



# Response to AER's issues paper

**Regulatory proposal 2021–2026**

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# 1 Executive summary

We are writing a response to the Australian Energy Regulator's (AER) issues paper (issues paper) to express concern with its representation of our regulatory proposal, the type and level of comparisons made between distributors, and the disconnect between the analysis provided and the National Electricity Objective—namely the long term interests of consumers of electricity with respect to price, quality, safety and reliability and security of supply of electricity.

The AER issues paper is focused on the incremental proposed expenditure of each business rather than the end outcomes for customers. Our proposal reflects a commitment to deliver meaningful outcomes for customers, including delivering the best price and service offering in Australia. Our network charges are some of the lowest in Australia with CitiPower the most reliable network in Australia and Powercor the most reliable rural network in Australia. Delivering value to customers doesn't mean spending less; it's about offering the right balance between investment and affordability.

Our proposed investments will deliver real outcomes for customers including improving communication and management of planned and unplanned outages, reducing timeframes to connect, enabling customers to export more of their solar and making it easier for customers to access information. We are proposing to do more than ever before to ensure we can continue to maintain the quality, safety, reliability and security of supply of electricity whilst still offering the lowest prices in the country.

To ensure only the efficient levels of capital and operating expenditure is approved in the forecast period, the AER should consider not only the relative change in the forecast compared to current spend but also whether the current spend level is efficient. The AER's own benchmarking and the expenditure metrics presented in this submission demonstrate our networks have ensured efficient levels of operating and capital expenditure during the current regulatory period. It is for the very fact that we have driven considerable efficiencies in the current period that we do not have excess available to absorb the cost impact of delivering on new regulatory obligations.

We are disappointed by the lack of acknowledgement and detail provided on our programs and end outcomes for our customers, both on price and service performance. As the key document that summarises each distributor's regulatory proposals, and the only document most stakeholders will read, the issues paper is expected to present information in an impartial manner. We are deeply concerned with the influencing effect this will have on stakeholders.

Further to our concern with the AER's focus on the incremental proposed expenditure rather than the end outcomes for customers, we wish to raise the following matters in respect to the issues paper:

- **our stakeholder engagement program is understated and misrepresented**—we spoke to 11,000 customers to develop our proposals involving nearly 2.5 million touch points, including collaboration on programs and outcomes—more than any other distributor in Australia. This quantitative and qualitative feedback fed directly into our proposals. Our conclusion from the issues paper is the AER has given significantly more attention to AusNet's program. We urge the AER to obtain a deeper knowledge and understanding of each distributor's engagement programs and how it has influenced their proposals.
- **the AER does not compare distributors on a like for like basis**—most notably, the indicative bill impact estimates (tables 8-12 in appendix A of the issues paper) are based on different assumed average usages and hence cannot be reasonably compared. We have spoken to the AER and they agree that comparisons across all metrics should be based on standardised assumptions.
- **a lack of detail on our customer service improvements**—the issues paper compares customer service improvements across distributors (namely figures 2, 3 and 4 of the issues paper), which misrepresents what our customers are getting. We have already implemented the improvements AusNet is committed to making, and we will deliver much more for the 2021–2026 regulatory period, please refer to table 3.1 and

3.2 of our response. Additionally, whilst not mentioned in the issues paper, we have the lowest number of complaints to the Energy and Water Ombudsman (Victoria).

- **AER's comparison of some key expenditure programs is rudimentary and at times incorrect**—the discussion on our solar program did not recognise that we are committed to removing 95% of solar constraints. Our analysis shows when all costs are included, Powercor's customers would be paying a similar increment on their bill compared to AusNet's customers albeit for better outcomes. In respect to Rapid Earth Fault Current Limiters (REFCL), the comparisons of Powercor's and AusNet's proposals warrants further investigation as the AER does not present AusNet's REFCL proposal in full in the issues paper. The paper also misunderstands our pole programs. The CitiPower and Powercor programs are not age based as described in the issues paper, rather risk/condition based and compliance program. We note however, since the publication of the issues paper the AER has corrected these errors in its public forum and we are highly appreciative.

We have also provided information on our initial analysis of the impact of COVID-19 on our business in the following section.

## 2 COVID-19

The impact of COVID-19 is being felt across our communities, through businesses closing, job losses and support services stretched. Whilst our businesses are financially sound, they are not immune from these impacts. In connection with COVID-19 we have:

- commenced a tariff relief package—supporting electricity bill relief for residential and small business customers. This is absolutely the right thing to do for our customers, but the measures in this package will have an impact on our revenue. As a positive gesture to our communities, we have committed not to seek recovery of the foregone revenue associated with the support package in future years
- been reviewing our works program to focus on critical works or maintenance respecting our customers' needs at this time and to address operational challenges posed by COVID-19.

As an essential service, we will keep doing what we are being asked to do—sustaining safe and reliable electricity supply, and reducing impacts on customers and businesses.

We have identified implications COVID 19 will have for our regulatory proposals that now merit further consideration. This includes:

- the forecasts that underlie our proposals were sourced mid-2019. Our forecasts are sensitive to the macroeconomic environment. For example, in May 2019 the Victorian Government forecast gross state product (GSP) to grow at 3.0% in 2020 and thereafter 2.75% per annum. Following the bushfires of early 2020 and COVID 19 it is expected GSP will decline in the short term (the department of treasury and finance has predicted an unprecedented 14% decline in GSP in the June quarter, relative to previous forecasts) then rebound strongly
- our capital expenditure forecasts for 2020 may not be met. This has possible implications for expenditure in future years, particularly 2021, which may involve catch up of work, especially connection and replacement works
- we will not recover our 2020 revenue allowance. Under the current regulatory arrangements any under-recovery, excluding that arising from our tariff relief package, would be added to our 2022 revenue allowance. However, the potential magnitude of the recovery, and its impact on network tariffs coupled with a fragile economy may make recovery in a single year unrealistic. We are open to discussing multi-year recovery with stakeholders.

It is understood the AER's intention is to continue with the current timetable for the reset. If this is the case, consideration needs to be given to the uncertain economic environment in which distributors are being required to prepare their revised proposals. The depth of the recession triggered by the COVID-19 pandemic and the subsequent rebound are not well understood. This has been reinforced by our conversations with our external forecasters. If we are to proceed on the current timetable, the AER needs to be conscious of the uncertainty facing distributors and assess any revenue requirement accordingly.

# 3 Stakeholder engagement

The AER's misrepresentation and limited understanding of our stakeholder engagement program is disappointing and discouraging regarding benefits of engagement in the future. The issues paper fails to encapsulate the three years of engagement undertaken by our businesses, the initiatives that arose through the engagement program and the outcomes we have committed to delivering for our customers over the next regulatory period.

What is perhaps the most concerning to us is AER's characterisations of our regulatory proposals that have been reproduced in the presentation by customer groups to the public forum. Most stakeholders in preparing their submissions will place heavy reliance on the analysis of the AER and the issues paper as the AER is seen as unbiased and impartial.

## 3.1 The AER has misrepresented our engagement program and its outcomes

To inform our regulatory proposals, we conducted a comprehensive three-year 'Energised 2021–2026' customer engagement program encompassing 2.5 million touch-points and 11,000 directly-engaged customers—more than any other distributor in Australia. Our program reflected most stages of the IAP2 level of engagement, up to direct collaboration with customers and stakeholders on reset outcomes. Our regulatory proposals are unashamedly designed to deliver the outcomes our customers have demanded whilst also ensuring we continue to provide a reliable and affordable service.

