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CCP17  
Comments on the AusNet Services Customer Forum Interim  
Engagement Report - 6 February 2019

as part of the

Victorian Electricity Distribution Businesses 2021-2025  
Regulatory Reset

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**Consumer Challenge Panel (CCP) Sub-Panel CCP17**

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**1 May 2019**

# Contents

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Contents.....	2
1. Introduction.....	3
2. Engagement scope .....	4
3. Negotiation approach.....	5
4. Operating expenditure .....	7
5. Augmentation expenditure .....	9
6. Customer experience and hardship arrangements .....	12
7. Replacement expenditure .....	14
8. Innovation expenditure .....	19
9. Distributed Energy Resources (DER).....	21
10. Metering.....	22
11. Price path .....	24
12. Final comments .....	25

## Acknowledgements

CCP17 wishes to acknowledge the cooperation and support of the AusNet Services Customer Forum, AER staff and AusNet Services staff, all of whom have generously provided information and insights to assist the sub-panel in its review of the Customer Forum’s Interim Engagement Report.

We also advise that to the best of our knowledge this report neither presents any confidential information nor relies on confidential information for any comments.

# 1. Introduction

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The five Victorian Electricity Distribution businesses (AusNet Services, Jemena, CitiPower, Powercor and United Energy) have commenced preparation of their regulatory revenue proposals for the 2021-2025 Regulatory Control Period. The businesses' regulatory proposals are due to be lodged with the Australian Energy Regulator (AER) by 31 July 2019. In common with current practice for the majority of regulated network businesses operating in the National Energy Market, each business has embarked on an early engagement program with its customers, in order that customer needs are well understood by the business. This will mean that the final proposals should be shaped by customer requirements and choices, and that customers can see the impacts they have had on the regulatory proposals and on the way in which each business will operate in the future.

Consumer Challenge Panel Sub-Panel CCP17 was formed in November 2017, to advise the AER on:

- Whether the Victorian Electricity Distribution businesses' proposals are in the long-term interests of consumers; and
- The effectiveness of the businesses' engagement activities with their customers, and how this is reflected in the development of the network businesses' proposals.

In 2017, AusNet Services opted to trial a new engagement model (known as the *NewReg* model) for consumer involvement in the 2021-25 Regulatory Reset process or Electricity Distribution Price Review (EDPR).

The *NewReg* trial is accountable to an oversight group comprising representatives from the AER, Energy Consumers Australia and Energy Networks Australia. It involves the creation of an independent five-member AusNet Services Customer Forum, which has responsibility for negotiating aspects of the regulatory proposal directly with the business, representing the diverse perspectives of AusNet Services' customers. This is the first time that this approach has been introduced as part of an Australian energy network regulatory reset process, though there is some overseas precedent. All parties involved have been influenced by the approach to water regulation in Scotland.

The Customer Forum was appointed in March 2018, with a term of appointment up to the lodgement date of AusNet Services Regulatory Proposal – 31 July 2019. In June 2018, the Customer Forum, AusNet Services and the AER finalised a Memorandum of Understanding (MOU)<sup>1</sup> which sets out respective roles, governance arrangements and expectations of the parties. The MOU requires the Customer Forum to deliver an Engagement Report to explain the scope matters agreed and disagreed between the Customer Forum and AusNet Services. Specifically, the MOU requires the Customer Forum to prepare:

- A draft version of its Engagement Report after the first round of negotiation with AusNet Services, and
- A final version of the Engagement Report after the second round of negotiation.

Since March 2018, the Customer Forum has been meeting monthly with AusNet Services. Between March and July 2018, the Customer Forum received intensive induction into the business and the regulatory framework, and investigated AusNet Services customers' preferences and issues. The Forum has been directing key aspects of AusNet's customer engagement and research since its formation, as well as directly engaging with some of AusNet's customers, representative consumer groups and organisations. The period between September and December 2018 was allocated as the first negotiation period between the

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<sup>1</sup> [https://www.aer.gov.au/system/files/AusNet%20Trial%20-%20Early%20Engagement%20Memorandum%20of%20Understanding\\_0.pdf](https://www.aer.gov.au/system/files/AusNet%20Trial%20-%20Early%20Engagement%20Memorandum%20of%20Understanding_0.pdf)

Customer Forum and AusNet Services. Based on this first round of negotiation, the Customer Forum released its Interim Engagement Report<sup>2</sup> on 6 February 2019.

In respect of the AusNet Services trial, the AER has formally requested CCP17 to:

*Provide written feedback to the AER on the Customer Forum’s initial Engagement Report and the draft revenue proposal that will be released for broader comment in mid-December 2018. The Customer Forum would have the opportunity to take CCP17’s views into account, along with the views of other consumer groups, in preparing the final Engagement Report.*<sup>3</sup>

CCP17 has prepared this report in response to the AER’s request for feedback on the Customer Forum’s Initial Engagement Report. This report responds to that request but does not venture into aspects of the *NewReg* process that are being considered through other processes.

## 2. Engagement scope

### Scope of Consumer Engagement

Definition of the boundaries of the scope of negotiations for the Customer Forum are set out in the AER’s *AusNet Trial – AER Staff Guidance Note 2: Scope of Negotiation (July 2018)*.<sup>4</sup>

The position is summarised in Table 1 below.

Topic proposed by AusNet	In scope of AusNet/Forum negotiation?	Relevant to AusNet’s revenue proposal?
Operating expenditure	Yes – material, price/service trade-offs	Yes
Major augex projects	Yes – price/service trade-offs	Yes
Revenue path profile	Yes – price timing trade-offs	Yes
Customer experience	Yes – customer views significant	If cost or incentive scheme implications
Customer hardship arrangements	Yes – customer views significant	Likely dealt with through other processes
Major repex projects	No – but price/service trade-offs	Yes
DER integration expenditure	No – wider consultation appropriate	Yes
Innovation expenditure	No – technically complex in the available time	Yes
Regulatory protections	No – no specific proposals	Unlikely
Metering	No – policy issue, although metering also affects customer experience	Not the policy aspects

*Table 1: Scope of negotiation for the Customer Forum*

<sup>2</sup> <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/Final-AST-Customer-Forum-Interim-Engagement-Report---Feb-2019.ashx?la=en>

<sup>3</sup> <https://www.aer.gov.au/networks-pipelines/new-reg/ausnet-services-trial>

<sup>4</sup> <https://www.aer.gov.au/system/files/AER%20-%20AusNet%20Trial%20Staff%20Guidance%20Note%20-%20-%20Scope%20of%20negotiation%20-%20July%202018.pdf>

AusNet Services and the Customer Forum have agreed to negotiate on a broader set of issues, beyond those formally supported by the AER.<sup>5</sup> Figure 1 below highlights the nature of the involvement by the Customer Forum in issues that are relevant to the regulatory proposal, as well as some that are not.

AER staff did not prepare guidance notes for the Customer Forum for those topics that are outside of the AER endorsed scope.

