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Dr Kris Funston  
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Dear Kris

### **Draft Better Resets Handbook – Towards Customer Centric Network Proposals**

CitiPower, Powercor and United Energy welcome the opportunity to respond to the Australian Energy Regulator's (AER) draft Better Resets Handbook – Towards Customer Centric Network Proposals (Handbook).

We support the AER's intended objectives of the Handbook to provide greater clarity regarding its expectation of network regulatory proposals and to incentivise proposals that reflect customer preferences through enhanced customer engagement. We agree that customer values and preferences should be at the centre of the regulatory framework and regulatory proposals should be developed through genuine, sincere, open and transparent customer engagement.

However, high quality effective customer engagement will never be a substitute for the role of the AER. As the economic regulator, it is therefore essential the AER continues to discharge its duties under the National Electricity Rules to ensure regulatory proposals are only accepted where these reflect the efficient costs reasonably required to deliver electricity network services safety and reliably.

Our key feedback in relation to the customer engagement aspect of the Handbook includes:

- while the expectations relating to customer engagement are generally reasonable, any assessment as to whether these expectations have been met is highly subjective. To reduce the risk of subjectivity in the AER assessment, we encourage the AER to rely upon the findings of independent assessments provided by qualified stakeholder engagement experts. We also encourage the AER to provide early signals to a network during the pre-lodgement phase if does not consider the engagement approach likely to meet its expectations
- it is important the AER ensures the customer engagement activities of networks not participating in the targeted review process are not misrepresented or undervalued due to a lack of AER engagement. The contribution of customer engagement to the development of proposals should be given equal weight irrespective of whether a network is on the targeted review process. We therefore suggest non-participating networks may also submit independent reports prepared by qualified stakeholder engagement experts which should be relied upon for the AER's assessment
- while engagement with customer representatives and advocates is one approach, we must not lose sight of the values and priorities of our end-use customers. It is the end consumers that ultimately pay electricity bills and experience the quality of service delivered by the network. We therefore recommend the Handbook clarifies that end-use consumer values and preferences must be considered in developing regulatory proposals and informing customer representatives views
- noting the limit on the number of networks that can participate in a targeted review, the AER should ensure its approach to selecting networks is objective and includes networks with a diverse range of characteristics. The AER should also avoid introducing additional criteria for networks to participate in the targeted review which could inadvertently lead to an 'arms-race' in customer engagement activities.

Our key feedback in relation to the building blocks aspect of the Handbook includes:

- concern the level of prescription of the forecasting approach and inputs provide limited scope for genuine customer engagement. The focus on historical spend and inputs fails to consider customer outcomes in terms of affordability and quality of service which are the primary purpose of regulation under the National Electricity Objective
- concern with the over reliance on historical expenditure trends rather than comparing and assessing customer outcomes. Relying on historical trends as the basis for forecasting does not ensure efficient outcomes for customers. In particular, it risks embedding inefficiency in some networks while penalising those networks that have proactively driven efficiency savings for customers. Efficient networks will not be able to absorb additional costs necessary to manage the energy transition or other external cost drivers
- while the opening section of the Handbook appears to acknowledge the energy transition will impact networks over the next regulatory cycle, the building blocks expectations focus on historical expenditure and inputs. It is therefore unclear the extent to which a network's proposal may deviate from historical spend, and the prescribed inputs, before it would no longer be considered eligible for the targeted review process.

We also identified opportunities for the AER to further improve the Handbook, including to:

- provide greater guidance on expectations in relation to content, timing and process for key milestones such as a network's notification of intent to participate, AER selection criteria and notification, draft proposal and pre-lodgement materials
- set expectations and promote the standard the AER expects of itself in relation to good practice and evidence-based decision making through open and transparent consultation processes
- consider whether there are sufficient incentives for networks undertaking the targeted review process. From a network's perspective, the process appears to bring forward rather than reduce resourcing requirements. The reward for networks appears limited to earlier confirmation of elements of the proposal which may be accepted. We note regulators in other jurisdictions have offered financial incentives for quality customer engagement
- removing the qualitative reset Regulatory Information Notice requirements which are redundant in the context of the AER's assessment approach, as set out in the Handbook, and which we would expect to apply to all networks. Further, the onus is on the networks to adequately evidence the proposal to enable AER acceptance.

We explain the above positions in more detail in the following sections. Appendix A contains detailed responses to each of the AER's expectations in the Handbook.

Should you have any queries please do not hesitate to contact Megan Willcox on 04 09126362 or [mwillcox@powercor.com.au](mailto:mwillcox@powercor.com.au).

