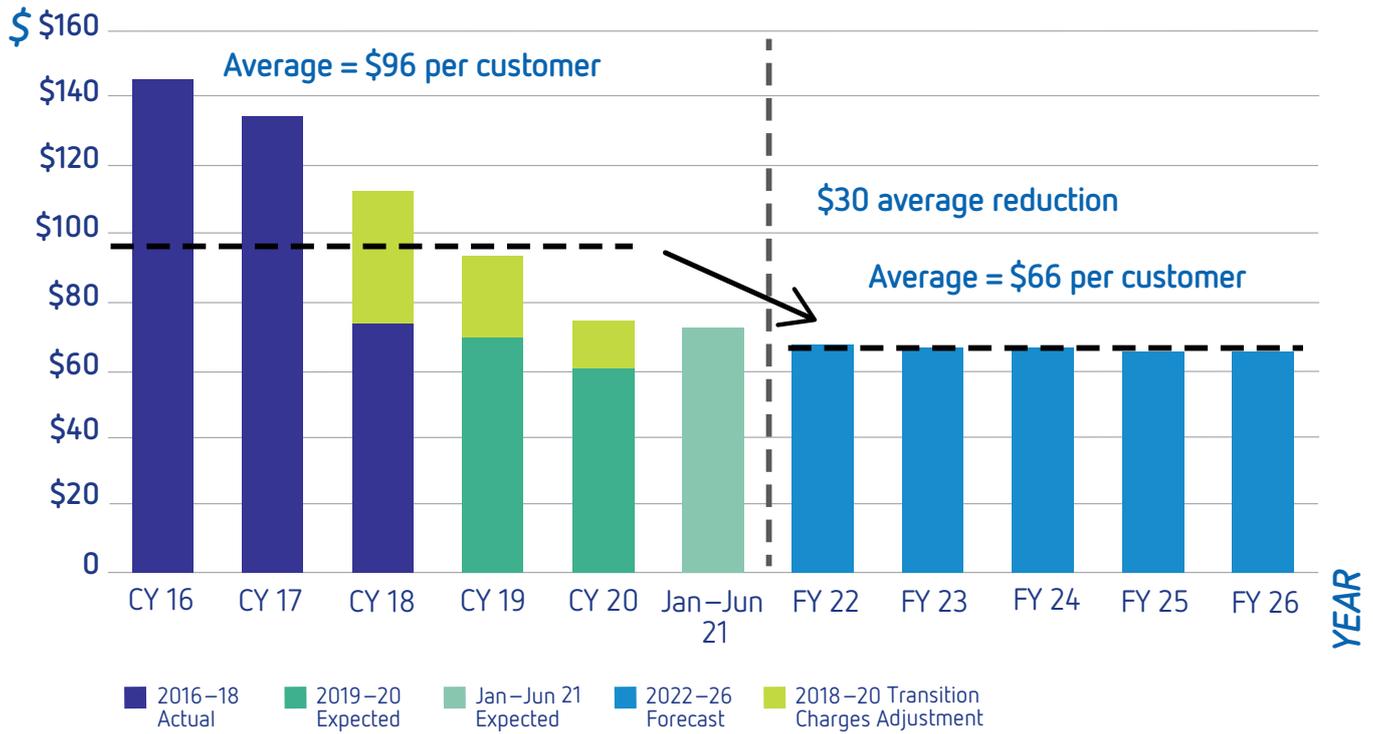
- > Maintain our high service level across metering operations; and
- > Continue to deliver better electricity distribution services by using the smart meter network. As examples, smart meters identify faults before they become a safety issue and providing better real-time information to support customers when there is an outage or when they want to connect solar to the network.

