Consumer

Challenge

Panel

CCP10 Response to the Ausgrid Revised Regulatory Proposal 2019-24 and AER Draft Determination

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SECTION 1

Observations of the regulatory reset process in New South Wales and the Australian Capital Territory

OVERVIEW

This section is common to the four submissions that CCP 10 is making in responding to the AER Draft Decisions and subsequent Revised Revenue Proposals from the three New South Wales and the Australian Capital Territory electricity distribution businesses: namely Ausgrid, Endeavour Energy, Essential Energy and Evoenergy. Section 2 and beyond deals specifically with issues relating to each distributor.

The observations in this section relate to our activity during the past two years when we have been engaging with the businesses. We have sought to set out matters relevant to all 4 businesses and the processes that we have observed. It is not our intention to compare the four businesses, rather to derive the common issues. We recognise that while the 4 businesses have many technical issues in common, other aspects of the businesses are quite different - particularly governance and individual business culture.

In this section 1, we address three predominant aspects of the revenue reset process observed by CCP10:

- Firstly, we note the unique circumstances in which CCP10 has operated;
- the second part highlights our observations on emerging best practice in consumer engagement; and
- we then discuss the issues that we believe are emerging NEM wide and that need to be addressed by the AER, the businesses and all stakeholders in the medium term.

UNIQUE CIRCUMSTANCES

At the outset we acknowledge that the context in which the 2019- 24 regulatory processes have been developed is unique with a number of abnormal factors in play, particularly when compared to previous regulatory processes. We have made this point in all of our previous submissions, but we repeat the observations here because they are significant.

Ownership

Changes in ownership have been significant for Endeavour Energy and Ausgrid due to the partial sale of these businesses by the New South Wales government. While Essential Energy has remained under government ownership, it now needs to operate as a separate business just like the other two New South Wales distribution businesses. This means that the New South Wales businesses have dealt with the development of 2019-24 regulatory processes in a very different manner to the approach taken for the 2014-19 regulatory proposals, when the businesses acted as a group under the banner of Networks New South Wales. Evoenergy has changed its name from ActewAGL with this business being separated from other parts of the ActewAGL business group, with retail functions also being separated from network activity.

We recognise that changing ownership and governance arrangements and, in some cases, legislated operational restrictions, coupled with the application of a new ring-fencing guideline (in 2017), have required new processes to be undertaken in developing regulatory proposals for each of the four businesses. This is not to suggest that any of the businesses were unaware of the timing or the rules for development of their 2019-24 proposals, but they provide important context.

2014-19 regulatory process - remitted decisions

One of the significant, unique factors is that the 2014-19 revenue determinations had not been resolved before the initial revenue proposals for 2019-24 were to be lodged. This is due to the Limited Merits Reviews (LMR) and subsequent Federal court appeals that followed from the AER's final decisions for 2014-19, which resulted in aspects of the AER's final decisions being remitted to it to be remade. We note that aspects of final decisions were also remitted back to the AER for a fifth business, Jemena Gas Networks (JGN), though the issues in play for JGN were not as closely correlated with the issues for the ACT and New South Wales electricity distribution businesses. The AER's final decisions were also made after the 2014-19 regulatory period commenced due to changes in the rules for network regulation that were finalised by the AEMC late in 2012, which in turn led to the AER developing the "Better Regulation" guidelines to deal with application of the new rules in 2013. This resulted in a placeholder decision for the first year of the 2014-19 period.

The end result was that the total amount of money that customers would need to pay to each of the businesses for its provision of network services during 2014-19 was not fully known at the time of lodgement of the 2019-24 initial revenue proposals. This means that these regulatory proposals were lodged against a backdrop of some price uncertainty for not only customers but also for each of the network businesses.

An important factor in the initial AER final decisions for 2014-19 was the recognition that the ACT and the New South Wales businesses, in particular, needed to transition from businesses that were operationally inefficient to businesses that were more efficient. The introduction of benchmarking of operational expenditure for Australian network businesses coincided with the release of the original final decisions for 2014-19, another important development in regulatory practice in Australia, though the timing may not have been ideal.

The good news for this 2019-24 regulatory proposal is that the 2012 rule changes in the better regulation approaches are now tested and embedded in Australian network regulatory practice. The introduction of benchmarking was a key element of the better regulation process and so was new in the last regulatory period. Increasingly the AER's use of benchmarking is better understood with the benefit of history and greater certainty in the collection of RIN data across the NEM. We have drawn on aspects of the most recent AER benchmarking report in considering aspects of regulatory proposals, believing that benchmarking is an important aspect of regulatory processes and remains a critical cross check tool for the AER. The use of benchmarking as one of a number of informative tools by the AER helps to secure outcomes that are in the long-term interests of consumers.

Since the processes for developing the 2019-24 regulatory proposals were running parallel to and somewhat determined by the outcomes of the remitted decisions for 2014-19, CCP10 in effect became a party involved in the consideration of each of the remitted decisions. We actively discussed the development of remittal proposals with each of the businesses and with other consumer advocates including ECA, PIAC, NCOSS and EUAA as well as consumer representatives on each of the distributor's consumer engagement committees. We recognise that LMR, other legal challenges and remitted decisions have not been easy to deal with for the businesses, the AER nor consumers. What is clear is that consumers were not well served by the actions of the 4 businesses and Networks NSW in challenging the AER's original 2014-19 Final Decisions.

Restoring Confidence in Energy Regulation (AER 2.0)

It is worth recalling that on 26 July 2017, at an Energy Networks Association (ENA) conference in Brisbane, AER chair Paula Conboy delivered a presentation entitled "Working together to restore confidence in energy regulation." In this presentation she provided some context to the situation at that time:

> "*We have had a highly adversarial culture around energy regulation in Australia. In fact, I was quite shocked at the intensity of that culture when I arrived here three years ago and it has been a conscious effort of mine to move away from it. This adversarial approach needs to change if we are to achieve mutually acceptable outcomes for investors and consumers; outcomes that are in the long-term interests of consumers. I know that many of you agree that a more constructive working relationship with us is essential if we are to move on from an inefficient and ultimately unsustainable adversarial approach*."
>
> Paula continued: "*we want to engage with you and with consumers earlier in the process. We want to identify key points of disagreement early and we want to work collaboratively to resolve them… It's a new way; and in a post limited merits review world; I would suggest it is the only way… We are essentially kicking off AER 2.0*."

The AER then hosted a Round Table discussion about approaches to resolving the remitted decisions in August 2017. That meeting included the relevant network businesses, AER, CCP10 and selected consumer groups and focussed on the need to resolve the remitted decisions expeditiously.

Recognising the uniqueness of the circumstances leading up to the remits for NSW and ACT network businesses, and observing the significant price impacts on households and businesses of rapidly rising energy costs, CCP10 suggested starting with some principles to help shape the specific aspects of the matters raised in the AER's remittal Issues Paper.

There was no 'roadmap' for resolving the remitted decisions efficiently and effectively nor for the implementation of "AER 2.0." In considering the aspects of the remitted decisions relating to operating costs and debt, both the subject of Issues Papers from the AER, CCP10 proposed the following principles, as a basis for seeking resolution and garnering goodwill:

1. The focus must be on not only the National Energy Objective (NEO), but shorter-term impacts matter too (The short term can impact on the long-term interests of consumers)
2. Recognition of the uniqueness of the current situation
3. Use the best available evidence
4. Apply LMR and Federal Court directives, where they exist
5. The process is of transition from inefficient network businesses, to efficient businesses
6. Objective fairness between businesses
7. Sustainable Opex
8. Dealing with "A New Reality"
9. Trust and goodwill are needed to produce outcomes that work for all parties

CCP10 is relieved that each of the remitted decisions for the 4 electricity distribution businesses have been formally finalised or are near finalisation as of early January 2019. All parties, including the AER, are to be congratulated for the reality that these decisions are practically resolved. By moving on from that unconstructive period of regulatory engagement, the 4 businesses can now shift towards making consumers' interests their focus. It also frees the AER to continue to develop '*a more constructive working relationship'* with the regulated businesses and importantly to focus on systemic issues in the NEM of concern to consumers, some of which we have highlighted in the final part of this section 1 of our submission.

Extensions

We also note that the each of the New South Wales electricity distribution businesses sought three-month extensions for the lodgement of their regulatory proposals. In Essential's case it was so that it could resolve the 2014-19 remittal prior to lodging its initial proposal for the subsequent regulatory period. In Endeavour and Ausgrid's case the main reason was to enable the businesses to improve their consumer engagement on their initial proposals before lodging them with the AER.

We believe that all parties have made substantial progress in the (under) 18 months since the initiation of "AER 2.0." The magnitude of this change cannot be underestimated for network businesses, for the AER and its various teams, consumer groups and the CCP. The level of goodwill has grown between all parties and trust is building and was a major factor in the extensions being granted for each of the three NSW businesses, despite some concern by some stakeholders, including the AER, about the capacity of some of the businesses to utilise the time appropriately for improved consumer engagement.

The resolution of the remitted decisions and the goodwill generated in achieving resolution in most cases in an expeditious manner, has been significant in influencing the Revised Revenue Proposals for each business and has led to improved consumer engagement by each of the four businesses. We observe that each business has engaged using different timeframes and methodologies, but the intent for better outcomes has become more evident as each business has finalised its Revised Proposal.

Ongoing Regulatory Change

Good regulatory practice, like rust, never sleeps. Over the period in which these regulatory proposals were developed through to lodgement of the Revised Revenue Proposals, there have been a series of revisions to guidelines, rules and legislation that business and consumer interests have needed to take into account:

- legislative change has seen the abolition of LMR during 2017
- legislative change has also resulted in a binding rate of return guideline during 2018. The final rate of return Guideline (the 2018 Guideline) was developed with extensive consultation with a broad range of stakeholder interests and considerable expert input
- rule changes have specifically dealt with ring fencing and a range of proposals have dealt with aspects of distributed energy resources (DER) and access to the grid
- the AER has initiated reviews of aspects of the regulatory framework, which has resulted in changes to rate of return, taxation, treatment of inflation, dynamic productivity for operating costs and tariffs. Separate CCP subpanels have dealt with each of these issues and we refer to submissions on each of these issues from the relevant CCP subpanel. Our advice is intended to be consistent with the CCP views expressed in these processes and
- there has also been clear direction from governments and the AER for network businesses to engage much more directly and transparently with consumer interests.

We recognise that regulation is not an exact science, there will always be aspects of ambiguity and issues upon which regulatory judgement will be required. We also observe that each of these processes have led to improved regulatory process and enhanced certainty for both consumers and network businesses. It is our belief that the result of these various changes to Australian network regulatory processes is starting to shift the asymmetry in network regulation between business and consumer interests to improved alignment with consumer interests and the national electricity (and gas) objective**s.**

Ongoing Market Change

In their submission in response to the original 2014-19 proposals from the ACT and NSW businesses, CCP1 contextualised their submission by saying:

> "*We consider that there is a new reality facing distribution businesses (and indeed, others in the energy sector) and yet we see limited evidence that the submissions from the New South Wales distribution businesses reflect this and move beyond "business as usual".*
>
> *The new reality is a result of changes in demand and changes in customer willingness to pay high electricity bills, leading to a need for businesses to adapt to meet these new circumstances*."

The imperatives of this new reality have accelerated since this CCP1 observation, from less than five years ago. Some argue that the role of network businesses for electricity distribution is less clear cut than it was even five years ago with DER meaning that there is considerably more localised generation occurring, while the locations for larger scale renewable energy generation are likely to be different from those for fossil fuel-based generation. The role and functioning of the future grid is a global question and one that was considered by the ENA, on behalf of its network members, with the CSIRO through their network of the future "Roadmap".

The pace of change in their businesses and in the regulatory framework is now a reality for network businesses to a greater degree than has been in the past, however this reflects more the privileged position that network businesses have had in the past compared to most other business endeavours. Rapid and dynamic change remains relatively new for network businesses and provides opportunities for greater efficiency and cost reduction for customers - it does not need to be a driver for higher costs.

Price, Trust and External Scrutiny

Energy markets across Australia have been the focus of unprecedented public, political and media attention over the last decade. The cost of electricity has been the major driver of these concerns. During this time electricity costs across the country have risen at a much greater rate than CPI and also incomes for both households and business. This reality is demonstrated in the graph given below in **Figure 1** and produced by the ACCC in its interim report on retail electricity pricing.

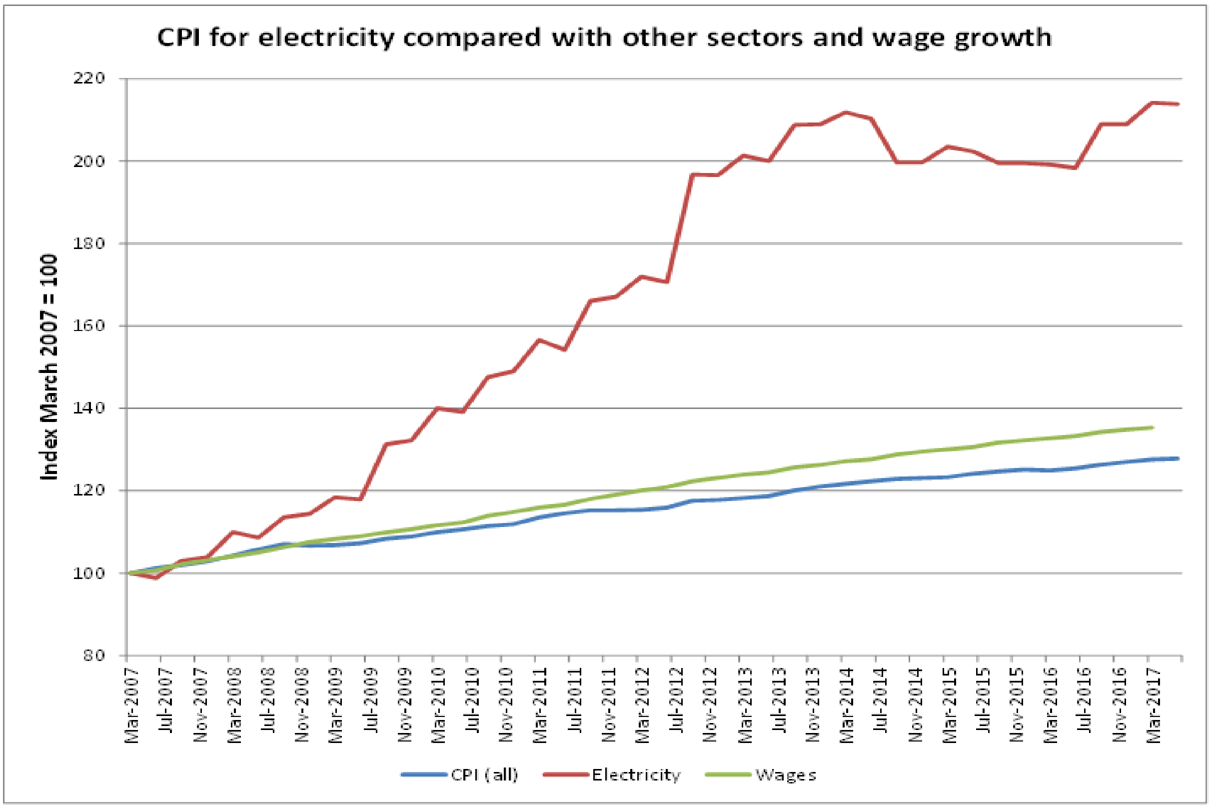

Figure 1: Cost-Price Index and electricity price growth (Source ACCC)

High and rising prices have undermined consumer trust in energy markets.

This is demonstrated through the ECA energy consumer sentiment survey with the December 2018 report presenting the following in response to the question "*How confident do you feel that the overall market is working in your long-term interests*?" For New South Wales, 32% of those surveyed responded positively compared to 15% for the ACT. Both of these results were increases on the previous survey six months earlier, up 11% for New South Wales and 4% for the ACT. 28% of people in NSW and 50% in the ACT were negative about the market working in their interests and 40% in New South Wales and 35% in the ACT were neutral. So less than a third of customers feel confident that the market is working for them in the ACT and NSW.

The survey also asked, "*How confident do you feel that the energy market will provide better outcomes for you in five years, in terms of value for money?"* In NSW 34% of people and 19% in the ACT responded positively with 23% in NSW and 38% in the ACT being negative.

We recognise that these survey results refer to energy markets in general and are not specific to network businesses, however the results reflect low levels of trust in all aspects of energy markets, including network businesses and the pressure on every part of the energy supply chain.

Rising prices and low levels of trust in energy markets have attracted sustained political interest with a number of reviews being undertaken including by the Chief Scientist, Prof Alan Finkel and more recently by the ACCC. The ACCC released their report "Restoring electricity affordability and Australia's competitive advantage"[1] in July 2018, this being the final report from their Retail Electricity Pricing Inquiry.

