

SUBMISSION

AusNet Services Electricity Distribution Determination for 2021-26
8 January 2021



Ms Kami Kaur
General Manager, A/g
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001
Vic2021-26@aer.gov.au

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians and pay billions in energy bills every year with increasing energy costs either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

This submission comments on the AER Draft Decision issued on 30th September 2020 and the AusNet Services revised proposal submitted on 3rd December 2020. In particular it focuses on three areas:

1. Consumer engagement

- We think the framework provided by Table 7 is an excellent starting point and offers some comments on possible further developments
- We think the AER's evaluation of the Customer Forum New Reg process against Table 7 is flawed as it does not provide a fair account of the serious concerns outlined by the EUAA in its various submissions
- We have similar concerns with the recent CEPA Interim Evaluation Report of the New Reg process
- We are concerned with the perception that networks will get a 'rails run' from the AER if they use the New Reg process. While New Reg can provide a foundation for improved stakeholder consultation, especially where this has been lacking in the past, our extensive experience across all NEM States and Territories is that the form of consumer engagement a network uses is best developed by that network working closely with their respective Customer Council
- AusNet's consumer engagement post the Draft Decision has been very good with targeted and informative engagement with the EUAA and other stakeholders but we are realistic that this has had only a minor impact on the Revised Proposal

2. Comments on capex and opex scrutiny and application of CESS by the AER

- We express some concerns about the lack of detailed analysis of the capex proposal and limitations of the CESS scheme.

3. Specific aspects of the revised proposal where there is either a continuing difference between AusNet and the AER or where AusNet has provided new information to justify its position

- Bush fire step change - on the basis of our high-level assessment, AusNet's proposal seems reasonable
- Major cyber event - we do not support this being specifically nominated as a pass-through event

- TSS for C&I Customers – we support the approach proposed by AusNet.

1. Consumer Engagement

(i) Draft Decision – Table 7

The EUAA welcomes the publication of the Table 7 framework by the AER¹. We have observed a continuous improvement in network stakeholder engagement over recent years, with the AER taking an important leadership role. This continues to an evolving space. What was best practice even a few years back, would not be best practice today. Networks are improving their BAU engagement through their Customer Councils and this is providing a natural base for broader and deeper consumer engagement over the reset period. We welcome this and congratulate those network businesses for their commitment to continuous improvement.

Selecting the best form of engagement for a particular network varies by network. Apart from the state of their BAU engagement, there are factors such as the process used to select the engagement model (e.g. through a co-design process), senior management’s willingness to be involved and the material support a network is willing to give to consumer advocates to be involved in the selected model.

Once the process has started, consumers want to be involved in formulating the network’s strategic direction at the start of the reset process and then participate in a transparent process where they are listened to. Importantly it must also be clear how what they have said has influenced the network’s proposal. Consumers want to clearly see what contribution the network is making with levers under its control such as capex and opex. They do not want this muddied by external factors such as changing WACC, that can mask the network’s actual contribution. They also do not want to see this muddied by comparisons of capex and opex based on allowances for the current period, rather they want to see comparisons with actual/forecasts for the current period.

Overall, they want to see clear evidence that consumers have been put at the centre of the reset process that is designed to further the NEO/NGO.

Table 7 provides an excellent framework to assess whether the consumer engagement has indeed met these expectations. Here are some thoughts on how it might evolve drawing on a number of reset engagements we have been involved in (including AusNet).

