30 November 2023

Ausgrid's 2024-29 Revised Proposal

Attachment 9.1: Alternative control services

Ausgrid

Contents

1. Introduction

The purpose of this document is to provide additional information to support our revised proposal for alternative control services (**ACS**) for the 2024-29 regulatory period. It supports our Revised Proposal to the Australian Energy Regulator (**AER**) and references other supporting documentation which provide supplementary information for our ACS forecast.

Our ACS include type 5 and 6 metering (**basic metering**), ancillary network services (**ANS**) and public lighting.

We substantially accept key elements of the AER's Draft Decisions for basic metering and public lighting. For ANS, where we have not accepted an aspect of the AER's Draft Decision we have provided additional analysis to support our position. We have also updated our forecasts to reflect the most recent information available. Our approach to ACS is prudent and efficient, complies with the National Electricity Rules (**NER**) and is capable of acceptance by the AER in its Final Decision. In particular, we are proposing to:

- Accept the AER's Draft Decision classifying metering as an alternative control service;
- Adopt the AER's benchmark labour rates, revised for updated real labour escalators, for ANS and public lighting services;
- Update descriptions for two ANS disconnection services to provide greater flexibility in how these services are delivered; and
- Make minor adjustments to public lighting services, noting that most changes from our Initial Proposal were agreed with customers and incorporated into the AER's Draft Decision.

See **Attachment 8.8 – Indicative pricing schedule – ACS** for our revised prices for ACS.

2. Metering services

We accept the AER's Draft Decision to maintain an ACS classification for basic metering and the merging of its capital and non-capital pricing components. We have updated certain inputs with the latest information which has changed the prices compared to the Draft Decision.

Our Revised Proposal will deliver up to a 32% reduction in metering charges for a large share of customers on a basic accumulation meter. In FY23, we had 1.3 million customers receiving a basic metering service. Some of these customers have one meter while others, with a controlled load or solar, may have multiple meters at their premises.

2.1 Service classification

The AER's Draft Decision signalled that the outcomes of the Australian Energy Market Commission's (**AEMC**) *Review of the Regulatory Framework for Metering Services* (**Metering Review**) may constitute a material change in circumstances. Further, it signalled that these changes in circumstances may support a departure from the *2022 Framework and Approach* (**F&A**) by classifying basic metering as standard control services (**SCS**). Our proposal to keep metering as ACS is explained below.

2.1.1 SCS not required given the AER's new charging structure

The AEMC's 2023 Metering Review has been finalised, recommending an accelerated deployment of smart meters, targeting universal uptake by 2030.

As our basic meter population declines, equity issues may have arisen if our current charging structure for basic metering was maintained going forward. Under this approach, when a customer leaves our basic metering service they stop paying a non-capital charge. If this approach applied in 2024-29 then a declining number of customers would have been left paying for a service with increasing diseconomies of scale due to, for example, longer travel times between meter reads.

The AER's Draft Decision to merge the capital and non-capital components of our metering charges in the 2024-29 period, which Ausgrid supports, addresses this situation without moving to a SCS classification. Under this new charging structure, customers with a basic metering service as of 1 July 2024 will continue paying a single basic metering charge, even if they switch to a smart meter. This continued payment throughout the 2024-29 period means that the last remaining customers will not be put in a situation where they, alone, are left paying for a basic meter service with rising diseconomies of scale.

2.1.2 ACS versus SCS price outcomes for our customers

We have run analysis which shows that an ACS classification for basic metering would lead to similar bill outcomes for existing metering customers compared to switching to SCS. Our approach involved calculating the expected change in metering charges in FY25 under both an ACS and SCS classification using revenue from the Draft Decision. As price outcomes differ depending on a range of factors, we assessed metering charges for every tariff that pays a basic metering charge.

The results of our analysis are set out below. Figure 2.1 shows that 75% of our customers would pay the same or less in FY25 under an ACS classification while Figure 2.2 shows that the percentage under a SCS classification is slightly less (72%). As an example of how to interpret this information, we have highlighted EA025 in Figure 2.1 which shows that under an ACS classification 194,000 customers (left hand axis) on this tariff would receive a $19 charge reduction (bottom axis).