Yours sincerely,



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**CitiPower, Powercor and United Energy**

# 1 Customer engagement expectations

## 1.1 Support intent to place customers at the centre of the regulatory framework

We support the AER's intended objectives of the Handbook to incentivise proposals that reflect customer preferences through enhanced customer engagement. We agree that customer values and preferences should be at the centre of the regulatory framework and proposals should be developed alongside genuine, sincere, open and transparent customer engagement.

The industry has made significant improvements in the approach to customer engagement. With many networks already meeting many of the AER's expectations in the draft Handbook, particularly engagement with well-informed industry stakeholders and customer representatives to deliberate on key matters in the development of regulatory proposals. There is natural evolution as networks become more experienced and practiced in stakeholder engagement.

Over the past five years, our business has matured its approach to customer and stakeholder engagement, and we are continuing to grow and learn from the experiences of others in the industry and internationally. In 2019, we created the Customer Advisory Panel (CAP) which comprises of highly informed independent customer representatives. The CAP has now evolved into our business-as-usual process as the starting point for considering key issues impacting our customers. In 2020, we undertook customer research and engagement with our CAP to establish a set of commitments to our customers which we track and report on. In 2021, our CAP deliberated on changes to the baseline level of export capacity made available to all new customers connecting solar.

## 1.2 Independent assessments of engagement practices are the most appropriate

The set of expectations provided by the AER in relation to customer engagement are broadly reasonable. We are concerned however that whether a network has delivered on these expectations is subjective. This means the AER will need to form its own judgements on the quality of the customer engagement approach.

To improve the independence of the assessment and reduce the burden on the AER and customer representative panels, we consider there is role for an independent stakeholder engagement expert to provide a view on the effectiveness of a network's customer engagement approach. We therefore suggest a new criteria in the Handbook be the option for networks to submit an independent report provided by a qualified stakeholder engagement expert which assesses the quality of the customer engagement approach. The report should provide the basis of the AER's own assessment. We consider this approach has merit irrespective of whether a network is on the target review process or not.

Note the proposed independent report would be additional to the proposed independent report prepared by customer representatives. Our understanding is the report prepared by customer representative panels has value in setting out their view of the content of the engagement activities, the panels positions on the proposal and the outcomes of their engagement observed in the final proposal.

We also encourage the AER to provide networks with early signals during the pre-lodgement phase if it does not consider the customer engagement approach is meeting its expectations. Open and timely feedback from the AER provides a network opportunity to take account of AER views and refine its approach early in the process.

## 1.3 Need to ensure the customer engagement efforts of all networks is acknowledged and adequately assessed

We note the draft Handbook states the AER may select only a few networks to engage in the targeted review stream. We are therefore concerned how the AER will view the stakeholder engagement efforts of those networks not part of the targeted review stream. There is a risk that a lack of depth of understanding regarding other networks engagement activities will unintentionally lead to a misconception that the engagement has

been inadequate or insincere. There is a natural human tendency to fail to adequately appreciate efforts or actions which are not observed.

Given the importance of supporting continued uplift in customer engagement across the entire industry, there needs to be mechanisms in place which ensure networks not participating in the targeted review are not unduly disadvantaged and their customer engagement is not misrepresented or undervalued by the AER.

To ensure independence in the assessment of customer engagement activities of networks not participating in the targeted review, we consider it would be appropriate for the AER to rely on independent reports prepared by qualified stakeholder engagement experts which may be submitted alongside regulatory proposals.

Further, in undertaking its assessment of proposals or projects, we would expect the AER to place the same weight on customer engagement activities and outcomes of networks, irrespective of whether they are participating in the targeted review stream.

Similarly, we would expect the AER to only place weight on the quality of customer engagement with respect to the projects or aspects of the proposal which have been subject to effective customer engagement. We would be concerned to observe networks on the targeted review stream receiving less AER scrutiny for issues which were not the subject of customer engagement.

#### **1.4 Focus on customer representative panels, should not detract from the need to ensure the views of actual electricity consumers are inputs into proposals**

While engagement with well-informed stakeholders and customer representatives is an essential element for co-designing regulatory proposals, there is a need to not lose sight of our end-customer values. It is the actual consumers of electricity within the network that ultimately pay electricity bills and experience the quality of service delivered by the network. Notably, the National Electricity Objective refers to the long-term interests of consumers of electricity.