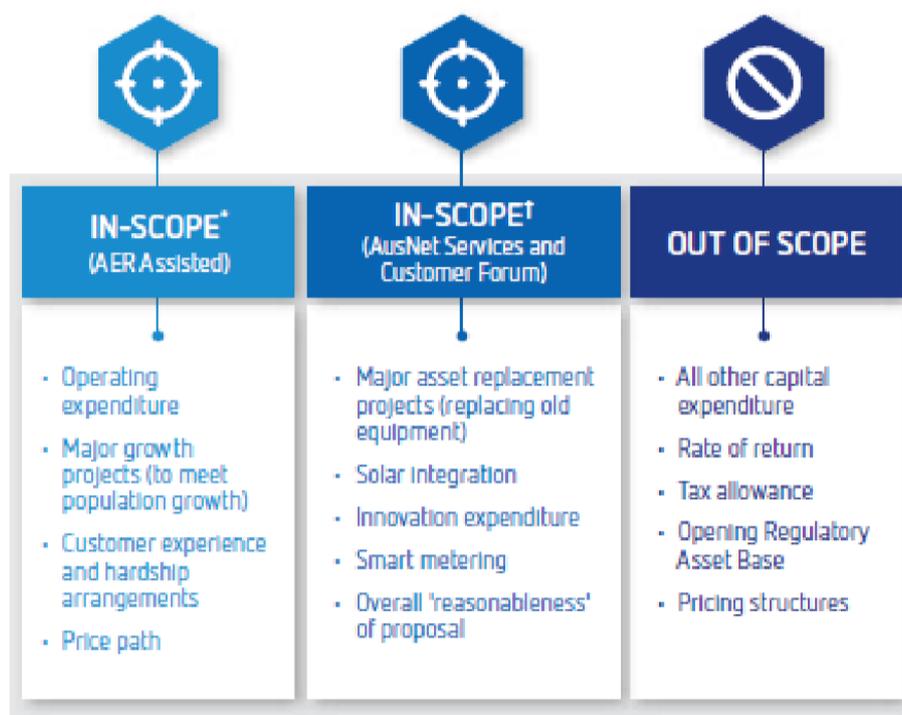


Figure 1: AusNet Services – Customer Forum scope

### 3. Negotiation approach

The Customer Forum has probably spent more time considering an energy network business regulatory proposal than any previous consumer focused group in Australia: 40 meeting days including 14 negotiation days and 82 separate presentations is reflective of this. Consequently, this is significant, and one of the reasons for the considerable interest in the *NewReg* trial. We do not intend to pre-empt evaluation of the *NewReg* process with its major focus on the AusNet Services Customer Forum, but in responding to the Interim Engagement Report we think it appropriate to make some preliminary observations about the processes that have been used by the Customer Forum and their negotiation approach.

We note that the five Customer Forum members bring significant expertise and life experience to the process, which we think is reflected in the practical usefulness of the negotiation principles, these being:

<sup>5</sup> <https://ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Final-AST-EDPR-2021-25-Draft-Regulatory-Proposal---12-Feb-2019.ashx?la=en>

- 1. The Customer Forum will seek unanimity on its position on elements of the EDPR presented for consideration. Forum members will work to accommodate individual positions in order to allow a unanimous view to be recorded. Where it is not possible to achieve a unanimous position, the Customer Forum will set out both the majority and minority positions*
- 2. The Customer Forum will continue to ask AusNet Services to identify the tangible customer benefit that its proposal will generate*
- 3. The Customer Forum will record its negotiations with AusNet Services and sign these off each day*
- 4. Before agreeing to a position on each element of the EDPR draft submission, the Customer Forum will seek answers to the following key questions:*
  - a. Does the proposal adequately recognise customers' needs and expectations?*
  - b. What is the customer benefit and is it tangible?*
  - c. Does the Customer Forum believe the proposal represents overall value for money for customers?*
- 5. With respect to its Engagement Reports the Customer Forum will, where it cannot reach a determination on the above questions, indicate outstanding questions it has before it can reach a determination and may suggest further work is required to assist it in forming a final position.*

The Customer Forum advises that they found principles 2, 3 and 4 to be useful in directing their negotiations with AusNet Services, principles that focus heavily on seeking the consumer benefit in aspects of negotiations.

It is also noteworthy that the five Customer Forum members have agreed to seek unanimity on all elements of the AusNet Services EDPR2021-25 proposal presented to them, and despite having a decision rule to define agreement as being Chair plus three members agreeing, all decisions have been unanimous so far. This indicated to us that the Customer Forum members have a shared understanding of consumer focus and consumer benefit as well as a shared approach to negotiation, suggesting to us a well-functioning team.

The role of direct negotiation by Customer Forum is also quite new and takes negotiation further than has previously been the case in Australia. The negotiation process has been thought through clearly by the Customer Forum and we assume, AusNet Services and augers well for the remainder of the EDPR process.

The Customer Forum and CCP17 have met with each other on 4 separate occasions, and members of both groups have met more informally at various forums over the past 8-9 months. We have talked with the Customer Forum about their process and learnings, and suggest that much of their most effective 'work' can be summarised by a comment they have made to us "real communities are a world apart from formulas and spreadsheets". By actively seeking a consumer perspective and consumer benefit in all aspects of the development of the AusNet Services regulatory proposal, the Customer Forum has found that they have possibly contributed more to AusNet Services and consumers at large by actively working through informal process and networks than they have by their formal engagement in negotiating a regulatory proposal. A significant success of the Customer Forum to date has been its ability to recognise informal opportunities within the formal process. They have also said "we are at our best when free-ranging". Allowing time without a specific agenda item or briefing has been a crucial part of the Forum's process to date.

## Next Steps

We observe that the AusNet Services Customer Forum is the 'most briefed' consumer-representing group ever to engage with an Australian network business regulatory proposal. They appear to be working well as a team, have clear principles and process guidelines to work to and have an excellent 'sense' of where to focus their efforts. We think that they are particularly well placed to identify the matters for further negotiation with AusNet services and should not be constrained by imposed limits to scope or focus. AusNet Services and their customers are likely to be best served by the well-prepared Customer Forum being enabled to act, they have earned trust.

We also observe that diminishing resourcing for Victorian energy consumer organisations has resulted in diminished availability of expertise regarding energy network actions, over recent years. This has meant that while the Customer Forum should have been able to run alongside community consumer organisations, there have been some issues on which they have been the sole source of input to AusNet Services.

## 4. Operating expenditure

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### Base, Step, Trend

There is general Customer Forum acceptance of Base and Trend proposals from AusNet Services, except for the lack of productivity improvement proposed by AusNet Services. We consider this in later paragraphs.

The main opex debates have related to the five step changes that AusNet Services has proposed. These being:

1. Changes in the accounting treatment of leases will reduce opex by \$31 million (with a consequential rise in capital expenditure)
2. Reallocation of costs associated with shared data and communication infrastructure used by the smart meter network and the distribution business. This is anticipated to add \$31.7 million to distribution opex but will be offset by an equivalent reduction in metering charges, making this change neutral for the average residential customer
3. Testing and maintenance of Victorian Government mandated Rapid Earth Fault Current Limiters (REFCL) to mitigate the risk of bushfires, requiring an additional \$8.5 million expenditure
4. Moving some IT applications to cloud based software services will increase opex by \$7.85 million  
With further clarification from AusNet Services, this proposed step change has two elements:
  - a. Investments to enhance customer service (e.g. Customer Relationship Management (CRM) and Outage Management systems)
  - b. Investments focussed on internal efficiency/productivity (e.g. Corporate Enablement, Payroll/Human Resources systems)
5. Five-minute metering is a mandated network rule change coming into effect in 2021 which will increase opex by \$2.6 million

The Customer Forum has challenged each of these proposed step changes with the question: Does the proposal adequately recognise needs and expectation of customers? CCP17 opines that this is an appropriate test while also noting that step changes are designed to apply to exogenous 'shocks' to operating cost i.e. unforeseeable external impositions.