Figure 2.1 ACS classification – FY25 metering charges compared to FY24

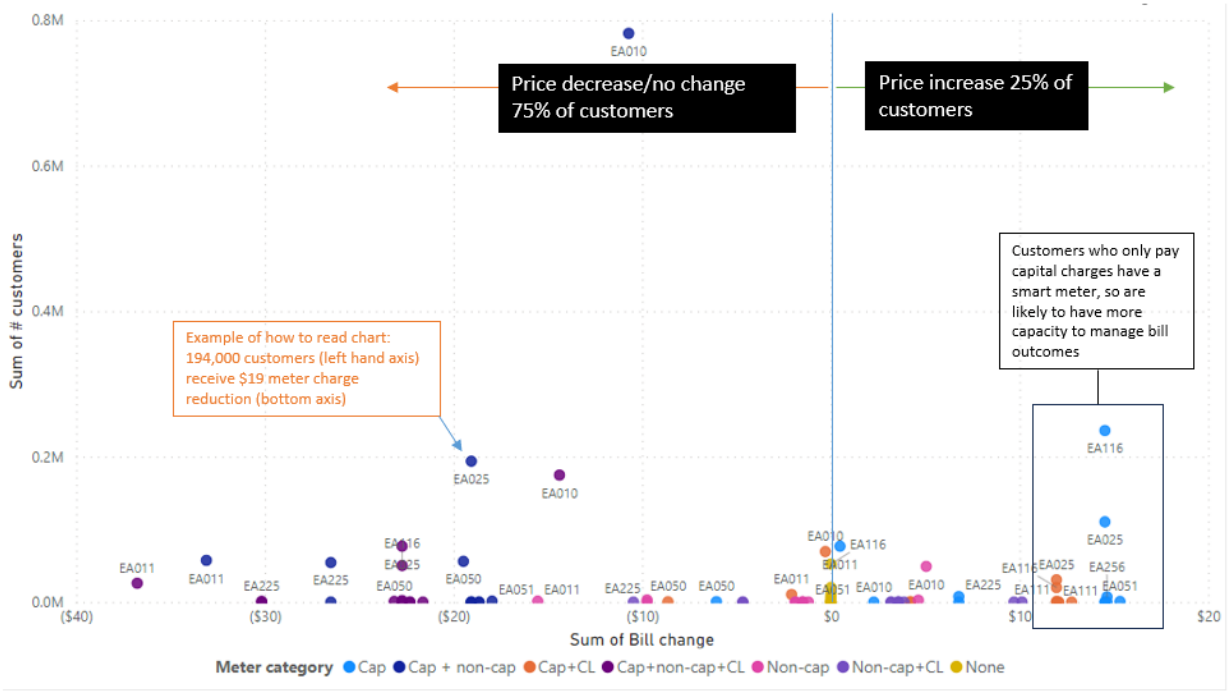
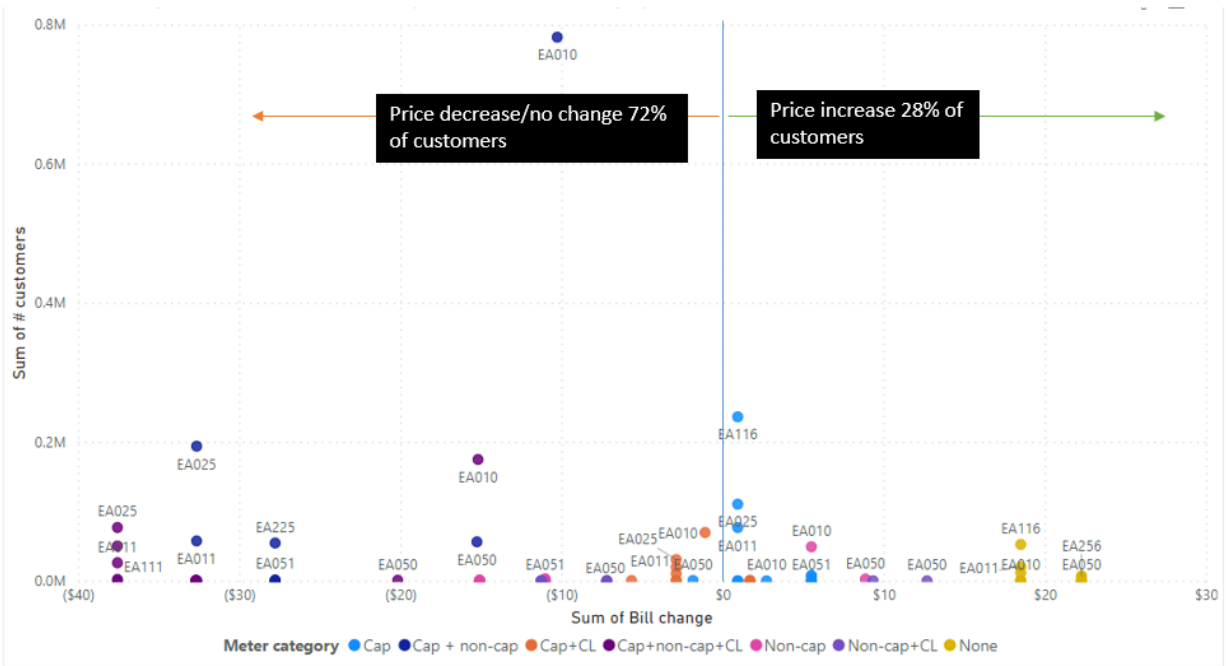