This ACCC final report was published after the initial regulatory proposals from the New South Wales businesses but before their Revised Revenue Proposals. This report also considered areas where consumers could reasonably expect savings in their energy bills, by 2020-21, by jurisdiction. This summary of savings is given in Table 1 below.

1 https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf

Table A: Achievable average annual residential bill savings by 2020–21

		Achievable savings ($ per annum)						
Region	**2017–18 Bill**	**Networks**	**Wholesale**	**Enviro**	**Retail**	**Reduction**	**2020–21 Bill**	**% Reduction**
Victoria	1457	39	192	34	26	291	1166	20
NSW	1697	174	155	43	37	409	1288	24
South east Queensland	1703	147	192	18	62	419	1284	25
South Australia	1727	13	227	89	42	371	1356	21
Tasmania	1979	113	226	75	–	414	1490	21

For small business customers, similar savings can be made. However, as a larger proportion of small businesses are on standing offers, the recommendation to abolish the standing offer and implement the lower-priced default tariff will have a proportionately greater benefit to small business customers.

The ACCC estimates that small businesses can achieve savings of 24 per cent on 2017-18 prices if ACCC recommendations are adopted (see figure H).[3]

Table 1: Achievable electricity bill savings by jurisdiction (source: ACCC, table A)

Of interest is that the AER concluded that the greatest area for savings for New South Wales customers was from further reductions in network charges, this coming on top of the significant improvements in efficiencies that were achieved by all three businesses over the 2014-19 period.

The achievable savings for NSW customers are summarised below in **Figure 2**.

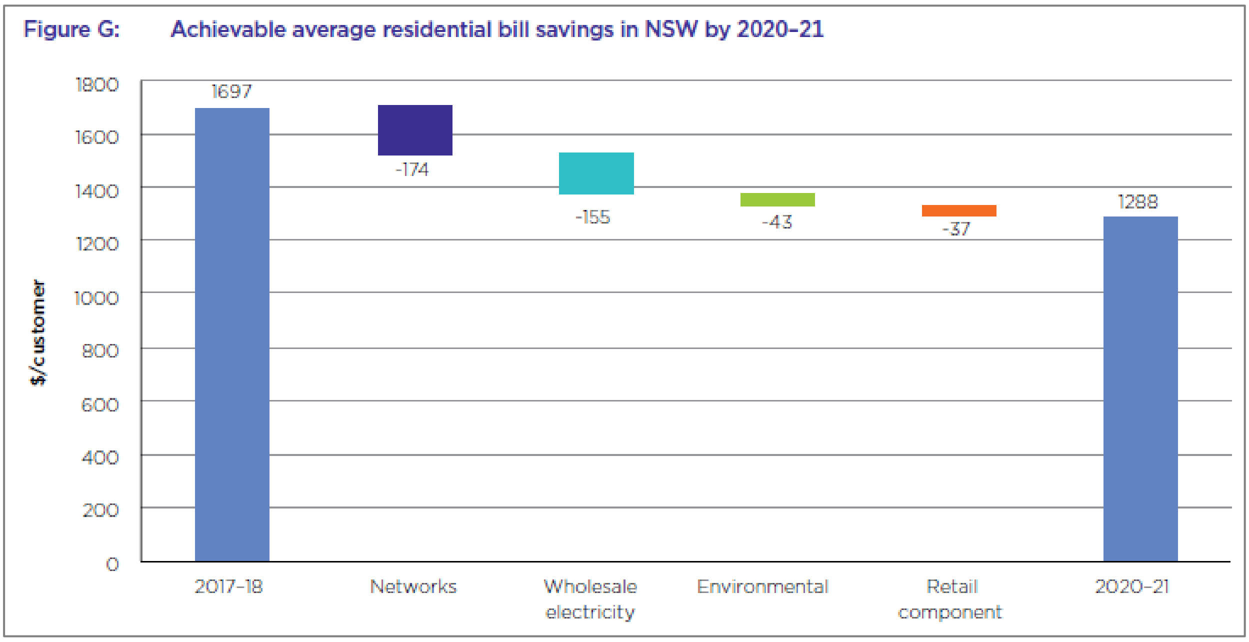

Figure 2: Components of achievable bill savings – New South Wales (Source: ACCC)

OBSERVATIONS OF GOOD ENGAGEMENT

One of the core objectives for the CCP is to provide advice to the AER about the consumer engagement undertaken by network businesses and the effectiveness of this engagement. We were aware of some of the uncertainty that network businesses were reporting about better understanding the expectations and obligations for consumer engagement. So CCP10 met with each of the four businesses as soon as practical after our appointment and highlighted that we would be considering each network's engagement by reference to three broad questions:

- What was tried?
- What was heard?
- What was applied?

In addition, CCP10 encouraged the distributors and the AER to adopt a 'no surprises' approach to engagement and discussion, with the intention of difficult discussions and possibly contentious positions being raised and resolved during the process.

The concept of a proposal that '*is capable of being accepted'* was also generated in our discussions, further reinforcing the approach to resolve key issues as they arise, and have as many issues as possible resolved before the publication and lodgement of the proposals. Such an approach is intended to efficiently reduce the costs for all stakeholders inherent in the preparation and defence of revenue submissions in the propose-respond model, leading to a more understood, engaged and supported outcome for all stakeholders.

We said that we did not expect any particular engagement model to be pursued, rather that the main focus for us would be to consider how consumer views have been applied to regulatory proposals that were lodged.

Each business used different engagement methodologies and worked to very different time frames. Some were infuriatingly tardy in demonstrating what we considered good consumer engagement practice to be. However, we are confident in asserting that all four businesses have dramatically improved their consumer engagement through both the development of their regulatory proposals and in finalising the remitted decisions and we are confident that the expertise acquired and skills applied will have ongoing benefit to the businesses and consumers they serve. Our concern is to ensure that the engagement becomes part of BAU business planning cycles for each business now during the regulatory cycle and that engagement doesn't stop and start up again in 3 years' time.

We congratulate the four businesses for the significant progress they have achieved in developing their consumer engagement practice and in particular the significant internal culture shifts that have been achieved.

At the ENA annual dinner in December 2018 Essential Energy was awarded the ECA/ENA sponsored consumer engagement award, the second year that this award has been offered. CCP10 has been able to observe much of the engagement approaches applied by Essential Energy over the better part of two years and congratulates them on the leadership they have shown in consumer engagement and in being the first business to resolve its remittal process. Their leadership has operated as a benchmark in NSW with wide ranging impact on the other businesses. We believe that Essential's award win is well deserved.

Good practice in consumer engagement

We observe that good consumer engagement practice involves three sets of relationships.

i. *Relationships Internal to the business*

Good practice for consumer engagement starts with the Board and CEO being committed to improving consumer engagement practice including regularly reviewing engagement measures. It involves an internal shift away from primarily relying on engineering plans to a focus that is centred on consumers' needs and a consideration of what consumers are prepared to fund. Essential Energy's CEO along with senior staff demonstrated their commitment through their attendance at a number of regional deliberative forums where it was evident that they were listening closely to their customers.

Staff responsible for consumer engagement need to be closely linked with regulatory staff and other decision-makers so that there is internal consistency in a businesses' commitment to its customers. Another thing we observed was differing levels of feedback from customers being reflected in the Revised Proposals by the businesses. Sometimes, consumer feedback was diligently recorded but led to no changes to the proposal. In other cases the feedback was acknowledged by the business but the inflexible internal processes required to respond to the feedback meant that last minute changes were put to consumer groups who by then had limited resources to respond to the late revisions.

We have seen very clearly over the last two years the importance of businesses being able to be brutally honest with themselves in understanding how they are perceived by customers, consumer groups and stakeholders and to be able to hear the bad news, as well as the good news, and to respond proactively.

Good communication is essential for effective engagement and in particular strategies are needed to inform those consulted about what the business has heard from them and the responses they are making. Consumer engagement is not always about agreeing with a group of customers, it is about taking seriously and looking at all practical measures to address concerns raised.

ii. *Relationships with the regulator*

Old habits die hard and the adversarial relationships that have largely existed between Australian network businesses and the AER needed to change and have changed dramatically over the last couple of years. An important driver is that network businesses and the AER need to be able to talk to each other often and with transparency. Where a problem is identified, it needs to be tested and solutions found to resolve the agreed issues. A recent initiative is the engagement of the AER staff, particularly in the capex team, with the engineers of the 3 NSW businesses. AER staff has engaged prior to the AER making its Draft and Final Decisions and have shared their concerns with proposals and modelling. This has given the businesses an opportunity to respond to those concerns and adapt their proposals. This is also building greater transparency in decision-making and is only possible in an environment where the threat of litigation is largely removed. We congratulate the

AER capex team for their responsiveness to our suggestions to be more transparent with their early modelling and any concerns in business cases and for this greater openness. We have specifically encouraged each business to work with the AER repex team to improve the AER's RIN data and repex model as we believe it is critical for consumers and businesses to have confidence in the model as a cross check, given the likely capex investment that will be needed in the future in new technology platforms. We commend Ausgrid, in particular, for embedding this commitment into their Revised Proposal.

iii. Relationships with consumers

Emerging better practice for consumer engagement includes network businesses producing a realistic draft revenue proposal (often referred to as a Draft Plan) at least six months before it is due with the AER and for active consultation with consumer groups, consumers and other relevant stakeholders on the Draft Plan. ElectraNet (the winners of the inaugural ECA/ENA consumer engagement award), Australian Gas Networks and TasNetworks initiated this approach. Each of the ACT /NSW businesses were intending to apply this approach. However, we suggest that for a variety of reasons including their historical adversarial relationships with the AER and consumers which had led to a history of ambit claims, they were not able to implement the approach as smoothly as they would have liked. We note that electricity and gas network businesses submitting regulatory proposals after these four businesses are releasing draft / preliminary plans for consultation. We regard the ACT/NSW distribution businesses as being in transition towards widespread application of draft plan approaches.

Engaging about the Draft Plan for about 18 months before it is released and then allowing about six months for more focused engagement in consultation is good practice and warrants ongoing encouragement and development.

The term "deep dive" became inextricably linked with the New South Wales businesses, particularly as they sought to make best use of the extensions they were granted. The efforts in seeking to gain consumer insight through deep dives were significant and commendable. We observe that some of the learning from the various processes called "deep dives" have included the value of keeping deep dive consultations focused on particular, more difficult issues where the network is genuinely seeking consumer and stakeholder input. It is our observation that deep dives work best when they involve a relatively small number of people, including the relevant AER staff and AER technical advisers and consumer groups, who are able to report back to a broader base. Deep dives need to be about seeking solutions rather than seeking to convince. The main issue we observed in the NSW deep dive processes were that they were far too late in the regulatory process. We commend Endeavour for continuing to engage on both its capital contributions policy and capex proposal prior to the AER publishing its Draft Decision and reducing its capex proposal. We also congratulate Ausgrid for the extensive consumer engagement on many aspects of its Revised Revenue Proposal. More recently Evoenergy had discussions about its IT proposals with CCP10 and its Energy Consumer Reference Council (ECRC) after the AER's Draft Decision. We note that the timing in all three cases was not ideal. However, CCP10's firm expectation is that such a late extensive, intense deep dive process with extensive revisions so late in the process would not occur next time. It can partly be explained as a feature of the unique need to reset the NSW and ACT businesses' relationships with the AER and consumer groups.

"Deliberative forums" were also developed through the NSW processes and proved to be a very effective approach. The general model is that groups of 60 to about 80 consumers are brought together for about 4 hours, and spend most of the time working in facilitated groups of 8 to 10 people dealing with a maximum of three significant issues of the period. Returning to groups involved with initial deliberative forums has also proved to be very helpful.

Another feature of emerging consumer engagement involves businesses establishing ongoing consultation committees such as TransGrid's Powering Sydney's Future. We commend Ausgrid for initiating its Network Innovation Advisory Committee (NIAC), which embeds consumer input into Ausgrid's technological transition to the smart grid. We would encourage the other distributors to also think of opportunities, which embed ongoing consumer input as part of their planning and innovation for critical areas. We have previously encouraged Endeavour to consider this approach to manage the development of the second airport.

Other examples of innovative consumer engagement practices that we observed included:

- openness to having difficult conversations
- proposals being presented as a decision as a whole
- readiness to engage on capital expenditure plans, risks, drivers and objectives
- more active engagement with the AER on issues such as repex modelling and risk quantification and allocation
- recognition of the importance of productivity improvements
- challenging thinking on the application of capex / opex trade-offs (e.g. DM)
- review of network risk position, especially for network augmentation and replacement
- much more interactive and conversational relationship with advocates and the AER
- progressive refinement of ideas involving frequent conversation
- cost-effective catering with a broad range of healthy options
- openness to working with other businesses on common issues such as tariff impact modelling and grid innovation
- greater public acceptance (by some of the businesses) of AER decisions on framework changes e.g. WACC, tax review and productivity
- preparedness to establish ongoing consumer / stakeholder oversight framework
- giving up CESS for certain categories of expenditure
- seeking feedback on drafts of Revised Proposals and

- a desire – initially demonstrated by Essential Energy at the initial proposal, then subsequently by Endeavour Energy and Ausgrid in their Revised Proposals – for their proposals to be supported by consumers and capable of acceptance by the AER.

Further development of good regulatory practice

The process in developing the New South Wales and ACT regulatory proposals for 2019-24 and resolving the remitted decisions for 2014-19 has been a sometimes-arduous process dealing with significant change across a number of fronts. As indicated above, the periods of pain and frustration have been justified and significant outcomes achieved for consumers and the businesses through the 'journey'. CCP10 has been told by several stakeholders that the process of resolving the remittals has led to greater trust by internal stakeholders, including investors, which in turn has led to greater transparency in engagement by the businesses with the AER, CCP10 and other consumer groups around the subsequent 2019-24 revenue proposals.

There are important next steps that need to be undertaken to embed the processes, relationships and culture improvements that have been achieved. These include:

- regulatory processes to *reward good practice*. In our first submission, CCP10 encouraged the AER to develop 'signals' for network businesses to encourage ever better consumer engagement practice and to develop rewards / incentives for those businesses that do it well. A regulatory proposal that is lodged following extensive engagement and dialogue with relevant AER teams and is capable of or very close to being capable of acceptance, should be encouraged and rewarded. We understand that steps have been taken to this end, but it remains unfinished business.
- Each network business needs to *further embed their consumer engagement* practices and to retain relationships developed with consumers and consumer groups throughout developing the regulatory proposals and to provide feedback to those who have provided input so far.
- *Review the AER's Better Regulation Consumer Engagement* Guideline for Network Service Providers November 2013 to reflect a more sophisticated understanding of the outcomes of consumer engagement and a consideration of best practice.
- *Resourcing for consumer engagement* continues to be a dilemma with no dedicated resourcing currently available to enable consumer groups to maintain relationships with network businesses. It is hoped that the COAG Energy Council will return to the question of resourcing for consumer engagement in network processes early in 2019.
- Increasingly CCP is being asked about the future of network regulatory processes in Australia, and we consider that the time is ripe for discussion about a rolling network regulatory process where the *focus is on ongoing relationships* rather than it being a major focus once every five years.
- For CCP and the AER, an emerging question is about relationships with network businesses beyond the release of a final determination. On current AER practice CCP10 will cease to exist in April 2019 when the AER publishes its final Decisions in the four 2019-24 processes. Network businesses and their consumer reference groups are increasingly asking about *potential for ongoing CCP engagement*. For

example, CCP members have been asked to participate in TransGrid's Powering Sydney's Future processes and most recently by Ausgrid in its NIAC and Pricing Working Group.

CCP members have developed an intimate understanding of the plans and operation of the 4 businesses, and have in many ways grown trusted and informed relationships with senior management of those businesses. Consideration of how ongoing relationships can continue, whilst respecting the fundamental role of consumer challenge, would be helpful.

- Just as a more regular, transparent and cooperative relationship between utilities and their customers is being encouraged and is proving beneficial, CCP10 has observed significant benefit in the *early engagement with the AER* as part of the reset process. Sharing ideas and challenges, understanding the implications of organisational differences and the sharing of common ideas and initiatives has proven valuable and significantly streamlined the processes inherent in the regulatory reset.

We recognise that the AER cannot and should not compromise its 'arms-length' relationship with utilities, nor is the AER the primary channel for information sharing. Resource availability is also a major consideration.

Further development of the interaction with utilities, particularly when approaching revenue resets, will prove valuable in leading to an efficient and transparent process, supporting the submission of proposals that are 'capable of being accepted'.

CHANGING PRIORITIES FOR NETWORK REGULATION

In the past 12 months, most Australian distribution utilities have undertaken some form of community engagement related to their regulatory revenue resets. CCP10 has been heartened to see a marked change in the nature and content of this engagement by a number of progressive distributors, not only in their collaborative approach to engagement, but importantly as a reflection that these companies are embracing changing customer and community expectations in the modern energy environment, and are prepared to share this journey with their customers.