Developing quantitative/qualitative indicators of performance against the “Examples of how this could be assessed” column

The most obvious indicator drawn from our experience with AusNet is that the assessment applies to engagement with all consumers, not just residential and small business that were the focus of the Customer Forum. It would also include evidence of where the consultation was on the ISP2 spectrum, noting that:

- The best engagement position on the spectrum can vary by the issue being discussed – not everything should be ‘collaborate’
- The networks engagement plan should clearly set out which engagement categories on the spectrum will be applied to particular issues² and then be audited against those promises

¹ See p. 45 <https://www.aer.gov.au/system/files/AER%20-%20Draft%20decision%20-%20AusNet%20Services%20distribution%20determination%202021-26%20-%20Overview%20-%20September%202020.pdf>

² For example, see the Powerlink Engagement Plan Table 1 p. 9 <https://www.powerlink.com.au/sites/default/files/2019-10/Revenue%20Determination%20Engagement%20Plan.pdf>

- The engagement assessment needs to recognise that ‘consumers’ are far from homogenous in their needs and wants
- Indicators of ‘breadth and depth’ could be developed to avoid the AusNet problem with the Customer Forum’s lack of engagement with C&I customers.

The balance between the outcomes of best practice engagement with their internal analytical review

We acknowledge the difficulty of balancing the analytical result of internal AER consideration on a particular issue and the evidence of quality consumer engagement. We note some recent examples in the AER’s Draft Decision on the AGN South Australia gas distribution network.

AGN undertook extensive consumer engagement on two proposed step changes - a customer relationship management system and a vulnerable customer assistance programme. In their assessment of that engagement, the AER applied the following factors³:

- “the consumer engagement involved a representative group of unbiased customers across relevant demographics
- the nature of the engagement was genuine, with customers being highly engaged and given the necessary support to provide informed views
- consumers were appropriately consulted and given a range of genuine options
- the initiative or project proposed by the network service provider in the proposal is clearly based on the expressed view of consumers, and
- consumers clearly understood the potential price impacts and there is support from vulnerable customers and a majority of other customer groups.”

The AER concluded that⁴:

“Overall we found that AGN’s consumer engagement was well received by stakeholders and met the factors above.”

The CCP 24 review concluded that AGN undertook extensive and quality consumer engagement on both measures⁵ that indicated strong consumer support for the measures and the increased costs associated with them. CCP 24 noted that even with strong consumer support, the AER still has a role to assess whether the expenditure is prudent and efficient under the Rules. The AER concluded that it was not and rejected the step changes proposed by AGN. The AER was effectively saying AGN should be able to fund these initiatives within the proposed opex allowance. It remains to be seen if AGN retains these initiatives in their revised access arrangement to be submitted in January 2021.

³ See AER “Draft Decision Australian Gas Network (SA) Access Arrangement” November 2020 p. 29 <https://www.aer.gov.au/system/files/AER%20-%20Draft%20decision%20-%20AGN%28SA%29%20access%20arrangement%202021-26%20-%20Attachment%206%20-%20Operating%20expenditure%20-%20November%202020.pdf>

⁴ ibid

⁵ See the discussion in CCP24’s report https://www.aer.gov.au/system/files/CCP24%20-%20Advice%20on%20AGN%20customer%20initiated%20opex%20-%206%20October%202020_0.pdf

Consider giving more explicit guidance for the ‘proof points’

Overseas jurisdictions provide ‘tram track’ type guidance e.g. opex/capex within these boundaries are likely to lead to the outcome being judged prudent and efficient expenditure in a reset period. We recognise the challenges this presents as the AER does not wish to ‘lock itself in’ to a particular pre-determined outcome.

Fulfilling the criteria in Table 7 is separate from making a call on ‘capable of acceptance’

As engagement models develop, consumers are being asked whether they are able to indicate to the AER that a network’s proposal is capable of acceptance. Our view is that fulfilling the requirements of Table 7 (as it is developed and populated) is a necessary but not sufficient condition to make a proposal ‘capable of acceptance’.

An assessment of ‘capable of acceptance’ is a lot more than a ‘pub test’ of a revenue proposal. Consumers do not have the resources or ability to assess all the details of a network proposal e.g. does it meet the rules, which is the AER’s role. Consumers cannot make a call on ‘capable of acceptance’ before the AER has applied its analytical framework to the network proposal and produced its Draft Decision.