Further, customer representatives or advocates often represent particular interest groups and therefore may not be well placed to represent the broader views of the entire customer base, for example our rural customers have different values and priorities to our urban customers. Engagement with actual consumers of electricity within the network therefore remains an important element in informing the direction and priorities of regulatory proposals.

We are increasingly placing the values of electricity consumers in our network at the centre of business decision making. This includes undertaking end-customer research to quantify the values our end-consumers place on a broad range of services and outcomes we deliver. We use this research to embed customers values in our business-as-usual investment priorities and decision making.

We therefore support emphasis on end-customer research as an input into the regulatory proposal and recommend the Handbook include an additional expectation to this effect. Specifically, we consider that the positions taken by networks, stakeholders and customer representative panels should be informed by the priorities and values of end-consumers within the respective networks.

#### **1.5 Role of customer engagement is complementary to, but not a substitute for AER's role as economic regulator**

Importantly, effective customer engagement is not a substitute for the AER's role as an economic regulator, tasked with the duty of ensuring efficient long-term outcomes for customers with respect to prices and service quality. Customer representative panels should not be expected to take on the responsibility of the economic regulator. Even with increased funding, customer representatives will never have the same depth and breadth of economics, legal and engineering skills available to the AER.

Further, at times there will be tensions between customer engagement feedback and economic or engineering principles. It is therefore essential the AER continues to discharge its duties under the National Electricity Rules to ensure regulatory proposals are only accepted where these reflect the efficient costs reasonably required to deliver electricity network services safety and reliably.

## **2 Building blocks expectations**

### **2.1 Handbook focusses on inputs, overlooking the importance of customer outcomes**

We are very concerned by the prescription contained in the draft Handbook in relation to the AER's expectations on expenditure forecasts. The draft Handbook seeks to prescribe the forecasting approach as well as the inputs to be used in a regulatory proposal. We consider this level of prescription, which is overly focussed on inputs, provides limited scope for genuine customer engagement and is not consistent with the propose-respond regulatory framework under the National Electricity Rules. An example of unnecessary prescription is the expectations for forecasting output growth, which require:

- use of the Australian Energy Market Operator's (AEMO) demand forecasts – AEMO demand forecasts are high level forecasts based on historical trends at the transmission connection point level, adjusted for state-wide economic drivers. These forecasts are not a substitute for bottom-up spatial demand forecasts which reflect localised network and demand conditions. AEMO demand forecasts are at best a cross check
- customer growth forecasts based on historical growth rates – customer growth rates in the current regulatory period have been materially impacted by COVID-19, which has impeded immigration and driven substantial customer relocation activity, both intra-state and inter-state. These trends may be reversed in subsequent years or may become more permanent changes in society.

Both forecasts are suitable candidates for customer engagement and should not be prescribed.

The focus on inputs and historical spend as the tests of a proposal capable of acceptance, overlooks the importance of customer outcomes with respect to affordability and quality of services. We would expect in undertaking a top-down review of a proposal, the AER would consider customer outcomes, noting the objective of the National Electricity Law is:

*“to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:*

- *price, quality, safety and reliability and security of supply of electricity*
- *the reliability, safety and security of the national electricity system.”*

Further, the focus on historical expenditure as the benchmark prudency test results in a relative assessment of a network's-own performance against itself over time, and consequently fails to assess absolute performance, efficiency or end-customer outcomes. Our concern is the focus on historical expenditure risks embedding long term inefficiency, particular for those networks that have not consistently and proactively driven efficiency savings for customers over the past 10 years.

In our view, undertaking good customer engagement and proposing historical spend, should not be a substitute for the AER undertaking its duty, as economic regulator, to assure itself of the economic efficiency of regulatory proposals for delivering outcomes in customers long term interests.

### **2.2 Historical expenditure and no RAB growth are not measures of efficient expenditure in a transitioning energy market**

A reliance on historical expenditure, and a stable regulated asset base (RAB), as the reference point for assessing the prudency of forecast expenditure assumes the energy market is in a steady state, rather than an industry

undergoing major transformational change. Innovation and transformation are currently occurring in the energy sector at a faster pace than any other time in history.

In Victoria, we have a plethora of State and local government targets and action plans to reduce carbon emissions. These initiatives will impact on the absolute levels and profiles of both load and export demands, requiring additional investment in network and non-network solutions. These changes will be further complicated by the uncertainty around long-term behavioural shifts in customer load profiles and inter-state and intra-state migration patterns.