Our proposals included substantive documentation on our engagement activities and the outcomes we plan to deliver. We also provided the AER a 30 page stakeholder engagement supporting document. Despite this, the discussion of our engagement activities and outcomes totalled one and half pages for three businesses. This contrasted with three pages on AusNet.

Figure 4 of the issues paper only reflects some of the outcomes we have committed to delivering.

### 3.1.1 We offer the best customer service outcomes in Australia

We agree that in assessing the relative merits of each distributor's proposals, it is important to examine the services being offered to customers. This is not however only about looking at what customers receive over the next regulatory period but what services they already receive today.

Many of the services noted in the issues paper as service improvements for other distributors are already provided to our customers. This shows the danger in just examining the incremental aspects of a regulatory proposal as opposed to the relative position. For example, CitiPower and Powercor have already made significant in-roads in our connections services by rolling out the self-service e-Connect program over the current regulatory period.

It is now apparent to us we need to demonstrate our bona fides both in terms of our existing customer services and what we will provide in the next regulatory period. To that end, we provide an updated set of initiatives and customer services that show how we compare to AusNet, given the issues paper has designated the AusNet proposal capable of acceptance—see table 3.1 and table 3.2. These tables are not exhaustive lists of services we offer, rather a direct comparison to those services highlighted in the issues paper.

As the figures show, the majority of the initiatives AusNet is introducing to improve customers service, we have already delivered to our customers. Over the next regulatory period we will add to these services including enabling more distributed energy resources (DER) on to our networks and providing customers more information to enable them to make better informed decisions. Our customers will continue to receive the best services in Australia by 2025/26 at among the lowest network charges.

Table 3.1 Comparison of customer services being delivered today

Service area	AusNet	CitiPower, Powercor, United Energy
Establishing a clearer accountability for customer	Appointment of dedicated management and staff with responsibility for supporting customers and improving customer experience outcomes	<p>In 2019 we established a dedicated Customer Experience team, dedicated to delivering cross-functional customer initiatives including a Customer Strategy Program</p> <p>We have had a General Manager of Customer Services as part of the Executive Management Team for over 10 years</p>
Aligning incentives with customer outcomes	Subject to Board Approval and development of appropriate metrics, link employee performance and bonus outcomes with customer satisfaction outcomes	<p>Delivering Customer Outcomes and Be Customer Minded form part of our corporate strategic pillars and values. Through this mechanism performance against these measures impacts all staff bonuses</p> <p>Furthermore, Customer Satisfaction survey results are embedded in Customer Group team KPIs</p>
Building understanding of customers' needs and expectations	Commence an ongoing research program, including annual surveys and targeted research, to ensure continuous insight into customers' needs and expectations, and ensure the insights derived in the research are used by the business to deliver ongoing customer experience improvements	<p>We have an established surveying platform with 10+ years of customer survey data in our key customer interactions</p> <p>We are also tracking our overall perception in the market with a particular focus on customer trust</p> <p>The insights derived are being fed directly into prioritisation of our customer improvement initiatives and were a key feature used for the development of the Customer Strategy</p>
Fixing customer pain points and improving customer experience	<p>Distributed Energy Resources (DER) improvements:</p> <ul style="list-style-type: none"> <li>• delivered an online pre-approval calculator to automate applications up to 30kW – 95% approvals through this tool</li> <li>• updated we website content for customers interested in DER – installers, customers, communities, generators</li> <li>• digitised forms for connections up to 1.5MW</li> <li>• identified owner for systems &gt;1.5MW and hired dedicated engineer to manage</li> <li>• hire community DER liaison to manage community energy projects</li> <li>• re-designed manual process for applications with installers and design engineers</li> </ul>	<p>We have had the online solar pre-approval calculator to automate applications &lt;30kW since 2015. There is a project underway to strengthen pre-approval tool to include site-specific voltage assessments, plus expand the functionality up to 200kW</p> <p>We already have website content for both solar installers and customers</p> <p>We have automated the majority of our requests through hour eConnect and mySupply self-serve portal. Digitised forms for large generators have been in place since 2016</p> <p>We have dedicated large generator and project teams in place and have streamlined distributed resources connections pre-approvals</p>

Fixing customer pain points and improving customer experience	<p>DER Register (compliance) – changes included:</p> <ul style="list-style-type: none"> <li>when connecting solar and batteries, installers must seek pre-approval from AusNet Services, but are then responsible for installing the technology. The installers are not required to confirm the exact technology or capacity installed. AEMO is seeking to establish accurate records on all installations</li> </ul> <p>Implementation of Self Service capability and a Customer Relationship Management (CRM) system:</p> <ul style="list-style-type: none"> <li>to developing a strategy for customer self-service to create a co-ordinated experience across our gas and electricity network businesses</li> <li>to developing a roadmap of use cases to continue to build on the CRM and which will ultimately enable us to create a single view of customer (i.e., all the customer information in one system)</li> </ul>	<p>We are delivering the DER register requirements on time and budget</p> <p>As the customer impacting elements are already integrated within our existing customer portal (eConnect), this approach has successfully minimised the impact on solar installers making it as easy as possible for them to provide the extra information that AEMO requires</p> <p>Our eConnect system, which has been in place since 2016 delivers a digital self service capability for new connections, alterations, abolishments, solar pre-approvals and installations</p> <p>We have a continuous improvement program which delivers incremental capability including:</p> <ul style="list-style-type: none"> <li>enabling multiple connection requests at the same site to be bundled in a single job, improved handling of complex abolishments, and smoothed processes where CT metering was required</li> <li>the ‘Connect Me Now’ process which was embedded into operations enabling customers progressing through sister augmentation and connection processes to be linked together</li> <li>these services and portal deliver tactical modular solutions that meet customer-needs without the need for a CRM</li> </ul>
Collaborating with the community	<p>Work closely with customer representatives to:</p> <ul style="list-style-type: none"> <li>identify and prioritise ways to improve customer experience, including through better use of smart meter data</li> <li>improve understanding of vulnerable customer needs</li> <li>help equip community service organisations to assist vulnerable customers</li> <li>offer an annual grant through a contestable process to welfare organisations to conduct vulnerable customer energy usage research to better meet the needs to vulnerable customers</li> </ul>	<p>We have a dedicated Digital Team that is focused on improving customer experience through the use of smart meter data, including providing safer dwellings, improving communication and data sharing</p> <p>We initiated a Western Bulldogs partnership targeting education and energy support for key vulnerable customers, saving hundreds in energy bills for vulnerable customers</p> <p>Established relationships with key government departments supporting vulnerable customers to support with energy and connection needs</p> <p>We sponsor local communities through community sponsorships such as AFL country round, Mel-Warn bike race, Lorne Pier to Pub, Around the Bay in a Day bike ride and more</p>



<p>Making the organisation easier to deal with</p>	<p>A number of initiatives have been implemented:</p> <ul style="list-style-type: none"> <li>• ongoing empathy training for call centre employees has been implemented</li> <li>• a call centre satisfaction performance monitoring (mystery shopping) program has been launched with an independent agency, Customer Service Benchmarking Australia. The program monitors and assesses the performance of call centre staff on key customer service metrics</li> </ul>	<p>We have invested significantly to enable multiple engagement channels affording customers the option to engage in a way and a time that is convenient for them</p> <p>Quality of interaction is a key focus for our entire customer facing employees and contractors. This is enshrined in:</p> <ul style="list-style-type: none"> <li>• training targeting effective customer communication</li> <li>• powerful customer service week which brings organisational focus through a series of engagements across our offices and depots</li> <li>• quarterly peak performer awards</li> <li>• surveying customer satisfaction</li> <li>• established operating routine reporting to senior management</li> </ul> <p>Our contact centre calls are all recorded and regular team leader quality reviews ensures a quick feedback loop that improves agent call quality</p>
<p>Taking care of our most vulnerable customers</p>	<p>AusNet Services to implement changes to:</p> <ul style="list-style-type: none"> <li>• improve restoration times for life support customers, using smart meter data</li> <li>• provide better communication to life support customers in advance of planned outage (e.g., SMS, social media and community messaging channels)</li> <li>• proactively engage with customer representatives regarding the best approach to advocating for the needs of life support customers, including the potential establishment of a peak advocacy body</li> <li>• for the purposes of this commitment we will establish life support customer restoration time benchmarks</li> </ul>	<p>We employ robust life support messaging service that includes multiple communication mediums to cover customers with different communication abilities</p> <p>For planned outages we send out notification to the life-support customer's primary contact person</p>