No commentary has been provided on step change 1 (accounting treatment of leases), although other network businesses have engaged with customers on this change. The Customer Forum has accepted the

proposed step change 2 (reallocation of metering costs) on the basis of it being cost-neutral to customers, and has also accepted step changes 3 (REFCL) and 5 (5-minute metering) in principle, on the basis that each of these represent externally imposed requirements. However, the Customer Forum has referred each of these matters to the AER for review of the appropriateness and prudence of the proposed expenditure. Although accepting that Step change 4b would benefit customers through the 'efficient base' process, this step change was not supported as AusNet's shareholders were considered to be the primary beneficiaries rather than customers.

Step change 4a (investments to enhance customer service) was supported in principle by the Customer Forum after considerable discussion, on the basis that they considered that there is significant scope for AusNet Services to improve customer service, often with accompanying business efficiencies. This step change was therefore deemed acceptable as it should benefit customers. It is also referred to the AER for review of the proposed scope and budget.

CCP17 observes that the Customer Forum has carefully challenged the proposed step changes in the light of whether the needs and expectations of customers have been given due recognition. We agree with the Customer Forum that further analysis of the individual step change proposals is warranted, particularly with respect to assumptions around the business drivers, and the timing and quantum of proposed expenditure.

### **Opex Productivity**

Clearly one of the important discussions has been held between the Customer Forum and AusNet Services pertains to the recent debate about factoring in expectations for annual productivity improvements in operating costs. The AER's draft guideline was for a 1% productivity improvement which was the current state of play when the Interim Engagement Report was written. At this time the Customer Forum was advocating for 1.5% productivity improvement while AusNet Services was arguing that they are efficient and that a productivity adjustment should not apply.

Subsequent to the Customer Forum's report being drafted, the AER has published a final decision on opex productivity prescribing a 0.5% annual productivity improvement. In discussions with the Customer Forum they remain very firm that a 1.5% annual productivity adjustment is warranted. Part of their argument being that competitive businesses need to find operating cost improvements on an ongoing basis, so opex productivity is a reasonable expectation for customers to have for a regulated network business.

### **CCP17 response**

The Customer Forum is certain that they have been instrumental in identifying processes that both improve services for customers and save money for AusNet Services, by talking to a wide range of customers and customer service providers, e.g. electricians. This has strengthened the Customer Forum's belief that there is further room for productivity improvement by AusNet Services continuing to improve their day to day engagement and by being alert to improved processes.

It makes sense to us that the Customer Forum continue to engage with AusNet Services about opex productivity improvement, beyond the 0.5% AER specified minimum. We also anticipate that there will be value in further engagement about step changes, and expect further discussion about the consumer benefit from investments to "enhance customer service."

## 5. Augmentation expenditure

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### Augmentation considered in the negotiations

The negotiation scope in regard to augmentation expenditure encompasses ‘Augex major projects’<sup>6</sup>

AusNet Services has proposed two major augmentation (augex) projects – one at Clyde North, in Melbourne’s outer south eastern suburbs, and the other at Doreen, in Melbourne’s outer north. Both are in Melbourne’s fast-growing urban fringe, presenting similar investment requirements to meet increasing demands as in the case of Endeavour Energy’s western Sydney development and Energex’s Gold Coast growth corridor. They involve a significant increase in the capacity of zone substations, based on projections of electricity demand growth in these fast-growing residential areas. The estimated costs of the projects are \$7.7M for Clyde North, and \$5.1M for the Doreen project.

### Information from the AusNet Services Distribution Annual Planning Report 2018

AusNet Services refers to these two projects in its 2018 Distribution Annual Planning Report (DAPR). It states<sup>7</sup>:

1. Clyde North Zone Substation (CLN): The loading at CLN is forecast to reach 69 MVA by summer 2018/19, increasing to 82.2 MVA by 2022/23, and it may be economic to install a third transformer and switchboard by December 2023.
2. Doreen Zone Substation (DRN): The loading at the substation is forecast to reach 69.0 MVA by summer 2018/19, increasing to 76 MVA by 2022, and it may be economic to install a third transformer at the station by 2025.

The data in the DAPR notes RIT-D processes will be commenced for Clyde North later in 2019, and Doreen in February 2022.

The DAPR also considers major asset replacement at fourteen zone substations in the next five-year period, and twenty-two zone substations requiring REFCL installations. As a note, this substantial substation capital programme requires a very high level of planning and project control to actually undertake such a large amount of work in an efficient manner, without attracting additional ‘workload’ cost premiums. This focus not only relates to the availability of materials and labour, but also considers the workload and effectiveness related to a proposed 14 RIT-D tests in the period – an average of 3 per year.

Whilst AusNet Services is already demonstrating a capability to undertake substantial network capital investment as evident in its current capital works programme, it may be prudent and helpful for customers for AusNet Services to discuss with stakeholders the arrangements that are in place to ensure this work is undertaken in a timely, effective and cost-efficient manner.

### Matters normally considered in engagement on major augmentation

When developing the regulatory requirements for augmentation projects, effective and transparent engagement with consumer groups regarding specific major network investment tends to focus on four areas:

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<sup>6</sup> [https://www.aer.gov.au/system/files/AER%20-%20AusNet%20Trial%20Staff%20Guidance%20Note%205%20-%20Augex%20-%20August%202018\\_0.pdf](https://www.aer.gov.au/system/files/AER%20-%20AusNet%20Trial%20Staff%20Guidance%20Note%205%20-%20Augex%20-%20August%202018_0.pdf)

<sup>7</sup> [https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Regulatory-Publications/AusNet-Services\\_Distribution-Annual-Planning-Report-2019\\_2023.ashx?la=en](https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Regulatory-Publications/AusNet-Services_Distribution-Annual-Planning-Report-2019_2023.ashx?la=en)

1. Building a reasonable case that action may be required in terms of the requirement to maintain service levels;
2. Seeking to establish the timing, scope and the likely impact of the proposed initiative on customers and the community;
3. Considering the counterfactual – alternatives and options that may delay, modify or change the scope of the proposal; and
4. Investigating the factors that will encourage prudent and efficient expenditure.

Of course, the final assessment by the regulator will carry out much more top-down and bottom-up analysis on data such as the forecasts, cost / benefit calculations in the final approval of the expenditure.

### **AusNet Services information and guidance to the Customer Forum**

The AER in its *AusNet Trial Staff Guidance note 5 (Augex)*<sup>8</sup> advises: “AusNet intends seeking the Forum’s agreement that AusNet has considered an appropriate range of options for each major Augex project, including non-network options, and that AusNet’s preferred option is the right one”

From the information available on the AusNet Services website, it appears that the Customer Forum was briefed by AusNet Services on the proposals on the 19<sup>th</sup> July 2018<sup>9</sup> and the 8<sup>th</sup> October 2018. This briefing appears to have also included a proposal for the augmentation of 22 kV distribution feeders in the Clyde North area, part of which is understood to be a customer-funded project.