For Table 7 to work in practice will require a lot more ‘early engagement’ from the AER

A key feature of best practice engagement is early engagement. We are now seeing engagement on a Draft Plan as standard practice to give consumers an opportunity to provide substantive input prior to the network submission to the AER. This is a welcome development.

It also needs to involve a lot more ‘early engagement’ from the AER subject matter experts, as:

- it gives an opportunity to observe the quality of the consumer engagement
- they can give guidance to the network on the direction it is heading in and flag issues early on
- they can provide answers to questions consumers have on particular details of the proposal as it develops

It also would provide the AER with the ability to judge whether the network is leading the consumer engagement process to achieve a pre-determined outcome. This was the case in the past with, for example, the use of the discredited ‘willingness to pay’ measures and the expectation that consumers will happily express a view of quite complex issues on the basis of little or no background knowledge and a 20 minute simplified presentation of the issues by a network subject matter expert.

(ii) New Reg

The EUAA’s involvement with New Reg started in the early stages of its development. We participated in early planning but then when a smaller group was formed for more detailed development of an implementation plan, neither the EUAA nor others representing large C&I customers (such as the MEU) were invited to participate. As the [AER website says](#):

“The New Reg process was developed through a joint initiative between the AER, Energy Networks Australia (ENA) and Energy Consumers Australia (ECA) to explore ways to deliver better outcomes for consumers through improved energy network engagement, and identify opportunities for regulatory innovation. The goal of this initiative is to ensure that customer preferences drive energy network businesses proposals and regulatory outcomes.”

The EUAA and MEU were part of a Reference Group that was supposed to provide advice to the AER/ENA/ECA Project team but the influence of that Reference Group was limited. So, for whatever reasons, it was decided that a

project to better explore ways to improve consumer engagement did not include the opportunity for input from those representing over 65% of the electricity⁶ and 58% of domestic gas delivered by networks⁷.

The EUAA made two major submissions in the course of the AusNet reset process:

- A [submission](#) on the Draft Plan/Customer Forum Interim Engagement Plan in April 2019, and
- A [submission](#) on the Regulatory Proposal in June 2020

As well as a [joint presentation with MEU](#) to the AER Forum on 15th October 2020.

While our submission on the Regulatory proposal made supportive comments of some of the outcomes of the New Reg process, we were overall generally very critical of its lack of engagement with C&I customers. Our supportive comments were selectively quoted, our critical comments generally ignored. For this reason, we consider that the conclusions applying the Table 7 framework to AusNet are flawed.

We highlight a number of excerpts from Section 3 – Consumer Engagement and then provide comments on the approach.

“Overall we consider that AusNet Services’ consumer engagement was genuine, independent and consumer focused. We have not undertaken a formal audit against the IAP2 spectrum. However, from the information provided it would appear that AusNet’s proposal is broadly consistent with the collaborate or empower end of the spectrum.” (p. 46)

“AusNet Services sought input on the selection criteria for the Customer Forum and tested a shortlist of candidates with AER and ECA, as well as included a member of their consumer consultative committee reference group on the selection committee.” (p.46)

“The full extent of the Customer Forum’s consultation is set out in its final engagement report.” (p.46)

“Later engagement included small workshops for each of four key stakeholder groups – advocates for vulnerable consumers, residential consumer advocates, large energy users, and environmental interest groups, to test the negotiating positions to be included in the draft proposal. AusNet Services also facilitated feedback from key stakeholders, through a series of deep dives on the draft proposal.” (pp46-7)

“The Energy Users Association of Australia (EUAA) criticised the limited scope of negotiations noting that accelerated depreciation and much of capex and opex was outside of scope. The ECA’s consultant also noted that only 7 per cent of capex was within scope. Given the detail to which the Customer Forum delved, the ECA’s consultant was disappointed that more of the program was not subject to its scrutiny. We acknowledge the ECA and EUAA’s comments and consider broadening the scope of negotiations in future may have merit. However, we also note that 40 per cent of AusNet Services’ revenues (not including metering services) was subject to negotiations.” (p.49)