As recognised by the Energy Security Board, there is a need for the energy sector, including distribution networks, to adapt and evolve to manage the energy transition more dynamically and efficiently through advanced technologies and data analytics. Consequently, to facilitate the energy market transition there will be a need to shift our investment focus towards more innovative approaches where this represents the most efficient approach. This will drive a structural break, both in the types and quantum of expenditure required to manage networks of the future.

While the AER appears to acknowledge the impact on networks of the energy transition in the opening sections of the draft Handbook, it is not clear the extent to which a network's proposal may deviate from historical expenditure, and the prescribed inputs, before it would no longer be considered eligible for the targeted review.

### **3 Opportunities to further improve the Handbook**

#### **3.1 Greater guidance on expectations relating to timelines, process and eligibility would be valued**

We see merit in providing greater guidance in the Handbook regarding the AER's expectations on:

- timeline and process for a network to notify the AER of its intention to pursue a targeted review
- timeline and process for the AER to select which networks are able to participate in a targeted review (noting the AER has indicated not all networks can participate)
- protocols for AER and the Customer Challenge Panel's participation in a network's customer engagement activities and ensuring open and honest feedback to enable improvement during the pre-lodgement phase
- timeline for publication of a draft proposal, the depth and breadth of content required, and the level of forecasting accuracy expected given the longer lead time before the regulatory period commences
- timing for the network to submit pre-lodgement materials to the AER, the extent of materials required, and the level of forecasting accuracy expected. For example, in relation to pre-lodgement revenue and expenditure models, proposals, business cases and supporting evidence.

The AER has requested feedback on the eligibility criteria for selecting networks for the targeted review process. We would recommend the AER ensure diversity in characteristics of participating networks, including private and government ownership, rural and urban networks and varying approaches to customer engagement. We would expect the AER to be open and inclusive in its selection process, to not discount a network's eligibility based on pre-conceived views or preference to work with another network based on established relationships.

It is also important to ensure the AER's eligibility criteria does not introduce additional requirements or lead to overinvestment or an 'arms-race' in customer engagement activities. While customer engagement greatly benefits the regulatory process, there is a point at which the costs may exceed the benefits to customers. We are aware distributors in the United Kingdom spending upwards of \$8.5 million (AUD), largely to meet the engagement requirements of Ofgem.

### **3.2 Missed opportunity for AER to hold itself to account on good regulatory practice**

There is a missed opportunity for the Handbook to promote the standard the AER expects of itself in relation to good practice, evidence-based decision making through open and transparent consultation processes. We suggest the AER set out some of its own commitments as to how it will hold itself to account to ensure unbiased and effective regulatory decision making. This could include:

- ensuring AER positions, including those of the AER's technical advisory group (TAG), are supported by analysis and evidence which is made public and with opportunity for broad stakeholder consultation
- pre-engagement with networks prior to introducing any new obligations or making any decisions with material impact on revenues, costs or scope of a network's role
- reform of the public hearing process, akin to the robust processes employed by the Productivity Commission. The process should allow equal opportunity for all stakeholders to present evidence and materials to the AER Board in public including TAG.

### **3.3 Limited rewards for networks that are successful for targeted review**

We understand the AER's intention to reward networks for developing proposals through robust and sincere customer engagement. We understand the reward for networks proposed in the draft Handbook is greater AER engagement in the proposal development phase and the possibility of earlier confirmation of elements of the proposal which may be accepted. The reward therefore appears to be relatively low powered.

From a network's perspective, the targeted review approach effectively brings forward the regulatory process, with the need to commence engagement earlier, which requires preparing building blocks forecasts, proposals, business cases and models earlier for stakeholder engagement and AER pre-lodgement review. This earlier development process may lead to an earlier indication of likely outcomes. Effectively the benefit is a shifting rather than shortening of the reset process.

Further, as it will not be known to a network whether it will be successful for, or which issues will be subject to, a targeted review, it will be necessary to prepare and submit all of the supporting evidence and material which would be required under a standard review.

We note similar processes in other jurisdictions contemplate higher rates of return or higher-powered incentive schemes for quality customer engagement and expenditure forecasts which align to regulator expectations. The AER could consider whether there are sufficient rewards for networks under the targeted review process.

### **3.4 Qualitative reset RIN is redundant**

The Handbook, alongside the AER's various expenditure and incentive guidelines, sets out the AER's expectations of the content of a proposal and the AER's assessment approach. Given this, the role of the qualitative reset RIN is now redundant. The requirements specified in the RIN are either duplicative or no longer relevant to the AER's assessment. Further, the onus is on the network to demonstrate and evidence the efficiency and prudence of their input assumptions and methodologies to the AER through their proposal.