From the information published on the AusNet Services Customer Forum website, other notable references to discussions on Augex are:

1. 8 August 2018 - An AusNet Services discussion document (19 pages) recapping the key issues of the briefing 19 July, and posing five questions to the Customer Forum that seek to clarify the feedback from the Forum in terms of project justification, deferral, non-network options and the need for further customer engagement.
2. A second version of the 8 August document marked ‘revised’ was issued on 8 October 2018<sup>10</sup>. It is understood that this revision includes details of a portion of the project to be customer-funded.
3. 26 November 2018 - Minutes of meeting between the Customer Forum and AusNet Services that refers briefly to a request to the CCP regarding the choice of an external engineering consultant, and expresses support to AusNet Services for a proposed scope and timeline for the review of deferral options<sup>11</sup>.
4. A telephone survey of Clyde North and Doreen customers was conducted in September 2018.<sup>12</sup> There were also attempts at holding customer consultation meetings in Doreen and Clyde North, however these were very poorly attended.

<sup>8</sup> [https://www.aer.gov.au/system/files/AER%20-%20AusNet%20Trial%20Staff%20Guidance%20Note%205%20-%20Augex%20-%20August%202018\\_0.pdf](https://www.aer.gov.au/system/files/AER%20-%20AusNet%20Trial%20Staff%20Guidance%20Note%205%20-%20Augex%20-%20August%202018_0.pdf)

<sup>9</sup> <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/Week-5/Augex-major-projects.ashx?la=en>

<sup>10</sup> <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/AusNet-Services-negotiating-position-notes/Revised-negotiating-position-note---Augex-08102018.ashx?la=en>

<sup>11</sup> <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/Week-10/Customer-Forum---Minutes-from-26-Nov-18-meeting.ashx?la=en>

<sup>12</sup> Customer Forum Interim Engagement Report – 6 February 2019, page 23

There are further information sessions relevant to the planned augmentation expenditure that will be undertaken by the Customer Forum and AusNet Services right up to the deadlines for preparation of the regulatory proposal, including discussions regarding the Capital Expenditure (Capex) proposal and augmentation plans.

The deep dive held on 12 March 2019 was originally going to address major augmentation projects as well as repex. As explained to participants, a decision was made to focus the session on repex expenditure (and not augmentation expenditure) because:

- AusNet Services has agreed with the Customer Forum to test replacement major projects options with customers;
- Replacement major projects are significantly more material than augmentation major projects (approx. \$100M vs. \$13M);
- Exploring replacement major projects allows price/reliability trade-off preferences to be determined; and
- Focussing on fewer topics allows time for investigation of each topic.

CCP17 supports this approach. The forward programme also refers to a proposal to negotiate the proposed projects and timing for the final regulatory proposal.

### Customer Forum interim position

In its recap of the major augmentation proposals, the Customer Forum in section 8.5 of its *Interim Engagement Report* has reached the following position (paraphrased for brevity):

1. The proposals to install transformers at both substations are supported, with conditions;
2. AusNet Services has agreed to undertake an independent review of peak load mitigation options that have the potential to alter the timing of the proposals.

The Customer Forum notes that they will provide further advice on the augex proposal in its final report.

### CCP17 Response

It is perhaps easiest to note our response as a form of questions.

1. *Were the correct projects negotiated?*

Yes. The data from the DAPR strongly suggests that the Doreen and Clyde North projects were the appropriate projects to be negotiated with the Customer Forum.

2. *Was the information presented to the Forum by AusNet Services reasonable, transparent and balanced?*

Again yes. Judging by the content available on the AusNet Services website, the information presented to the Forum on 19<sup>th</sup> July and again on 8<sup>th</sup> October clearly presented the emerging need and discussed the requirement in terms of reliability risk, options analysis and the impact of extraneous developments such as solar PV.

Curiously, the development of the story started with a reliability argument, which is a little different than that presented by other distributors with similar load growth challenges. But that is not to say it was incorrect. The argument then discussed load-at-risk and development options. The development of the investment case was fair and not 'leading'.

3. *Was any important data 'missed', or not presented?*

No significant information was not presented properly. However, there are always opportunities for better clarity, or, more importantly, the opportunity to benchmark the key parameters of the case with wider

experience. In this case, there were some pieces of information that may have assisted the Customer Forum in placing the information provided in context, such as:

- a) The application of Value of Customer Reliability (VCR) in specifically informing the augmentation business case, noting that the Forum was briefed generically about VCR by AEMO on 17 April 2018; and
- b) Stronger development of the demand forecasts, including how matters such as the uptake of solar PV (especially in light of the recent announcements by the Victorian Government), electric vehicles, tariff impacts and other factors impact the broader demand forecasts that underpin the augmentation expenditure requirements.

#### 4. *Strengths of the Customer Forum approach*

The *Interim Engagement Report* in section 8.2 highlights some specific surveys and customer feedback directly pertaining to the two augmentation proposals. Whilst the response rates were relatively low (221 customers in total), this approach is useful in informing the scope and timing of the plans. In the past, the large volume of augmentation investment has in many ways made such 'localised' consumer sentiment analysis difficult or impractical. It may be useful to develop this type of initiative into the Regulatory Investment test process in the future.

#### 5. *In our view, does the current state of the negotiated outcome meet the NEO?*

Yes. The information provided by AusNet Services to the Customer Forum has been appropriate and balanced. The ability for the Customer Forum to take a 'local' view of the issues, whilst somewhat 'time-intensive', has been useful.

At this stage, the position taken by the Customer Forum on the proposals as expressed in the *Interim Engagement Report* is consistent with the long-term interests of consumers, and is prudent in respect to the proposed investment.

We do note that there are still more steps to be taken and more information to be provided before the Customer Forum reaches a clear position.

## 6. Customer experience and hardship arrangements

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Chapter 9 of the Customer Forum's *Interim Engagement Report* covers customer experience and hardship arrangements.

The Customer Forum notes at the beginning of the Chapter:

This component of the negotiations differed from others as it has never been a feature of EDPRs. The Customer Forum believes customer preferences could not be adequately captured in a revenue determination by the "building block" formula employed by the AER. While the traditional elements of the formula allow for recognition of some measure of what customers are seeking, such as price, it fails to adequately capture customer needs and expectations. Negotiations around customer experience allowed the Customer Forum and AusNet Services to identify and discuss a range of complementary measures and better meet customer expectations. The Customer Forum stressed new and improved customer focussed services should be developed at the earliest opportunity and not have to wait until 2021. AusNet Services subsequently advised elements would be delivered progressively from late-2018, at no additional cost to customers.

We concur with the Customer Forum that this component of the negotiations differed from others as it has never been a feature of EDPRs, and that customer preferences have not been adequately captured in a revenue determination by the “building block” formula employed by the AER.

On that basis, we congratulate the Customer Forum for achievements in this area that may not otherwise have been obtained, because other traditional approaches would not have approached the price review in the same way. While many consumer advocates would have liked to have tackled these elements of the services provided by AusNet Services to its end-use customers, they have not had the funding to do so, and nor have they had the opportunity to get access to AusNet Services to negotiate in the way that the Customer Forum was able to achieve. The Customer Forum members also had the experience and expertise in this area that would not have otherwise been available in the price review process.

We welcome also that AusNet Services has committed to monitor and report on progress through a new Customer Interaction Report. The long-term interests of consumers will need to be served through that report, and other mechanisms will be required so that the AER can continue to monitor the progress of AusNet Services against the negotiated actions. The report and associated analysis need to consider, on an ongoing basis, the progress that AusNet Services is making, and the extent to which customers are genuinely benefitting.