Leading utilities demonstrate a willingness to reconsider electricity supply risks in light of changing consumer expectations around price and productivity, seeking new and innovative ways to engage communities and use new technologies to meet their obligations and community requirements. Volumes of traditional network planning and investment analysis - whilst still important inside the organisation - gives way to a more conversational, relevant, risk-based and innovative attitude to providing network capacity, meeting system performance obligations and optimising customer interactions.

Such an approach is underpinned by three key issues. Firstly, with Australia's energy customers experiencing remarkably high energy prices, every participant in the energy supply chain has a responsibility to take all reasonable steps to minimise the cost of energy distribution - and therefore customers' energy bills - as much as reasonably possible. CCP and other customer advocates look for a clear commitment by the utility to seek every opportunity to reduce the cost of addressing network constraints, through the mantra '*doing more with less*' and '*not a dollar more than necessary, not a day too soon'*.

Secondly, as the growth of the asset base presents a long - term risk to high energy prices for many years to come, consumers expect that every effort is being made to minimise growth in the total value of long-term assets, especially in this environment of rapidly changing energy use and technology uptake by consumers.

Finally, as changing technologies become more available to customers and utilities, meeting network obligations is much more a collegiate and interactive process. A responsibility exists on customers, distributors and new industry participants to collaborate in the effective utilisation of existing assets, and to seek innovative approaches for the safe, reliable and affordable supply of energy.

Throughout the process of the NSW and ACT 2019-24 regulatory determinations, a number of common matters arose that were of concern to CCP10, energy consumers, utilities or both. Many of these matters represented significant expenditure and therefore impact on consumer bills. We summarised 9 issues in our presentation on the NSW Proposals at the Stakeholder Forum on 13 November 2018[2]. CCP10 is very pleased that the 2018 rate of return Guideline and changes to the PTRM to reflect the issues in the tax review have been resolved in a timely way so that they can be incorporated in each of the NSW and ACT Final Decisions.

We are also pleased that both opex productivity and tariff reform are currently being progressed by the AER in time to be reflected in these 4 2019-24 determinations.

Opex, Productivity and Benchmarking

CCP10 argued consistently throughout these revenue resets for the AER to review its zero assumption when forecasting productivity. The issue was given prominence by Essential on 9 February 2018 when Essential launched its draft Proposal, which included a significant opex productivity dividend for consumers. In fact, Essential included forecast declining opex, forecasting savings from its IT initiatives, as its opex forecast gave consumers 100% of the savings from that IT investment rather than sharing those efficiencies through the EBSS.

CCP10 and the CCP as a whole are very supportive of the AER's draft decision to revise its assumption from zero to 1% per annum in its recent Draft decision paper – Forecasting productivity growth for electricity distributors dated November 2018. We see the AER's Draft decision as a positive start.

We strongly support the CCP sub panel's submission dated 21 December 2018 to the AER's review, which concluded:

[2] https://www.aer.gov.au/system/files/Consumer%20Challenge%20Panel%20%28CCP10%29%20-%20Presentation%20to%20AER%20public%20forum%20-%20November%202018.pdf at slide 41

> "*The objective in forecasting opex for the revenue resets is to establish the* ***best available unbiased estimate of the opex for a prudent and efficient operator***."
>
> And........ "*In the CCP's view the current assumption of zero trend productivity improvement does not meet these requirements and* ***we consider that the data supports an assumption of a trend productivity improvement for the DNSPs of at least 1.5-2.0% pa***."

We commend Essential Energy for its leadership in offering a productivity dividend even before the AER had launched this review.

We also congratulate Ausgrid as the first privately owned DNSP to include a 1% per annum opex productivity improvement from 1 July 2020 for consumers. We commend Ausgrid for listening to its customers' consistent submissions that zero productivity is unacceptable. We will leave it to our CCP colleagues to respond in detail to the various DNSP submissions arguing against the AER's Draft Decision. We note that both Essential Energy and Ausgrid have offered productivity dividends and we urge the AER to also apply its Final Decision from its review to each of the 4 businesses.

As we discussed above, the use by the AER of benchmarking as part of its consideration in the original Final 2014-19 decisions was keenly contested. In our Response dated 30 November 2017 to the AER Issues Paper: *Remitted decisions for NSW/ACT 2014-19 electricity distribution determinations operating expenditure*, CCP10 emphasised that we remain strongly in favour of the AER using benchmarking as an assurance tool to cross check forecasts of the distributors.

We are concerned now the 4 businesses will have transitioned to the efficient base year for 17/18 originally determined by the AER, that the AER may reduce its ongoing investment in and reliance on benchmarking as one tool to promote efficient operating expenditure. In our submission from November 2017 we went to some length to discuss the critical ongoing importance of benchmarking. This was set out in Appendix A to our submission entitled "*Incentive Based Regulation and the role of benchmarking*."

We concluded that CCP10:

- is strongly in favour of the AER using benchmarking as an assurance tool to cross check forecasts of the distributors
- supports the AER's annual benchmark publication and strong incentive-based regulation (IBR) as discussed in the attached "*Incentive Based Regulation and the role of benchmarking*" and
- favours stronger, future incentives than the EBSS and encourages the AER to do an international review to check world's 'best practice' for IBR mechanisms.

We urge the AER to commence a thorough review of all its incentive schemes. We also encourage the businesses to continue to work with the AER on refining RIN data and the benchmarking model as it remains an important cross-check tool.

Tariff reform

Evoenergy remains one of the stand out businesses in the NEM on its transition to cost reflective tariffs. By contrast during the current regulatory period and TSS 1 we observed of "*the three New South Wales distribution networks:*

- *to date, reform has been slow and fragmented;*
- *there has been no single consumer perspective; and*
- *there has been remarkably little dialogue between retailers and network businesses about the incidence of tariffs.*

> *The CCP view is that retailers should be much more actively involved in network tariff debates and indeed the primary audience for network tariff price signals should be retailers rather than customers. CCP10 has been instrumental in encouraging consumer groups to develop Pricing Directions that have been developed to provide cohesive consumer perspective to assist networks, retailers and AER to accelerate reform*".[3]

Our observation is that the development of a cohesive position by customer stakeholders in the Pricing Directions made it easier for stakeholders to respond. For example, Endeavour responded to customer feedback and the Pricing Directions by introducing a TSS as part of its Initial Proposal that met tariff reform objectives by including a transitional demand tariff. The ACCC favourably referred to the Pricing Directions in its Final Decision in the Electricity Inquiry and recommendation 14 in the ACCC's Final Report on Electricity Pricing endorsed many of our recommendations[4]. The AER has since responded to the progress made in NSW by creating a dedicated CCP subpanel 21 to assist in driving tariff reform. Subject to sufficient resourcing the aim of CCP21 is to:

- engage with retailers on their role in working with consumers. CCP believes that it is critical for all stakeholders to understand how the retailers will flow though network tariffs into retail prices and what products/price structures they will offer
- work with ECA, DNSPs, and the AER on impact analysis at the household level and
- develop complementary measures. CCP intends to work with customer advocates, networks, retailers and AER on these.

The work in tariffs driven by the CCP and the AER TSS team will have greatest impact if it is progressed on a NEM wide basis involving all stakeholders.

The revised Tariff Structure Statements of the three NSW businesses have responded further to consumer feedback about the need to shift more rapidly to cost reflective pricing

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[3] CCP10 Response to AER Issues paper and revenue Proposals for NSW Electricity Distribution Businesses 2019-24: August 2018 at page 77. See https://www.aer.gov.au/system/files/CCP10%20-%20Submission%20-%208%20August%202018_0.pdf

[4] https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf

and CCP10 commends the three distributors for engaging in detail with stakeholders, CCP21 and the AER TSS team to progress tariff reform. This will remain an important focus in the NEM during the next decade.

A shifting focus in consumer priorities

In the environment of a more active and engaged revenue reset process, it is clear that the influence of new technologies, customer choice, price awareness and sustainability imperatives is changing the way utilities approach their obligations.

Network augmentation and capacity investment is now much more influenced by new customer technologies and market developments. As asset replacement requirements mature and demand growth slows, the key variables in assessing prudent investment are changing. The focus on demand management is now matched by the importance of utilisation of existing assets. Traditional network control has given way to Distribution System Operation (DSO). Information and data in real time is the cornerstone of optimal network investment. New connections incorporate a wide range of energy and demand control options available to the customer, many of which are not yet understood. The market influence of embedded generation and storage, or more importantly the variable influences on those who seek to control that new equipment is yet to be established and understood.

Significantly, the robustness of traditional engineering planning and network development now incorporates the approach of 'least regrets', where risks inherent in rapidly changing network requirements cannot be quantified with certainty.

As the relationship between CCP10 and both the AER and the network businesses developed over this regulatory period, it has become clear to CCP10 that there are aspects of the engagement and proposals that would benefit from further consideration by the AER to apply on a broader NEM wide basis. The intent is to foster work practices, language and behaviours that will encourage utilities to present information to consumers and the AER in a more effective way, by using common language, more standard definitions and a format that makes the impact and benefit to consumers more obvious and measurable.

The areas that we have identified as highest priority in delivering significant value are listed below.

i. *Consider the prudency of Information and Communication Technology (ICT) investments*

The ICT investment by utilities is growing rapidly as the role of corporate support systems, real-time control systems, data gathering, and data analysis plays a much greater role in delivering business efficiencies; both in the operation of the business itself and the optimal investment, operation and risk management of the distribution network. CCP10 acknowledges that ICT expenditure will genuinely be an item of increasing expenditure over the next twenty years. However, utilities need to be held accountable for these significant and growing-investments in Information and Communication Technologies.

Similarly, consumers need to be more informed of the requirements, benefit, prudency and risk implications of investment in ICT and related assets, as they gain an increasing influence on business performance and efficiency (and hence operating cost), depreciation (again, influencing price to customers), data risk, service delivery, customer choice and network supply risk and performance.

We recognise that each utility is encouraged to seek new and innovative ways to work with customers, the community, the regulator and other stakeholders. However, a number of significant matters are arising in the industry generally that lack transparency and clarity of definition and approach. Unless addressed in a common and effective way, the risk continues that this growing area of investment may not be fully in the interests of consumers.

A number of specific concerns exist regarding ICT spend, both as operating costs and the return of investment in new capability.

1. The quantum and impact of significant ICT expenditure by all utilities affects all customers
2. A single provider, SAP is emerging as almost a monopoly provider of utility enterprise systems, and the accountability and influence this provider has on the cost of ICT operation and regular investment is not at all transparent.
3. The efficiencies that businesses gain through ICT investment, the cost of which is largely recovered from customers, should not be recovered again through the incentive schemes.

In their regulatory proposal, Essential Energy is commended for linking the increased investment in ICT capability with performance improvements that are specific and measurable. Whilst we expect that there will be significant challenges in demonstrating the performance change resulting from the technology investment, Essential's commitment to visible benefits for customers sets a new benchmark for ICT investment in the regulatory proposals.

In response to CCP10's ongoing concerns about IT expenditure we are pleased that Ausgrid has committed in its Revised Revenue Proposal to share further granularity of customer benefits derived from IT expenditure and to support an industry wide review by the AER into IT forecasting to improve expenditure assessment.

CCP10 recommends that the AER and community advocates take a stronger role in the understanding of the prudency of ICT investment by utilities. We support the recent advice by the AER to consider the establishment of greater skills in this area, and encourage the AER to work with utilities to present the value and risks of ICT investment to consumers in the form of transparent, measurable and specific performance improvement.

ii. Clarify the value of the transition to the Distribution System Operator role

A combination of high retail electricity prices, falling prices for customer technologies and continued subsidies for embedded generation and energy storage has created a confused, crowded and rapidly-changing environment for utilities to respond to.

Supported by a range of largely independent approaches from the AEMC, AEMO and governments, utilities are attempting to embrace the growth in DER in different ways.

Common to this challenge, utilities are proposing expenditure to expand monitoring and control of distribution networks, enhanced centralised network control systems (ADMS) and speculative capability to work with demand aggregators and AEMO as the need arises referred to as a DSO model. Most of this investment is under the banner of 'least regrets'. It is unclear just whose regrets are being minimised – those of the distributor who remains largely capable of recovering the expenditure; or those of the customer (generally, all customers) who it is suggested Is not in a position to understand just what it is that they are regretting.

There is a significant risk that investment in transmission systems under the ISP will address some of the concerns that are planned to be subject to investment by distributors, leading to stranded assets in the area of data gathering and local network control, as well as restrictive connection requirements affecting customers.

Missing also in this planning is the 'customer view' and where the customer impacts and the expected role of customers in any solution are considered and tested through public and specialised engagement. Issues such as direct and indirect costs to customers to participate, technical requirements, contractual matters and similar are still to be addressed.

At the risk of entering an already crowded space, CCP10 recommends that the AER assist in clarifying the problem statement, range of solutions and form of cost–benefit analyses that are expected from distributors. This information can form the basis of further consumer engagement.

As part of the analysis of the impact of the growth of DER, the wider market of aggregators, retailers and new market service providers should be actively considered to determine what role these market entities can undertake as the uptake of DER continues.

iii. Support greater pace of the adoption of Advanced Metering

A number of times throughout the regulatory reset process, the issue of a better understanding of a customer's energy use arose. This came up in a number of contexts, including tariff design and adoption, the optimal integration of DER and improving the assessment of supply risk associated with network development.

At all times, the obstacle was that the AMI rollout is largely set in priority and location by energy retailers who have a different set of priorities and drivers for promoting the growth of smart metering and AMI.

CCP10 believes the AER can investigate the claims by the distributors of missed opportunities for prudent and effective investment in networks arising from the implications of the Power of Choice (metering) framework.

iv. Explore opportunities for more efficient engagement on network development

In concert with the work undertaken by CCP20 (Regulatory Investment Test), it is becoming clear that the engagement by the community, customers and potential solution providers in the capital investment process is not effective.

Significant in this situation is the resource commitment by utilities and potential respondents to prepare, consider and implement plans that can assist the reduction in investment in the traditional network assets of poles and wires, cables and substations.

Consumer and industry representatives highlight the disincentive as a result of the large investment in time and resources to consider not only the capital investment plans of each utility, but their voluminous Distribution Annual Planning Reports (DAPR) and required information under the Regulatory Investment Test – Distribution.

As network investment opportunities shift to considering more cost-effective customer options, there is a powerful incentive to improve the application and effectiveness of the intent of demand management and network efficiency through a more coordinated, and seamless process to engage the community on network growth matters.

CCP10 acknowledges the work done by Endeavour Energy in developing an online and interactive DAPR, which is a useful step in enhancing the effectiveness to deliver non-network solutions to demand growth.

v. Form a common view on the cost to address cybersecurity risk

CCP10 has observed each distribution business taking a different approach to cybersecurity risk, leading to varying impacts on the cost to consumers through both operating expenses and capital investment.

Against the background of an increasing reliance on technology for the efficient operation of the network and the businesses themselves, the establishment of standards and a measured assessment of the businesses' response to those standards – much in the way other significant investments in assets are considered – will be of value in maintaining a focus on the long-term interest of electricity consumers.

CCP10 recommends further engagement and skill development by the AER in the area of cybersecurity and its cost and risk impact to customers and the wider community.

SECTION 2

CCP10's response to Ausgrid's revised regulatory proposal of January 2019

CONSUMER ENGAGEMENT AND RECENT DEVELOPMENTS

This section considers responses to the Ausgrid revised revenue proposal dated 8 January 2019 (Revised Proposal) following the AER draft decision dated 1 November 2018 (Draft Decision). The approach we have taken is to only consider those issues that we raised at the public forum on 13 November 2018 about the Draft Decision and matters of particular interest from the Revised Proposal. Matters that are not covered have either been dealt with previously or we are satisfied with the Ausgrid position.

Part of the CCP role is to provide advice to the AER about consumer engagement undertaken by network businesses. The story in this section is all about how consumer engagement has significantly influenced the revised revenue proposal from Ausgrid, as they are inextricably linked. This narrative is one of a significant change in approach by Ausgrid, from the start of the development of their 2019-24 regulatory proposal to a remarkable last-minute change in direction and language that, in our opinion, now demonstrates a commitment to a regulatory proposal that is much more aligned to the long-term interests of consumers.

Engagement is the (golden) thread that weaves through this entire section[5].