In our view the qualitative reset RIN simply adds to the administrative cost to networks in demonstrating compliance and to the AER in assessing compliance. We therefore recommend it is abolished. We do not consider anything in the regulatory process would be lost through this approach as the AER retains its ability to request further information, or not accept proposals which are not adequately evidenced.

## A Detailed feedback on AER expectations by clause

### A.1 Customer engagement

The below table sets out our detailed feedback on the AER’s expectations for customer engagement.

Handbook clause	Our feedback
4.2.1 Sincerity of engagement	<ul style="list-style-type: none"> <li>Greater clarity regarding the AER’s expectations of ‘buy in’ from board and executive directors would be appreciated. In conversations with the AER and stakeholder at times, ‘buy-in’ seems to imply being in the same room as customers. Some networks Board members are internationally based and/or have a large portfolio of investments which limit their ability to attend customer engagement activities. Therefore, a lack of presence should not be misinterpreted as lack of ‘buy-in’ or sincerity of the engagement undertaken by management. Any evidence customer feedback was considered in executive decision making should be counted as buy-in.</li> <li>There are challenges and a high degree of subjectivity in measuring the sincerity of engagement. We recommend development of an objective measurement framework for assessing engagement sincerity. Alternatively, the AER should rely on independent reports prepared by adequately qualified independent stakeholder engagement experts.</li> </ul>
4.2.2 Consumers as partners	<ul style="list-style-type: none"> <li>These expectations appear reasonable, however assessment of whether these expectations are met remains subjective and should be subject to independent review by adequately qualified stakeholder engagement experts.</li> </ul>
4.2.3 Equipping customers	<ul style="list-style-type: none"> <li>We do not consider empowering consumers necessarily means they have funds available to them to run their own research. In our experience, customer panels have little interest in running tender processes or seeking out engagement partners; rather, they are interested in the research and not who/what research partner conducts the research.</li> <li>Further there is a risk of duplication of consulting activities, with networks producing consultant reports, customer representatives seeking alternative consultant reports and the AER requiring further consultant reports. We suggest a more efficient approach may be to allow customer representatives to request the network seek independent advice and the contractual arrangements ensure they are represented parties to the engagement.</li> <li>As above, assessment of whether these expectations are met remains subjective and should be subject to independent review by adequately qualified stakeholder engagement experts.</li> </ul>
4.3.1 Accessible, clear and transparent engagement	<ul style="list-style-type: none"> <li>These expectations appear reasonable, however assessment of whether these expectations are met remains subjective.</li> </ul>
4.3.2 Consultation on outputs, then inputs	<ul style="list-style-type: none"> <li>We strongly support a greater focus on consultation on customer outcomes, rather than a prescriptive focus on inputs. We also support customers being part of the decision on how they want to be consulted on different aspects of the proposal. This is important for ensuring customers resourced are effectively targeted to the issues of greatest concern to them and impact on end-consumers of electricity.</li> </ul>



Handbook clause	Our feedback
<b>4.3.3</b> <b>Multiple channels of engagement</b>	<ul style="list-style-type: none"> <li>• These expectations appear reasonable, however assessment of whether these expectations are met remains subjective and should be subject to independent review by adequately qualified stakeholder engagement experts.</li> </ul>
<b>4.3.4</b> <b>Consumer’s influence on the proposal</b>	<ul style="list-style-type: none"> <li>• These expectations appear reasonable, however assessment of whether these expectations are met remains subjective and should be subject to independent review by adequately qualified stakeholder engagement experts.</li> <li>• However, we caution against requiring customer representatives to commission independent analysis. This risks unnecessary duplication of consultant costs and may place unreasonable burden on customer representatives time and resource. Further consultants will often require significant data and inputs from networks in preparing their analysis. We instead suggest networks commission a single expert report on behalf of both the customer panel and the network, on matters requested by the customer panel.</li> </ul>
<b>4.4.1</b> <b>Proposals linked to consumer preferences</b>	<ul style="list-style-type: none"> <li>• We support the need to demonstrate how the regulatory proposal links to consumer preferences, and the publication of a draft proposal</li> <li>• However, we consider the AER should provide further clarification that consumer representatives must use evidence of end-user preferences in providing feedback and/or influencing the proposal</li> </ul>
<b>4.4.2</b> <b>Independent consumer support for the proposal</b>	<ul style="list-style-type: none"> <li>• We consider any stakeholder should be encouraged to provide submissions and reports that provide feedback on either the regulatory proposal or the distributors’ engagement practices</li> <li>• However, the AER should only rely on a truly independent report from a stakeholder engagement expert on the assessment of the quality of the engagement program. An independent report will also assess the distributors’ engagement with the customer panel as part of its assessment, which the panel themselves will not be able to do independently</li> </ul>

## A.2 Capital expenditure

The below table sets out our detailed feedback on the AER’s expectations for capital expenditure.