In its Report, the Customer Forum set out several areas where it believes that there is scope to improve the satisfaction of AusNet Services customers. The National Electricity Rules set out that the AER may develop and publish an incentive scheme or schemes (small-scale incentive scheme), which provides Distribution Network Service Providers with incentives to provide standard control services in a manner that contributes to the achievement of the national electricity objective.<sup>13</sup> The small-scale incentive scheme (SSIS) rules were designed to provide for incentives not already covered by the existing incentive schemes under the NER and to test innovative approaches to incentives.<sup>14</sup> For example, the small scale incentive scheme can provide rewards for NSPs which engage more effectively with consumers.<sup>15</sup>

To this end, the Customer Forum and AusNet Services have held detailed discussions about designing a Customer Service Incentive Scheme (CSIS) to better reflect more contemporary communication and customer service processes than those currently represented in the Service Target Performance Incentive Scheme (STPIS).

The submission from CCP17 to the AER’s Preliminary Framework and Approach (F&A) for Victorian Distribution Businesses 2021-25 Determinations stated<sup>16</sup>:

The Small-Scale Incentive Scheme (SSIS) has been proposed by the AusNet Services Customer Forum and we are drawn to their thinking. The scheme is to *“provide for incentives not already covered by the existing incentive schemes under the NER and to test innovative approaches to incentives. For example, a SSIS can provide rewards for NSPs which engage more effectively with consumers.*

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<sup>13</sup> NATIONAL ELECTRICITY RULES VERSION 119, February 2019, (NER, #119, 2019), cl. 6.6.4

<sup>14</sup> AEMC, Rule Determination, National Electricity Amendment (Economic Regulation of Network Service Providers) rule 2012, National Gas Amendment (Price and Revenue Regulation of Gas Services) Rule 2012, November 2012, pp. 13, 212

<sup>15</sup> AEMC, Rule Determination, National Electricity Amendment (Economic Regulation of Network Service Providers) rule 2012, National Gas Amendment (Price and Revenue Regulation of Gas Services) Rule 2012, November 2012, p. 212

<sup>16</sup> <https://www.aer.gov.au/system/files/CCP17%20-%20Submission%20on%20Victorian%20Preliminary%20Framework%20and%20Approach%202021-25%20-%202012%20November%202018.pdf>

The SSIS concept is warmly supported by CCP17 and we commend the AusNet Services Customer Forum for their thinking and for proposing this scheme as providing a useful mechanism to encourage innovation in a rapidly changing industry and to provide tangible incentive for effective consumer engagement, noting that effective consumer engagement does not mean expensive consumer engagement.

...

We encourage AusNet and the Customer Forum to provide a business case underpinned by broad consumer engagement to support introduction of an SSIS. We also encourage AusNet Services and the AER to start working towards development of a formal SSIS.

In its Final Framework and Approach, the AER identified that the new CSIS could be implemented as a small-scale incentive scheme (SSIS) under the Rules.<sup>17</sup>

More recently, feedback has been sought by AusNet Services on metrics and targets for a possible CSIS.

CCP17 continues to support this concept, and we look forward to further discussion as the scheme is developed into an incentive scheme that both benefits consumers and is able to be implemented effectively and efficiently.

The Interim Engagement Report acknowledges in section 9.5 that negotiation on these initiatives is ongoing, and the Customer Forum aims to address whether the proposal represents overall value for money in this area in its final report.

We also encourage the Customer Forum to consider at a high level for its Final Report:

- Based on research undertaken, what other improvements to customer experience might it be possible to achieve for AusNet Services customers, even if not now in time for this negotiation period?
- What further research might be worthwhile in future to identify other possible areas for improvement of customer experience for AusNet Services customers?
- How might the achievements here be leveraged state-wide and potentially nationally in all AER determinations?
- To what extent are the findings from AusNet Services immediately applicable to other distribution areas, and what further research should be undertaken in other areas to verify the applicability of these initiatives in other areas and/or to identify initiatives applicable to those other areas that might not be applicable in the AusNet Services area?
- How will the momentum created by the Customer Forum be maintained after the Customer Forum completes its current scope of work?

## 7. Replacement expenditure

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### **Augmentation considered in the negotiations**

Agreement has been reached between AusNet Services and the Customer Forum to consider *Replacement Expenditure – Major Rebuilds (i.e. Zone Substation Rebuilds)*. This aspect of the Electricity Distribution Regulatory Proposal has been included in-scope through an agreement with AusNet Services and the Customer Forum, and is not part of the formal AER-agreed scope of the negotiations. Therefore, there is no *AER Guidance Note* regarding asset replacement expenditure (Repex).

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<sup>17</sup> AER, Final Framework and Approach for AusNet Services, CitiPower, Jemena, Powercor and United Energy, section 3.6, January 2019

In its presentation to the Customer Forum of 7 June 2018<sup>18</sup>, AusNet Services indicated that 17% of its planned asset replacement expenditure fell into the 'complex projects' definition, with the balance being 'inspection-based line assets' (64%) and 'other programmes' (19%).

Over the period as further information was provided and discussions with the Customer Forum progressed, it appears that the list of projects 'under negotiation' was refined to a list of ten major replacement projects totalling \$113 (in \$2020); just under 20% of the total proposed repex expenditure.

The ten projects nominated as 'Major Rebuilds' are listed in Figure 2 below.

Project	Cost (\$2018 m)
Bairnsdale	\$2.2
Benalla	\$21.4
Bayswater	\$13.4
Maffra	\$10.3
Moe	\$8.9
Newmerella	\$1.6
Traralgon Stage 2	\$8.0
Thomastown	\$14.8
Warragul	\$13.4
Watsonia	\$14.2
<b>Total</b>	<b>\$108.2</b>

Figure 2 - 'Complex' refurbishment projects (source: AusNet Services)

The Interim Engagement Report notes that two projects, Moe and Bairnsdale, may be removed from this list as the projects, whilst still necessary, are likely to be encompassed in the broader Rapid Earth Fault Current Limiter (REFCL) projects.

### Information from the AusNet Services Distribution Annual Planning Report 2018 (DAPR)

AusNet Services issued their latest DAPR on 27 December 2018. Section 4.3.3 of that document nominates fourteen zone substations where major asset replacement is expected in the five years covered by the DAPR. There are inconsistencies between the list in the DAPR and that provided to the Customer Forum above.

Some of the major asset replacement projects in the DAPR but not referred to the Customer Forum are already in construction. Some projects referred to the Customer Forum, such as Newmerella, are not

<sup>18</sup> <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/Weeks-3-and-4/Replacement-expenditure.ashx?la=en>

highlighted in the DAPR as a zone substation limitation. AusNet Services has since confirmed that this project is expected to proceed as a result of risks from deteriorated assets, and will be assessed as a replacement project.

### **Matters normally considered in engagement major augmentation**

It is usual that electricity distributors frame their proposals for replacement capital in terms of risk – being reliability of supply; safety of staff, customers and the wider community; and environmental risk.

Recent work by the AER on Asset Replacement Planning provides strong guidance on the approach to repex.<sup>19</sup> The *Industry practice application note for asset replacement planning* has only just been issued, and it is understandable that the process and approach to repex planning discussed in the recent AER guideline does not feature in the current work with AusNet Services and the Customer Forum.

There is still time for AusNet Services to incorporate some of the features of the new approach, including:

- Clarifying the relevant costs of the counterfactual, or realistic ‘base case’;
- Incorporating the approach required under the RIT-D guidelines for asset replacement;
- Greater clarity around compliance, safety and legal risks
- Dealing with high-impact, low reliability (HILE) events.

That being said, information that supports the assumptions of risk of failure, including the mode of failure and consequence, is important. Similarly, options to mitigate the risk are critical.