This reduction in metering charges results from:

- > Efficiency gains that have reduced our costs – this is the majority of the bill reduction, accounting for 63% or \$19 (real \$2021);
- > Sharing costs between our metering and distribution services in a way that reflects how our business operates in practice. The reallocation of costs to distribution services accounts for only \$7 (real \$2021) or 23% of the total reduction in revenue per customer; and
- > A lower return on capital compared to the 2016-20 period accounts for the remainder of the bill reduction, contributing to \$4 (real \$2021) or 13% of the reduction in revenue per customer.



Figure 11: Revenue per customer (\$2021)



Source: AusNet Services. Note: The current regulatory period starting on 1 Jan 2016 has been extended by 6 months to include Jan to June 2021. For easier comparison, the Jan to June 2021 data is presented as an annual number on the chart.

We are also removing some metering-related charges. Remote connection and disconnection service charges which are usually charged when customers move in or out of a property during business hours are being abolished. This is expected to save customers over \$750,000 annually across our customer base and is one less irritant for customers. It is one of the many benefits now being delivered by smart meters.



7 TARIFFS



Network tariffs refer to the structure of charges paid by our customers for their electricity distribution services. A typical residential customer's distribution network tariff consists of a fixed charge and a flat charge per unit of electricity consumed (in cents per kWh). For a distributor whose revenue is capped, tariffs do not influence the overall revenue collected. However, they do influence the amount individual customers pay for their network services. This will influence customers' behaviour and therefore future network investment needs. Designing a package of tariffs that encourages customers to use less electricity at peak times and promotes affordability and fairness across our customer base is an important part of our regulatory proposal.

Engagement on tariffs

The Victorian electricity distribution businesses including AusNet Services have consulted extensively with customers, advocates and the Victorian government on the types of network tariffs that are appropriate for small household and business customers in the 2022 to 2026 period.⁷

The conversation has been guided by a desire to balance the following pricing objectives agreed with stakeholders.

PRICING OBJECTIVES



Simplicity. Network prices should be readily understood by customers, retailers and stakeholders.



Economic efficiency. Customers face the correct price signals so that their consumption decisions reduce total network costs.



Adaptability. Network pricing design should be capable of being applied to future network configurations and technologies.



Affordability. Access to network services should be affordable, including for vulnerable customers.



Equity. Each customer should pay a fair share of network costs.

Reflecting the efficiency, equity and adaptability objectives, the conversation with customers has been about whether to change the current, flat rate design of tariffs to better signal the changing cost of electricity at different times of day. That is, to move to more "cost-reflective" tariffs.

7. Large business customers are on specifically designed tariffs that have been previously approved and these will not change. The business tariffs are designed so that business customers make a fair contribution to meeting the costs they impose on the network in peak periods.

Different types of tariffs could do this. A simple and well understood cost-reflective tariff is a Time-of-Use (TOU) tariff. Under this tariff, the charge per unit of electricity consumed (the cents per kWh charge) is higher in peak periods and lower in off-peak periods instead of being a flat rate.

Affordability and equity objectives have also meant that the consultation with customers and advocates has also considered whether:

- > Some or all customers should be on cost-reflective tariffs
- > Vulnerable customers should be on cost-reflective tariffs
- > Cost-reflective tariffs should be compulsory or optional

How customers might transition onto these tariffs has also been considered.

There has also been discussion about whether different types of tariffs are needed to deal with particular situations, such as specific network tariffs for electric vehicles as these appear on our network over several regulatory periods. In this case it is seen as important that the tariffs strongly encourage consumers to charge electric vehicles outside of peak periods while preserving choice and convenience for these customers.

The engagement process on household and small business tariffs has involved three workshops that were jointly run by the Victorian distribution businesses (held in November 2017, April 2018 and March 2019). At the third forum, TOU tariffs were tested. A majority of the 40 participants supported the proposed tariff. However, there remained concern about the impact on vulnerable customers.

A summary of the consultation on residential tariffs and the response of the Victorian distributors is provided below.