In our response to the original Ausgrid proposal of 8 August 2018, CCP10 recognised that the two main areas that needed further analysis by the AER and Ausgrid were Capital Expenditure (Capex) and their Tariff Structure Statement (TSS). More broadly, we observed that they needed to rebuild their 'social capital' through improved consumer engagement and we also noted that Ausgrid needed to apply the final 2018 WACC guideline and offer an opex productivity dividend. In relation to capex we said:

> *"Overall, CCP10 believes that there are many opportunities available to Ausgrid to reduce capital expenditure whilst maintaining service levels, through an opportunity to better respond to the risk of plant failures (repex) and leadership in the application of demand management and new technologies. An aggressive approach to driving down the cost of work through design opportunities and work planning appear available. Opportunities to reduce non-system investment may also be available.*
>
> *We believe that the prudency and efficiency of expenditure in most categories of capital investment of the Ausgrid Revenue Proposal have not been established.*

[5] Invoking the final comment from Sharon D'Arcy, CEO of SustainAbility, UK in delivering the Gill Owen Memorial lecture, 2018. "Boards need to lead, and engagement needs to go through the organisation – like a golden thread"

Ausgrid is noted as having the highest 'excess growth as a percentage of RAB growth' (Grattan). Ausgrid invested close to $7.6B in network and non-network assets in the 2009-14 period; over $5B of which was in new plant and equipment.

We expect that this prior expenditure, along with the efficiencies becoming available to Ausgrid, present a significant opportunity to reduce the level of investment required to maintain a safe and reliable network, times of changing customer requirements."[6]

In relation to tariffs we supported PIAC's submission that Ausgrid's original TSS proposal was NOT capable of acceptance by consumers or the AER because it:

- did not include demand tariffs for residential consumers; and
- significantly increased fixed charges, reducing the ability of consumers to control their electricity bills.

At the AER's Public forum on 13 November 2018, where we responded to the AER's Draft Decision, CCP10 made a number of observations about the Draft Decision and Ausgrid's consumer engagement since the original Proposal. We noted that Ausgrid had responded to the strong consumer concern about its draft TSS and welcomed the good progress being achieved through the Ausgrid Pricing Working Group. The issues of the WACC guideline, opex productivity and capex justification and business case modelling were ongoing.

At that forum, we noted:

Positives (for Ausgrid and their customers)

- ✓ *Consumer Engagement was solid, but could have been more effective*
- ✓ *Consumer engagement is ongoing*
- ✓ *Reductions in capex, opex, but we are looking for more, and better justification*
- ✓ *A revision to their Tariff Structure Statement (TSS)*

Elsewhere

- *Rate of Return (MRP = 6%, beta = .6, gamma = .5 - and still prices up)*
- *Productivity Review*

Further Work required with customers

- *Capex – Cost-Benefit Analyses and further justification*
- *Non-network and capitalised overheads, including IT*
- *Innovation and Demand Management Incentive Scheme*
- *Tariffs and Pricing*

[6] https://www.aer.gov.au/system/files/CCP10%20-%20Submission%20-%208%20August%202018_1.pdf at pages 4-5

We presented all comments in a spirit of constructive debate, and we retained our commitment to 'no surprises.' We also posed the following challenges:

- *Keep engaging, but keep it focussed – Goodwill can't be assumed*
- *Price paths: are they the best that consumers could expect?*
- *Productivity: give the benefits to customers early, and don't wait for EBSS*
- *Tariffs – reform depends on a national view, keep it real.*
- *IT expenses are large, do they constitute good value for money for consumers?*
- *Are the Opex / capex trade-offs clear and of value ?*
- *Lack of DM and constant investment in capex for network solutions*
- *Are some capex proposals larger than necessary?* [7]

Ausgrid commenced consumer engagement about its Revised Revenue Proposal with CCP10, ECA, PIAC and EUAA on 31 October 2018. By this date Ausgrid and CCP10 were aware of what we expected the AER to say in its Draft Decision about Ausgrid's original proposal. Ausgrid indicated that it wished to engage further with customers and the AER with a view to having a Revised Revenue Proposal that was supported by customers and that was capable of acceptance by the AER. Given the very late timing and the starting point in its relationship with customers, this was a very ambitious goal.

However, we detected a significant change in language in Ausgrid at that time. There appeared to be a greater acceptance of the matters raised by the consumer groups, and a willingness by Ausgrid to further explore options that may lead to a revenue proposal that was more likely to be accepted by consumers. The cornerstone of the discussions throughout November and December 2018 were the Ausgrid revised engagement Principles:

> *"The following principles aim to build customer's trust and improve decision making:*
>
> *Be collaborative - Don't be defensive and remain open to possibilities*
>
> *Be quantitative – Provide data from the customer's perspective*
>
> *Be accountable – Agree a timeframe and deliver*
>
> *Be transparent – Encourage and support our stakeholders in holding us to account on progress, agree timeframes and deliver*
>
> *Be adaptable – Be prepared to change based on feedback."*[8]

CCP10 sensed that a further transition was taking place within Ausgrid's executive around customer engagement and that there was an opportunity to build on the trust that was emerging between Ausgrid and customer advocates following the protracted but ultimately successful resolution of the remittal ,with final AER decision released on 24/1/19). As CCP10 had noted in our responses to the AER in connection with both the remittal and the initial

[7] https://www.aer.gov.au/system/files/Consumer%20Challenge%20Panel%20%28CCP10%29%20-%20Presentation%20to%20AER%20public%20forum%20-%20November%202018_1.pdf

[8] https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Revised%20Regulatory%20Proposal%20-%20January%202019.pdf at page 14

2019-24 Proposal, we believe there are opportunities for customers in Ausgrid's goal of wanting to become the most efficient DNSP in the NEM as well as through innovation in transforming the technology underpinning its network.

CCP10 worked closely with ECA, PIAC and EUAA to develop a list of commitments made by Ausgrid through the latter stages of the engagement process that we believed consumers expected to see reflected in Ausgrid's Revised Proposal. Our goal in developing the commitments was to embed customer engagement in day-to-day operations.

We sent the list of commitments to Ausgrid on 3 December 2018 with the following observations:

> *"Ausgrid is a business in transition undergoing major transformation. Consumers recognise this is a point in time on that journey. Consumers publicly acknowledged that journey and transformation when supporting the remittal decision. Like Ausgrid, our focus is on the longer term and is not just limited to this 5-year period. Consumers are increasingly confident that Ausgrid is becoming pivoted to improved consumer outcomes with a focus on optimising capex spend and achieving better productivity including through cost effective technology platforms. Our confidence, if underpinned by transparent dealings, means consumers can pivot their focus to innovation and transformation WITH Ausgrid.*
>
> *Consumer support for the Revised Revenue Proposal is underpinned by Ausgrid's commitments to developing better internal processes around forecasting investment requirements based on optimising capex and maximising innovation to drive efficiency and long-term benefit for all consumers and transparency around Ausgrid's business planning processes*."

Ausgrid agreed to the commitments.

This led to a very intense period of engagement in November and December 2018 between Ausgrid, CCP10, ECA and other customer advocates, the AER - their capex team in particular - and the Ausgrid Customer Consultative Committee to develop and provide feedback on matters to be raised in the Revised Proposal. The commitment required from all parties including the AER staff was very significant. It put huge pressure on resourcing of all involved. As we note above in section 1 CCP10 does not expect this late and intense engagement to reoccur in any subsequent regulatory proposals. Rather we strongly believe that Ausgrid's customer engagement framework with the establishment of the various committees and the engagement strategy reflected in section 2 of its Revised Revenue Proposal should lead to earlier and more transparent engagement.

Critically, all agreed that failure to honour the commitment would significantly undermine trust in Ausgrid.

The initial focus of discussions in late October and November about the Revised Revenue Proposal was to further explore the basis of the rejection of the initial capital proposal and to explore customer support for Ausgrid's Network Innovation Program. Ausgrid held a very successful Forum on the Network of the Future and its Innovation program on 23 November 2018. Both Essential Energy and Endeavour Energy were represented at the Forum and contributed to the discussion, and we look forward to greater collaboration between the 3, now separate NSW businesses on issues concerning DER and grid transformation. This forum resulted in very strong customer support for the Innovation Program and the Network Innovation Advisory Committee (NIAC). The revised Ausgrid TSS was co-designed by Ausgrid and customer advocates through extensive engagement with the Ausgrid Pricing Working Group in the latter part of 2018. The extensive capex forecasting and capex proposal discussions are considered in more detail below.

CCP10 congratulates Ausgrid on creating the opportunity (albeit very late in the 2019-24 process) to engage with customers and the AER in a new, more constructive and collaborative way. CCP10 acknowledges that Ausgrid's Revised Revenue Proposal reflects many commitments that are important to customers. Some of the key features of the Revised Revenue Proposal are:

- public acceptance of the AER's recent review of WACC and tax,
- an opex productivity dividend and long-term commitment to sharing productivity with customers,
- improved capex forecasting capability and cost benefit analysis,
- accepting greater risk on the replacement timeframe of the ageing 132kV cables,
- a commitment to work closely with the AER repex team to improve the repex model,
- support for the AER's review of IT expenditure,
- exclusion of some capex expenditure from CESS,
- customer involvement in the transition to maximise the opportunities for all from DER through the Network Innovation Advisory Committee,
- oversight by the Technology Review Committee of IT and cybersecurity strategy and investment, and
- ongoing tariff reform including customer impact modelling at the household level.

We particularly commend Ausgrid on showing leadership (alongside Essential Energy) by offering a long-term commitment to achieving and sharing future productivity gains with customers. CCP10 welcomes the inclusion of an opex productivity dividend of 1% from 1 July 2020.

Ausgrid has prepared a summary of the commitments sought by customers and where they are reflected in its Revised Revenue Proposal in Figure 3 below:

Subject to the AER's analysis and review of the revised capex proposal of $2.690m, which we discuss in more detail below, and a decision by the AER to adopt a trend productivity adjustment of at least 1% per annum, CCP10 believes that Ausgrid's Revised Revenue Proposal <u>is capable of acceptance</u> by the AER. We take this position because there is strong evidence that the proposal is in the Long-term Interest of Consumers, and that the Revised Proposal fairly and meaningfully reflects the outcomes of intensive and effective engagement with consumer groups.

Review of commitments to customers

CORE VALUE ITEMS		
Capex	$2.69 billion Breakdown table 5.1 p.69	Executive Summary Chapter 5
Opex	1% FY21 Narrative linked to business specific and ENA legislation	Executive Summary Chapter 6
Tax	$44m (SL-DV) + $26m (Refurb) Narrative on $44m in Executive Summary, $44m and mention of $26m in Chapter 4 p.59	Executive Summary Chapter 4
Rate of Return	Accepted - Narrative in light of decision and consistent with customer expectations	Executive Summary Chapter 7 P.32
Revenue	Consistent with Draft Determination, although slightly above waterfall given tax note included in building block revenues	Chapter 4
CESS exclusions	Innovation, ADMS and Cyber (total $123m) Financial amount not defined (option value)	Chapter 9 p.168
Innovation	Allocated $42m to NIAC GHD reviewed CBAs to ensure consistency with NER	Executive Summary Chapter 2 + 3
Tariffs	Implementing Demand Tariff + continuing Pricing Working Group	Executive Summary Chapter 10 + TSS
OTHER STATED AND AGREED COMMITTMENTS		
DEVELOP **Our business & shared understanding**	Develop a Revised Proposal capable of acceptance	See above core financial parameters
	Sharing and improving internal forecasting approach and cost benefit analysis	Customer Consultative Committee, Chapter 2
	Explore option analysis to make long term asset decisions in an uncertain environment	Chapter 5 p. 72
	Share further granularity of customer benefits derived from IT expenditure	Technical Review Committee, Chpt 2 p.23
	Support an industry wide review into IT forecasting to improve expenditure assessment	Technical Review Committee, Chapter 2
	Engage with customer representatives on cyber expenditure and maturity levels	Technical Review Committee, Chapter 2
DRIVE **Industry Development**	Pricing Working Group – Co-design tariffs, information and complementary measures	Chapter 2 + 10
	Jointly develop policy and regulatory framework submissions	Chapter 2 - All Committees
	Collaboration with AER to improve repex model and drive greater confidence in tool	Chapter 5, p.78
DELIVER **Better outcomes**	Sign up to the Energy Charter (NB: CEO letter sent to Chair of Energy Charter 8 Jan)	Chapter 2, p.23
	Propose productivity in period from FY21 and long term commitment to achieving and sharing future productivity gains with customers	Executive Summary Chapter 6
	Deeper engagement in customer strategy and business planning not just regulatory planning	Chapter 2 + 3
	Network Innovation Advisory Committee to drive direction of innovation portfolio	Chapter 2 + 3 - NIAC Governance framework
	Capital Expenditure Sharing Scheme exclusions, innovation portfolio, cyber and expenditure.	Chapter 9, p. 167 + 168
	Greater focus on non-network solutions, including demand management + work with customers on demand response rule change	Chapter 2, 3 + 5
	Deliver improvements in every area of our business with our customers help.	All committees and Customer Strategy

Figure 3: Commitments to Customers – Ausgrid (Source, Ausgrid)

REVENUE AND REVISED PROPOSALS 2019-24

Drawing from information from the Ausgrid proposals and CCP10 analysis, Figure 5 and Figure 6 below summarise the revenue proposals for Ausgrid's activity showing the original Ausgrid proposal, the AER Draft Decision and the Ausgrid Revised Proposal.

We note that the impact of the 2014-19 remittal has been integrated into the Ausgrid revenue requirement largely through the calculation of the transmission revenue and subsequently the x-factor for 2019-20, being the initial year in the period.

In their consumer engagement and public proposal documents, Ausgrid tends not to differentiate between the costs to operate their transmission assets from those of the distribution network. Other than the revenue requirement and Regulated Asset Base (RAB) trends, CCP10 has considered the costs and performance of the Ausgrid network as a whole, which includes the shared transmission assets and those for electricity distribution.

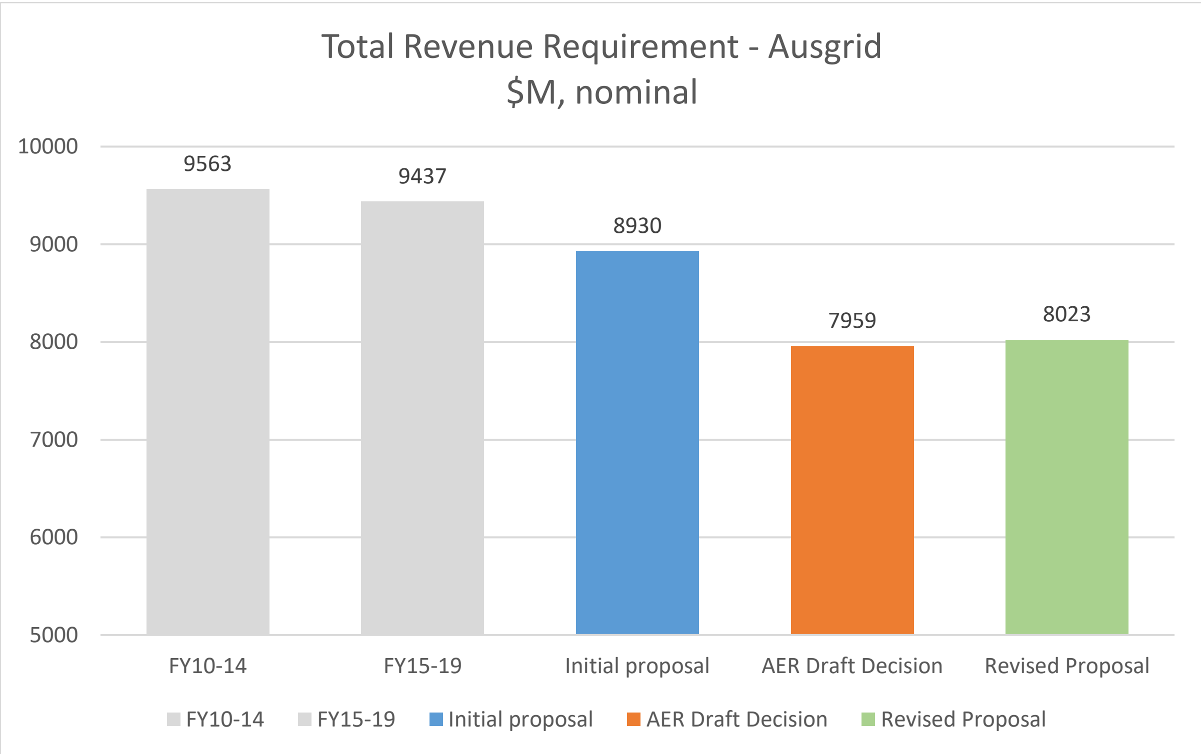
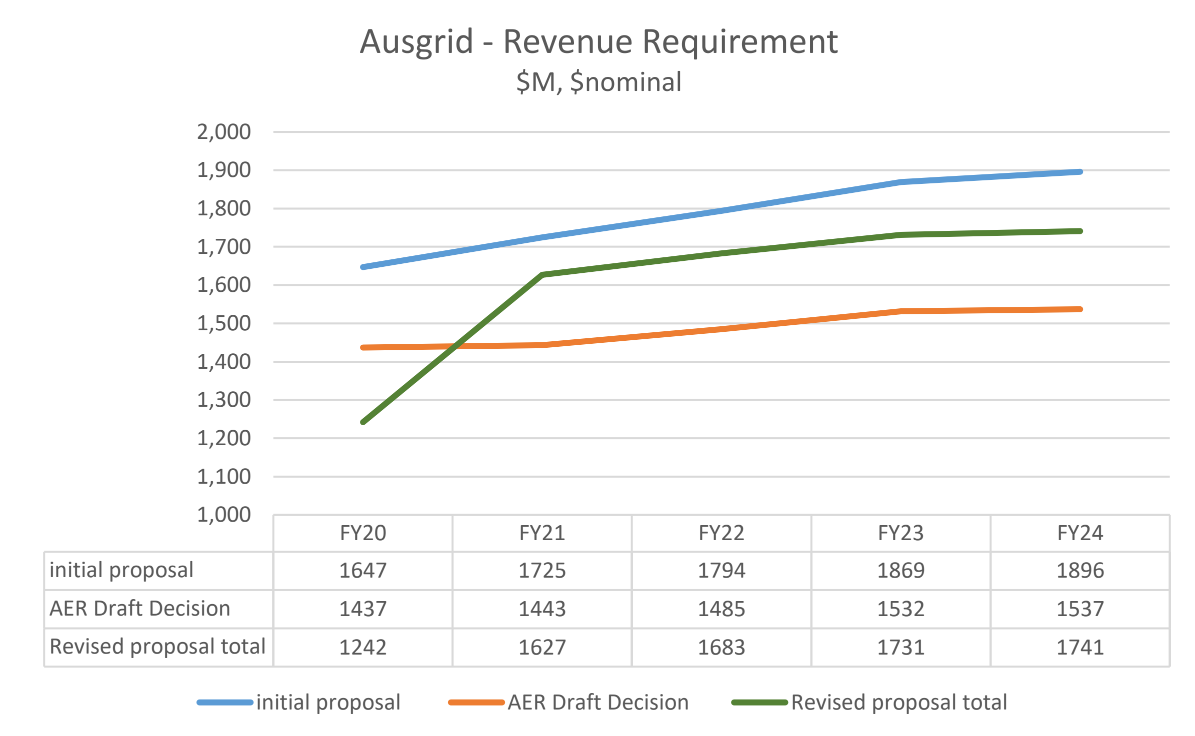