Other matters to consider are longer term trends of asset failure, replacement programme costs and the relationship between other programmes such as network augmentation, maintenance and operating expenditure.

### **AusNet Services information and guidance to the Customer Forum**

From a review of the information available on the AusNet Services website, there appear to be three key interactions between AusNet Services and the Customer Forum regarding investment proposals for major asset replacement.

An introduction for the Customer Forum to AusNet Service’s repex plans is contained in their briefing of 7 June 2018. That presentation covered:

- an overview of what replacement expenditure is;
- AusNet Service’s historical and proposed expenditure trend on asset replacement;
- the options available to utilities when considering replacement of aged or failing assets;
- an example of project options for the replacement of a substation transformer (Moe); and
- questions for the Customer Forum to consider, touching on cost / reliability trade-off and non-network options, including references to information already available on these issues.

A second presentation between AusNet Services and the Customer Forum (‘week 5’) is dated 19 July 2018<sup>20</sup>. In that discussion, AusNet Services presented:

- a plan to negotiate with the Forum on price-reliability trade-offs;

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<sup>19</sup> <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/industry-practice-application-note-for-asset-replacement-planning>

<sup>20</sup> <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/Week-5/Repex-Major-Projects.ashx?la=en>

- information regarding 2 proposed projects – Thomastown and Phillip Island; and
- options and customer impact analysis across the portfolio of repex major projects.

Finally, a 19-page detailed *Revised negotiating position note – Repex* dated 8 August 2018 and updated on 9 October is available. This document:

- again, raises the balance of cost and reliability; and
- lists a preferred portfolio of 10 major repex projects in order of priority, and presents options for the delivery of the replacement programme.

### Customer Forum interim position

In its recap of the major replacement expenditure proposal, the Customer Forum in section 10 of their *Interim Engagement Report* notes that the Forum has not yet formed a final view on its support for the major replacement projects, saying:

- an alternative repex proposal has not been tested,
- the timing of the Bairnsdale project is uncertain, and
- beyond reliability improvements, AusNet Services is yet to demonstrate further tangible benefits from the investments.

From its Interim Engagement Report:

*“The Customer Forum expects to conclude that the proposal represents value for money, following AusNet Services clarity of its ranking process and better articulation of the specific customer benefits of each investment at the substation level.”*

### CCP17 Response

It is perhaps easiest to note our response as a form of questions.

#### 1. Were the correct projects negotiated?

AusNet Services has nominated ten projects as ‘major asset replacement projects’ for consideration by the Customer Forum. The list of substations appears to be a little fluid, for instance the Newmerella project is not noted as a substation of concern in the DAPR, and despite the Phillip Island project being discussed in some detail in the presentation of 19 July 2018, it is not clearly represented in the final list of projects.

What is also unclear is the underlying data that has led to these particular projects being selected. There appears to be a general trend by AusNet Services to address its ageing fleet of power transformers and outdoor 66kV and 22kV circuit breakers, as evidenced by the similar projects that are under way in this regulatory period.

We are aware that the AER Repex team have done significant work in modelling the replacement needs of switchgear, and we would reasonably expect that the replacement of these assets may better be considered through the broader modelling of failure rates, asset lives and risks, rather than a list of location-by-location projects.

Granted, the replacement programme will eventually manifest itself as a prioritised list of projects similar to that presented to the Customer Forum, however it would reasonably be expected that the background or risk of failure and test data be incorporated into determining why each site featured in the list to be negotiated.

2. *Was the information presented to the Forum by AusNet Services reasonable, transparent and balanced?*

Based on an initial review of the information presented on the AusNet Services website, three initial comments arise. Importantly, these comments are based on a general overview of the written information recorded and made available on the AusNet website. There has been little opportunity to confirm these comments and understand what was actually said at the workshops.

Firstly, there appeared to be little information provided to the Customer Forum as to the nature and likelihood of the asset failures, many of which will not give rise to interruptions and hence threaten reliability of supply to consumers. This would make assessment of the risk of failure, and hence the impacts, difficult to assess. There tends to be a leading connection made that asset failure would lead to a supply interruption, whereas that will not always be the case.

Secondly, there did not appear to be much information regarding the most likely base case or counterfactual option. The 'do-nothing' case example for Moe given to the Customer Forum on 7 June strongly suggested a 'run to fail' process, whereas in practice this is unlikely to be a prudent reaction by a reasonable network operator in terms of public safety, workplace safety or environmental risks. In such a case, the scenario should include plans to mitigate these physical risks of failure.

Finally, based on the position of failure risk leading to supply interruptions, the discussion then focussed largely on the reliability impacts and the cost / reliability trade-offs; much of which is inherent in VCR calculations and wider customer engagement work.

3. *Was any important data 'missed', or not presented?*

As noted above, a presenting broader assessment of asset failure risk across the population of similar assets - both in likelihood of failure and its impact - is not evident. This would, in our opinion, make it difficult for the Customer Forum to get an impression of how great the risks to customers, community and to meeting supply obligations are.

Similarly, there has been a lot of work done in assessing cost / reliability trade-offs, and it is likely to be in place under the current AER review. Whilst the survey data that has been discovered and presented is useful, it did not appear to be in context with the wide spectrum of related work.

4. *Strengths of the Customer Forum approach*

It is unclear just why the major replacement projects were included in the 'unapproved' scope of negotiations. It is useful that the Customer Forum can assist AusNet Services to validate the consumer impacts of the failure risk, and also have greater confidence that non-asset solutions are being meaningfully considered.

5. *In our view, does the current state of the negotiated outcome meet the NEO?*

Ultimately, it appears that AusNet Services is seeking the Customer Forum to agree on the prioritised list of major asset replacement projects that will be included in the Regulatory Proposal later this year. These projects appear to be part of a wider programme to address ageing outdoor circuit breakers (66kV and 22kV) and ageing power transformers.

We would expect that there will be much more technical rigour in the assessment of these projects before they are presented in the Regulatory Proposal. In addition, we will support the AER in applying its modelling and analysis techniques in assessing the prudence and efficiency of each proposal, either as individual site projects or a wider replacement programme. This analysis would encompass a wider view of asset replacement programmes as highlighted in the recent (non-binding) *Industry practice application note for Asset Replacement*, including more robust analysis of asset failure risk and impact, and a clearer and more practical position being articulated and practiced by AusNet Services regarding asset life extension.

We acknowledge the valuable position the Customer Forum has taken regarding the ranking of the projects and sensitivity of the community to supply reliability. Without the more extensive analysis however, we would not support the Customer Forum assessing whether the projects proposed represent 'value for money' should such a statement be relied upon in the forthcoming Regulatory Proposal.

## 8. Innovation expenditure

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### **Innovation expenditure considered in the negotiations**

The innovation expenditure proposal is in scope of the proposed expenditure negotiations between AusNet Services and the Customer Forum. However, it is outside the scope of negotiation that will be oversighted by the AER.

AusNet Services initially sought support from the Customer Forum for 15 specified innovation projects, at a cost of \$11.4 million. This would account for 0.3% of proposed opex and 0.5% of proposed capex expenditure for the 2021-2025 period.