CONSULTATION ON RESIDENTIAL TARIFFS

WHAT WE HAVE HEARD	OUR RESPONSE TO WHAT WE HAVE HEARD
RESIDENTIAL CUSTOMERS	
<ul style="list-style-type: none"> > Electricity pricing is complex and not well understood. > It is fair for residential customers to pay in line with the cost they each impose on shared community infrastructure like an electricity network. > Some customers may need to be supported if any changes to tariff structures are imposed. > Mixed support for single-rate, TOU, and demand tariff structures. > TOU pricing is more readily understood than demand pricing. > There is little support for a subscription pricing⁸ because of its relative complexity. > Peak time rebates⁹ are supported if cost-effective. 	<ul style="list-style-type: none"> > The status of electricity as an essential service drives most households to want us to price our services in a way that carefully considers those least able to respond to any changes we might implement. > Customers prefer pricing mechanisms that reward rather than penalise (a preference for “carrots” over “sticks”). > Many customers, even when they have access to personalised information, time, and experts, have difficulty understanding demand pricing. Meanwhile, TOU pricing is well understood and “part of life” – customers readily cite examples such as public transport fares as examples of TOU pricing. We have therefore proposed a TOU tariff as the new default tariff.

8. This option applies a fixed charge for each customer based on pre-defined peak period usage band.

9. Peak time rebates involve paying customers in a particular local area (depending on the local of a constrain) a rebate for using less electricity than they were intending to at the time we called an electricity network peak event.

WHAT WE HAVE HEARD

OUR RESPONSE TO WHAT WE HAVE HEARD

CUSTOMER AND STAKEHOLDER REPRESENTATIVES

- | | |
|--|--|
| <ul style="list-style-type: none">> Tariff structures should be able to be understood and managed by both retailers and customers.> Pricing principles should be affordability, simplicity, equity, economic efficiency and adaptability. Recognition that trade-offs are required when meeting these.> Peak time rebates are supported if cost-effective.> Transition and complementary measures are important to consider but the level of support for change depends materially on the outcomes for vulnerable customers. Any reassignment should seek to minimise the number of negatively impacted vulnerable customers. | <ul style="list-style-type: none">> We agree that moving to more cost-reflective tariff structures should be our aim.> Given retailers often mirror network pricing structures, it is important that customers understand, and can, therefore, respond to, network tariff structures. When there is a trade-off between benefits related to complex solutions and benefits of simple solutions, we have therefore erred on the side of simplicity. For example, in our choice of a two-rate tariff and selecting when our peak period applies.> We will continue to explore demand management options as a potentially powerful tool to manage peak demand.> To minimise the potential to inadvertently and negatively impact vulnerable customers, we only assign or reassign customers when there is a customer-led trigger that is less likely to be associated with vulnerable customers. i.e. new connections, installing solar, upgrading to a three-phase power supply and potentially EV's. |
|--|--|

RETAILERS

- | | |
|--|--|
| <ul style="list-style-type: none">> Network tariff structures should be focused on retailers rather than customers.> Customers need to be informed of any changes that could result in their bills from a change in tariff structures.> Generally, prefer mandatory reassignment onto a new TOU tariff.> Some query whether peak periods should apply on weekends and public holidays.> Would find extended transitions where prices move slowly toward cost-reflective tariffs difficult to communicate. | <ul style="list-style-type: none">> Generally, retail tariff structures have tended to closely align to network tariff structures – as a result, stakeholders have asked us to have one-eye to customer outcomes if this pattern continues into the future.> We agree that customers should be made aware of material changes to their retail tariff structures.> Only the retailer itself is aware of when and how it may change a customer's retail tariff structure, so we consider it makes sense for retailers to lead communication and education efforts.> We consider that because peaks can occur on weekends and public holidays combined with the general preference for simplicity means we should apply our peak period to weekends and public holidays.> We will set our available tariffs at price levels we consider cost-reflective. We will not seek to slowly move price levels toward cost-reflective levels over time. |
|--|--|

Addressing feedback

Reflecting the support for TOU tariffs due to their simplicity, this type of cost reflective tariff is proposed. Reflecting the concerns heard in feedback, a conservative transition to these tariffs has been proposed, particularly for households.