<p>Making our claims process easier for all customers</p>	<p>AusNet Services to implement changes to the claims process for property damage from High Voltage Injection (HVI) incidents:</p> <ul style="list-style-type: none"> <li>• significantly reduce claim assessment timeframes and customer discomfort by partnering with contractors that can assist customers on-site with emergency repairs and provide a report to support their compensation claim</li> <li>• provide a voucher for financially vulnerable customers to allow them to purchase a temporary replacement appliance (e.g. a small heater)</li> <li>• be available for 24/7 phone assistance to help customers complete their claim form</li> <li>• provide more flexible and timely compensation amounts by paying the higher of market value or second-hand item, rounding up to the nearest \$100 and transferring funds via EFT instead of cheque</li> <li>• develop a best practice guide to HVI customer response including benchmarks; and involve customers in developing the guide</li> </ul>	<p>To make claims for high voltage (HV) incidents easier with customers, we attend impacted customer properties, and complete walk-through of the property with the customer to identify and document damage. This information supports the customer in the claims process and is proactively provided to the claims team in order to expedite the claim</p> <p>We are always available for any queries and follow-up requests to assist customers in their claims, understanding the urgency of their claims</p> <p>All our claims payments are transferred using Electronic Funds Transfer (EFT)</p>
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Sources: AusNet Electricity Services, Electricity Distribution Price Review 2022-26, Part I & II, January 2020, pp. 53-69; CitiPower, Powercor and United Energy

Table 3.2 Comparison of customer services committed to during 2021–2026

Service area	AusNet	CitiPower, Powercor, United Energy
DER new connections	<p>This initiative focuses on addressing customer pain points and improving the customer experience for the process of connecting solar and batteries to our network. Also intend to focus on electric vehicles. Efforts will largely focus of self-serve capability, process automation and improved communication to customers</p>	<p>We already have automated and self-service connection portals for all our customers, including customers connecting DER</p> <p>Our Electricity Networks Distributed Energy Resources Management Systems (DERMS) strategy encompasses several initiatives across EV, battery, solar and other embedded generation areas</p> <p>Our Customer Enablement program will provide our customers a single interface for all online interactions, with the same look and feel for any requests and a single access point for all easy access tools</p> <p>We will introduce a new tool that will perform a 'health check' on the customer's rooftop solar system, including assessing exports to recognise trends that indicate a degradation of the system (e.g. dirty panels) and when tripping has occurred</p> <p>Our customers will have a choice in how they manage their energy consumption through the option to elect to transfer to a time of use tariffs at the time of an EVC connection</p>
Complaints and claims	<p>Focus efforts on improved visibility of the claims process, more engagement with customers and better communication</p>	<p>Our Customer Enablement program will allow for much faster and effective communication on customer claims processes, including tracking, multiple communication channels, and allowing fast and effective updates</p>
New connections	<p>Experience improvements in early 2020 (prior to the new regulatory period) and again in 2023</p>	<p>We've invested significant effort in the last 3-5 years into our connections service through implementation of eConnect and mySupply portals. This has been reflected in our positive trending customer satisfaction trends and has also led to improvements in connection turnaround times</p> <p>See table 3.1 for continuous improvement process</p> <p>We will introduce a new online new tool for supply and connection requests for HV customers and embedded generators. The new tool supports a case-by-case review of customer applications to ensure compliance with technical standards and management of required network changes</p>

Planned outages	<p>Provide a baseline understanding of the current issues with non-notification of planned outages. This is particularly of concern for life support customers</p> <p>The planned outage process is scheduled for customer experience improvements in 2021. This will have a strong focus on the experience for life support and vulnerable customers</p>	<p>We are continuously improving our communication and consultation at various points in the process. Customers receive hand carding, mailed notifications, and SMS notifications along with reminder SMSs</p> <p>We are also improving capabilities to advise of cancellations or deferrals of planned interruptions</p> <p>We are developing customer journey mapping to highlight further improvement opportunities and more opportunities for consultation</p> <p>Our proposed one-stop-shop includes customer-specific planned and unplanned outage information, communication and notification preferences</p>
Unplanned outages	<p>This initiative will focus on identifying pain points and providing customer experience improvements during unplanned outage events. This will have a strong focus on the experience for life support or vulnerable customers</p>	<p>We are currently deploying an advanced faults reporting tool enabling customers to report and faults online and then stay connected to progress via our subscription SMS service</p> <p>We will introduce a new SMS validation tool that can identify customers without supply at a distribution substation during an outage, by pinging each customer's meter at that substation and sending out notifications only to customers who's meters could not be successfully pinged (indicating the customer is off supply)</p>
Delivery of a Customer Relationship Management (CRM) tool	<p>AusNet is proposing the introduction of a CRM so that we are better equipped to serve our customers in what is a time of regulatory and technology disruption</p>	<p>Our systems are being developed in a modular, tactical sense that linked together through our processes. This in practise delivers on the capabilities required to understand our customers. We believe this approach will yield a greater benefit than implementation of a single, large CRM system</p>

Website refresh and improvement	It is envisioned that through ongoing customer research and insights captured via the CRM there will be a stronger idea of customer preferences regarding the website	<p>We have implemented website improvements to improve user experience and user interface on an on-going basis, ensuring website and digital channels stay up to date and incorporate customer and community feedback</p> <p>We are implementing an information architecture restructure to ensure that customer journeys and needs are the first priority for the website's functionality</p> <p>Our Customer Enablement program will deliver enhanced myEnergy portal to provide new customer insights through data analytics, summarised data results and push notifications for specified usage patterns</p> <p>We are also expanding our data provision capabilities for useful data on solar and electric vehicles, increasing visibility of their impacts on the network and assisting in development of innovative solutions</p> <p>We will introduce an artificial intelligent (AI) based speech analytics tool, website tool and virtual/online chat tool. Speech analytics allows contact centre calls to recognise patterns and common themes quickly and effectively, allowing us to develop proactive solutions to issue before customers contact us. The online chat tool will provide customers with automated responses where appropriate and preferred, collect information on all customer interaction through the chat for easy access by contact centre staff if required. The AI website tool would assist customers to more readily identify the information they are seeking on the website</p> <p>We will also provide customers access to 15-minute interval usage data on a mobile application to better inform their energy choices, e.g. which appliances contribute to greater energy usage</p>
Customer segmentation	<p>High level customer segmentation has been undertaken as a starting point</p> <p>The segmentation output will be operationalised within the call centre</p> <p>The call centre staff would know at the outset of the conversation the identity of the customer, and any past interactions with us</p>	<p>We have used segmentation methodologies for years and in 2018 we completed a program to align our communications strategy to Energy Consumers Australia and the CitySmart industry best practice. This allowed us to look at how households respond to various energy incentives and value propositions based on their behaviours</p> <p>These insights are incorporated in a platform that defines customer types and segmentation, to develop the best communications strategies, for example helping us reach a wider audience for programs such as demand response that help customers earn money while curbing demand</p>
GSL Funding amount	Self-fund GSL payments for controllable contingencies such as missed appointments and connections failing to be done by the advised date	<p>We place a high value on reducing the number of GSLs that customers receive as a result of missed appointments or connections not made on the agreed date, and this is reflected in the low volume of GSL's paid</p> <p>We also note our GSL payments for late appointments and connections are significantly lower than AusNet's and falling, as a result of our customer service improvement initiatives</p>