The proposed projects fall broadly into the following groups:

- Projects to enhance management of the low voltage and high voltage network, including exploring optimisation of distributed energy resources in order to reduce long term network costs to all customers;
- Trial of Stand-Alone Power Systems in remote parts of the network to improve supply reliability, reduce bushfire risk and reduce costs;
- Leveraging controllable DER to better support the network reduce overall costs and engage DER customers;
- Data availability to support customer choice and decision making and promote non-network solutions; and
- Managing the pending impact of electric vehicles in order to reduce network infrastructure costs and improve supply security to all customers.<sup>21</sup>

These projects are additional to the projects which will be proposed for the demand management innovation allowance (DMIA). It is understood that a DMIA allowance of approximately \$3.5 million will be sought for the next period.

### **AusNet Services information and guidance to the Customer Forum**

In presenting the proposed projects and expenditure to the Customer Forum, AusNet Services identified that:

- innovation by Australian electricity networks is low by world standards;
- the AEMC in its Economic Regulatory Framework Review (26 July 2018) and the Finkel Review both pointed to the need for network businesses to innovate to meet the needs of new technologies, particularly DER;
- the majority of the innovation program relates to testing new technologies and approaches that will take the distribution network from a statically managed centralised network to a dynamically managed decentralised network;
- it is expected that trialling a range of technologies will improve customer outcomes in the long term; and

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<sup>21</sup> AusNet – Innovation expenditure, Negotiating position for the Customer Forum, 8 August 2018

- the benefits for network customers of the proposed actions to adapt to the technological changes are potentially large. Also, not taking action to innovate and to adapt is very likely to impose higher costs than would otherwise be the case.<sup>22</sup>

### Customer Forum interim position

The Customer Forum was not convinced that the rationale for the proposed expenditure was sufficiently connected to tangible customer benefits, notwithstanding innovation expenditure cannot guarantee to deliver the anticipated outcomes. The Customer Forum pointed to customer research which identified that while a few customers support innovation expenditure, it was a low priority, and that customers do not believe that research into electric vehicles is important, and nor do they believe that it is AusNet Service's responsibility. The Customer Forum understands that customers would support innovation if there were direct benefits, including improved productivity and efficiency.

In response, the Customer Forum has proposed an alternative approach to constructing an innovation budget for the next regulatory period. It put forward a proposal for innovation expenditure based on an approximate average of \$2 per year for each customer (approximately \$1 per year per residential customer). This amounts to a total expenditure over the period on \$7.5 million.

In addition, the Customer Forum requested AusNet Services to reconsider the list of projects based on a set of customer-centric principles.

The Customer Forum advised AusNet Services that the proposed innovation expenditure should only go ahead where AusNet could link the potential customer benefits to customer and stakeholder expectations.

### CCP17 response

CCP17 supports effective, targeted innovation by network businesses, where this can deliver meaningful benefits to customers. We consider that the Customer Forum's approach to estimating the innovation allowance for a network business has merit if it is then applied as an expenditure cap. We would still expect to see business cases developed for each individual project, with a heavy weighting placed on the realisable benefits to customers.

We consider that there are important issues which have not been addressed in the material we have reviewed to date. It is perhaps easiest to note our response as a form of questions.

*1. Why is AusNet Services the best placed business to undertake this innovation/research project?*

This question highlights the fact that most of the projects in the proposed list of 15 aim to address issues which are common across the industry. Why should AusNet Service's customers in particular be expected to fund this piece of work? Are other network businesses collaborating on this piece of research and contributing funding? If not, why not?

*2. What other sources are available or have been investigated to fund this project?*

Clearly, elements of AusNet Service's innovation program have been funded from several sources in the past, most notably ARENA, DMIA and self-funding. CCP17 expects that AusNet Services would explore every alternative funding option before passing the costs on to customers, and explain how this has been approached.

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<sup>22</sup> Ibid

3. *How will the proposed expenditure be represented in AusNet Service's regulatory proposal?*

It is not clear how proposed innovation expenditure will be included in the regulatory proposal. Is innovation expenditure already included in the opex base year?

4. *What role will customers have in relation to the innovation program?*

Governance is a key element of the network innovation program. Appropriate governance arrangements will help to ensure ongoing adherence to the innovation project principles set out by the Customer Forum. In addition to standard internal governance structures, we suggest that the Customer Forum and AusNet Services may wish to consider arrangements similar to those adopted recently by Ausgrid ie the Network Innovation Advisory Committee (NIAC).<sup>23</sup> The purpose of the NIAC is to “place the customer at the centre of investment decisions as we transform our network. This will ensure that our network becomes one that supports efficient investment and greater choice and control, things that customers expect from a network of the future.”

5. *What actions will AusNet Services need to take to mitigate the impact of electric vehicles on the AusNet network over the next regulatory period?*

While the advice on Network Innovation expenditure presented by AusNet Services to the Customer Forum indicates an expectation that innovation expenditure will be necessary in the 2021-25 timeframe to manage the impacts of mass adoption of electric vehicles, the Customer Forum cites customer research indicating that customers do not believe this is important.<sup>24</sup> This is potentially a matter for further analysis and discussion leading up to lodgement of the Regulatory Proposal in July.

## 9. Distributed Energy Resources (DER)

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AusNet Services has had a number of discussions with the Customer Forum regarding DER to explain the emerging issues and impacts for the network and how estimation of cost impacts in the 2021-25 period is being approached.

AusNet Services has advised that sessions held with the Customer Forum have included the following:

- Solar connection issues and pricing options (May 2018);
- Briefing on DER integration (June 2018);
- DER integration options (July 2018);
- Dynamic solar management; Impacts of the Victorian Government solar rebates; Economic approach to charging for DER (October 2018); and
- DER integration was discussed as part of meetings between the Customer Forum and key customer advocates in October 2018 including SACOSS, PIAC, EUAA, MEU, CEC, Renew and EAGA.

AusNet Services has not completed the work to firmly estimate DER integration costs for the 2021-25 period, and hence has not yet entered into negotiations on this with the Customer Forum.

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<sup>23</sup> See <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-%20January%202019.pdf>

<sup>24</sup> Newgate Research, June 2018

## CCP17 response

DER integration is an important aspect of the development of AusNet Services' Regulatory Proposal for the coming regulatory period and so warrants further consideration before lodgement of the proposal. We are pleased to see the level of engagement with stakeholders, and in particular the Customer Forum, in this matter. We see the position taken by the Customer Forum as a critical aspect of this discussion.

## 10. Metering

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Chapter 13 of the Customer Forum's Interim Engagement Report covers Metering.

The Customer Forum notes in Section 13.1:

The AER advised both AusNet Services and the Customer Forum metering was not an issue it expected the Customer Forum to determine. The Customer Forum was nonetheless prepared to examine the proposal and offer an opinion.

We comment on the Customer Forum's opinion on that basis.

The Customer Forum concludes Chapter 13 by responding to the question: "Does the Customer Forum believe the proposal represents overall value for money?" by stating:

Given the annual average metering charge is decreasing and customer benefits are increasing, the Customer Forum believes AusNet Services proposal represents value for money and will be enhanced through improved communication of metering benefits to customers.

We consider here the assertions that the annual average metering charge is decreasing and customer benefits are increasing.

### Decreases in metering charges

It is unclear to us on what basis the Customer Forum asserts that decrease in the annual average metering charge (alongside increase in customer benefits) leads to a conclusion that the AusNet Services proposal represents value for money in regard to metering.

We say this specifically because the Customer Forum also states in Chapter 13:

At the same time AusNet Services advised the Customer Forum it intended to transfer some part of its metering opex charges to its distribution business. This was a result of the completion of the smart meter roll out, and the assertion the metering infrastructure is increasingly being used operationally as part of the management of the distribution network. AusNet contended this move would reduce annual metering charges by \$12.