Figure 2.2 SCS classification – FY25 metering charges compared to FY24



We have considered how the changes in metering charges differ for specific tariffs. Our tariff with the most customers (EA010) has roughly equivalent bill outcomes (~$10 decrease) under both an ACS and SCS classification as shown in Figures 2.1 and 2.2 above. Under an ACS classification, there is a group of customers that would pay more. This group is highlighted in Figure 2.1 above with a comment noting that these customers are more likely to be able to manage bill outcomes given that they are on a tariff with a smart meter.

Based on this analysis, we are not satisfied that a change from the current ACS classification provides a more equitable outcome for most customers. We accept that for some distribution networks a move to SCS classification may offer benefits. Where a network is proposing to accelerate depreciation of their metering asset base, an SCS classification may be a way of offsetting the increase in prices from the faster cost recovery. Ausgrid is not in the same circumstances. Our metering asset base is already scheduled to be fully depreciated by FY29 and so we are not proposing to accelerate our capital cost recovery in the 2024-29 period.

2.2 Our revised building block approach

We have maintained the 'building block' approach to develop our proposed metering prices, in line with AER guidance and our 2019-24 determination. This involves forecasting the revenue required to fund our basic metering service and then translating this amount to prices based on our forecast of customer numbers. We substantially accept the AER's Draft decision as it applies to Ausgrid's building block approach.

Figure 2.3 Revised building block approach (real $ million, FY24)

	2024-29 period
Direct capital expenditure (capex)	0.0
Indirect capex	16.8*
Opening metering Regulatory Asset Base (RAB) as at 1 July 2024	108.5
Operating expenditure (opex) **	106.8
Annual revenue requirement (unsmoothed)	243.5

* Indirect capex has been updated to reflect the capex forecast in our wider proposal

** Includes debt raising costs

2.2.1 Revised total opex forecast

The AER's Draft Decision approved $91.6m in opex which was 15% less than our Initial Proposal forecast of $105.1m. The lower amount was due to the AER's assumed meter churn which had opex reducing at a faster rate than our proposal. Our Revised Proposal opex is $106.6m, as shown in Figure 2.4 below. This reflects updates to our base year opex and incorporating a step change reflecting additional obligations on network businesses arising from the Metering Review.