Sources: AusNet Electricity Services, Electricity Distribution Price Review 2022-26, Part I & II, January 2020, pp. 53-69; CitiPower, Powercor and United Energy

### **3.1.2 We are developing a customer service incentive scheme**

In light of the AER's draft customer service incentive scheme (CSIS) published in December 2019, we are working to develop a CSIS which addresses services our customers' value. Leveraging off our extensive stakeholder engagement work, we have shortlisted the services our customers value and we are in the process of refining this through further customer consultation. The additional engagement is being facilitated through an expert independent stakeholder engagement company using innovative non-contact engagement methods which are suitable in the COVID-19 environment.

## **3.2 The AER should accept various approaches to customer engagement**

In 2017, the AER approached us with the offer to participate in the 'New Reg' trial. We had already begun our 'grass roots' engagement program, a program we believed gave us greater confidence we could capture a better understanding customer preferences as opposed to more limited processes that rely on a small number of advocates to represent the entire customer base. As such, we elected not to participate in the trial. At the time we were assured the decision not to participate would not bias future AER decision making.

However, through the issues paper it appears there is a clear preference for AusNet's engagement program through the 'New Reg' trial. This is demonstrated not only in its representation of each distributors' engagement in section 2.2 of the issues paper, but also the proposal to fast track acceptance of AusNet's regulatory proposal.

By placing preference on one type of engagement, the AER is mandating how distributors should engage in future resets and actively discouraging innovation in engagement. For this industry to continue to innovate and continue to seek customer input into decision making, the AER should accept various approaches to engagement. Fast-tracking AusNet and discrediting others' approaches will stifle innovation in research. Further, it demonstrates a clear direction that engagement with advocates is preferred over engagement with grass roots customers.

The distinct advantage of those who undertake the 'New Reg' is the AER will more heavily engage and take interest in their engagement model, reflected in the limited discussion and understanding of other distributors' engagement programs versus those of AusNet. We would hope in future resets the AER seeks to positively engage with all engagement programs, in the interest of transparency and procedural fairness to all distributors.

## **3.3 The AER should allow distributors to invest to deliver customer outcomes**

Page 8 of the issues paper infers a reduction in funding for augmentation projects is a positive outcome for customers. We would beg to differ.

Our customers are changing the way they use, store and sell electricity. They expect us to plan for a shared energy future that meets their evolving needs including being able to export excess solar; provide greater capacity for renewable energy, ensure affordability but not at the expense of compromising existing reliability and power quality levels. In the case of large customers, they emphasised that a reliable energy supply is imperative but so are power quality issues which have wide and far ranging impacts on their business.

We also continue to experience strong demand across pockets of our networks, particular western Melbourne and the Surf Coast. Our assets in these areas are already heavily utilised, and at a total network level, we have the highest capacity utilisation in Australia (Powercor and United Energy are the most utilised networks in the National Electricity Market by some margin).

Meeting this mix of customer expectations and compliance necessitates a prudent investment approach that considers both augmentation and demand side alternatives. What it does not require is short term investment reductions that ultimately lead to a network not meeting customer needs or providing poorer service.

Our proposals strike a prudent, affordable and compliant approach to managing our network. The fact that achieving these objectives requires additional augmentation is not a 'bad' outcome and in our view should not be used to 'demonise' the businesses as inferred in the issues paper.

# 4 We are lowest cost and more reliable

We are delivering a more reliable and affordable electricity supply than other distributors. Our proposals for the next regulatory period will continue to offer our customers the best value for money in Australia.

Through our own engagement program, it was crystal clear our customer's priorities were reliability and affordability. No matter which network, our customer engagement over the past three years demonstrated these are overwhelmingly the most important factors to customers.

Affordability and reliability outcomes are emphasised in the National Electricity Objective as stated in the National Electricity Law (NEL):

*“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.”*

The AER's issues paper appears to overlook the fact that our customers receive the best value for money today and will continue to do so throughout the next regulatory period. The analysis below demonstrates that we have and will continue to have the lowest residential and small business network and metering charges and the most reliable electricity supply.

To ensure the National Electricity Objectives have been met, the AER should take into consideration value for money or the efficiency of each distributor today. We note similar comments have been echoed in a number of stakeholder presentations to the public forum.

## 4.1 Our charges are lowest reflecting a long history of efficient service delivery

The analysis below demonstrates we have the lowest charges for all customer classes. Our lower charges reflect our long standing history of delivering services at efficient costs. Our proposals ensure we continue to offer the lowest charges throughout the next regulatory period. As shown in table 4.1, our residential charges are the lowest today and will still be the lowest in 2025/26.

Table 4.1 Residential tariffs including DUOS and metering, cents per kilowatt hours, \$2021

Residential tariffs (c/kwh)	CitiPower	United Energy	Jemena	Powercor	AusNet
2020-21	9.0	9.5	11.3	10.7	14.4
2025-26	9.0	9.1	11.1	11.2	17.0
% change	-	-4%	-2%	4%	18%

Source: CitiPower, Powercor and United Energy analysis of AER indicative bill impacts.

The story is the same for small business customers as shown in table 4.2. Our three networks have the lowest small business charges today and will offer the lowest charges in 2025/26.



Table 4.2 Small business tariffs including DUOS and metering, cents per kilowatt hours, \$2021

Small business (c/kwh)	CitiPower	United Energy	Jemena	Powercor	AusNet
2020-21	7.5	9.4	10.8	8.4	17.1
2025-26	7.7	9.1	10.7	8.9	20.4
% change	2%	-3%	-1%	6%	19%

Source: CitiPower, Powercor and United Energy analysis of AER indicative bill impacts.

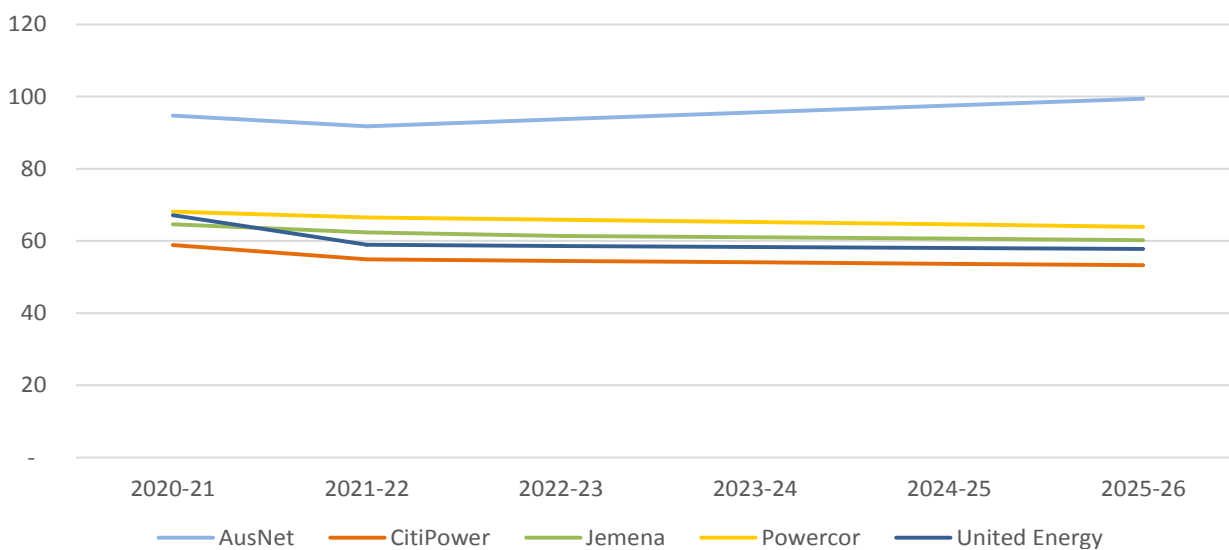
The issues paper, appendix A, compares average bills based on the reset RIN indicative bill impact workbook. This information is not comparable because each network chooses its own reference energy usage per customer. For example, AusNet assumes less than 6,000 kWh per annum for small business customers whilst we used 20,000 kWh per annum for our three networks. A more comparable approach is to take the average bill and divided by energy usage to calculate an average c/kWh rate, which is reflected in the tables above.