“Overall we consider the AusNet Services consumer engagement was appropriately broad and went into detail where necessary” (p.48)

⁶ See AEMO ESOO forecasts for 2021 that show ‘business’ as 68.5% of total operational (sent out) demand in 2021 <http://forecasting.aemo.com.au/Electricity/AnnualConsumption/Operational>

⁷ See AER State of the Energy Market 2020 p. 180; the gas % exclude use by gas fired generation <https://www.aer.gov.au/system/files/State%20of%20the%20energy%20market%202020%20-%20Full%20report%20A4.pdf>

AusNet Services also met with its customer consultative committee on a number of occasions” (p.49)

“The Customer Forum considered that its negotiations with AusNet Services contributed to cost savings for customers of at least \$490 million (\$2020–21) over the 2021–26 regulatory period. The Customer Forum also reported on the overall reasonableness of the AusNet Services draft proposal. In particular it took into account concerns about the cost of energy and customer preferences for reliability of supply and safety of the network. Taking these factors into account, and recognising the promised cost reductions to customer bills as negotiated, the Customer Forum concluded that AusNet Services’ “revenue proposal represents overall value for money for customers”.

Stakeholders expressed some concerns with this conclusion. For example, the EUAA and CCP17 cited that the narrow scope of issues subject to negotiation — particularly the large impact of proposed accelerated depreciation on revenue— which was deemed out of scope, limited the Customer Forum’s ability to make such a judgement. However, we note that the Customer Forum was provided AusNet Services’ final regulatory proposal, including the impact of depreciation, prior to making its judgement whether the proposal represented value for money.

While we note these observations, we believe that overall the Customer Forum has assisted in focussing AusNet Services’ attention on the priorities of consumers, which has had a positive impact on the development of its regulatory proposal.” (pp.50-51)

“We accept that the revenue proposal submitted by AusNet Services was developed with the influence of its consumers, who through the Customer Forum found that the “revenue proposal represents overall value for money for customers”. We agree with CCP17, EUAA and VCO that the outcomes from the Customer Forum’s negotiation process should inform rather than determine our decision. As a result, we have applied appropriate weight to whether the proposal addresses the concerns of consumers, as required by the Rules, and ensured that the revenue proposal meets the capex and opex criteria. Accordingly, we have assessed all the material and evidence before us to be satisfied that our determination is likely to contribute to the NEO to the greatest extent.” (p.52)

This description was not the EUAA’s experience. As we noted in our submissions and joint Forum presentation with the MEU, the New Reg process substantially ignored C&I customers which account for ~40% of AusNet’s demand.

From the EUAA’s perspective:

- We had no input to the selection of the Consumer Forum members who seemed to, on the basis of their CV’s, have little or no experience with C&I customer issues and needs
- Our experience was not one of ‘broad’ engagement, nor one of ‘collaborate’ or ‘empower’; it was one of brief engagement then silence so we had not input into the development of the Forum’s negotiation strategy, nor any feedback and opportunity for input as the negotiation was proceeding
- In our June 2020 submission on the Reg Proposal:

“The EUAA has no engagement with the Customer Forum beyond its (second) meeting in October 2018 (the first was in August 2018) and so we had no input to the Forum’s development and implementation of its negotiation strategy” (p.6)

“The EUAA provided a comprehensive submission on both the Draft Plan and the Forum’s Interim Engagement Report but, as noted above, no contact was made by the Customer Forum subsequent to AusNet receiving that submission.” (p.5)

So we are unable to understand how the AER came to its conclusion about ‘breadth and depth’ in the context of Table 7. Discussions with the MEU indicate that they had the same experience as the EUAA.