Handbook clause	Our feedback
<p><b>5.2.1.1</b> <b>Total capex forecast</b></p>	<ul style="list-style-type: none"> <li>• Network performance measures such as reliability outcomes are lagging indicators, such that they do not immediately change with investment decisions. Further as circumstances change, additional investment may be required to simply maintain the current level of performance, for example energy transition increasing both import and export demands and the adverse impacts on reliability from the installation of REFCLs.</li> <li>• The presence of underspends against allowances and incentive carry overs should not be perceived negatively. Incentive schemes drive efficient outcome for customers. Customers are better off if networks efficiently defer or avoid investment where it is efficient to do so. Penalising and scrutinising networks that deliver savings for customers will undermine the incentive-based regulatory regime.</li> </ul>
<p><b>5.2.1.2</b> <b>Capex category level</b></p>	<ul style="list-style-type: none"> <li>• Asset performance is not linear through its technical life, with risks of asset failures increasing with asset age and deterioration in condition. Consequently, historical replacement expenditure or rates do not account for growing risks.</li> <li>• Historical expenditure over the past five years does not account for lumpy investments such as transformers, depot upgrades etc. Using historical expenditure as a proxy is more suitable for high volume assets and, even then, may not be appropriate given where the bulk of a network’s assets are in the lifecycle, changes in asset management practices, government or regulatory directions and external factors such as climate change.</li> <li>• Reliance on historical spend does not facilitate improvements in asset management practices or the adoption of new technologies or process which improve outcomes for customers.</li> </ul>

<p><b>5.2.2</b> <b>Evidence of prudent &amp; efficient decision making</b></p>	<ul style="list-style-type: none"> <li>• We agree material project business cases should include evidence of the identified need for investment and options analysis (including non-network options, opex-capex trade-offs). However, the reference to ‘all feasible options’ is too broad and cumbersome. A more pragmatic approach is to consider an appropriate range of options.</li> <li>• We agree that costs and benefits should be quantified wherever possible. In some cases however quantification of benefits may require a greater degree of assumptions, in which case a reasonable range of sensitivity analysis should be considered appropriate.</li> <li>• Further any additional options recommended by the AER, or TAG, should be supported by adequate engineering evidence, to the same standard expected of networks, and should be subject to public consultation allowing for stakeholder submissions.</li> <li>• There would be merit in clarifying the AER’s interpretation of ‘material’ categories. We would also recommend shifting the focus to material projects rather than categories, as most categories are material.</li> <li>• Expectation of RIT-Ds should only apply to projects where a RIT-D has or should have been undertaken given the timing of the project. There should not be an expectation to undertake RIT-Ds for projects toward the end of the forecast period as there is insufficient certainty and this risks wasting efforts of third party non-network proponents.</li> </ul>
<p><b>5.2.3</b> <b>Evidence of alignment with asset &amp; risk management standards</b></p>	<ul style="list-style-type: none"> <li>• We agree with providing evidence that asset management practices are consistent with well-established relevant Australian industry standards. We consider this assessment criteria superseded many elements of the qualitative reset RIN, therefore making the RIN redundant.</li> <li>• Expectation of RIT-Ds should only apply to projects where a RIT-D has or should have been undertaken given the timing of the project. There should not be an expectation to undertake RIT-Ds for projects toward the end of the forecast period as there is insufficient certainty and this risks wasting efforts of third party non-network proponents.</li> </ul>
<p><b>5.2.4</b> <b>A steady and stable RAB</b></p>	<ul style="list-style-type: none"> <li>• RAB growth depends on the levels of capex, depreciation and disposals. Each of these should be assessed on its own merits. For instance, strong EV growth and the transition away from gas may require significant investment by the networks to meet changing demands. Similarly, localised population growth may drive increased connections and augmentation expenditure requirements.</li> <li>• RAB growth is not an assessment factor under the national electricity rules and reflects relative performance of networks over time rather than absolute efficiency or outcomes for customers.</li> </ul>
<p><b>5.2.5</b> <b>Genuine consumer engagement on capex proposals</b></p>	<ul style="list-style-type: none"> <li>• While we generally agree with the principles of genuine customer engagement, we strongly encourage the AER to be mindful that customers cannot be expected to have full and deep understanding of the regulatory framework, jurisdictional obligations, engineering and electricity distribution operations. We suggest higher level expectations, similar to those proposed for operating expenditure, may be more appropriate.</li> <li>• The AER cannot expect customers or customer representative groups to bear the burden of efficient decision making where there is significant information and resource asymmetry. The AER must therefore remain accountable for its decision-making responsibility as the economic regulator.</li> <li>• Further, we cannot be expected to fully inform all affected customers of capital expenditure investment outcomes as there are too many customers affected, the vast majority of which do not have the knowledge or resources to fully understand the issues and impacts. The AER’s requirement to fully inform customers should be limited to customer representative panels.</li> </ul>
<p><b>5.2.6</b> <b>Targeted review of capex</b></p>	<ul style="list-style-type: none"> <li>• We consider the criteria listed for focussing the AER’s assessment to be very broad giving significant discretion to the AER.</li> <li>• We recommend the criteria include projects, or aspects of proposals, which are not supported by customers or have not been the subject of customer engagement.</li> </ul>