Figure 4: Annual Revenue Requirement - historic and forecast (Source: Ausgrid, CCP)

Figure 4 highlights the significant reduction in the building block revenue from the 2009-14 regulatory period. We note that the most significant factor in the AER's Draft Decision and in Ausgrid's Revised Revenue Proposal is the reduction in the proposed rate of return and return on capital from 6.33% originally proposed by Ausgrid to 5.96% proposed by the AER as a placeholder that was consistent with the draft 2018 Guideline.

In addition, CCP10 notes further reductions in the revenue requirements since the Initial Proposal that reflect the concerns and issues raised in the AER Draft Decision and during engagement with consumer groups in the latter part of 2018, in particular the revenue impact of a reduced capital investment programme (-$56M), reduced operating costs (-$71M) and operating productivity (-$52M).



	FY20	FY21	FY22	FY23	FY24
initial proposal	1647	1725	1794	1869	1896
AER Draft Decision	1437	1443	1485	1532	1537
Revised proposal total	1242	1627	1683	1731	1741

Figure 5: Annual Revenue Requirement – Ausgrid

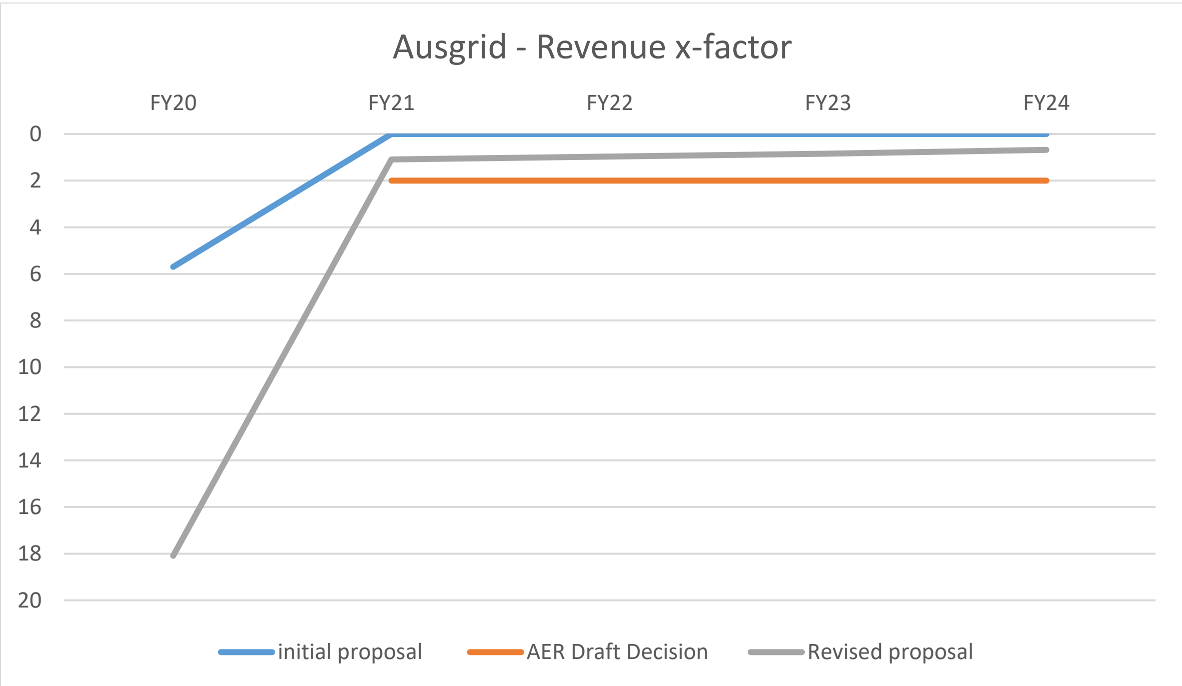


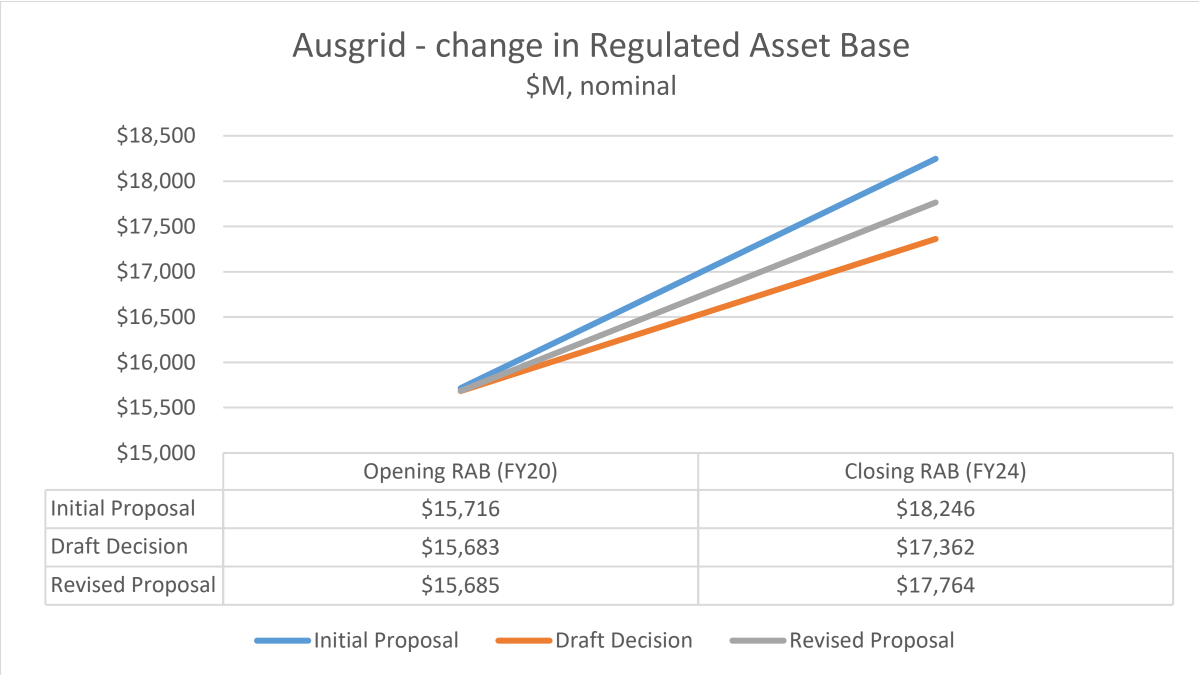
Figure 6: CPI -X-factor for Ausgrid (inverted for clarity)

REGULATED ASSET BASE GROWTH

A reduction in the value of the Regulated Asset Base per customer is a key component of our assessment that investment is in the long-term interest of consumers. Ausgrid has advised that in real terms their revised capital proposal contributes to a reduction in the regulatory asset base (RAB) per customer over the period, from $15,854M to $15,762M**.**

> *Our lower total capex forecast will contribute to reducing our regulatory asset base (RAB) by 4.9% (in real terms) per customer over the 2019–24 regulatory period* [9]*.*

The change in the Asset Base expected in the period 2019-24 is shown below in Figure 7.



	Opening RAB (FY20)	Closing RAB (FY24)
Initial Proposal	$15,716	$18,246
Draft Decision	$15,683	$17,362
Revised Proposal	$15,685	$17,764

Figure 7: Growth in the Regulated Asset Base – (Source: Ausgrid, CCP10 analysis)

CAPITAL INVESTMENT (CAPEX)

Introduction

In the modern environment of energy distribution, new technologies and energy use options are not only more available to both consumers and utilities, customers have an expectation that these technologies are employed to reduce network costs, maintain supply quality and facilitate new markets such as solar PV.

Against this growing imperative for sustainability, customer empowerment and energy choice, energy customers and industry stakeholders expect utilities to meet network their obligations through a much more efficient, collegiate and interactive process than has been the case in the past. A responsibility exists for customers, distributors and new industry

[9] Ausgrid Revised Proposal, p51

participants to collaborate in the effective utilisation of existing assets, and to seek innovative approaches for the safe, reliable and affordable supply of energy.

Notable in the New South Wales context is the significant level of network investment in the 2009-14 regulatory period, driven by rapid demand growth and largely over-conservative network security standards. This period had a major influence on the upward step in electricity distribution charges that will exists for many years to come through the rapid increase in the value of the RAB.

CCP10 and other consumer advocates have been very clear of their expectation that the distributors in New South Wales should strive to capitalise on that enhanced asset base by focussing on maximising utilisation of existing assets and reconsidering risk parameters in future network plans based on the benefits of increased network security can deliver. This expectation has been supported by the ACCC[10]

Consumer engagement on capex

Ausgrid undertook a very intense approach to 'deep dives' in 2017 and again in early 2018. These sessions were well facilitated, however they largely served as information sessions to provide customer advocates with significant detail regarding their initial regulatory proposal.

In addition, we observed a number of Ausgrid's Consumer Consultative Committee (CCC) meetings, and the special purpose workshops such as their Network of the Future vision.

Whilst we appreciated the remarkable amount of effort put in by Ausgrid into preparing and running these sessions, the underlying concerns such as conservative risk approach to the replacement of fluid-filled cables and the value of investments in non-network assets remained. These concerns formed the basis of our rejection of the initial proposal.

We are aware that Ausgrid had been working closely with the AER and ECA in the latter part of 2018 to respond to many questions for clarification of their proposal. Over that time, we were approached at times by others expressing concern at the perceived lack of priority that these groups believed they were receiving from Ausgrid. On exploring that matter with Ausgrid senior management, we were advised that Ausgrid was also attending to many data requests from financiers as part of a debt restructuring initiative that was occurring at the same time. CCP10 trusts that Ausgrid was able to meaningfully address the information requests and reasonably explain to the external groups the reasons for any delay.

Initially, Ausgrid presented a changed approach to the replacement of aged high-voltage cables, resulting in a reduction in asset replacement investment of $72M, noting:

> *"We will instead continue to monitor performance of the remaining cables, liaise with the EPA and if action becomes necessary, draw any required funding from across our approved capex allowance, based on priorities."*

[10] Op Cit, pages 8 and 9 in Section 1

In addition, Ausgrid renewed engagement with the AER on issues of replacement capital, with at least two workshops to better integrate their work with that of the modelling and analysis being done by the AER specialist teams.

Similar conversations were undertaken with consumer groups regarding capital forecasting, cybersecurity investment and the changes to the costs of the Advanced Distribution Management System. Whilst much of this work was 'last minute'; the approach taken by Ausgrid that recognised that the initial capital was not in their customers' best long-term interests was tangible. There was much less of a perception that Ausgrid was largely focussed on defending their initial proposal.

In addition, CCP10 was pleased to see Ausgrid's commitment to greater consumer and stakeholder oversight, as demonstrated by the establishment of the subcommittees to their CCC to guide issues such as the Network Technology investment.

CCP10 assessment

Our response to Ausgrid's initial Revenue Proposal in August 2018 and reiterated in our public presentation of 3 July 2018 included the headline comments that:

> *"Ausgrid are taking a 'stability' position. CCP10 believes their approach is very traditional, taking little risk and continuing to price work at the 'high end'"*

and

> *"We expect that level of prior expenditure, along with the efficiencies becoming available to Ausgrid, present a significant opportunity to reduce the level of investment required to maintain a safe and reliable network in times of changing customer requirements."*

This position reflected a belief that many opportunities are available to Ausgrid to reduce capital expenditure whilst maintaining service levels, through an opportunity to better respond to the risk of plant failures (repex) and leadership in the application of demand management and new technologies. An aggressive approach to driving down the per-unit cost of work is expected, as is demonstrated efficiencies in non-system investment.

We concluded that the capital expenditure plans in the Ausgrid Revenue Proposal of 30 April did not reflect prudent and efficient expenditure, and was not in the long-term interests of consumers.

Pleasingly, we now reflect on the focused and refreshing approach taken by Ausgrid in the latter part of 2018, where a concerted effort has been made to appreciate the concerns raised by customer advocates and to review the underlying approach to their capital investment.

In their Revised Proposal, Ausgrid states:

> *"In developing our revised capital expenditure forecast, we have responded to the matters raised by our customers and the AER … Our forecast now represents a*

different balance of the competing drivers of network investment, of which affordability Is now the primary consideration[11]"

CCP10 acknowledges that in its Revised Proposal, Ausgrid has made some difficult decisions that have the potential to impact their network performance and network risk profile in the short-to-medium term. It may also impact staff amenity or business performance as the 'do more with less' approach is implemented.

We trust that Ausgrid, as well as state and national regulators, will accept this possible disturbance in network performance as a necessary step in delivering long-term benefits to Ausgrid's customers and the wider community. CCP10 supports reasonable steps taken by Ausgrid such as community engagement campaigns and investment in short-to-medium term supply risk-mitigation measures to address any short-term adverse impacts of their transition to a much more customer-centric approach. We also expect that this position will not in any way diminish Ausgrid's (or any other distributor's, for that matter) responsibility to continue to pursue world-class workplace and community safety initiatives.

There are also some areas, notably ICT investment and unit costs, that remain somewhat opaque and continue to be points of focus to seek further opportunities.

Overall, we view the capital investment proposal as reflecting a determined and genuine attempt to take a progressive and informed approach to meeting their licence obligations and responsibility to their customers. CCP 10 commends the Ausgrid revised capital plan as being reasonable and supportable.

Ausgrid's Proposal

Ausgrid has proposed in its Revised Revenue Proposal a capital investment (net of capital contributions and adjustments) of $2,690M.

In its Draft Decision, the AER took a strong view that Ausgrid's initial proposal for capital investment of $3,084M was excessive. The AER indicated an investment of $2327M – $756M (25%) less than that initially proposed by Ausgrid- would be appropriate, finding:

"Ausgrid's governance and management framework led to a significantly overstated total capex forecast.[12]"

Despite the significant efforts Ausgrid undertook in the early part of 2018 to inform consumers of their capital investment requirement, CCP10 supported this position taken by the AER, on the basis that Ausgrid had not effectively justified its expenditure in areas including network growth, asset replacement, ICT and technology investment and capitalised overheads.

In its Revised Proposal, Ausgrid has indicated it intends to invest $2,690M over the 5 years of the regulatory period. This amount is $392M or 13% less that their initial proposal, compared with the AER's $756M or 25% reduction on the original proposal proposed in the Draft Decision. This situation is shown in Figure 8 below.