- In the Customer Forum’s extensive visits to AusNet customers listed in the Final Consultation Report, there are just two visits to what appears to be a C&I customer and no visits to EUAA/MEU members which have extensive operations across the network region.
- The discussion around the 40% of AusNet revenues being ‘subject to negotiations’ is very misleading. The AER’s source⁸ for this 40% number is the CCP17 June 2020 submission⁹. But the CCP’s source of the 40% number was not an independent calculation they did, but they were referencing an AusNet produced document¹⁰. The EUAA submission on the Draft Plan calculated that the scope would cover ~5% of total revenue e.g. while the Customer Forum had input into the selection of the opex base year, it is misleading to suggest they negotiated base year opex. That is a matter for the AER applying various benchmarking tools to decide if it is ‘not materially inefficient’.
- Given this scope we find it difficult to believe the claim by the Customer Forum in its Final Engagement Report that it ‘contributed’ to cost savings of at least \$490 million (\$2020–21) over the 2021–26 regulatory period. This is simply a statement on p.5 without any detailed calculations to justify the number.
- Given this scope and the absence of discussions with the EUAA and the MEU, we do not understand how the Customer Forum could make any conclusion about the ‘overall reasonableness’ and ‘value for money’ of the total proposal and how the AER could agree with the Consumer Forum.

In summary, we do not agree with the AER’s conclusion when discussing the ‘Proof point’ in Table 7 (p.52):

“...we have assessed all the material and evidence before us to be satisfied that our determination is likely to contribute to the NEO to the greatest extent.”

Finally we are concerned that a perception may develop in networks following the Draft Decision that using a New Reg approach gives a network an advantage. We hope this will prove not to be the case. As we noted above, best practice consumer engagement is where the network and its customer panel work with other stakeholders to develop a ‘fit for purpose’ approach.

While the NewReg process did result in improved consumer engagement within Ausnet, that was a reflection of where AusNet’s consumer engagement was at that time. This has little relevance to other networks that are more advanced in their consumer engagement.

(iii) CEPA Interim Evaluation Report

CEPA was appointed by the AER in 2018 to evaluate the New Reg Trial. Its most recent report, the [Interim Evaluation Report](#) covering events up to and including the Draft Decision, was published in December 2020. This report follows CEPA’s initial development of trial assessment factors in October 2018 and then three Insights Reports as the trial proceeded.

⁸ See footnote 89 p. 49 (footnotes are misnumbered – 88 should be 89)

⁹ See CCP 17 “Advice to the AER on the Victorian Electricity Distributors’ Regulatory Proposals ” June 2020 p.17 <https://www.aer.gov.au/system/files/Consumer%20Challenge%20Panel%2017-%20Submission%20on%20the%20Victorian%20Electricity%20Distribution%20Regulatory%20Proposal%202021-26%20-%20June%202020.pdf>

¹⁰ See p. 10 <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Electricity-distribution-network/2020/ASD---Plain-English-Overview-2022-26---310120---PUBLIC.ashx?la=en>

It was quite paradoxical that in its assessment of what was seen by its proponents as a potential game changer for consumers network engagement, CEPA’s own engagement strategy has been far from best practice as it has prepared its reports.

The EUAA (and MEU) commented on the fundamental flaws it saw in the trial assessment factors but never had the opportunity to directly engage with CEPA to discuss our concerns. Then neither the EUAA nor MEU had an opportunity to discuss with CEPA as it prepared its insights reports. We were also not given any opportunity to discuss with Ferrier Swire as they prepared their Monitoring Reports either.

Given this experience and what we saw written in the Draft Decision, we formally sought engagement on the Interim Evaluation Report. We were advised by the AER that it would be prepared ‘on the papers’ with no direct consultation and that CEPA would consider our submissions and Public Forum presentation.

