AusNet

Meeting Snapshot

Coordination Group | Costed options deep dive

Tuesday 16 April & Tuesday 23 April 2024

Participants

EDPR 2026-31 Panel members	AusNet staff
Peter Eben (Chair)	Charlotte Eddy, General Manager Regulation (Distribution)
Kieran Donoghue	Robert Ball, Price Review Manager
Mark Grenning	Ana Erceg, Manager, Future Network Programs
Gavin Dufty	Lucy Holder, Customer Engagement Manager
Dean Lombard	Sonja Lekovic, Regulatory Policy Manager
Helen Bartley	Steve Martin, Regulatory Modelling Manager
Emily Peel*	Michaela Jackson, Senior Engagement Specialist
	Astra Sakalis, Regulatory Economist
Observers	
David Prins, AER Consumer Challenge Panel*	
Apologies	
Gus Mandigora, AER	
Michael Brothers, AER	

**Only attended meeting on Tuesday 16 April*

Key discussion points

Agenda item	Key discussion points
Welcome	AusNet's Charlotte Eddy welcomed participants, provided an overview of the agenda. Lucy Holder highlighted the purpose and expectations of the deep dives. A Coordination Group member flagged that may be difficult to make decisions today, Charlotte Eddy indicated that they are keen to know which option is the general preference to take to the board. Lucy Holder added that Coordination Group members are encouraged to bring their discussions to meetings with AusNet, rather than in a separate meeting beforehand.
1. Innovation	AusNet's Sonja Lekovic and Ana Erceg outlined alignment between customers' interests and innovation expenditure, innovation expenditure approved for the last EDPR (2021-2026), and projects resulting from this allowance. Sonja and Ana highlighted projects that have been completed, overviewed the governance role of the Innovation Advisory Committee, and projects that could be included within a 2026-31 innovation fund. Ana outlined 3 options for decision on Innovation and, of these, the IAC supported option 2. During subsequent discussion, coordination group members challenged AusNet on:

- The value of innovation expenditure and questioned whether AusNet had been ambitious enough with the current proposal, both in the terms of the size of the program and the projects within the program.
- Whether proposed projects meet the innovation criteria set by the AER in its response to Ausgrid, and if the projects on the list are genuinely transformative and true innovations. This could include utilisation and the transition away from gas and projects with more connection to social impact and public policy.
- The possibility for a more ambitious innovation proposal was expressed by several group members, especially considering inflation, and articulating the overall leverage achieved beyond the $7.5m innovation fund.
- Transparency and formal processes for sharing knowledge, including across networks, as important parts of innovation.
- It was suggested that there is more emphasis to consumer benefit, the purpose and depth of innovation.
- The risk-averse nature of networks and the impact of this to limit innovation, the potential for risk sharing and the need for clearer incentives.
- Including an AER observer in IAC meetings as an additional governance mechanism, ex-post assessment and evaluation of customer benefits.
- Merits of considering the Ofgem model (co-funding) and returning underspent funds to consumers.

Overall, there was broad agreement on the importance of innovation spending. Several participants emphasized the significance of innovation to customers and expressed the need for continued investment in this area. There was support for AusNet to be more ambitious with innovation, including the size of the program and the projects within. AusNet agreed to revisit innovation pipeline at the next Innovation Advisory Committee and revert to the Coordination Group.

2. Depreciation

AusNet's Rob Ball discussed AusNet's commitment to engaging with the Coordination Group on building blocks of the proposal. He shared depreciation figures from previous periods and its implications on the 2026-31 proposal, before outlining AusNet's proposal to largely maintain the asset classes and lived approved by the AER in the last review. AusNet proposes the addition of one new asset class - non-network solutions in 2026-31.

In response, Coordination Group members raised questions about:

- whether assets destroyed through severe weather events stay in the RAB.
- AusNet's level of confidence in the duration of asset lives in their analysis, including new asset classes, and the need for accuracy with these figures
- Whether depreciation associated with non-network assets could also be included in the graphs presented
- including the level of utilisation across the asset life, to show how hard the assets are working
- if asset life Is calibrated across networks
- how the AER assesses asset lives
- what happens if the new asset class is not approved i.e., the asset life if they are not approved? That changing asset lives was an approach taken by another network as an affordability measure was also shared.

In response to these questions, AusNet indicated that if a network is not proposing changes to asset classes the AER will roll the asset life forward, otherwise they will look at the underlying nature of the asset. Rob Ball also indicated that weather impacted assets stay in the RAB. Generally, assets remain in the RAB unless they are disposed of or are fully depreciated or we propose accelerated depreciation. If the new asset class is not approved, then it would be subsumed into another asset class and depreciated at the same level.