Figure 2.4 Revised total opex forecast for basic metering (real $million, FY24)

	FY25	FY26	FY27	FY28	FY29	Total
Base	27.9	27.9	27.9	27.9	27.9	139.5

	FY25	FY26	FY27	FY28	FY29	Total
Step	0.47	1.43	1.43	1.43	1.43	6.2
Trend	-1.0	-2.4	-5.4	-9.4	-14.8	-32.9
Proposed opex	**26.93**	**25.55**	**22.46**	**18.55**	**13.13**	**106.6**

Base year opex

We have updated our base year opex for our actual spend in FY23. This opex amount in nominal terms was $1.0m more than our Initial Proposal ($20.8m versus $21.8m). It has also been adjusted by $4.0m (nominal) in line with the commencement of a new AER approved cost allocation method (**CAM**) in the 2024-29 period. After converting to real FY24 terms, this results in a base year opex of $27.9m per annum as shown in Figure 2.4 above.

Step changes

We propose a step change to our base level of opex of $1.2m per annum which equates to $6.2m in total over the 2024-29 period ($m, real FY24). The components of this step change, which reflect new regulatory obligations as a result of the AEMC Metering Review's final recommendations, are set out in Figure 2.5.

Figure 2.5 New step changes introduced in Ausgrid's Revised Proposal ($m, real FY24)

Metering related activity	Overview	Cost breakdown	Total (2024-29)	Annual average
Type 5 final reads	Removed Type 5 meters to be provided to Ausgrid by Accredited Service Providers (**ASP**) and Meter Providers, in bulk, for a final meter read	**Volume (4 years, FY26-29)** • 331,793 meters **Costings** • $11.59 per reading	$3.85m	$0.77m
Development and facilitation of legacy meter retirement plans	Ausgrid to develop a legacy meter retirement plan with input from stakeholders. The plan will involve 1 FTE (75% utilisation) to develop in FY25. From FY26-27, ongoing management of the plan and engagement with stakeholders will also require 2 FTEs (50% and 30% utilisation).	**Volume** **Development (1 year, FY25)** • 75% 1 FTE **Management (4 years, FY26-29)** • 50% 1 FTE (management) • 30% 1 FTE (compliance) **Costings** • $319.20 per hour (ANS labour rate for Senior Engineer)	$2.52m	$0.50m
Meter testing (bulk and retailer requested)	We expect that some retailer requested meter testing will increase in the 2024-29 period. At the same time, bulk testing of meters is set to decline	**Volume (4 years, FY26-29)** • Retailer requested tests: 34 more p.a. • Bulk testing: 375 less p.a.	($0.13m)	($0.03m)

Metering related activity	Overview	Cost breakdown	Total (2024-29)	Annual average
	given the AEMC's final recommendation that meters subject to a retirement plan should not be tested.	**Costings** • Retailer requested tests: $448.62 per test. • Bulk testing: $130.20 per test.		
Total			**$6.37m**	**$1.27m**

Our proposed opex step change has been efficiently costed. The largest component involves conducting final readings on type 5 meters ($0.77m p.a.) that an ASP or Meter Provider has removed and returned to Ausgrid. The unit cost ($11.59 per reading) we have applied for this activity is well below the approved ANS rates for this service ($83.10 per reading). This embeds efficiencies we expect from conducting these meter readings in bulk rather than as 'one-off' customer requested ANS activities. We expect this aspect of our opex step change would be subject to the AER's true-up mechanism if a lower (or higher) volume of final readings occurs in the 2024-29 period compared to our forecast (331,793).

We have also used our proposed ANS labour rates to calculate the incremental cost of developing a legacy metering retirement plan and managing its implementation, stakeholder engagement and updates to its content over the 2024-29 period. In addition, we have used our ANS fees to calculate a negative adjustment to our opex forecast ($0.03m p.a.) to reflect avoided meter testing costs.

Trend

The main driver of reductions to our opex in the Draft Decision was the application of a faster rollout of smart meters, based on a linear profile that reaches the 100% deployment target by FY30. Our Revised Proposal accepts this faster deployment profile and its impact on our basic metering opex ($32.9m reduction over 2024-29 period) on the understanding that there is a diseconomies of scale factor applied to the opex calculation and the AER will maintain the true-up mechanism specified in its Draft Decision (see section 2.2.2 below).

2.2.2 True up mechanism

Ausgrid accepts the AER Decision with respect to a straight line profile to the basic meter replacements between 2025-30. The AER considers that actual rates may differ from this straight line profile because actual replacements will be performed by retailers after the legacy meter retirement plan is finalised. It therefore included a true-up of total metering opex in its Draft Decision through the established price cap formulae.