So, it comes as no surprise that the CEPA report suffers from the same flaws as the Draft Decision. Indeed, it quotes the Draft Decision to support its views:

“the overall vision for New Reg – to enable a regulatory proposal from AusNet Services that can be considered to reflect consumer preferences and have been consulted on with customers via the Customer Forum – appears to have been largely realised through the New Reg Trial. This is evidenced by the AER’s conclusions on AusNet Services’ consumer engagement strategy in the Draft Decision.” (p.4)

While the report quoted a number of favourable comments the EUAA made about the New Reg process, it made very little reference to the many criticisms about the absence of an engagement strategy for C&I customers. We find it difficult to understand how a review of what is represented as best practice engagement does not engage in best practice engagement to ensure its review conclusions are truly representative of the view of consumer advocates.

(iv) AusNet engagement post Draft Decision

In contrast to the Customer Forum, AusNet engaged well with the EUAA and other C&I representatives as it prepared its revised proposal. We participated in:

- 6th October – briefing of the Customer Consultative Committee
- 27th October – combined briefing with AiG, MEU and others on progress in preparing the revised proposal
- 6th November – feedback from the Customer Consultative Committee
- 11th November – EUAA specific discussion on the Draft Decision TSS and business tariffs
- 17th December – general stakeholder briefing on the revised proposal

3. Comments on capex scrutiny and application of the CESS scheme

The Draft Decision proposes a 4.4% reduction on the adjusted capex proposed by AusNet. AusNet’s revised proposal seeks restoration of the 4.4%.

Period	\$2020-21
2016-2020 Allowance	\$2,037.5m
AusNet Forecast Jan 2020	\$1,758.2m
2021-26	
AusNet Proposal Jan 2020 (adjusted)	\$1,432.1m
Draft Decision	\$1,369.1m
AusNet Revised Proposal Dec 2020	\$1,432.9m

An important part of the New Reg trial was deciding how much of the capex/opex proposal should be subject to detailed AER scrutiny as would be the case for other networks not using New Reg. The Draft Decision quotes the EUAA submission that¹¹:

“...noted that its initial view is that there may be a case for a lighter AER touch for those in agreed and in-scope category. All other matters should have the same AER focus. “

This comment was in the context of our view that only a very small proportion (~\$120m out of \$1.43b) of the proposed capex was actually subject to negotiation between the Customer Forum and AusNet.

Other networks proposed capital spend has been subject to significant independent analysis by EMCa as an expert technical consultant to the AER (e.g. the recent decisions on [Energex and Ergon](#) and [SAPN](#)). We presume this was not the case for AusNet because of the AER’s decision to have a lower level of scrutiny following New Reg. No capex and only two opex step change projects were subject to EMCa review¹²:

- Proposed additional cyber-security related opex; and
- Proposed additional opex for migration of its core infrastructure systems and applications to the cloud.

EMCa concluded on the first:

“We consider that AusNet has not made the case... We therefore consider that the proposed opex step change is not warranted.

and on the second:

“We therefore consider that AusNet’s proposal does not satisfy the relevant NER criteria for an opex step change. We consider that the opportunity remains for AusNet to undertake these migrations based on its internal commercial assessments.”

We think that a more comprehensive brief to EMCa would have been preferable. In anything it would have provided a more robust justification for the light handed approach the AER has taken. If the AER were so confident that the New Reg process and their engagement with AusNet was so comprehensive then this would have been confirmed by a comprehensive EMCa report.

Finally, we would comment on the proposed CESS. Forecast capex expenditure in the current period is 12% below the allowance. AusNet propose a revised CESS revenue increment of \$72.6 million (\$2020–21) compared with an initial proposal of \$47.5m and a Draft Decision of \$56.5m. The Draft Decision number was driven by actual 2019 capex and other adjustments related to WACC and inflation estimates. The higher revised proposal is driven by a revised forecast of actual capex in the current period being lower than the forecast the AER used in the DD. The lower forecast is COVID 19 driven. Overall underspend is ~14% of the AER approved capex.