There was general acceptance of introducing a new asset class per se, but Coordination Group members advised that AusNet needed to provide additional network utilisation metrics and analysis and more detail to support the proposed 'non network' new asset class.

3. Incentives

Ausnet's Rob Ball provided an overview of incentives noting that the Capital Expenditure Sharing Scheme (CESS) and the Efficiency Benefits Sharing Scheme (EBSS) were the focus of today's discussion. The purpose of the segment was to involve the CG on the approach AusNet takes to CESS in its proposal. Regarding EBSS AusNet proposes that current exclusions should continue to apply to the EBSS in the 2026-31 regulatory period but do not propose any new exclusions.

EBSS

Coordination Group members challenged AusNet on the following aspects of the EBSS:

- Providing clarification on sharing risk - if costs are excluded and AusNet ended up spending more than the excluded amount, the additional expenses wouldn't be shared with customers. Instead, AusNet would incur the full overspend, which was seen as beneficial to customers. However, if AusNet underspent, the benefits would not be shared with customers.

The discussion highlighted potential inconsistencies between the EBSS and CESS in respect of how pass throughs are treated, with acknowledgement from AusNet that such exclusions could lead to varying outcomes.

- The implications of excluding costs, particularly considering increased occurrences of extreme weather events was also raised, along with whether AusNet was appropriately incentivized for resilience. The point was raised that AusNet could repeatedly request funds from regulators after weather events without repercussions, there might be little incentive for the company to proactively improve or adapt.

AusNet confirmed that with uncontrollable events like a storms, the cost of those events are shared with customers.

CESS

AusNet advised they are planning an 8% capex overspend and outlined the CESS exclusions that they were considering i.e., connections during the 2026-31 regulatory period, CER during the 2022-26 regulatory period, innovation expenditure during the 2026-31 regulatory period. The following points were raised by Coordination Group members:

- How underspends and overspends are allocated within tariffs and whether they could be allocated to specific customer classes in the future. This led to a discussion about the complexity of the allocation process and the possibility of allocating costs to specific customer classes in the future, which was acknowledged as valid.
- Queries were made about the potential penalties and sharing ratio that would apply to the planned overspend if there was no CESS, which AusNet agreed to take on notice.

Connections

AusNet's Sonja Lekovic spoke about connections as proposed CESS exclusions. The discussion primarily revolves around the costs and uncertainties associated with connecting generators to the network, particularly the Connections Enablement project.

Coordination group members engaged in deep discussion, expressing a range of views on topics including:

- Cost allocation: debate over who should bear the costs associated with constraints and connecting generators to the network, with some suggesting that the current framework places an undue burden on generators. It was noted by AusNet that the Connections Enablement Project is a way to address the situation whereby first-mover (generators) have to pay 100% of the cost.
- Forecasting uncertainty: several participants expressed concerns or risks associated with the difficulty in accurately forecasting connection types, leading to significant

delays, and adding to overall uncertainty. This uncertainty makes it challenging for stakeholders to assess risks and make informed decisions. AusNet agreed that as connection requests can be 'lumpy' in terms of volume, scope, timing, which makes giving a firm forecast difficult - the uncertainty in forecasting volume is particularly challenging for AusNet at present, who have not forecasted 'new technology' connections previously.

- A lack of benchmark was raised as a concern, along with a lack of confidence in AusNet's forecasting, that places risk on consumers that is difficult for them to manage (see below), as was the inappropriateness of ex-ante forecasting.
- Consumer risk: There's concern that consumers have no ability to mitigate the risks associated with forecasting uncertainty, and they may end up bearing the financial burden, if forecasts are inaccurate.
- Innovation and efficiency: There's a discussion about the need for innovation allowances and ensuring that customers don't incur unnecessary costs. Participants highlight the importance of considering alternative mechanisms and models, such as the Ofgem model of innovation.
- Materiality and transparency: Questions arise about how to determine what costs are material and how to ensure symmetry and transparency in cost allocation and pass-through mechanisms.

Overall, the group agreed there is uncertainty with the connection of new technologies which can be lumpy. The group suggested that AusNet should further analyse and explore alternative approaches to managing uncertainty, including the impact of CESS exclusions for connections. AusNet agreed to further investigate and consider what the penalty would look like if there wasn't a CESS.

CER integration& innovation allowance

AusNet presented on whether to honour the CESS exclusion for CER integration expenditure in 2021-26, which was agreed by the Customer Forum but not formally agreed by the AER.

- The group discussed the merits and risks of maintaining the CESS exclusion, including whether in that case there was sufficient incentive for AusNet to innovative in the CER enablement space.
- The Customer Forum members who were part of the discussion recognised that there may be merit in re-considering the position give the significant change in this space in the meantime, including inclusion of exports in the National Electricity Rules and distribution services.