However, it also states in Chapter 7:

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

On that basis, we cannot see how the \$12 reduction in annual metering charges actually delivers overall customer benefit.

We do note however that the Customer Forum questioning of when Telstra will shut down the 3G network may also reduce charges to customers.

### Are customer benefits increasing?

The benefits that the Customer Forum listed were in the areas of:

1. Managing the cost of energy
2. Safety
3. Better information during outages
4. Shorter outages
5. Faster response to solar and battery applications

The Customer Forum acknowledged that some of these benefits were current and some in the future. For example, one of the benefits that is reported by the Customer Forum as being now operational is in the area of safety: "Identifying some potentially dangerous faults". We note that previously in its Regulatory Proposal for 2016-20, almost four years ago, AusNet stated: "Of note, the smart meter network is being utilised to detect failures in customers' service lines that have the potential to cause electric shocks."<sup>25</sup>

We contend that the important benefits to consider in regard to whether the regulatory proposal for 2021-25 represents overall value for money are those that will be delivered in that regulatory period, and not those that are already operational or will become operational in the current regulatory period. Those that may be in that category are listed by the Customer Forum as follows:

- Notifications of unusual energy use (longer term timing TBD)
- Prioritising life support customers (short-term TBD)
- Managing critical customers during high demand periods (long term TBD)

The result is a rather short list of metering benefits that might be gained in the next regulatory period. It is not clear how these benefits come to be classified as metering benefits, and as stated by the Customer Forum benefits "need to be better explained before customers will value them. Their willingness to view meters and the charges they pay for them will be shaped in large part by how successfully AusNet Services can articulate the package of benefits that metering charges deliver."

In the absence of this articulation, it is hard to value these benefits from a customer viewpoint.

The presentation "Smart Meter Overview and Benefits" was given to the Customer Forum by AusNet Services: E Youill & D McCrohan, 16 April 2018. The slides of that presentation set out network and safety benefits, supporting demand management, detecting "non-technical losses" – or theft, and the use of AMI (smart meter) data by Network Planning to provide a key tool for decisions regarding network augmentation / deferral. More generally, AusNet Services is said to be focused on continuing to leverage AMI to deliver benefits for its customers. A 12 June 2018 presentation to the Customer Forum from AusNet Services also referred to smart metering as having "Strategic importance to the future lower cost, optimised operation of the distribution network".

We would expect to see explicit reference in the capex and opex proposals for the coming regulatory period of AusNet (and other network businesses) to savings that have been made through the benefits that have been achieved from installation of smart metering. These were notably absent in the previous price review. For example, CCP3 noted in August 2015: "The DNSPs' opex proposals do not adequately reflect the past and planned investments in smart metering, replacement capex, bushfire prevention measures and information system and communication technology enhancements. It is appropriate that consumers begin to see benefits from these investments but that is not seen in the DNSPs' proposals."<sup>26</sup>

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<sup>25</sup> AusNet Electricity Services Pty Ltd, Electricity Distribution Price Review 2016-20, Submitted: 30 April 2015, page 17

<sup>26</sup> CCP - Subpanel 3 - Response to proposals from Victorian electricity distribution network service providers - overview - 10 August 2015, page 4

We find that the Customer Forum has not adequately demonstrated that the proposal represents overall value for money in regard to metering, but we find that this is not a problem given that the AER had advised that metering was not an issue that it expected the Customer Forum to determine.

## 11. Price path

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### Price path considered in the negotiations

Consideration of the price path (or revenue path profile) has been included in the AER-endorsed scope of negotiations between the Customer Forum and AusNet (refer Figure 1). The AER provided the Customer Forum with AER Staff Guidance Note 6<sup>27</sup> to assist their understanding of the National Electricity Rules (NER) relating to smoothing of revenues over the regulatory period.

### AusNet Services information and guidance to the Customer Forum

AusNet discussed price path options with the Customer Forum at the negotiating session on 8 November 2018.<sup>28</sup> AusNet presented three price path options (expressed in real \$2020 as average revenue per customer):

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

AusNet indicated that they were indifferent to the preferred option as all had the same Net Present Value.

### Customer Forum interim position

The Customer Forum's final negotiated position was a variation of Option 1, which provides for the maximum one-off real reduction in year 1 (6.5%), followed by inflation-only changes in subsequent years. This decision was based on the Customer Forum's feedback from smaller businesses and residential customers that early, maximum "relief" from price rises would provide most benefit to them.

### CCP17 response

CCP17 supports the position taken by the Customer Forum on price path options. Indeed, it is our observation that this is the preferred outcome identified through engagement with consumers in the majority of regulatory reset processes.

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<sup>27</sup> <https://www.aer.gov.au/system/files/AER%20-%20AusNet%20Trial%20Staff%20Guidance%20Note%206%20-%20Revenue%20Path%20Profile%20-%20August.pdf>

<sup>28</sup> <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/Week-9-new/Customer-Forum---Week-9---Price-Path.ashx?la=en>

## 12. Final comments

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CCP17 understands that the Customer Forum is not yet in a position to offer a definitive opinion on the overall ‘reasonableness’ of AusNet Services’ draft proposal. Some aspects of the draft proposal still require further discussion and clarification, and overall costing is yet to be finalised. Specific areas that the Customer Forum has identified for ongoing negotiation and/or further analysis in the second round of negotiation include:

- Application of an opex productivity factor and some ‘step changes.’
- AusNet Services’ proposed customer experience actions,
- Assessment of the cost-effectiveness and viability of options for deferral of augex,
- Benefits of the proposed repex program,
- Responses, costs and benefits associated with AusNet Services’ DER proposals.

In this report, CCP17 has also highlighted areas where further discussion between AusNet Services and the Customer Forum may assist the Customer Forum in shaping the overall proposal.

Both AusNet Services and the Customer Forum are currently seeking feedback on the draft proposal which will inform them in preparation for the next round of negotiations. We look forward to the resolution and agreement on these matters in AusNet Services’ final regulatory proposal in July.

We note that the Customer Forum actually has limited influence on the overall price of energy for AusNet Services’ customers. In Victoria, approximately 36% of the average residential customer bill is associated with network distribution and metering. Within the framework established for the Customer Forum, it is able to influence less than half of the 36% of the average residential customer bill.

Notwithstanding that the Customer Forum’s ability to influence bill outcomes may be limited, we are impressed by the impact which the Customer Forum has already had in realigning AusNet Services business towards a more customer-centric mode of operation as a result of the customer experience negotiations between the Customer Forum and AusNet Services. We note that in the draft proposal, AusNet Services reports that “AusNet Services’ customer engagement has highlighted ways to immediately improve customer service, without imposing additional cost for customers. We are therefore implementing additional customer-focused initiatives by the start of 2021 that will be funded by our business”<sup>29</sup>, and we congratulate AusNet Services for taking these important steps to deliver an improved customer experience for their customers. We agree that the actions undertaken and proposed by AusNet Services will be a significant step towards addressing customers’ needs and expectations in both the short and longer term.

We encourage AusNet Services and the Customer Forum to continue to negotiate a regulatory proposal which is in the best interests of customers, and continue to identify and address customer satisfaction improvement initiatives during the remaining months of the Customer Forum’s tenure.

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<sup>29</sup> AusNet Services – Draft Electricity Distribution Regulatory Proposal 2021-2015, page 37