In our engagement sessions AusNet assured us that the while some of the capex will be deferred into the next period, it has not been asked for again. When AusNet spend that deferred capex it will contribute to a CESS penalty. We look to the AER to give comfort that consumers are not effectively ‘paying twice’. In the AER Public Forum on the revised proposal AusNet said that:

¹¹ Attachment 5 Capital Expenditure p. 10

¹² See <https://www.aer.gov.au/system/files/EMCa%20-%20Final%20report%20to%20AER%20-%20Review%20of%20proposed%20opex%20ICT%20related%20step%20changes%20for%20AusNet%20Services%20-%20August%202020.pdf>

- the projects comprising the 14% underspend are not in the proposed 2021-26 capex, and
- if AusNet decided to spend capex on these projects then it would be over and above its allowances and subject to bearing the CESS 70% penalty

We believe this highlights the problems with the CESS scheme:

- we have no way of transparently seeing that the 12% projects were not done because of improved network efficiency – indeed we understand some were not completed because of COVID restrictions or simply a failure to get the internal approvals in time
- the low level of scrutiny of the AusNet capex means consumers will have no idea whether 12% projects make it back in 2021-26 under a revised scope guise – we would expect the chances of a project not done in 2016-20 returning as exactly the same in 2021-26 are small
- given the incentive structure networks face, we would suggest it is very unlikely that many of the 12% project will ever appear in 2021-26 – what incentive does a private sector owned network have to overspend its allowance?
- But then if AusNet does, consumers have to pay 30%!

So in summary, we are not convinced paying the CESS benefit to AusNet reflect the original intent of the scheme. It is easy to game.

4. Specific aspects of the revised proposal where there is either a continuing difference between AusNet and the AER or AusNet is provided new information to justify its position

These issues are those where we consider we can make a contribution. There are many other more detailed matters in the revised proposal that we leave the AER to assess e.g. additional capex, revised GSL scheme from ESV,

(i) Bushfire risk step change

AusNet, like all networks, is facing increasing pressure on both its ability to obtain bushfire insurance given both recent major bushfire events in Australia and California and perceptions around increasing climate change risk from the world insurance industry.

At face value, the proposed AusNet approach will:

- reduce the level of insurance – including through a captive insurance company
- increase the level of deductible for the insurance they seek from \$10m to \$25m
- apply for a pass through of the difference between the previous deductible (\$10m) and the new deductible (\$25m) if it is >1% hurdle is met when an event occurs
- While they are only able now to lock in the \$2.1m premium for year 1, they take the risk that premium levels for years 2-5 are >\$2.1m (and benefit that they will be <\$2.1m)

This shows that AusNet is willing to have a reasonable sharing of this increased bushfire risk with consumers. We note the current AER [review of bushfire pass through events](#) will examine these issues in more detail and we look forward to the results of that review.

One area that may be worth the AER exploring is some form of national disaster recovery fund given these events appear to becoming more frequent and more severe. A discussion on how should this risk be shared not just between the network shareholders and electricity customers but also the wider community would be worthwhile.

(ii) Major cyber event as a nominated pass through

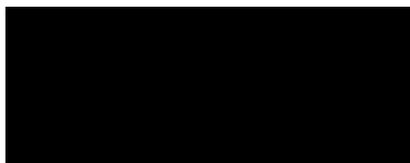
We do not support this being specifically nominated as a pass through event given it covers costs associated with a non-terrorism event. We agree with the AER's previously expressed view that such an event is a standard business risk that network should manage as a normal part of their business. If there is an exceptional event then existing regulatory pass through arrangements would apply.

(iii) TSS issues for C&I customers

We had an extensive discussion with AusNet on the Draft Decision on the TSS. We note the leadership that AusNet has shown in introducing the critical peak demand tariffs nine years ago and it is still the only network to have this cost reflective pricing structure. However, we:

- doubt the benefits of introducing a further optional cost reflective tariff as proposed in the Draft Decision
- support the proposed changes in the peak windows for the Critical Peak Demand tariffs – remove the morning peak and reduce the evening peak from 4-11pm to 4-9pm with the transition from 1 July 2023 and other clarifications around the tariff assignment process.

Regards



Andrew Richards
Chief Executive Officer