### A.3 Operating expenditure

The below table sets out our detailed feedback on the AER’s expectations for operating expenditure.

Handbook clause	Our feedback
<p><b>6.2.2</b> <b>Base opex</b></p>	<ul style="list-style-type: none"> <li>We would expect the AER to give notice to networks of any changes in its benchmarking approach early in the pre-lodgement phase. Small changes in the benchmarking methodology can have material impacts on networks efficiency scores. Therefore, a change in benchmarking methodology could lead to a network unexpectedly needing to undertake greater customer engagement and produce more evidence of efficiency in advance of the submission of the regulatory proposal.</li> <li>It is reasonable for AER to expect pre-lodgement engagement on major changes in capitalisation policy and cost allocation methods. However, the AER should remain open to the need for externally driven unforeseen base adjustments needing to be taken into account, for example changing in accounting standards. Further the AER should be mindful of the impacts of its service classification decisions on the need for base adjustments.</li> </ul>
<p><b>6.2.3</b> <b>Trend</b></p>	<ul style="list-style-type: none"> <li>We consider the level of prescription set out regarding the inputs into the opex trend component are overly prescriptive and do not allow for genuine customer engagement on these matters. Further the level of prescription imposes forecasting approaches which may contradict the NER requirements to reflect a realistic expectation of demand and cost inputs.</li> <li>AEMO demand forecasts are high level forecasts based on historical trends at the transmission connection point level adjusted for state-wide economic drivers. These forecasts are not an appropriate substitute for spatial demand forecasts which reflect localised network and demand conditions. The demand forecasts used for opex trend should be based on aggregated spatial demand forecasts, consistent with capital expenditure forecasts and the Regulatory information notices. AEMO demand forecasts are at best a cross check.</li> <li>Customer forecasts should not be limited to historical trends, particularly given the structural shifts that have occurred as a result of COVID 19 and the expected rebound in economic growth and migration expected into the future as the economy recovers.</li> <li>We remain concerned regarding the AER’s application of an annual 0.5% productivity adjustment to all networks irrespective of the efficiency savings already delivered. Networks operating at the efficiency frontier should not be penalised for delivering cost savings for customers. We recommend the AER reconsider the appropriateness of the 0.5% productivity adjustment across all networks and/or allow efficient networks to propose expenditure needed to continue to push the productivity frontier.</li> </ul>

<b>6.2.4</b> <b>Step changes</b>	<ul style="list-style-type: none"> <li>We are pleased to see the AER is no longer considering materiality as a criteria for step changes. Materiality is not a factor in NER and can lead to disregard for costs which are reasonably required to delivery electricity network services. Materiality thresholds can also lead to perverse outcomes where some networks are penalised (not being granted a step change) simply because it is of larger size than another. We agree also step changes should be well-justified.</li> <li>We are concerned the AER is seeking to limit the number of step changes to a few or none at all and seeking to limit the circumstances in which step changes will be considered. The current evolution of the energy market lends itself to increased operating expenditure requirements to efficiently enable the transition to distributor operator functions. Innovation in the operation of the network and the broader energy market should not be discouraged. Further changes in technology over time will increasingly drive more towards operating expenditure options as the most efficient solution, for example software as a service and infrastructure as a service. The AER should remain open to step changes which are supported by customers and are reasonably required to efficiently deliver network services.</li> </ul>
<b>6.2.5</b> <b>Category specific forecasts</b>	<ul style="list-style-type: none"> <li>We note that the AER and CCP requested we include one of our proposed step changes which was not permanent in nature be reclassified as a category specific forecast. We are therefore confused by the AER's expectation to not include any new items in this category.</li> </ul>
<b>6.2.6</b> <b>Customer engagement</b>	<ul style="list-style-type: none"> <li>Agree with these principles of customer engagement and suggest these would also be more appropriate criteria for capital expenditure.</li> </ul>
<b>6.2.7</b> <b>Targeted review of opex</b>	<ul style="list-style-type: none"> <li>We consider the criteria listed for focussing the AER's assessment to be very broad giving significant discretion to the AER.</li> <li>We recommend the criteria include projects, or aspects of proposals, which are not supported by customers or have not been the subject of customer engagement.</li> </ul>