## 4.2 We have lower revenue for the scale of services delivered

The issues paper presents revenue per customer for each network in figure 1. The representation is misleading because each network has a different mix of residential and business customers which have significantly different energy needs. For example, CitiPower has a higher number of commercial customers and embedded networks compared to the other networks. Consequently the revenue analysis presented in the issues paper does not adequately reflect the scale of services CitiPower provides.

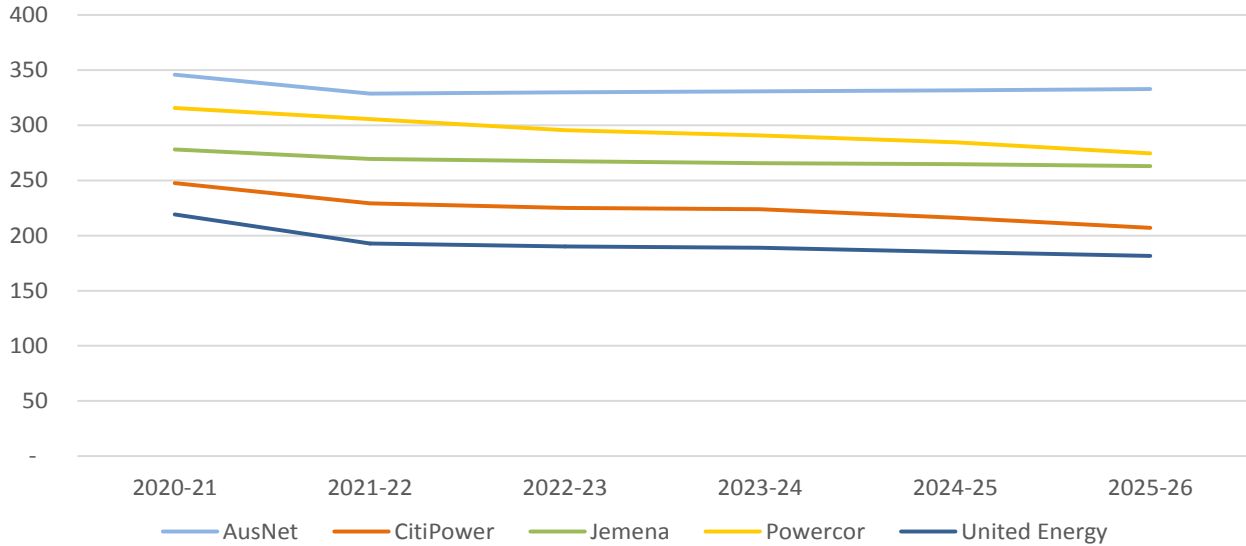
More comparable measures of revenue across networks are revenue per MVA of non-coincident demand or revenue per MWh of energy distributed. These measures better reflect revenue relative to the scale of services delivered. As demonstrated below, our networks have lower revenue for their scale than other distributors and further, our revenue reduces over the next regulatory period.

Figure 4.1 Revenue per MWh distributed, \$2021 June



Source: CitiPower, Powercor and United Energy.

Figure 4.2 Revenue per kVA of non-coincident maximum demand, \$2021 June



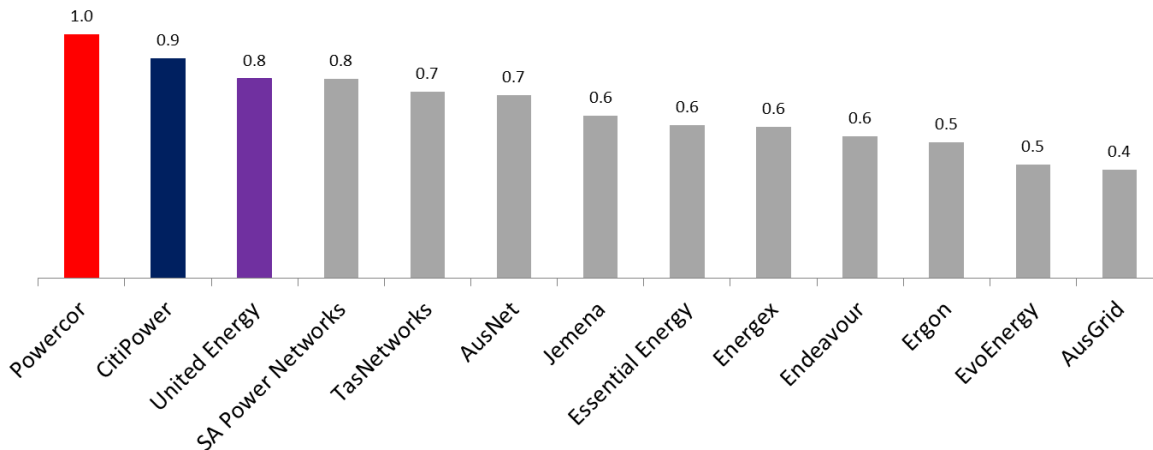
Source: CitiPower, Powercor and United Energy.

### 4.3 We are spending less to deliver better services now and in the future

To ensure only the efficient levels of capital and operating expenditure are approved for the next regulatory period, the AER should consider not only the relative change in expenditure forecasts compared to historical expenditure but also whether current expenditure is efficient and what are the services being provided.

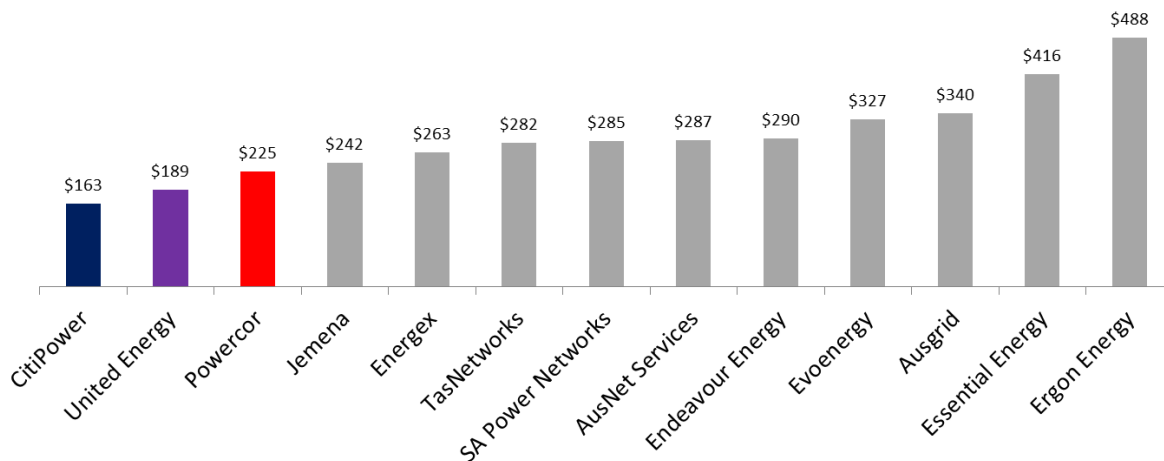
The AER's own benchmarking and the expenditure metrics demonstrate our networks superior operating and capital expenditure efficiency over the current regulatory period. We achieved our efficiency through investing in automation technologies, undertaking organisational efficiency reviews, making prudent investment decisions and leveraging advanced metering infrastructure (AMI) data to manage the network smarter (more detail is provided in our appendix 02—What we have delivered—of our regulatory proposals). It is the very fact that we have driven considerable efficiencies in the current period, that unlike some other networks, we do not have excess available to absorb the cost impact of delivering on new regulatory obligations. It should also be recognised the risks we took in making many of these investments.