Ausgrid accepts the AER's Draft Decision with respect to a true-up mechanism subject to consideration of one amendment. We recommend that the AER consider whether this mechanism should include the variations in actual costs of ANS services such as Special Meter Reading that will also be impacted by the diseconomies of scale factor relevant to ACS Metering services. This is due to the lack of synergies of field resources in providing both services, as the accelerated roll-out of smart metering is implemented. Incorporating this change would provide

Ausgrid with the opportunity to recover our efficient costs associated with legacy metering assets, in line with the Revenue and Pricing Principles[1]

[1] National Electricity Law, section 7A

3. Ancillary network services

We accept the AER's decision to reduce the labour rates for three of the six labour categories. We have proposed to adopt the AER's benchmark labour rates for all six labour categories, updated for revised escalation rates, and propose minor amendments to the definitions for two of our ANS connection services.

3.1 Labour rates

Ausgrid accepts the AER's Draft Decision on the labour rates for Administrative Officer R1, Technical Specialist R2 and Field Worker R4. However, we do not accept the Draft Decision for Engineer R3, Senior Engineer R5 and Engineering Manager R6.

The AER Draft Decision adopted its own benchmark rates for those labour categories where our benchmarks were higher (Administrative Officer R1, Technical Specialist R2 and Field Worker R4), but considered Ausgrid's benchmark rates were appropriate where these were lower than its own benchmarks (Engineer R3, Senior Engineer R5 and Engineering Manager R6). Thus, the labour rates adopted by the AER for the Draft Decision are based on differing benchmarking approaches.

The labour rates presented in our Initial Proposal were based on estimated benchmark rates calculated in accordance with the methodology set out in our Initial Proposal. The estimate of benchmark rates was based on information available to us at the time. It is important to note that the objective at that time was to determine benchmark rates, consistent with the AER's expectation that labour rates are set on the basis benchmarks, not actual labour costs. We consider it appropriate that all labour rates are calculated in accordance with the standard benchmark methodology.

We have also updated the AER's benchmark labour rates to reflect updated values for labour rate escalators. We obtained updated real labour escalators from our consultants, Oxford Economics (see **Attachment 9.6 – Real labour escalation report**). The revised escalation rates increased the average labour rate by 0.03% from the benchmark labour rates set out in the AER's Draft Decision.

The Oxford Economics report highlighted that wages in the utilities sector are growing faster than national averages. The main reason for this growth is the record levels of investment in transmission and distribution networks, as well as renewables generation. The report highlights that the labour market for skilled labour will remain tight with a continuation of critical skilled labour shortages and competition for scarce resources coming not only from projects within the utilities sector, but also from the mining and construction sectors. It is critical that the benchmark rates remain aligned with the market so Ausgrid is able to continue providing these services to an appropriate standard.

The following tables summarise the revised labour rates applicable to ANS. These labour rates are inclusive of on-costs (at a rate of 50.94%) and overheads (at a rate of 61.00%), as per the AER's Draft Decision.

Figure 3.1: Revised hourly rates for 2024-25 (business hours, including on-costs and overheads, $2024-25)

Labour category	Ausgrid Initial Proposal	AER Benchmark Rates	AER Draft Decision	Ausgrid Revised Proposal
Administrative officer R1	$136.17	$119.58	$119.58	$119.70
Technical specialist R2	$206.03	$191.40	$191.40	$191.87
Engineer R3	$248.55	$265.73	$248.55	$266.00
Field Worker R4 (including vehicle)	$200.55	$196.56	$196.56	$196.98
Senior Engineer R5	$296.77	$318.87	$296.77	$319.20
Engineering Manager R6	$343.31	$345.38	$343.31	$346.23

Figure 3.2: Revised hourly rates for 2024-25 (after hours, including on-costs and overheads, $2024-25)

Labour category	Ausgrid Initial Proposal	AER Benchmark Rates	AER Draft Decision	Ausgrid Revised Proposal
Administrative officer R1	$238.29	$209.27	$209.27	$209.48
Technical specialist R2	$360.55	$334.95	$334.95	$335.77
Engineer R3	$434.96	$465.03	$465.03	$465.50
Field Worker R4 (including vehicle)	$350.96	$343.98	$343.98	$344.72
Senior Engineer R5	$519.35	$4558.02	$558.02	$558.60
Engineering Manager R6	$600.80	$604.42	$604.42	$605.90

3.2 ANS service descriptions

Ausgrid proposes to amend the descriptions for two disconnection services as set out in the following table to reflect changes to procedures since the live work pause. Changes are denoted in red text.