Overall, there was comfort in leaving the decision to the AER. In response to the 2 options presented Coordination Group members indicated support for excluding an innovation allowance from the CESS (option 2).

Adjusting for material deferral

AusNet's Rob Ball explained that CESS payments may be adjusted where material capex is deferred from one period to the next. He advised that AusNet's position is that no CESS adjustment is warranted in the 2026-31 proposal as material capex has not been deferred. In response, panel members raised queries around:

- what constitutes material expenditure,
- hypothetically, if the situation were reversed (ie., if AusNet was facing an underspend), how might this change our approach, i.e., would we take the CESS reward or choose to deliver more projects that might be needed and forego the reward?
- the need for transparency, highlighting the earlier query about materiality.

AusNet agreed to take on notice how material is defined in this context and explained that, in the current regulatory period, there are instances where we are taking on projects that were not previously forecast, leading to an overspend and a CESS penalty.

Panel members were generally comfortable leaving it to the AER to decide whether a CESS adjustment is required.

	Note: owing to the depth of discussion and time constraints, it was agreed that the final agenda item be carried over to the Coordination Group meeting on 23 April.
4. Non-network expenditure	AusNet's Rob Ball outlined the scope of the segment and discussion today i.e., it included non-network expenditure includes property, fleet, tools and equipment and capital leases. AusNet's Astro Sakalis advised that AusNet's early non-network capex forecast is slightly lower (1%) than current period spend, outlined a 30% degrease in property capex (at this stage) for the distribution business. He flagged that following the February 2024 storms, there may be changes to property arrangements to improve AusNet's ability to effectively respond to extreme weather events. Regarding property and leases, panel members asked several questions on areas including: • Lilydale pole storage questioning whether the capitalized value of the lease had previously been included in the Regulatory Asset Base (RAB), and if this was essentially a financing adjustment. Rob Ball responded that the capitalized lease would be removed, but the asset itself would be added to the RAB, with the expectation of consistency between the lease value and the site acquisition cost. • The calculation of grid emissions in benefit cases involving avoided emissions from diesel/petrol, with the desire for clarification on any rulings by AEMC/AER on this matter. Astro then outlined plans and options for fleet expenditure, which prompted the following queries about fleet-related capex expenditure from the group: • The potential impacts of remote work and the geographical distribution of depots and assets on fleet size and use. This raised further questions about efficiency implications, the need for adaptation in response to changing work and use patterns, and a call for further analysis. • Concerns regarding emissions profiles and tariffs, and the logistics of charger installations, particularly whether these chargers would be exclusively for company use or available to the public. There was discussion around AusNet's ownership of the chargers and challenges in obtaining landlords' approval for installation, which AusNet acknowledged as a valuable point. • Long-term costs associated with electric vehicles (EVs), highlighting factors such as warranties and battery lifespan. • The financial implications of the value of carbon emissions reductions on the options presented. Rob clarified that the opex cost reductions presented for Options 2 and 3 (partial or full fleet electrification by 2031) are separate and additional to the emissions reduction benefits. • the need for clearer cost-benefit metrics, emphasizing the need for a more detailed breakdown to understand the financial impacts on customers in AusNet's draft proposal. *Overall, there was consensus among several participants, in favour of option 2, which was perceived as offering lower costs to customers with still significant social benefits. AusNet's Charlotte Eddy acknowledged the consensus and highlighted the importance of flexibility in considering future developments, citing examples of government policy changes as potential factors impacting decision-making.* AusNet's approach to general expenditure, tools and equipment, and capitalised leases, was outlined to the group by Astro Sakalis. No comments or questions from the group were received in relation to these items.
5. Other Matters, Next Steps and Close	Charlotte Eddy thanked the group for their contributions and feedback and noted actions including AusNet reverting to the group on CESS connections for exclusions and

	CESS adjustment for CER. She advised that non-network expenditure would also be discussed at the CG meeting on Tuesday 23 April.

Action items

Action	Assigned to	Status	Due date
AusNet agreed to revisit innovation pipeline at the next Innovation Advisory Committee and revert back to the Coordination Group	AusNet Reg Team	Open	July
AusNet to provide additional network utilisation metrics and analysis and more detail to support proposed new asset class.	AusNet Reg Team	Open	September
AusNet to further analyse and explore alternative approaches to connections and CER as a proposed CESS exclusions, in preparing its draft proposal.	AusNet Reg Team	Open	TBC
AusNet agreed to follow up on the question about what the penalty would look like if there wasn't a CESS (for connections).	AusNet Reg Team	Open	TBC