[11] Ausgrid Revised Proposal, p50
[12] AER Draft Decision p5-10

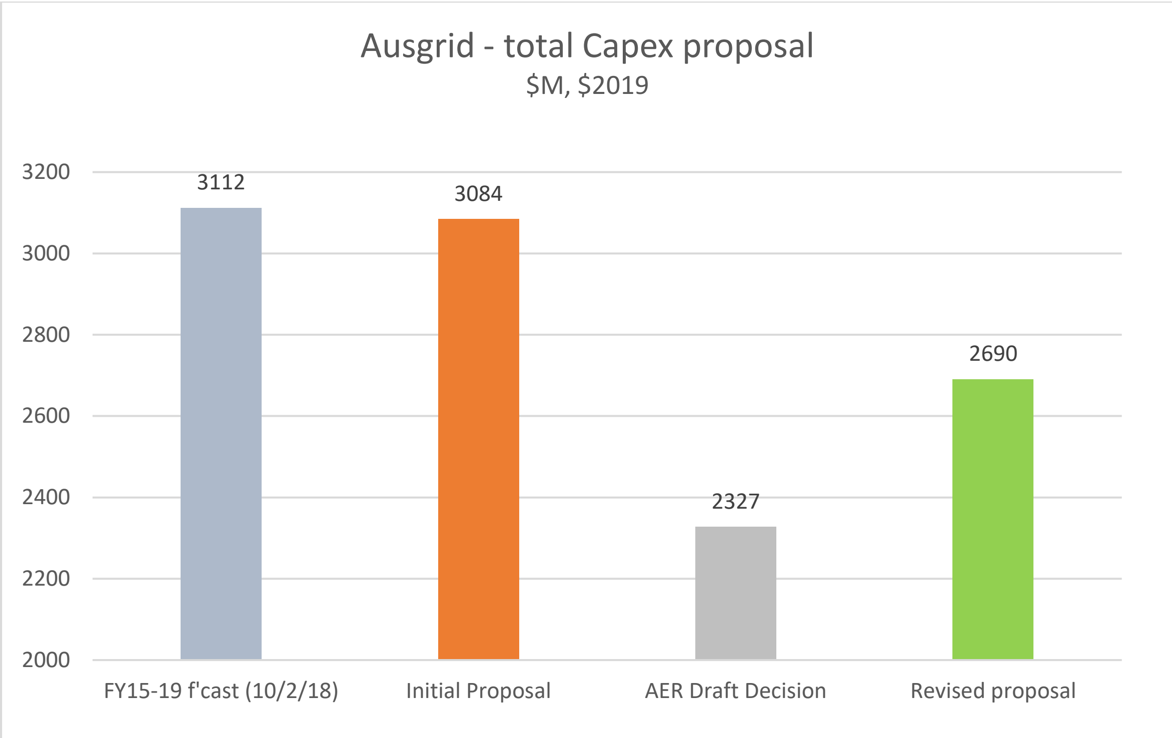
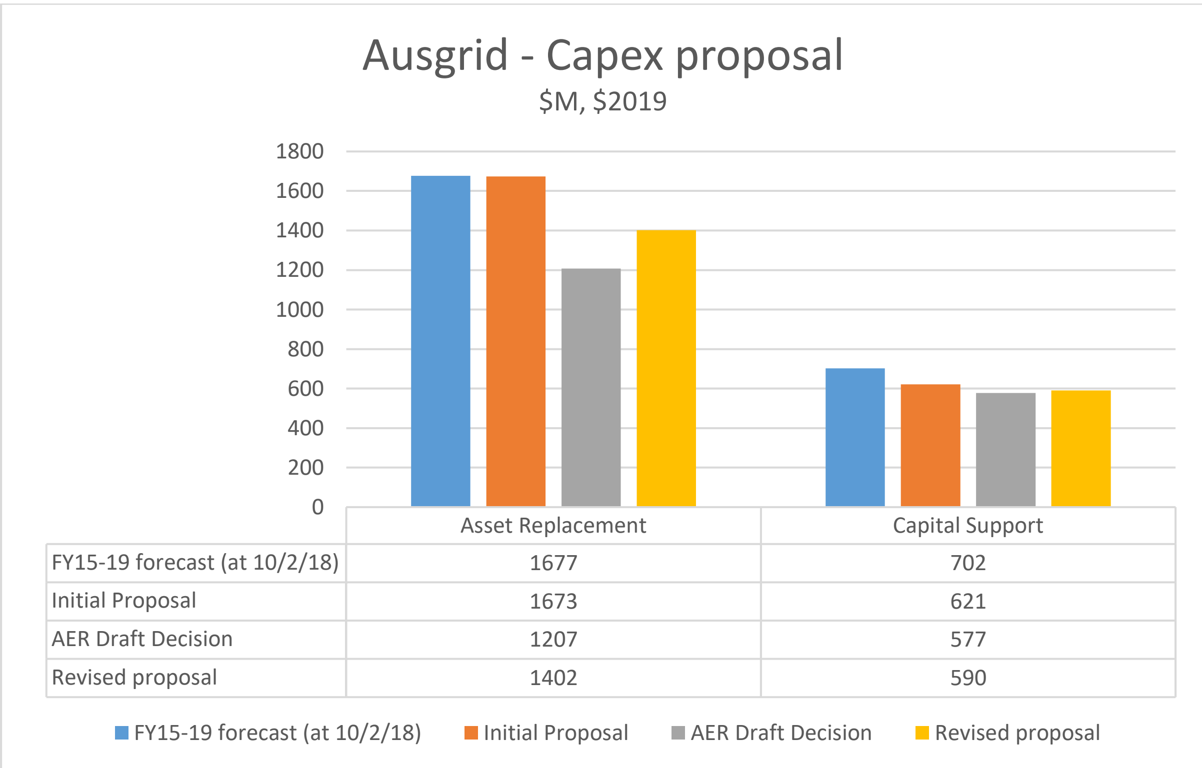


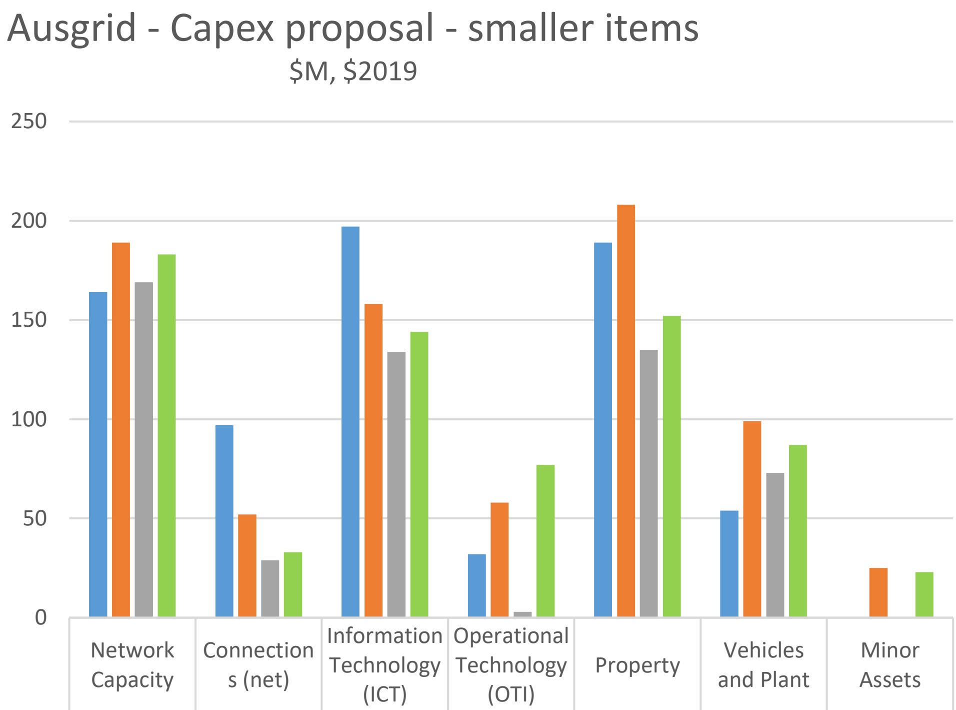
Figure 8: Proposed Capital Investment by Ausgrid *(source: Ausgrid)*

Figures 9 and 10 below show the capital investment proposal by category. The largest categories, Asset Replacement and Capital Support, are presented in Figure 9 separately for clarity.



	Asset Replacement	Capital Support
FY15-19 forecast (at 10/2/18)	1677	702
Initial Proposal	1673	621
AER Draft Decision	1207	577
Revised proposal	1402	590

Figure 9: Ausgrid capital expenditure proposal (graph 1 of 2) ***(Source: Ausgrid, CCP10 analysis)***



	Network Capacity	Connections (net)	Information Technology (ICT)	Operational Technology (OTI)	Property	Vehicles and Plant	Minor Assets
FY15-19 forecast (at 10/2/18)	164	97	197	32	189	54	
Initial Proposal	189	52	158	58	208	99	25
AER Draft Decision	169	29	134	3	135	73	0
Revised proposal	183	33	144	77	152	87	23

Figure 10: Ausgrid capital expenditure proposal (graph 2 of 2) *(Source: Ausgrid, CCP10 analysis)*

Network Augmentation (growth capex)

We note that network growth investment is now only 7% of the total capital investment by Ausgrid. This continued shrinking of augmentation investment is consistent with observations and expectations of consumers. After the relaxing of the conservative network security requirements of the last decade, the investment is significantly less than that of the 2009-14 period, as expected.

Consumer groups were initially unclear about the full impact of the demand forecasts in Ausgrid's proposal, especially as demand growth was stabilising and the impact of a concerted focus on demand management and embedded energy resources was unclear.

We note that Ausgrid has reduced their growth capital investment proposal by $26M (11%) from that of their Revised Proposal, nominating a revision of:

- demand forecasts showing a much more moderate growth in peak demand in the later years see Figure 11;
- consideration of the greater impact of DER and a cooling of economic growth; and
- further savings from the impact of investment in demand management.

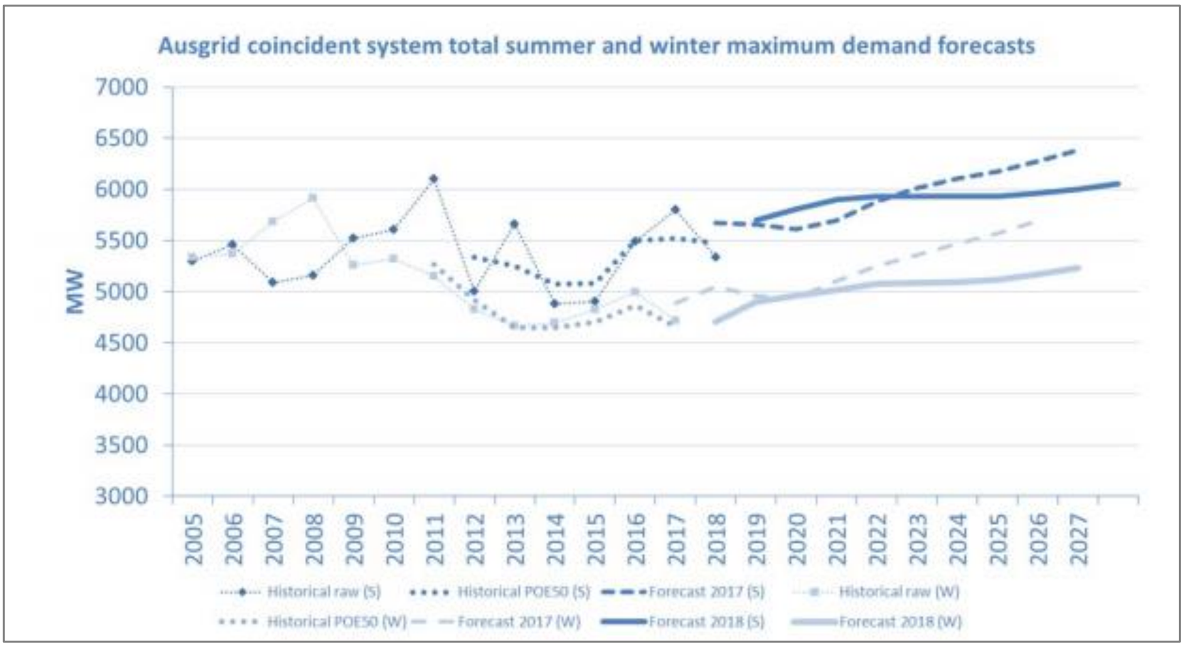


Figure 11: Ausgrid Maximum Demand forecast (revised) *(source: Ausgrid)*

Ausgrid states:

> *"In the long term, the 2018 forecast shows a moderation in demand, principally due to updates to forecasts for the impacts from emerging technologies."*[13]

This approach largely addresses the concern not only of CCP10, but of consumer groups, that Ausgrid was not fully incorporating the expected impact of new energy technologies and tariff options in mitigating demand growth.

Overall, Ausgrid's network augmentation requirements, on our analysis appear to be acceptably stable. We recognise that the growth is in two key areas –large embedded point loads such as data centres, and broader organic growth in 'infill' development in established parts of the network.

Our observation is that many of these new developments can embrace new technologies including a commitment to sustainability and energy efficiency. In the Sydney environment, Ausgrid has explained that high penetration of rooftop solar, particularly in the residential sector, is unlikely, energy storage is likely to be only moderate. Ausgrid have noted the possible impact of the greater uptake of electric vehicles (EV) in the Sydney region in the next few years. Consumer groups have expressed an expectation that Ausgrid will approach any such uptake in EVs with a focused application of demand management initiatives, including demand control and tariff incentives, to address this growth in the short term at least. Such an approach is consistent with recent announcements by distributors in the UK.

We look forward to Ausgrid considering how it may streamline and improve the effectiveness of the application of its Capex proposals, the Distribution Asset Planning Report (DAPR) and the Regulatory Investment Test (RIT-D) to further enhance the

[13] Ausgrid- attachment 5.07 – Revised Demand Forecasts – p7

engagement of third parties in seeking alternative non-network solutions to meet network growth.

Customer Connections

The continuation of Ausgrid's fairly strong stance since 2014 in its connection policy of 'causer pays', along with a very high share of new connection work being done directly for customers under the ASP scheme, is reflected in the fact that connections investment funded through the revenue determination is only around 5% of the gross connections cost. CCP10 is supportive of this 'causer pays' approach as applied by Ausgrid and hence retention of their connection policy.

Ausgrid continues to forecast around 100,000 new customers for connection to their network in the 2019-24 period. The AER in its Draft Decision raised concerns about the accuracy of the information provided by Ausgrid, and we note that further information was provided by Ausgrid to clarify and correct the proposal. The growth forecast for new customer connections is consistent with NSW Planning information.

Ausgrid has not made it clear the reasons for the $3.6M (12%) increase in requirements for connections since the AER Draft Decision. There is mention of delays in large projects pushing costs into this regulatory period.

Based on the evidence provided in the proposal and the deep dives, CCP10 supports the Revised Revenue Proposal for customer connection capital investment. We support the AER's investigation into the increase in the required amount in the Revised Proposal.

Asset Replacement

At a proposed investment of $1,402M, Asset Replacement capital expenditure (repex) is the largest single item of capital expenditure, being over half (52%) of the total investment.

Ausgrid spent considerable time with consumer groups explaining the requirement for asset replacement funding. That information did not suggest that Ausgrid had, unlike some other utilities for whatever reason, underspent previous allowances and was hoping to claw-back under-expenditure in the next period.

Again, consumer groups were left with the impression that in the initial Proposal:

- Ausgrid was taking a very conservative approach to the replacement of aged assets, particularly in light of the significant investment in new network capacity during 2009-14; and
- the unit costs of doing work, whilst recognising that conditions to access network assets was not straightforward in an environment like urban Sydney, seemed excessive.

On this basis, CCP10 supported the AER's view that the Repex claim was excessive, and appreciated the AER's 28% reduction in the requested funding in the initial Proposal from $1,673M to $1,207M.

Since that period and particularly during late 2018, we have observed Ausgrid taking a much more active engagement approach with consumer bodies and the AER regarding the required replacement capital. Ausgrid has presented to the consumer committees more comprehensive cost-benefit analyses for their various repex programmes. We are also pleased to see how Ausgrid has worked with the AER on the operation and development of the refined repex modelling. This has resulted in a general reduction 'across the board' of Ausgrid's replacement capital requirements. CCP10 has also been informed of Ausgrid's planning to make better use of new network technologies to address the change in risk inherent in the shift in repex funding.

We acknowledge and support Ausgrid's position that:

> *"Our engagement with stakeholders, especially our customers, has also influenced our investment approach. Customers have told us that while they place substantial value on safety and reliability of our network, they want us to prioritise affordability in the 2019–24 regulatory period. We consider the adjustments we have made to our modelled repex, leading to a forecast below the outcomes produced by our cost-benefit analysis, aligns to this priority."*

CCP10 is satisfied with the revised replacement expenditure forecast and the way it has been presented to stakeholders.