Figure 3.3: Proposed changes to ANS service descriptions

Service	Proposed description	Rationale
Disconnection completed – Includes reconnection	At the request of the Retailer, a site visit to a customer's premises for the purpose of disconnecting the customer's electricity supply.	Ausgrid proposes to remove the "rotate plug in meter" method from the list of methods that may be applied for this service.

Service	Proposed description	Rationale
	The disconnection method will be at Ausgrid's discretion and will involve one of the following methods: • ~~rotate plug in meter; or~~ • removal of the service fuses; or • removal of barge board fuses; or • turn off and sticker covering main switch This charge includes the reconnection at the request of the retailer and Meter Read as required by the B2B process. If, following a request from a retailer, the reconnection component of this service is provided outside the hours of 7.30am and 4.00pm on a working day, the additional 'Reconnection outside normal business hours' charge, will apply. Ausgrid is usually notified to conduct this service via the use of the 'De-energisation' B2B service order with sub type 'Remove Fuse' or 'Recipient Discretion' (Non Payment).	Prior to the live work pause in 2019, this method could be completed by a non-electrical qualified technician. The requirements for this method were subsequently reviewed and amended such that only a qualified electrician could perform this method, making the service effectively a technical disconnection. The removal of "rotate plug in meter" method from the service description will allow this service to again be provided by non-electrical qualified technicians.
Disconnection completed Technical/advanced– Includes reconnection	At the request of the Retailer, a site visit to a customer's premises for the purpose of disconnecting the customer's electricity supply. The disconnection method will be at Ausgrid's discretion~~ and will involve a method not identified in 'Disconnection Completed' ANS (e.g. pull load tail out of meter)~~. This fee is applicable to any request to disconnect an installation where CT metering is installed. This charge includes the reconnection at the request of the retailer and Meter Read as required by the B2B process. If, following a request from a retailer the reconnection component of this service is provided outside the hours of 7.30am and 4.00pm on a working day, the additional 'Reconnection outside normal business hours' charge, will apply. Ausgrid is usually notified to conduct this service via the use of the 'De-energisation' B2B service order with sub type 'Local Meter Disconnection' (Non Payment).	Ausgrid proposes to amend the description to provide greater flexibility for the qualified electrician assigned to the job to select the most appropriate disconnection method for the premises. At some larger sites where CT metering is used, isolation at the main switch is the only practical option for the disconnection. However, under the current service description, this would then no longer be defined as a technical disconnection. The proposed change addresses this issue by removing the restriction on the method that may be used for the technical disconnection.

Ausgrid does not propose any further changes to the Draft Decision for connection services other than the update to the labour rates.

The pricing model is included at **Attachment 9.5 – Standardised ANS model**. Our full price list for ANS is provided in **Attachment 8.8 – Indicative pricing schedule - ACS**.

4. Public Lighting

Ausgrid substantially accepts the AER's Draft Decision on public lighting, noting that this was based on a revised pricing model that Ausgrid submitted in response to the AER's information request and further consultation with Councils, who are our primary public lighting services customers.

Pre-July 2009 public lighting nominal charges have increased by 3% from the Draft Decision due to a revised closing RAB for 30 June 2024 as a result of:

- an increase in CPI for FY24 to 7.83% (previously 4.58%);
- an adjustment for pre-2009 residual values paid in FY23 due to public lighting asset replacement/removal; and
- an updated forecast CPI for the FY25-29 period of 2.8%.