Figure 4.3 Operating expenditure efficiency scores, average 2006–2018



Source: AER, Annual benchmarking report, Electricity distribution network service providers, November 2019.

Figure 4.4 Operating expenditure per customer, 2018



Source: Annual RIN data for each network.

Table 4.3 presents operating and capital expenditure per energy delivered. We have normalised expenditure by energy delivered as this provides a proxy for the scale of services delivered. As noted above, normalising only for customer numbers would disadvantage networks such as CitiPower with significantly more large customers which place greater demands on the network.

Table 4.3 Expenditure metrics by energy delivered, \$'000' 2021

	CitiPower	United Energy	Jemena	Powercor	AusNet
<b>Opex per energy delivered</b>					
2019	14.7	16.0	20.5	22.8	27.5
2025-26	19.5	21.0	25.7	27.5	35.2
<b>Capex per energy delivered</b>					
2019	30.9	26.9	35.2	45.9	64.0
2025-26	33.2	32.8	26.4	39.3	49.2
<b>RAB per energy delivered</b>					
2019	337.4	317.3	337.1	387.0	607.8
2025-26	374.6	356.6	372.4	470.6	680.4

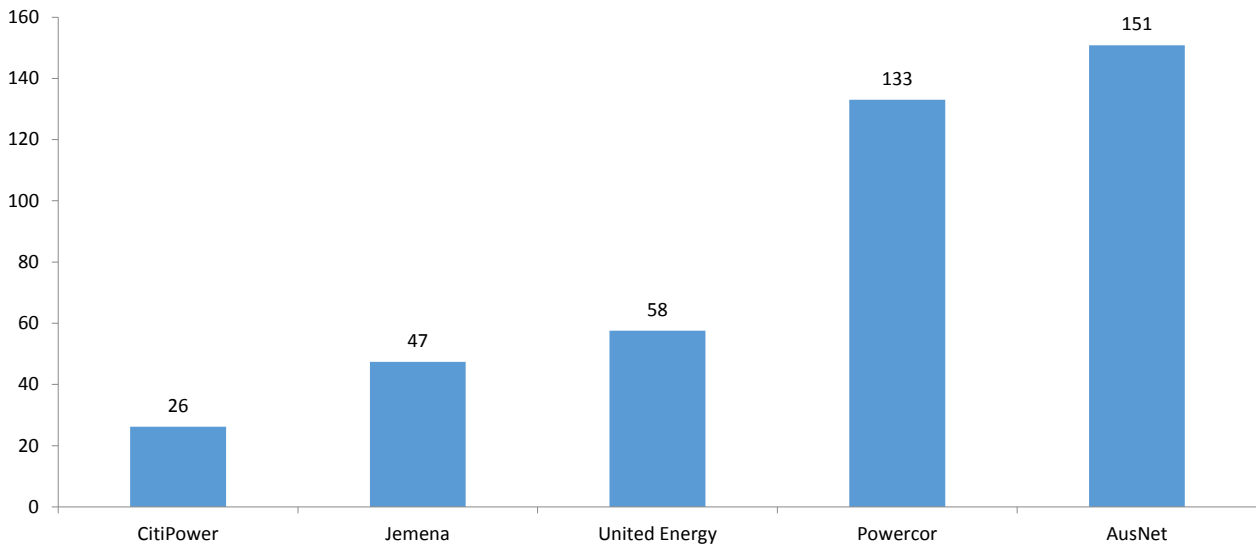
Source: CitiPower, Powercor and United Energy analysis of Victorian networks RIN data and regulatory proposal models.

#### 4.4 We are the most reliable urban and rural networks

Customers have unambiguously stated reliability should be our number one priority. As demonstrated in figure 4.3, our networks are the most reliable urban and rural networks in Victoria. Further, the AER's own benchmarking analysis shows we are also the most reliable urban and rural networks in Australia.

During the current period we have responded to the AER's service target performance incentive scheme by investing in new technologies to reduce the frequency and duration of outages for our customers where economic. As a result, we have lower reliability targets over the next regulatory period and will continue to take up the challenge of delivering the best possible reliability for our customers where economic.

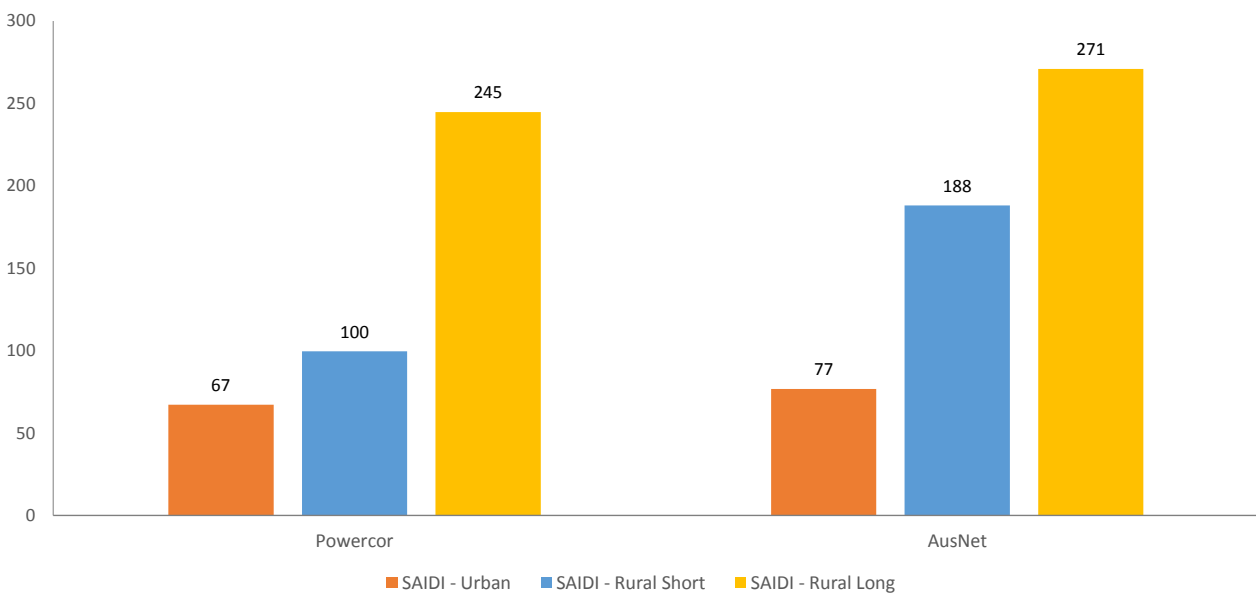
Figure 4.3 Unplanned system average interruption duration index (SAIDI), average 2014–2018



Source: 2014-2028 RIN data.

