

# AUSNET EDPB 2026-2031 COORDINATION GROUP MEETING #12 MINUTES

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Location: Microsoft Teams

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Date: 15 May, 2024

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Time: 8:30 AM – 10:00 AM

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**Coordination Group (CG):**

- Peter Eben (Chair of CG, meeting Chair)
- Helen Bartley (Research and Engagement Panel Lead) (meeting secretary)
- Kieran Donoghue (Availability Panel Lead)
- Gavin Duffy (Tariffs and Pricing Panel Lead)
- Mark Grenning (Benchmarking and Opex Lead)
- Attendees: Dean Lombard (Future Networks Panel Lead)

**AusNet:**

- Rob Ball
- Charlotte Eddy
- Lucy Holder

**AER:**

- Gus Mandigora (Observer)
  - David Prins, (CCP Observer)
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Apologies: Nil

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## I. WELCOME AND CONFLICTS OF INTEREST

Minutes from the last meeting were accepted.

No conflicts of interest declared.

For noting, the AER has appointed Helen and Mark to the AER's Value of network resilience (VNR) - reference group – there are no real or perceived conflicts

Action items i and ii completed, action item iii was being discussed in this meeting and as part of the ongoing planning of the project

## **II. PANEL LEAD UPDATES**

### A. Opex and Benchmarking (O&B)workshop 8 May 2024

- i. Mark, Kieran and Peter attended the workshop
- ii. Mark acknowledged the efforts of Charlotte and the AusNet team in compiling the slide deck and arranging for appropriate AusNet people to contribute to the workshop
- iii. Email sent prior to the meeting – topline aspects listed below (email content appended)
  1. What base year should AusNet apply?
  2. Whether there is O&B support for AusNet's proposed 0.5% annual productivity
  3. How should GSL payments be forecast
  4. What step changes does the O&B support
- iv. Mark spoke to question from David Prins around definition of Productivity, and indicated O&B has discussed this and provided feedback; Charlotte added AER has also been Included
- v. Question re option of a pass through in real cost of materials escalation; Rob indicated AusNet will be exploring this option as costs also have a material impact with the energy transition
- vi. Kieran commented re GSL payments, noting forecast is based on 5 year trailing average, lags in payments to AusNet if on rising trend of GSL payments and also feedback from panels on GSL payments, noting some issues for AusNet to consider, and whether a climate risk factor should be built in
- vii. In relation to the emergency backstop step change, Gavin commented on implications of the implementation of government policy around the access and network control of solar installations, Gavin and Dean to separately discuss with Sonja

## **III. AUSNET ITEMS (SLIDES PROVIDED FOR A, B)**

### A. Timeline changes (Slide 2 - Charlotte)

- i. Decided to push back draft plan publication until September due to upward capex pressures and wanting stakeholder engagement on prioritising, also more time on resilience
- ii. Off site (Slide 4) proposed 14-16 August 2024 to prioritise activities across different parts of the proposal, balance of spend across resilience, repex, customer experience etc.
- iii. Publish proposal 20 September, allow around 6 weeks for feedback, draft plan more likely to be close to the Draft proposal

- iv. AusNet keen to work with the Coordination Group in shaping the off-site esp given the complexities of balancing spend (Slide 5)
- v. Rob mentioned AusNet is still working through how AusNet is planning to engage on resilience; Mark referenced AusGrid's approach of targeted deliberative forums, and importance of bringing people up to speed. Charlotte noted some communities have recently [unfortunately] been brought up to speed

B. Regulatory reopeners (Slide 6 - Charlotte)

- i. Largely driven by concerns about uncertainty of pace of electrification, and ability to support customer choices around electrification
- ii. Rule change may be required; noting rule changes take time, but as Dean noted fundamental changes are needed to the reg framework
- iii. Kieran suggested networks needed to be incentivised to implement the most efficient solutions; Charlotte indicated AusNet supports incentive regulation but the challenge is in the balance
- iv. Gav spoke to misalignment of gas and electricity reg frameworks, esp around tariff flexibility, reopeners, price shifts in the gas framework; need to align the two frameworks to complement each other

C. NSW final determinations and implications

- i. Rob
  - 1. AER's unfavourable decision re AusGrid resilience proposal despite AusGrid's significant engagement, noting VNR will help but modelling is complex . Gav noted importance of engaging with the AER early on resilience. Mark noted importance of learning from AusGrid.
  - 2. AER has now published more detailed guidelines on innovation proposals
  - 3. EVO good to see AER is open to funding networks to support the transition; Mark noting ACT has hard targets to electrify and no appetite for renewable gas
  - 4. EVO managing uncertainty via contingent projects and reopeners
- ii. Mark: Endeavour got through re Early Signals Pathway with similar capex to 2019-24, largely due to capital contributions from larger energy users
- iii. Gavin: Essential got contingent capital for resilience; question as to definition of "contingent capital". Gus (AER) agreed to follow up. Essential, SAPs and service levels learnings may be applicable for AusNet

## **IV. OTHER BUSINESS**

- A. Consumer engagement status update [Helen] (not discussed in the meeting – sent via email prior to the meeting)

1. East Gippsland customer interview trip planned with Tricia Hiley with a focus on resilience issues, planned for mid June at this stage.
2. More major energy user interviews being organised with Mark
3. Discussions in place with Dean regarding any customer engagement with energy futures organisations
4. Emily has completed an interview with the health service at Euroa and will write up notes
5. A couple of teams/zoom interviews will be organised in the next week or two with community groups that are setting up resilience hubs
6. If budget permits, we are also keen to engage with customers in Northeast Victoria
7. Charlotte is keen for reflections from customer interviews with the Customer Experience Panel as context to the Costed Options workshop on 11 June
8. Around 55-60% of customer interview budget (based on inc. GST value) spent at this stage (awaiting updates from several people on their spend).

