

12 May 2023



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Chair
Australian Energy Regulator
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Dear Ms Savage,

Ausgrid submission to the AER's Issues Paper on Ausgrid's 2024-29 Regulatory Proposal

Ausgrid welcomes the Australian Energy Regulator's (AER) Issues Paper on our 2024-29 regulatory proposal (**Issues Paper**). The Issues Paper reflects the positive and constructive ongoing engagement we have had with stakeholders, including the AER. We are happy to see this acknowledgement, given our ongoing efforts to drive customer-centricity and genuine engagement and consultation through our business.

We are providing this submission to assist the AER with its ongoing deliberations and update the AER and stakeholders on our engagement program since we submitted our Regulatory Proposal on 31 January 2023.

We continue to engage customers and stakeholders on our Regulatory Proposal

Our 2024-29 Regulatory Proposal reflects the community's expectations of the services we provide over the 2024-29 period and beyond.

Since submitting our Regulatory Proposal we have continued to engage customers to test and develop the themes from our regulatory proposal in the light of the changing economic environment and on key issues, in particular climate resilience and applying a proposed customer service incentive scheme (CSIS).¹

We have refreshed our Voice of Community Panel membership, held the first two sessions with the new Panel, and have a further four scheduled ahead of our December 2023 Revised Proposal. Through this engagement we are testing customers' satisfaction with our Regulatory Proposal, in particular the changes we made based on their feedback to our September 2022 Draft Plan. For example, our customers are providing further valuable feedback on our proposed CSIS which may influence the proposed design of this scheme for the 2024-29 period.

Customers are increasingly telling us about a desire for collaboration and an integrated approach to supporting communities during extreme weather events. They want this to occur at an energy system level, an industry level, and with local and state governments. They expect energy companies to play a significant role in building resilient, affordable and net zero communities given the increasing reliance on electricity.

We are consistently hearing about the need for flexibility and innovation to effectively deal with complex issues, such as the transition to net zero and our response to increasingly extreme

¹ See Ausgrid, January 2023. Attachment 3.4: Customer engagement framework:
<https://www.aer.gov.au/system/files/Ausgrid%20-%20Customer%20Engagement%20-%20Att.%203.3%20to%203.5.zip/>.

weather. Customers want us to challenge the status quo and look for smarter and fairer ways to provide what they describe as an 'equitable' service.

Overall, these sessions are highlighting that our customers are broadly satisfied with our Regulatory Proposal. Our engagement is continuing to demonstrate the critical importance of embedding customer feedback into the regulatory process, adopting affordability measures in a cost of living crisis, and being transparent and clear about the matters within our control and those that are not.

We are also halfway through a program of 12 sessions across three local government areas (LGAs) to build community-led climate resilience proposals. This engagement is aligned to the AER's Resilience Guidance Note, and the Resilience Framework that we co-designed with customer advocates. The engagement is delivering insights into how different communities function, and the impact this has on preferences for resilience options that meet their unique circumstances.

While our understanding continues to evolve as we continue to engage, we are hearing that:

- **Port Stephens** has established community networks driven by a sense of being 'forgotten' during previous climate events, including bushfires and floods. We are hearing that, during these previous events, the Port Stephens community felt that emergency response was prioritised for Newcastle. Existing community organisations now provide basic services in an emergency and are looking for support to enable a more informed and co-ordinated response during future major weather events. This creates an opportunity for Ausgrid to work closely with the existing community, leveraging the work already being done. It positions us well to provide local solutions that recognise this community's extreme risk to East Coast Lows and the vulnerable nature of this community. Of note, there is a strong Indigenous community with one of the few remaining designated Aboriginal Reserves.
- **Central Coast** is a widespread region and a series of villages rather than a cohesive community, with a significant divide in both service quality and service expectations east and west of the M1 motorway. East of the M1 is more urban and has attracted ex-Sydney residents, many of whom have been shocked by and unprepared for the frequency and duration of unplanned outages. Given the lack of community networks, customers are telling us that some residents do not or cannot access existing support services. This in turn has caused additional trauma for these residents during long-duration power outages. The community is therefore advising that they are looking for two types of solutions from Ausgrid. Firstly, network solutions that innovatively and efficiently address feeders located in highly vegetated areas. Secondly, they are looking for local resilience plans, increased communication and information that helps them to be better prepared and informed during long duration outages.
- **Lake Macquarie** is predominantly a retirement and nursing home destination. As a result, the community is very focused on the elderly and conscious of the need to provide extra support to vulnerable people in their community who are most at risk during climate resilience events. This is influencing their priorities for climate resilience into the future, they are looking for highly targeted network solutions and similarly targeted communications that protect the vulnerable from a worsening impact of storms. This includes providing emergency support for the most vulnerable via either mobile or fixed location energy resilience hubs.