Overall, CCP10 is supportive of the approach to asset replacement proposed by Ausgrid, subject to the satisfaction of the AER that Ausgrid has provided adequate assurances as to the quality and intent of the many detailed Asset Management Plans that have been developed. We encourage Ausgrid to continually seek to lower costs through efficiencies, adopting non-network alternatives and through innovative risk management techniques in an effort to reduce asset holdings and ultimately long-term prices to customers. We also strongly welcome Ausgrid's ongoing commitment to '*collaborate with the AER to improve the repex model*'.

Advanced Distribution Management System

As part of the Asset Replacement expenditure category, Ausgrid proposes to spend $60M on the continued programme to replace Ausgrid's Distribution Management System (ADMS). This is a $19M increase in the $41M noted in the initial Proposal.

We accept that this expenditure is only part of a multi-period programme by Ausgrid to enhance their capability to implement more contemporary programmes to incorporate demand management, enhanced network risks and demand forecasting. Ausgrid has taken time to explain the impact of these new approaches to network management to consumers and advocates, and the proposal to continue the development of the ADMS is supported.

Ausgrid has explained that the $19M increase to the cost of the work was due to a change in the approach to cybersecurity by national security authorities that was not made evident until well into 2018. CCP10 was initially not supportive of the cost increase, viewing the change as a credible contingency that should have been considered by Ausgrid during their assessment of offers and cost-benefit analysis. Subsequently, Ausgrid has provided additional information that tends to indicate that the change in requirements was not able to be reasonably foreseen. On that basis, and with the understanding that the project will be under the oversight of the Technology Review Committee, we are comfortable with the ADMS expenditure in the Revised Proposal.

Operational technology and innovation

The majority of Ausgrid's proposed $77M investment in Operational Technology and Innovation (OTI) is in its Network Innovation Programme, which is discussed in detail in the following section.

Through the presentations on capital needs, Ausgrid made a reasonable case to consumers regarding their approach to enhanced network information (such as LiDAR) as a network asset. A similar acceptance was expressed regarding the refresh of the primary technology platforms.

Expenditure on cybersecurity requirements continues to be difficult to assess. In the final part of section 1 of this response, CCP10 has raised the matter as benefiting from a whole-of-industry approach in funding proposals as the issue is almost by definition opaque to consumers and driven largely by national requirements. There are few if any indicators that assist consumers to assess the prudency and efficiency of cybersecurity investment.

CCP10 raises no objection to Ausgrid's proposal, on the basis that it will be considered by the proposed Technology Review Committee.

Network Innovation Fund

Ausgrid's proposed Network Innovation Program, whilst relatively small in total investment at $42M of the $2.690M revised capex proposal, has been very significant in terms of consumer engagement priorities. The proposal encompasses 11 projects designed to identify innovative technologies capable of providing a better core service to customers at lower cost and more safely than existing methods, or new services that Ausgrid's customers want but that it currently cannot deliver with its existing assets. Despite consumer support for the Network Innovation Fund the AER rejected the whole of the investment in the Draft Decision. The AER noted that Ausgrid had not provided business cases for the projects and had therefore not substantiated the consumer benefits of the program. Ausgrid did finally lodge its business cases with the AER in late September and the AER agreed to assess those business cases as part of the Revised Revenue Proposal.

The AER made the following observations about some of the 11 proposed projects in its Draft Decision:

> *"While we have not been provided with sufficient information to demonstrate the prudency and efficiency of these initiatives, it appears that some of these projects have the potential to deliver a net economic benefit. For example, the high-voltage micro- grid trial project ($17.5 million) has the potential to achieve better economic outcomes at locations where grid supply is costly and uneconomic........*
>
> *Ausgrid's dynamic load control program also appears reasonable........*
>
> *Ausgrid has also proposed a grid battery pilot program to assess the potential of battery storage in network support services, including trialling a novel business model called 'virtual partitions'. There have been multiple trials conducted by other parties such as non-network service providers in this space. From a review of the*

information available, we consider that Ausgrid could gain insight from those trials rather than repeating it themselves."[14]

As noted above CCP10 supported the Network Innovation Program at the Public Forum, noting that Ausgrid still had more work to do with the AER and customer advocates on the cost benefit analysis and structure of the program. We agree with the AER that greater co-ordination is needed among businesses about the results of trials to avoid duplication of cost and effort.

On 23 November 2018 CCP10 attended Ausgrid's Network of the Future Forum. The Forum was well attended including representatives from universities, ECA, PIAC, NCOSS, TEC, EUAA and EWON and other members of Ausgrid's CCC. The afternoon was devoted to framing the Network Innovation Program, setting terms of reference for the NIAC and identifying and agreeing on priorities for innovation as well as governance safeguards needed in order to gain customer support for the expenditure and the program.

Ausgrid's Revised Revenue Proposal accurately reflects both the terms of reference for the NIAC in section 1.6 of attachment 3.02 and the guiding principles for innovation that must be met for the NIAC to support expenditure on any innovation project. Customer advocates debated the principles at length, agreeing that innovation must deliver benefits for all customers, including those without access to DER technology, and opportunities for collaboration between businesses needed to be maximised. The final innovation principles set out in Ausgrid's Revised Revenue Proposal at 1.7 in attachment 3.02 are:

"All innovation projects must be in the long-term interests of consumers with respect to price, quality, safety, reliability and security of supply. In relation to innovation, this means that all projects must be safe and create value for customers. The NIAC will consider projects in accordance with the following principles:

- *Maximise economic utility of new and existing assets*
- *Lower costs for customers*
- *Solves a specific problem*
- *Unique-ness of problem and collaborative opportunities*
- *Accelerate cost effective decarbonisation*
- *Improve fairness*
- *Reliability and price".*[15]

CCP10 continues to strongly support this program and the $42M expenditure. The Network Innovation Program was unanimously supported by all present at the Network of the Future Forum on the basis of the safeguards reflected in the membership of the NIAC, its terms of reference and the principles for innovation.

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[14] https://www.aer.gov.au/system/files/AER%20-%20Ausgrid%202019-24%20-%20Draft%20decision%20-%20Attachment%205%20-%20Capital%20expenditure%20-%20November%202018_0.pdf at 5-92 and 5-93

[15] https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Attachment%203.02%20-%20Network%20Innovation%20Advisory%20Committee%20Draft%20Terms%20of%20Reference%20-%20%20January%202019.pdf at Page 5

We note that Ausgrid may invite CCP to be a member of the NIAC, as well as the CCC, the Technology Review Committee and continue its membership of the Pricing Working Group. Despite being instrumental in the establishment of these groups and their priorities, as noted above in section 1, a number of obstacles exist that preclude CCP members from being actively and productively engaged in these activities. This matter will continue to be discussed between the CCP and the AER. (refer dot point 6, page 14 of this submission)

CCP10 supports the change proposed by Ausgrid to exclude the expenditure proposed under the Network Innovation Fund from the Capital Efficiency Sharing Scheme (CESS), and place a high degree of responsibility for its governance in the hands of the customer-focussed NIAC. This matter is further discussed below in the section dealing with Incentive Schemes.

Non-network capital investment

Every distribution business has a different approach to their non-network capital investment, with diverse historical investments, varying operational environments and work practices. It is against this background that the CCP seeks to understand not only the drivers of the expenditure in property, vehicles and plant, tools and, most significantly, Information and Communication Technology (ICT), but also the clear commitment by utilities to identify and make transparent the benefits to customers that emerge from that expenditure.

Regarding *property investment*, Ausgrid has reduced its requirement from $188M to $152M. This is still in excess of the AER Draft Decision of $135M.

CCP10 accepted from the deep dives that the proposed programme of depots refurbishment and new premises would benefit in reduced operating costs and efficiencies if not in this period, certainly the next. Our main issue was whether the work was programmed in an efficient and staged manner, by prioritising the work yielding most benefit at the lowest cost.

We note the external advice and significant number of property reviews provided as part of the Revised Proposal, and only lament the fact that this information was not provided in a more-timely fashion for consideration and, if appropriate, support from stakeholders.

Vehicles, like mobile phones and laptop computers, are a prime target for ongoing and regular reviews by companies to ensure high utilisation and low operating cost. Consumer groups expect Ausgrid to be at the very efficient end of the light vehicle-use spectrum, given a dense network in a largely highly-populated area. Benchmarking the use of heavy vehicles is a very different matter, being very dependent on network length and work practices.

The detailed expenditure drivers for vehicle costs, in particular replacement of heavy vehicles, was not explained in detail to consumers, and therefore we will support the AER decision on vehicle-related capital expenditure.

ICT investment

The ability for customer and community advocates to assess the prudency and efficiency of *ICT investment* is remarkably poor, and is subject of our specific recommendation to the AER. Ongoing investment in ICT can nowadays be only judged by trend, or some form of superficial benchmarking. Available alternatives such as life extension, functional trade-offs or resistance to the market power of a small number of system providers are not discussed or presented to consumers in any meaningful way. We reiterate out statement from the response to the initial proposal:

> *"It is an understatement to say that CCP10 are very uncomfortable with the level of IT spend being undertaken by not only Ausgrid, but also many other network businesses"*

The AER mainly takes a relative benchmarking approach to assessing recurrent ICT expenditure. CCP trusts that the AER will be in a position to take a much more reasoned and active assessment of ICT expenditure in future revenue resets following the NEM wide consideration of this issue.

The Revised Revenue Proposal accepts the AER Draft Decision, with the exception of reinstating planned expenditure on Information Management ($3.7M) and Digital Transformation ($4.4M).

We remain unclear about the benefits to consumers of these additional costs, as the Revised Revenue Proposal does not link them to measurable benefits to customers such as reliability improvement or reduced operating costs. We assume, however, that this is the case.

Capitalised Overheads

In the Revised Proposal, Ausgrid has proposed a slight reduction in capitalised overheads when compared to existing costs. The proposal notes some efficiencies in data management as a result of improved ICT facilities. We note the case for improved overhead efficiencies is presented in costs per customer, yet the capital support costs are largely calculated as a function of the value of the total capital programme, which is driven more by asset replacement needs and network topology.

We would like to see clearly presented in future determinations how that formula and hence costs change as businesses invest in productivity tools such as IT.

CCP10 would like to see in future a more aggressive approach to reducing 'back-office' costs, especially as a clear incentive to Ausgrid to deliver operational benefits from the significant ICT investments of the current period and that proposed in 2019-24. We note and support Ausgrid's position of using technology to deliver a '*smaller, lighter, faster and cheaper approach to network management*' [16], and expect that approach will result in further reduced overhead costs.

Therefore, we support a further reduction in the proposed expenditure for capitalised overheads below that of $66M.

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[16] Ausgrid Revised Proposal, Table 4.1, p10

Incentive Schemes, particularly CESS

CCP10, consistent with the sentiment expressed in a number of customer workshops, supports the application of the Efficiency Benefit Sharing Scheme (EBSS), Service Target Performance Incentive Scheme (STPIS) and Demand Management Incentive Scheme (DMIS) as proposed. We support the adoption of the 2018 STPIS amendment proposed by Ausgrid.

As noted earlier, Ausgrid in their *Network of the Future* presentations received a lot of feedback from community groups expressing an interest in mechanisms to ensure that Ausgrid's investment in new technology and studies were well-aligned with community expectations and that of experts in the wider community.

To that end, Ausgrid has adopted a suggestion by customer groups to exclude the following categories of expenditure from their capex allowances in application of the CESS for the 2019-24 regulatory period:

1. the Network Innovation Program
2. an Advanced Distribution Management System and
3. additional cybersecurity.

CCP10 recognises the value and importance of the regulatory incentive schemes and as noted in section 1 believes that the AER should review the design of its incentive schemes to ensure they are world's best practice. In this particular case however, consumer groups expressed concern that the Ausgrid proposals for these categories may be somewhat speculative, and meaningful and valuable investment may not take place. In that case, Ausgrid would benefit in their under-expenditure.

Ausgrid has made a compelling case to the customer groups that this expenditure is necessary and efficient – a case that has largely been accepted by consumers. Therefore, the issue then becomes the timely, prudent and appropriate investment in these areas. Ausgrid has proposed to put oversight of this expenditure in the hands of new consumer-based panels: the NIAC and the Technology Review Committee.

Charters of these committees are being circulated to the Ausgrid CCC and other customer advocacy groups. Whilst they are yet to be finalised, CCP10 believes Ausgrid's commitment to this oversight mechanism is positive. Oversight is occurring in conjunction with removal of a number of small components of the capital programme that are specifically targeted at consumer long-term benefits, but related to other activities than traditional network assets. The establishment of NIAC and the Technology Review Committee is a positive and innovative proposal.

OPERATING EXPENDITURE (OPEX)

Base year change – Emergency Recoverable Works

CCP has been highly supportive of the AER's initiative across a number of jurisdictions to provide standardisation and commonality regarding the Framework and Approach (F&A) conditions that underpin the regulatory resets. In addition, we acknowledge the implications of the Ring-Fencing Guidelines that result in the reclassification of the provision of Emergency Recoverable Works (ERW) to that of a Standard Control Service. In that support, we noted the importance that distributors take all reasonable steps to recover costs from the party responsible for damage, and be strongly incentivised to recover those costs. We also believed that any unrecovered costs, being hopefully only a small amount of the total cost of ERW, would largely be absorbed by the business.

We note in the Revised Revenue Proposal that Ausgrid requires an adjustment in Base Year opex of $6.29M, with a 5-year adjustment impact of $31.4M, up from $26.8M proposed initially.

CCP10 reluctantly supports the intent of the proposal - that is, that the unrecovered component of ERW can be considered part of the underlying costs of the business – as a negative consequence of the change to the classification. We still have concerns, however, that the proportion of costs recovered does not reflect a concerted or 'all reasonable endeavours' attempt by Ausgrid to recover all costs that may be available.

Figure 12 below, based on information provided by Ausgrid[17], suggests that only 20% of the costs of damage to assets and other emergency works was recovered in the period 2015-19. Ausgrid did not address this matter in the consumer engagement, so it is unclear whether this low proportion recovered is consistent with prevailing industry practice.

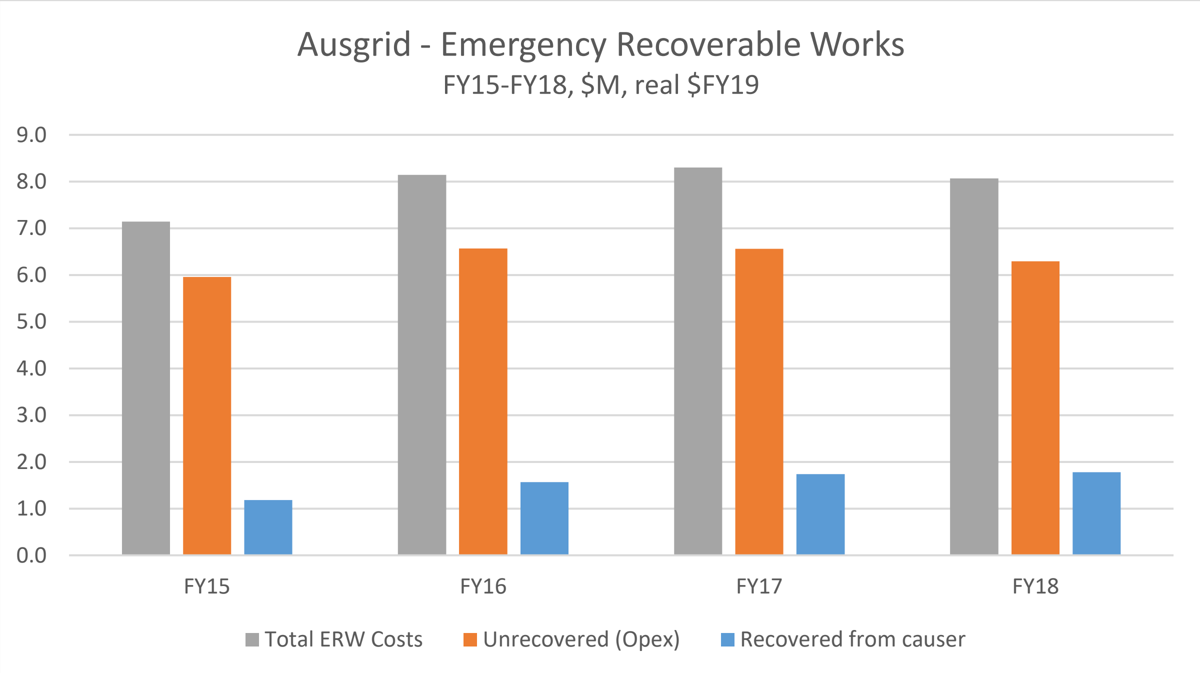

Figure 12: Emergency Recoverable Works FY15-19 (Source: Ausgrid Revised Revenue Proposal 6.01)

On that basis, whilst CCP10 acknowledges that the consideration of ERW into the base year consideration may be valid, the lack of engagement on this matter means we are unable to take a position on the proposal by Ausgrid. We trust that the AER will consider the

[17] Ausgrid Revised Proposal attachment 6.01, table 12

apparently low amount recovered by Ausgrid in the context of appropriate cost recovery from third parties that may be reasonably achievable.