Only new connections, new solar connections and customers upgrading to three-phase power (i.e. higher power supply capability) would be transitioned onto TOU tariffs. If they can be identified, it would also be preferable to put

electric vehicle owners on a TOU tariff. Other households would be able to choose a TOU network tariff if they wished to do so (and this would lower the bill of many customers relative to the existing flat tariff). Further detail is provided below.

Proposed tariffs

Simple, TOU tariffs are proposed for household and small business customers with customers moving onto the tariffs over time. Customers (other than those with solar panels) can still choose to be on a single rate tariff.

PROPOSED HOUSEHOLD TOU TARIFF AND TRANSITION

PRICING STRUCTURE



- > Peak period occurring between 3 pm to 9 pm local time, all days of the week including public holidays and regardless of season
- > Off-peak applying at all other times

TRANSITION PATH



1. Customers that will transition to the new TOU tariff:
 - New connections
 - 3 phase meter upgrades
 - New solar connections
2. Customers (excluding solar customers) can request to opt-out to a single rate tariff
3. Customers on existing tariffs can opt-in to the new TOU tariff

PROPOSED SMALL BUSINESS TOU TARIFF AND TRANSITION

PRICING STRUCTURE



- > Peak period occurring between 9 am to 9 pm local time on weekdays
- > Applicable all year round

TRANSITION PATH



1. Customers on existing TOU (including solar TOU) will transition to the new TOU tariff
2. Customers requesting the following services will transition to the new TOU tariff:
 - New connections
 - 3 phase meter upgrades
 - New solar connections
3. Customers (excluding solar customers) can request to opt-out to a single rate tariff
4. Customers on existing tariffs can opt-in to the new TOU tariff

ATTACHMENT: SUMMARY OF AGREEMENTS WITH THE CUSTOMER FORUM

TOPIC	CUSTOMER FORUM POSITION
Opex	With the reduction in revenue per customer of \$110 at the start of the regulatory period which is maintained in real terms, taken together with other expenditure savings, the opex proposal appears to represent overall value for money.
Major growth projects	The Customer Forum support the single major growth project required at Clyde North. The Customer Forum believes this investment represents value for money for customers.
Customer experience	<p>These agreed initiatives will deliver improved customer service, for little additional cost to customers. At the Customer Forum's request, a report on AusNet Services' progress will be published each year.</p> <p>The Customer Forum expects customers will receive better value for money from the Customer Satisfaction Incentive Scheme, which provides stronger incentives to continually improve customer service.</p>
Major asset replacement	The final negotiation position achieves lower costs than originally proposed and improved reliability at the locations served by the relevant zone substations and maintains reliability across the network. The Customer Forum believes this final proposal represents value for money for customers.
Solar integration	The Customer Forum supports the principle that most consumers should be free to connect a reasonable level of rooftop solar to the network. Further, customer research indicates customers believe it is reasonable that augmentation costs to support solar connections should be shared among customers. With this in mind, the Customer Forum supports AusNet Services' proposed investment as value for money for customers.
Innovation expenditure	<p>A modest amount of expenditure for innovation projects is beneficial to customers as it is capable of producing significant tangible benefits for customers in the future.</p> <p>The Customer Forum supports the proposed governance arrangements involving establishment of the Innovation Advisory Committee.</p>

TOPIC	CUSTOMER FORUM POSITION
Smart metering	The Customer Forum believes the additional customer benefits (that will be delivered using smart metering) 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.
Price path	The agreed price path reduces prices to the greatest extent possible at the start of the period. After this prices would only increase by inflation.
Overall reasonableness of proposal	In recognition of the \$110 minimum average price reduction per customer and other customer benefits listed above, the Customer Forum concludes the revenue proposal represents value for money for customers.

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