Our 2019-24 capital expenditure sharing scheme (CESS) exclusions reflects outcomes of our engagement at the previous reset

The AER is seeking input from stakeholders on our proposed approach to CESS exclusions for the current period. We consulted with AER staff on our proposed approach to CESS exclusions for the current period in March 2022 and were advised that AER staff would recommend our proposed CESS exclusions if supported by customers.

Members of Ausgrid's independent Reset Customer Panel confirmed to Ausgrid that our proposed approach aligns with their expectations. We note that several Reset Customer Panel members were involved in the discussions on this matter (including as AER Consumer Challenge Panel members) at the 2019-24 reset so they are well placed to offer an informed view. For exclusions proposed for the 2019-24 period, we have asked the Reset Customer Panel to consider this matter, and they may address in their submission.

In relation to potential expenditure incentive scheme exclusions for the 2024-29 period, we consider the most effective way to address concerns is for the AER to engage with us and the Reset Customer Panel on the underlying intent of the proposals and how this intent could be achieved in the long-term interests of customers.

Classifying type 5 and 6 metering as a standard control service (SCS) (in whole or part) requires customer impact assessments

The AER's Issues Paper suggests that type 5 and 6 metering could be brought back into SCS to avoid the inequity of the diminishing number of customers paying very high prices.

As the number of customers leaving our legacy service accelerates, our service will become more expensive on a per customer basis due to a reduction in economies of scale. There are good equity grounds for these diseconomies to be socialised via general network charges, as a way of mitigating the cost impact of the remaining legacy metering customers. However in doing so it is important to understand how it will impact all customers.

The impact of the advanced meter rollout on our legacy metering service requires careful consideration from the AER with input from a broad range of stakeholders. We are engaging with the other NSW distribution network service providers and considering how we best engage customers on the AER's proposed approach. The AER may wish to hold a stakeholder forum on its proposal as part of the review process.

The AER could consider cross-referencing against multiple NSW sources for labour rates

As noted in our Regulatory Proposal, the energy sector is experiencing and is expected to continue to experience increasing labour shortages.² This continues to put upward pressure on labour rates.

The AER's Issues Paper observes that our proposed labour rates for ancillary network services (ANS) are higher than observed preliminary maximum efficient benchmark rates as well as

² See: BIS Oxford, 2022. RIN.05 – Real labour escalation report. <https://www.aer.gov.au/system/files/Ausgrid%20-%20BIS%20Oxford%20-%20RIN.05%20-%20Real%20labour%20escalation%20report%20-%2007%20Nov%202022%20-%20Public.pdf/>; and Cutler Mertz, 2022. NSW ANS labour rates review. <https://www.aer.gov.au/system/files/Ausgrid%20-%20Cutler%20Merz%20-%20Att.%209.3.b%20-%20NSW%20ANS%20labour%20rates%20review%20-%204%20Aug%202022%20-%20Public.pdf/>. Also acknowledged in AER's final determination for Transgrid AER, Final decision, Transgrid transmission determination 1 July 2023 to 30 June 2028, Attachment 5 – Capital expenditure, p 17. <https://www.aer.gov.au/system/files/Ausgrid%20-%20Cutler%20Merz%20-%20Att.%209.3.b%20-%20NSW%20ANS%20labour%20rates%20review%20-%204%20Aug%202022%20-%20Public.pdf/>. Also acknowledged in AER's final determination for Transgrid AER, Final decision, Transgrid transmission determination 1 July 2023 to 30 June 2028, Attachment 5 – Capital expenditure, p 17. <https://www.aer.gov.au/system/files/AER%20-%20Transgrid%202023-28%20-%20Final%20Decision%20-%20Attachment%205%20Capital%20expenditure%20-%20April%202023.pdf/>.

current approved rates after adjustment for inflation. We understand that the maximum efficient benchmark rates will be updated for the AER's Draft Decision based on the 2023 Hays Salary Report, expected to be published on 31 May.

We encourage the AER to consider a wider body of evidence than just the Hays Salary Guide. The salary ranges in the 2022 Hays Salary Guide for the job classifications used for ANS did not change compared to the 2021 Hays Salary Guide. This does not reflect well-known and observable challenges in recruiting for specialist roles in the energy sector.

If you have any questions about this submission or our responses to the public forum questions, please contact Alex McPherson, Head of Regulation, at [REDACTED].

Regards



Rob Amphlett Lewis
Chief Customer Officer