Post-July 2009 public lighting prices have also been amended for minor changes in the field labour rate and CPI (see Figure 4.1 below). In addition, we have proposed a reduction in the smart controller maintenance and capex charges. Smart controller technology is being offered for the first time on the Ausgrid public lighting network and some elements of the cost structure were estimated for the Initial Proposal. Ausgrid can now offer councils lower pricing based on contractual prices for the smart controller and more refined estimates for maintenance. Annual maintenance charges for smart controllers are 25.7% lower than the Draft Decision, while capex charges for material cost only is 6.8% lower or 3.4% lower including installation cost.

The following table summarises how we have responded to the issues raised in the AER's Draft Decision.

Figure 4.1: How we have responded to the AER's draft decision

Issue in Draft Decision	Our response in Our Revised Proposal	More information
The AER replaced the hourly rates for field workers with its own benchmark rate	As noted above, Ausgrid has accepted the AER's Draft Decision on the field worker labour rate. The only change we have made from the AER's Draft Decision is to update the labour rates for Field Worker R4 for updated labour escalation rates data (see section 3.1 above). This has increased the labour rates for field worker by 0.5% relative to the Draft Decision.	Section 3.1
The AER updated the WACC used to determine public lighting charges, to be consistent with its Draft Decision on WACC for SCS	We have applied the AER's WACC from the Draft Decision to calculate public lighting charges for the Revised Proposal. We note that this is a placeholder value that will be updated by the AER for the Final Decision.	Attachment 9.8 – Public lighting model 2024-29
The AER has updated the CPI used	We have applied the AER's estimate of inflation from the Draft Decision to calculate public lighting charges for the Revised	Attachment 9.8 – Public lighting model 2024-29

Issue in Draft Decision	Our response in Our Revised Proposal	More information
to determine public lighting charges	Proposal. We note that this is a placeholder value that will be updated by the AER for the Final Decision. Ausgrid notes that the AER adopted the lagged CPI approach and this was reflected in the CPI value for FY25 in the Draft Decision pricing model. However, the updated inflation was not carried through to the remaining years (i.e. FY26 – FY29). Accordingly, Ausgrid has updated the CPI for FY26 – FY29 using the approach adopted by the AER for the Draft Decision.	
AER noted that we may amend some of our prices for post 2009 assets in our Revised Proposal for those councils who opt for accelerated depreciation	The number of Councils who have opted for accelerated depreciation remains at eleven. Ausgrid is in continued discussions with the remaining Councils on the application of accelerated depreciation for next regulatory control period.	
The AER encouraged Ausgrid to continue engaging with customers on the option of funding upfront capital costs.	Ausgrid has offered, and will continue to offer, upfront capital payments to Councils.	
The AER is open to Ausgrid introducing pricing for new public lighting technologies, provided it conforms to the control mechanism for quoted services during the 2024-29 regulatory control period	Ausgrid is not proposing to introduce any new technologies in the Revised Proposal. Ausgrid will treat any new technologies implemented at the request of a customer during the next regulatory control period as a quoted service and apply the post 2009 public lighting pricing model to estimate the prices for any new public lighting technologies introduced.	
Appendix B of the AER Draft Decision listed the descriptions and prices from the "Detailed_Price List" sheet in the Ausgrid public lighting model	Ausgrid proposes to adopt the weighted average prices and corresponding descriptions from the "Weighted average price list" sheet in our revised public lighting model, not the "Detailed price list". This is consistent with our original proposal for 2024-29. Ausgrid notes that the weighted prices only apply to luminaire maintenance (opex) and brackets (capex). Councils have been consulted on this approach and are supportive of weighted prices for these services because it reduces the fee categories (i.e. is simpler) and there are no material impacts on any one Council. We have not applied weighted prices for capital annuity charges for luminaires, smart controllers or supports, as the Councils stated a preference for individual pricing for these.	Attachment 9.8 – Public lighting model 2024-29

The small amendment for labour rate escalation has the impact of changing prices by up to 0.4% compared to the Draft Decision.

Further information is provided in **Attachment 9.7 – Public lighting – pre-2009 fixed charge model 20024-29**, **Attachment 9.8 – Public lighting model 2024-29** and **Attachment 8.8 – Indicative pricing schedule – ACS**.