Step Changes

We note that Ausgrid has accepted the AER's decision to disallow additional expenditure to support pricing reform and have not included this opex step change in their Revised Revenue Proposal. We discuss this issue further in the TSS section below.

Ausgrid devoted significant effort in the latter part of 2018 to engaging with consumer representatives on operating cost impact of their capital programme; or more specifically, their Demand Management (DM) proposal. We also note that Ausgrid has provided additional information to the AER on this matter.

We see the trade-off between increased operating costs and reduced capital investment as an important issue for the AER, distributors and consumers. In particular, we accept Ausgrid's discussion of the less-tangible impacts of new approaches to demand management within the medium-voltage network that is subject to high levels if infill development.

We support the proposed DM opex of $10.21M proposed by Ausgrid.

Dynamic Opex Productivity

As noted above in section 1, CCP has argued for some time that the AER's current zero productivity forecast is not consistent with the overall objective of establishing the best available unbiased estimate of the opex for a prudent and efficient operator.

In the Revised Revenue Proposal Ausgrid acknowledged the unanimous customer feedback on this issue in the following way:

> "*Customer groups were concerned that the lack of productivity assumptions in our initial proposal could create unwarranted, positive expected EBSS bonuses. Our Revised Revenue Proposal addresses this concern as we have introduced productivity assumptions in our opex forecast for 2019-24*."[18]

The specifics of its productivity dividend are set out as follows:

> *"Productivity factor – we have revised our approach to forecasting productivity in light of the AER's Draft Decision. We have adopted the AER's Productivity Draft Decision forecast of productivity growth of 1.0% pa to apply from FY21 as a placeholder in our Revised Proposal. We intend to update this with the AER's Final Decision estimate during consultation with the AER following the release of the Productivity Final Decision in March/April 2019. This approach sets us a challenging*

[18] https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Revised%20Regulatory%20Proposal%20-%20January%202019.pdf at page 149

productivity target and we intend to achieve this as a result of the efficiency initiatives included in our Revised Proposal."[19]

As we noted above CCP10 acknowledges the significant costs that Ausgrid has removed from its annual operating expenditure since 2014. In its Draft Decision on Ausgrid's remittal for 2014-19, the AER noted that Ausgrid had reduced its annual opex by $100 million (realFY19) p.a. savings over the last five years as a result of its transformation program. We repeat our earlier observation that *Ausgrid is a business in transition undergoing major transformation. Consumers recognise this is a point in time on that journey. Consumers publicly acknowledged that journey and transformation when supporting the remittal decision.*

Customers expect that productivity improvement will continue. We welcome that Ausgrid has included 1% in its Revised Revenue Proposal as a placeholder pending the finalisation of the AER's review. Ausgrid has made a submission to the AER supported by a CEPA report that the productivity dividend should be reduced to .7% per annum. We note that Ausgrid is not relying on a report from Houston Kemp that is being cited by other network businesses. We expect that the CCP subpanel advising the AER on the opex productivity review (the Opex CCP) may separately respond to the submissions to the AER's opex productivity review.

In its Revised Revenue Proposal Ausgrid has raised the following issues:

1. the sensitivity to the starting point for the opex productivity analysis
2. the sensitivity of the estimates to the DNSP's included in the estimation of the trend improvement in opex productivity
3. estimates prepared by CEPA for longer term labour productivity
4. consistency with the econometric modelling and the usefulness of the undergrounding factor.

The opex CCP submission to the opex review provided extensive sensitivity analysis in regard to issues (1) and (2) and demonstrated that this still supported an opex productivity assumption of 1.5% or higher. The Opex CCP supported this by detailed references to previous decisions by the AER and prior regulators that demonstrated the significant impact of step changes in the period to 2012. The Opex CCP also proposed that limited weight should be given to the undergrounding factor. We also note the analysis by CEPA on longer-term trends but are concerned about some of the sectors included (e.g. real estate) and that the results are unweighted. We also consider that further analysis of the non-labour factors is required and expect that the Opex CCP will respond to this (subject to funding). Ausgrid's argument about consistency with the econometric modelling needs to be considered in light of the successful appeal by the NSW distributors on the weight to be given to the econometric benchmarking.

[19] https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Revised%20Regulatory%20Proposal%20-%20January%202019.pdf at page 111

In summary we strongly support the Opex CCP's submission to the AER's productivity review for an annual productivity dividend between 1.5-2%. However, if the AER's decision in the opex review were to be a presumption of a 1% p.a. productivity improvement, we would support its application to the Ausgrid Revised Revenue Proposal.

In the Revised Revenue Proposal Ausgrid lists several reasons why it has only applied the 1% productivity from 1 July 2020 rather than from 1 July 2019. Ausgrid presents 4 factors in justification of this:

1. the opex forecasts included 'embedded efficiencies' i.e. cost increases due to small scale trend increases in obligations
2. continuing effects and costs of transformation
3. costs of transition to lower capex and
4. pre-existing binding employment conditions.

Factors (1) and (3) are not unique to Ausgrid and are embedded in the trend partial productivity estimates that underpin the AER's proposed productivity assumption. However, we accept factors (2) and (4) and support Ausgrid's proposal not to introduce the 1% productivity from 1 July 2019. We agree that Ausgrid is affected uniquely by the NSW Electricity Network Assets (Authorised Transactions) Act 2015 (NNAAT Act) through the preservation of its current Enterprise Bargaining Agreement until 30 June 2020. We note that one of the commitments Ausgrid agreed with customers was that it will absorb all transformation costs in the 2019-24 period, some of which it may have otherwise sought to pass through to consumers as a regulatory cost consistent with the AER's Decision in the remittal for 2014-19. The AER should reflect this commitment to absorb the transformation costs incurred as a result of the NNAAT Act in its Final Decision on applying the productivity dividend to Ausgrid from 1 July 2020.

CCP10 congratulates Ausgrid for its initiative in this area.

RATE OF RETURN

We welcome Ausgrid applying the binding 2018 Rate of Return Guideline in its Revised Revenue Proposal.

TAX

We welcome Ausgrid's commitment to work with the AER to implement the changes required to give effect to the 2018 Tax Review Final Report.

DEMAND MANAGEMENT INCENTIVE SCHEME

Ausgrid has gone to significant lengths to consider demand management opportunities to reduce the requirement for capital investment. In the Revised Proposal, Ausgrid highlights the capex – opex trade-offs that are available, including a strong argument to apply small-scale demand management in the area of urban infill development where augmentation needs on a per-development basis are not clear cut. This initiative has CCP10's support.

The most recent analysis from the AER on DM expenditure compared to allowance published from the AER in Figure 12 shows that Ausgrid significantly underspent its DMIA. This is disappointing given the potential for DM to replace capital expenditure.

We are aware that Ausgrid submitted a proposal to the AER for early application of the revised DMIS on 8 January 2019, and trust that Ausgrid will maximise all DM opportunities available to them in the next regulatory period.

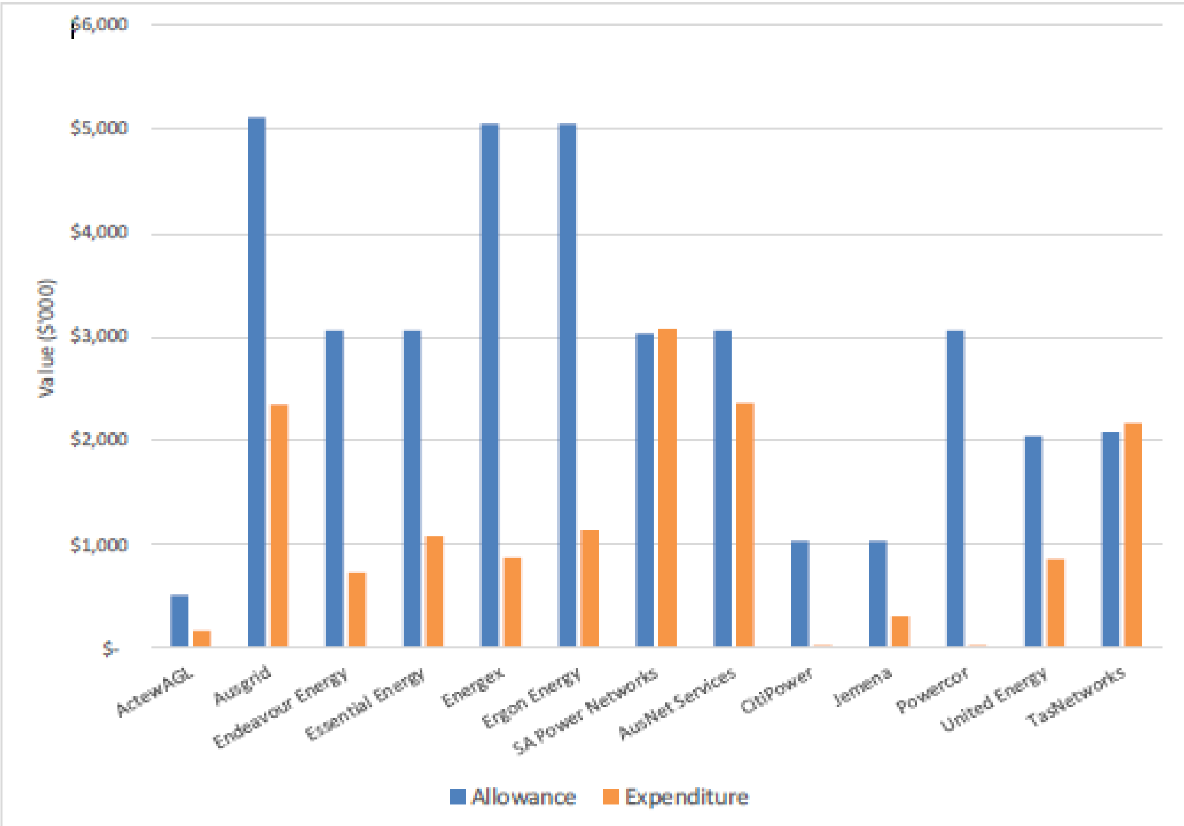

Figure 13: Expenditure of Demand Management Allowance (Source: AER)

TARIFF STRUCTURE STATEMENT

The draft TSS in Ausgrid's initial Proposal was strongly rejected by all customer advocates as it delayed the introduction of demand tariffs and sought to increase fixed costs. The AER did not support Ausgrid's initial TSS in it Draft Decision. Ausgrid responded to consumer feedback by establishing its Pricing Working Group, which includes representatives from CCP, ECA, EUAA, TEC and PIAC. The Pricing Working group has met on several occasions since April 2018, reviewing the revised tariff design and assignment policies.

CCP has welcomed its involvement with the Pricing Working Group and is very pleased with the progress which has been made since April 2018. As a result of Ausgrid's preparedness to respond to customer feedback Ausgrid has proposed a very different TSS as part of its Revised Proposal, which is largely consistent with the Pricing Directions.

The key feature of the TSS involve the introduction of demand tariffs for new residential and small business customers, those customers electing to swap to a smart meter or customers with a smart meter. In order to reduce customer impacts Ausgrid has proposed a 12-month sampling transitional tariff.

The next priorities that Ausgrid has identified for the Pricing Working group is the co-design of research on the impact of more cost reflective tariffs along with the development of complementary measures and communications materials. CCP10 congratulates Ausgrid for its good work on progressing tariff reform and its commitment to funding research from its opex revenue and for no longer seeking the opex research step change in its Revised Proposal.

CCP10 strongly supports CCP21's work with ECA in designing customer impact modelling research at the household level. On 23 November 2018 the Chair of the AER held a Network Tariff Reform roundtable, which was attended by representatives from the AER TSS team, CCP21, ECA, AEMC, Australian Energy Council, ARENA, the Federal Department and ENA. The meeting endorsed the development of ECA and CCP21's plan for building an independent, open source dataset. The participants at the Roundtable noted ECA's objective to establish a common model using a household survey to establish socio-demographic data and linking this to billing data to identify associated consumption behaviour. We note that Ausgrid's next steps for the Pricing Working Group are consistent with the priorities identified by CCP21, ECA and the recent Roundtable. As we mention in section 1 we strongly believe that tariff reform needs to be progressed through national dialogue and co-operation and we encourage Ausgrid to work collaboratively with CCP21, ECA and the AER TSS team on the development of its research program and complementary measures.

CCP10 supports Ausgrid's revised TSS, the introduction of demand tariffs and the need to accelerate tariff reform underpinned by detailed empirical modelling on impacts and customers' abilities to respond to those impacts.

CONCLUSION

In our concluding comments on 13th November, we compared Ausgrid's recent journey to that of a maxi-yacht racing in Sydney Harbour. We observed that there had been periods when the yacht went off-course, periods of great progress and some instances where the yacht was becalmed. At that time, we expressed a view, a hope maybe, that the boat was on course, spinnaker fully unfurled and racing to the finish line.

In many ways it is remarkable that the conclusion of this response is that CCP10 believes that Ausgrid's Revised Revenue Proposal is capable of acceptance by the AER.

This outcome represents a departure from the previous adversarial approach lamented by the AER chair in her speech to the ENA in July 2017 (refer page 4 of this submission). This is the result of many hours of discussion, feedback, analysis, hand wringing and greater openness from all stakeholders. We congratulate Ausgrid for their work and for their commitment to their ongoing transformation, which we believe is in the long-term interests of consumers.

This level of support from us and other consumer advocates would not have been possible without strong leadership from Ausgrid's CEO, supported by the Ausgrid Board, to take risks by moving away from the regulatory paradigm that had existed in NSW for so many years. We congratulate Ausgrid for accepting and applying the AER's final positions on tax and Rate of Return. We note that Ausgrid has accepted a greater degree of risk in its Revised Revenue Proposal to maximise affordability by deferring some replacement decisions.

CCP10 acknowledges that the decision by Ausgrid's shareholders to offer a productivity dividend before the AER's final decision is a strong statement by them of their long-term commitment to achieving and sharing future productivity gains with customers. This is very important to customers and was a critical step in CCP10's statement reflected in Ausgrid's Revised Revenue Proposal on page 15:

> "*CCP10 advised that it is increasingly confident that Ausgrid is becoming pivoted to improved consumer outcomes with a focus on optimising capex spend and achieving better productivity including through cost effective technology platforms. This confidence, if underpinned by transparent dealings, means consumers can pivot their focus to innovation and transformation* ***with*** *Ausgrid*".

The long term-interests of consumers will be served through the development in Ausgrid's capex forecasting and governance. This will be a powerful foundation to underpin investment in new technologies.

There are aspects of Ausgrid's Revised Revenue Proposal that represent new developments in consumer engagement that CCP10 hopes will be reflected in the proposals of other DNSPs. For example, we welcome the new committees that embed consumer voices as part of the transition to new technology.

In the last part of section 1 we identify issues that need to be managed by the AER and the businesses NEM wide in the medium term. We believe that Ausgrid's Revised Revenue Proposal and the process leading up to it will help Ausgrid to position itself in a leadership position in these issues. DER, IT, cybersecurity, and DM are shared issues that can unlock efficiencies for the benefit of all utilities, including Ausgrid, its customers and its shareholders. We encourage Ausgrid to collaborate as much as possible with Endeavour Energy and Essential Energy on these issues. On 13th November 2918, at the public forum we thought that Ausgrid was on track, particularly in rebuilding its relationship with consumers, but we had some apprehension. We are now very confident that this ship is under full sail and travelling well.

Critical, though, is Ausgrid's continued commitment to this new direction. To slow, redirect or fail to deliver against these expectations in any way will have a hugely negative affect on the view held by consumer stakeholders of the business and its management.

We look forward to Ausgrid building on the evolving trust between it and its stakeholders. CCP10 is excited at the prospect that consumers can now shift our focus to innovation and transformation WITH Ausgrid as it transitions to a network of the future.

GLOSSARY

AMI	Advanced metering infrastructure
CCP	Consumer Challenge Panel
DER	Distributed Energy Resource (small scale energy generation or storage devices that are grid connected)
DM	Demand Management
ECA	Energy Consumers Australia
ENA	Energy Networks Australia
EUAA	Energy Users Association of Australia
EWON	Energy and Water Ombudsman NSW
LMR	Limited Merits Review
NCOSS	New South Wales Council of Social Services
NEM	National Electricity Market
PIAC	Public Interest Advocacy Centre (NSW)
PTRM	Post-tax revenue model
RIN	Regulatory Information Notice
TSS	Tariff Structure Statement