Powercor's customers experience far fewer minutes off supply compared with AusNet, a comparable rural network. As a result, Powercor is proposing a lower reliability targets compared with AusNet, across all network segments, shown in figure 4.4.

Figure 4.4 Unplanned system average interruption duration index (SAIDI) by network segment, proposed 2021-2026



Source: Powercor and AusNet Services 2021-2026 regulatory proposals.

## 4.5 Our REFCL related expenditure is prudent and efficient

Powercor has received around \$365m (\$2021) for REFCL deployment.<sup>1</sup> Our proposal seeks a further \$102m to complete the deployment program and \$60m to maintain ongoing compliance for the period to 2026.<sup>2</sup> That is, around \$527m (\$2021) in total.

AusNet has received around \$360m (\$2021) of funding for REFCLs through their contingent project applications. It is unclear how much additional funding they have received in their 2012 pass through application<sup>3</sup> or 2016-2020 regulatory determination. Their proposal appears to seek an additional \$419m (\$2021)<sup>4</sup> to complete their deployment program and to maintain on-going compliance. This includes expenditure associated with completing tranches 1 and 2.

This suggests that the AusNet benchmarks used to assess Powercor's previous contingent project applications by the AER have not proven sustainable. The transparency of the assessment of AusNet's REFCL program is particularly important as the AER has routinely made adjustments to our REFCL program on the basis that AusNet confidential costs were more efficient.

We have never been provided to the opportunity to test these adjustments as all AusNet data related to the REFCL program has been accepted by the AER as confidential. Therefore in the absence of any ability to challenge or interrogate the AER's use of discretion to replace our data with confidential data, we plead for the AER to conduct an open and transparent review of REFCL expenditure.

## 4.6 Accelerated depreciation

The accelerated depreciation proposed by AusNet could have equally been proposed by any other network. For example, if we were to adopt the same approach, we estimate that an additional \$150 million of accelerated depreciation would be levied on our customers.

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<sup>1</sup> We received \$14.4m (\$2015) in our 2016–2020 regulatory determination for a REFCL trial, and \$315m (\$2015) through three contingent project applications. We note that \$35.5m (\$2021) is contained in our current regulatory proposal as unspent capex from our third contingent project application.

<sup>2</sup> Completion of the project with REFCLs at the Corio (\$29m) and Waurm Ponds (\$73.5m) zone substations. The Waurm Ponds solution involves construction of an additional zone substation at Torquay that also addresses demand constraints.

<sup>3</sup> AER, SP AusNet cost pass through application of 31 July 2012 for costs arising from the Victorian Bushfire Royal Commission, 19 October 2012.

<sup>4</sup> Refer AusNet Services- Workbook 1 - Regulatory Determination (2022-2026) - 31 January 2020.xlsx.

# 5 Solar enablement programs

Assessing a program's value if you are only presented with the costs and not the outcomes you will receive is impossible. The issues paper compares the costs of solar programs but does not provide context of the scale of the networks or outcomes that customers will receive. Without this information, the issues paper provides an incomplete and misleading picture of solar programs.

## 5.1 Comparison with Victorian distributors solar enablement program

If discussing total costs, the relative size of the networks is necessary context. Powercor, for example, is the largest distributor in Victoria, servicing over 850,000 customers. Given scale alone, it should not be surprising that different networks have different total costs. In our view, a more appropriate representation of solar programs is presented below.

Table 5.1 Cost and outcomes based analysis of solar

	CitiPower	Powercor	United Energy	AusNet	Jemena
Customer numbers	345,000	854,000	698,000	742,000	343,400
Solar Enablement capex (\$ million)	31.5	60.1	42.4	45.7	12.1
Cost per residential customer p.a. (\$)	0.4	0.5	0.6	0.4	0.2
Deliverables	<ul style="list-style-type: none"> <li>5KW export capable connections connection</li> <li>Remove 95% of solar constraints</li> </ul>			<ul style="list-style-type: none"> <li>Remove 70% of solar constraints</li> </ul>	<ul style="list-style-type: none"> <li>Not outlined</li> </ul>
Basis for calculation	<ul style="list-style-type: none"> <li>Actual AMI voltage data</li> <li>Based on actual constraints</li> </ul>			<ul style="list-style-type: none"> <li>Actual AMI voltage data</li> <li>Based on actual constraints</li> </ul>	<ul style="list-style-type: none"> <li>No AMI data</li> <li>Assumes constraints appear at 30% penetration</li> </ul>

Source: CitiPower, Powercor and United Energy

Our costs per customer are comparable with other distributors whilst delivering superior customer outcomes by unlocking more solar constraints and guaranteeing 5kW export capable connection for the large majority of our customers.<sup>5</sup> Powercor is unlocking 423 kWh of solar per customer per annum at the end of the regulatory period.

### 5.1.1 Considering future network proposal

Considering distributors' future network programs more broadly, which include IT costs and operating costs for solar, electric vehicles and operating the network more efficiently in the face of change, further demonstrates the value of our program. This comparison is shown in the table below.

<sup>5</sup> Some restrictions may apply for customers on single wire earth return lines as discussed in our business case.

Table 5.2 Cost and outcomes based analysis of future grid proposals

Description	CitiPower	Powercor	United Energy	AusNet	Jemena
<b>Cost information</b>					
IT costs for digital network & solar (\$m)	12	14	23	60	15
Solar Enablement capex (\$m)	32	60	42	46	12
Solar Enablement opex (\$m)	1.2	5.8	4.0	-	3.8
<u>Total cost per typical residential customer p.a.</u>	<u>1.40</u>	<u>1.62</u>	<u>2.41</u>	<u>2.66</u>	<u>1.77</u>
<b>Outcomes</b>					
Deliverables	<p><b>Digital Network</b></p> <ul style="list-style-type: none"> <li>Support innovations such as electric vehicles, DER, batteries and demand response</li> <li>Proposing more granular and automated real-time capabilities, such as LV DERMS</li> <li>Optimising asset management and safety benefits—energy theft detection, enhancing neutral fault detection, improving phase identification proactively manage asset failures and prevent blown fuses.</li> </ul> <p><b>Solar Enablement</b></p> <ul style="list-style-type: none"> <li>5KW export connection</li> <li>Remove 95% of solar constraints</li> </ul>		<p><b>Digital Network</b></p> <ul style="list-style-type: none"> <li>Support innovations such as electric vehicles, DER, batteries and demand response</li> <li>Trial mini-grids</li> </ul> <p><b>Solar Enablement</b></p> <ul style="list-style-type: none"> <li>Remove 70% of solar constraints</li> </ul>		<p><b>Digital Network</b></p> <ul style="list-style-type: none"> <li>Does not support new innovations such as electric vehicles and demand response</li> <li>Optimising asset management</li> </ul> <p><b>Solar Enablement</b></p> <ul style="list-style-type: none"> <li>Not outlined</li> </ul>

Source: CitiPower, Powercor and United Energy

## 5.2 Our networks are distinct entities

The AER presents our three network's combined solar costs. This leads readers to compare the combined costs of our network's solar program to the cost of the other distributors' program. The AER stated:

*CitiPower (\$31.5 million), Powercor (\$60.7 million) and United Energy (\$42.4 million) are proposing a solar enablement program (combined \$134.6 million)*

and

*CitiPower, Powercor and United Energy also seek to manage voltages through a Dynamic Voltage Management System (DVMS) and by transformer tapping (an additional \$8.5 million)*

We operate three distinct networks and service three separate customer bases, and our combined costs should not be compared to the costs of any other single network.