## A.4 Regulatory depreciation

The below table sets out our detailed feedback on the AER's expectations for regulatory depreciation.

Handbook clause	Our feedback
<b>7.2.1</b> <b>Asset lives</b>	<ul style="list-style-type: none"> <li>We agree it is reasonable to expect customer engagement on accelerated depreciation proposals, we suggest it should be limited to proposal which materially impact customer prices. We also note there is likely to be a need for the AER to balance economic efficiency and engineering evidence with customer views. This is particularly the case for accelerated depreciation because there is no change in service offering to the customer – it is therefore one of the more technical concepts for customers.</li> <li>We encourage the AER not to overstate the economic efficiency of redeploying assets on the network. Asset reconditioning and deployment involves considerable labour costs which are sunk. There is therefore less payback to customer of these costs where the assets are already aged. There are also technical limitations to the reconditioning and redeployment of assets which need to be considered.</li> <li>Given the age of some assets, there may be a degree of estimation required in calculating historical asset age and residual cost.</li> </ul>
<b>5.2.6</b> <b>Targeted review of regulatory depreciation</b>	<ul style="list-style-type: none"> <li>It is reasonable for the AER to undertake a targeted review where there are proposed changes in asset classes, asset lives or accelerated depreciation, particularly given the technical nature of these issues.</li> <li>The AER may wish to consider flexibility in the approach to new asset categories for DER related investment and the energy market transition. We note asset classes are not standardised across networks and therefore some networks have more flexibility than others.</li> </ul>

## A.5 Tariff Structure Statements

The below table sets out our detailed feedback on the AER’s expectations for tariff structure statements.

Handbook clause	Our feedback
<b>8.2.1 Progressing tariff reform</b>	<ul style="list-style-type: none"> <li>There is an equality-efficiency trade-off to be made in relation to tariff reform. It will be necessary to adequately account for the role of state governments in the degree of tariff reform proposed and to ensure they are engaged in the pre-lodgement process.</li> </ul>
<b>8.2.2 Stakeholder engagement and support</b>	<ul style="list-style-type: none"> <li>Agree with customer engagement on tariff structure statements and consider it is necessary to ensure consistency of expectations across the Handbook and the export tariff guidelines and the national electricity rule requirements.</li> <li>It is important to recognise there is a broader range of stakeholders impacted by tariff reform, including retailers, business representatives, customer representatives and state governments. The nature of tariff reform requires an equality-efficiency trade-off with opposing impacts across different stakeholders and customer groups. Therefore, it would not be reasonable to expect broad stakeholder support.</li> </ul>
<b>8.2.3 Managing customer impacts</b>	<ul style="list-style-type: none"> <li>We encourage the AER to recognise we can only make generalised assumptions about retailer responses when estimating the impact on customer bills of different tariff structures. There are a multitude of retailers operating in a competitive market with no incentive to share their intended customer tariff offerings with us. Notably, network tariff reform has stalled due to the view that network tariff changes will be fully passed through, where in reality the customer impacts would likely have been diluted.</li> </ul>
<b>8.2.4 Targeted review of a tariff structure proposal</b>	<ul style="list-style-type: none"> <li>The existence of objections to a TSS proposal does not necessarily reflect the quality of the stakeholder engagement, objections are expected given tariff reforms will lead to winners and losers.</li> <li>We encourage the AER to be mindful that simplicity can also provide value to customers, while increasing choice and complexity of tariff offerings increases implementation costs by both networks and retailers, leading to higher costs for customers. Further, retailers may repackage tariffs into simpler bundles resulting in higher costs to accommodate complex network tariffs with no real change in end customer choices.</li> </ul>