We request in the future that the AER not show combined metrics unless there is reason to do so.

### 5.3 Comparison with SAPN's solar enablement program

The AER has compared our solar program with SA Power Network's (SAPN) and noted that '*SA Power Networks, which has far higher solar PV penetration rates than the Victorian distributors, has proposed \$34 million for its Distributed System Operator transition project.*'

This is a misleading statement as the AER has only provided a partial view of SAPN's solar story. SAPN's growth in solar occurred predominantly over the period 2015-2020 and they were funded over that period to support that growth. In contrast, our businesses experienced more modest growth over the same period and received no funding to facilitate network expansion to support growth in solar.

Going forward, we face increasing demand for solar driven by Victorian Government incentive programs that will see similar levels of solar penetration seen by SAPN, particularly in the Powercor network, by 2026. That means the full costs of bridging the gap between current and expected demand for solar will be incurred over the next regulatory period. SAPN's full program costs are reflected over two regulatory periods.

For these reasons any cost comparisons are erroneous and simplify what is a very complex issue.

SAPN has had to manage a high solar penetration that has increased rapidly (much like Victoria's is now set to do) and has done so in the absence of granular network voltage data that is available in Victoria due to the smart meter rollout.

Both SAPN and we have similar approaches to managing solar. However, the implementation due to access to smart meter data in Victoria, is different. We and SAPN both propose:

- to implement a distributed energy resources management system (**DERMS**) to remotely constrain solar output at times when the network is reaching a solar constraint. SAPN has proposed this in its low voltage management business case and Powercor in its digital network business case
- network solutions to enable more solar to be used by reducing the number of network constraints. SAPN has proposed this in its quality of supply, low voltage monitoring and voltage regulation programs, and Powercor in its solar enablement program.

Stakeholders, including the AER, appear to confuse the impact of these two complementary approaches for managing solar. It is important to understand that a DERMS does not reduce / remove physical network constraints and hence does not enable more solar. This is illustrated by considering the following scenarios:

- without a DERMS—when voltages rise solar inverters will trip off naturally due to their protection settings as specified under AS4777. While this helps to keep network voltages within reasonable limits, it can result in poor customer outcomes whereby those customers experiencing the highest voltages on a circuit are completely tripped whereas others continue using solar unaffected
- with a DERMS—all solar customers on a constrained circuit will have their solar output ramped down. This results in more equitable outcomes compared to the first scenario when only those experiencing the highest voltages will be naturally constrained. Further, a DERMS provides certainty to third parties (such as Virtual Power Plant) on how much capacity they will have available, which is critical for their business models.

In both scenarios, the total amount of solar constrained remains the same; when voltages are too high. That is, either trip settings will constrain solar or a DERMS will constrain solar until voltages drop back down.

Given DERMS manages, but does not enable more solar, both we and SAPN are also proposing network solutions. Hence our strategy for managing solar is broadly the same. The key differences, because we have smart meters, is that we can better target locations to ensure we get the most out of our investment, can determine least cost option to unlocking solar (such as a dynamic voltage management system which is not available without smart meters and have undertaken cost benefit analysis at each proposed site to ensure each



augmentation is efficient rather than at the overall program level which could otherwise still contain uneconomic elements.

# 6 Pole replacements

## 6.1 Errors in the issues paper

A key component of our replacement expenditure forecasts are our pole replacement programs. These programs account for \$63 million (CitiPower), \$261 million (Powercor) and \$90 million (United Energy) respectively, and we agree with the AER that stakeholders will be interested in understanding and testing the drivers for these works.

In its issues paper, however, the AER has made several errors and misleading statements in its description of our pole replacement forecasts. These include the following:

- the AER incorrectly characterised each of our networks pole replacement forecasts as being 'age-based'
- the AER incorrectly stated that United Energy did not provide estimated repex model outcomes
- the AER compared CitiPower's and Powercor's pole replacement programs to the AER's repex model outcomes, yet fails to acknowledge the limitations of this modelling when asset management practices change (such that history is no longer a reasonable basis for forecasting the future)
- the AER combined its overview of the pole replacement programs for our three networks, but the approaches are different.

For the reasons discussed below, these errors may fundamentally bias submissions developed on the basis of the AER's issues paper. We note however, the AER has since acknowledged its errors and corrected them at the public forum, which may or may not reach all the stakeholders that have read the issues paper.

### 6.1.1 The AER described our pole replacement forecasts as 'age-based', and this is not true

In its issues paper, the AER mischaracterised our pole replacement programs as 'age-based'. None of our networks have forecast using an age-based method, rather, as outlined in our respective regulatory proposals and corresponding pole replacement program business cases:

- CitiPower's and Powercor's forecasts were developed using a risk-based modelling approach. This approach relies on forecast condition and serviceability as a proxy for the probability of failure, and the location of the asset as a proxy for the consequence of failure
- United Energy's pole replacement program comprises several parts. These include a 'business-as-usual' component whereby we trend forward historical replacement volumes (which reflect a condition-based replacement program), a smaller risk-based component, and a targeted safety-driven initiative to address legacy HV concrete poles.

Characterising our forecast methods as age-based demonstrates an insufficient review by the AER of the information we provided to the AER, and manifestly under-represents the process by which our forecasts have been developed. In particular, Powercor's risk-based modelling approach was developed in response to a series of recommendations by ESV following two comprehensive reviews of its pole management practices. Powercor's pole management improvement plan, which sets out how it will implement each of ESV's recommendations, has since been accepted by ESV.

The asset management lessons from Powercor have been considered in the development of the subsequent forecasts for CitiPower and United Energy. This is consistent with a prudent asset management approach of having regard to key industry learnings.

### 6.1.2 The AER stated that United Energy did not provide repex modelling, and this is not true

The AER stated that repex model outcomes were not provided by United Energy as part of its regulatory proposal. Our repex modelling for United Energy was discussed in section 4.2.5 of our regulatory proposal, and

provided as 'UE MOD 4.01 - AER repex model Scenarios - Jan2020 - Public'. As stated in our regulatory proposal, we engaged GHD to validate our application of this model.

## **6.2 Comparison to the AER's repex model**

Stakeholders should exercise caution in comparing our forecast to the AER's repex model outcomes given the inherent limitations of this model when asset management practices change

We support the use of the AER's repex model as part of the AER's assessment toolkit. This is particularly the case for high-volume, low-value assets where historical asset management practices have remained relatively stable over time (such that historical behaviour may reasonably form a reliable predictor of future investment requirements).

Our proposal and our pole replacement business cases clearly state that our pole asset management policies have recently changed. As noted above, these changes were developed in response to a series of recommendations by Energy Safe Victoria following two separate reviews of Powercor's pole management practices, and the acceptance by ESV of our pole management improvement plan.

In this context, the AER's simple comparison of our pole replacement forecasts to its repex model outcome is misleading, or at least incomplete. It would have been more balanced had the AER acknowledged that ESV have recommended changes to our asset management practices with respect to poles, and recognised that changes in asset management practices diminish the veracity of its repex model outcomes (i.e. as the structural break means the historical data used to calibrate the model is no longer representative of future behaviour).

## **6.3 Our networks are distinct entities**

United Energy is a different network to CitiPower and Powercor. It has a separate ownership structure, a separate asset management team, and subsequently, separate asset management policies.

In its issues paper, however, the AER combines its overview of the pole replacement programs for our three networks. As outlined previously, the respective forecast methods differ. The conflation of the explanation of the pole replacement programs of our three networks, therefore, is unhelpful for stakeholders. Going forward, we urge the AER to be more careful in its assessment of the differences between CitiPower, Powercor and United Energy.