#### B. AER update (Gus)

- i. Increased CCP resources to include Robyn Robinson and Mark Henley, currently assumed all three members will work across the five networks, but details are to be resolved
- ii. Typically AER will have a GM who reports to an EGM; AER is firming up these roles at present
- iii. VNR consultation – AER has reached out to the networks involved to consult with them; Gav questioned whether the scope will also look at too much business
- iv. AER has shared calendars for dates of proposal publication
- v. Observation: across resets across ESP and unstructured engagement; AER is keen to see as much detail as possible (e.g. information needs to be in an accessible format); if a network is not on an ESP as much info as possible needs to be shared. A lot of networks have struggled to provide information around cost benefit and linking it to what they are proposing

#### C. CCP update (David Prins)

- i. Reiterated welcome of additional CCP members
- ii. Budget will only go to 30 June 2024, so how time is split will be cognisant of the budget

#### D. Open discussion

- i. Victorian Government decision for opt in time of use tariffs
  - 1. Gavin: disappointment in Victorian Government decision for opt in time of use tariffs (retailer responsibility to reassign); raising issues with ECA, letter to be written expressing disappointment and policy implications.
  - 2. Dean indicated he will be writing a letter of concern to the Minister to contextualise tariff impacts, what is trying to be achieved and impacts on vulnerable households.
  - 3. David Prins indicated he attended 2/3 tariff workshops but had limited feedback; happy to share
  - 4. Peter raised the option of a joint letter across customer panels; and while a possibility given the different structure and purpose across the networks this may not be possible. Outcome Dean will share high level points to inform a letter with the CG.
- ii. Request to AusNet to finalise off site dates ASAP
- iii. Request to Peter to organise next in camera meeting asap to agree timelines and discuss how to develop the CG Report further

## **V. ACTIONS AND NEXT STEPS**

### **Action items**

- i. Gus (AER) to follow up definition of “contingent capital” in Essential decision
- ii. AusNet to confirm off-site dates
- iii. Peter to send Doodle poll to arrange placeholder dates for CG in July and August 2024
- iv. Peter to organise CG meeting re the timeline and CG Report
- v. AusNet to provide Availability subpanel with update on resilience engagement work and focus

**Next meeting – 29 May 9:00 am AET**

## **APPENDIX: DETAILED REPORT FROM THE O&B WORKSHOP (EXTRACTED FROM MARK'S EMAIL)**

I would like to acknowledge the immense amount of work the AusNet team put in to the slide pack and discussion. Very productive meeting.

### Overview of opex forecast

- The standard base, trend, step approach i.e.
  - choose a base year and make any adjustments (e.g. for operating factors, relative inefficiency etc),
  - then add on 'trend' to cover output growth (standard AER methodology), price change for labour and materials (again standard AER methodology) and productivity (up to AusNet but has to be a minimum of 0.5%/year)
  - then add step changes e.g. new regulatory obligations, capex/opex trade-offs and major external factors
- Latest forecast is 19% above current period forecast driven by strong energy and customer growth and step changes; 9% increase on early forecast
- Opex in current period – increase of \$26.4m due to February storm costs (AusNet to apply in June for a pass through of this cost to customers); note there is an additional est. \$7.6m on storm capex costs; AusNet does not have insurance for storm costs

### What base year should AusNet apply? (this is where it gets really nerdy)

- Initial discussion of where AusNet sits in the AER opex benchmarking ranking
  - in the bottom quartile for 2021-22 (latest data – 2022-23 published in November)
  - AusNet forecasts its productivity will be similar in 2022-23 and then fall significantly in 2023-24 when storm costs are included
- Estimation of next period opex starts with the selection of a 'base year' in the current period – the year when actual costs are known that is a representative year
  - Lot of discussion on whether 2022-23 or 23-24 (year 3) or 24-25 (year 4) – usually year 3 or 4
  - Eventually decided that it does not matter given AER rules – assuming there is no base year efficiency adjustment, but...
- The AER has to assess whether the base year is (drum role for one of my favourite phrases) 'not materially inefficient'; if it is not (don't you love the double negative!) then the base year \$ are reduced by the AER
  - this is why AusNet's relative position in the benchmarking for its chosen year is important
- Overall conclusion – complex stuff that Co-Ord group has no real impact on - happy for the AER to do its job to assess the base year opex
- AusNet has been pursuing a number of issues around the AER methodology for measuring productivity – AusNet will pursue those as part of its revenue proposal; some might be able to be dealt with in an individual network revenue reset, others need to be part of an overall review across all networks

### Trend forecast – do we support the proposed 0.5% annual productivity?

- Covers cost increases for higher output (e.g. increased customer numbers), price change (materials and labour costs) and network productivity

- Standard AER approach for output growth accepted by AusNet
- Standard AER approach for materials is CPI i.e. no real increase - AusNet concerned but current forecasts accept no real increase; AusNet concerned about real cost escalation uncertainty and proposed a variation that would increase consumer exposure to those higher costs if caused by economy wide rather than AusNet's behaviour
  - We did not support this conceptually apart from the difficult of measuring causation
- Standard AER approach for labour costs is average increase of AER and network forecasts – surprise, surprise the network forecasts are consistently higher than the AER forecasts;
- AusNet proposed the minimum required 0.5%/year; noted that Energex and Ergon (which are higher on the AER opex productivity league table) are proposing 1%/year
  - We responded that given AusNet's benchmarking position, it can be more ambitious

#### GSL payments – how should they be forecast?

- Discussed various averaging periods and whether it should be escalated by a climate risk factor (increased change of storms meaning increased chance of GSLs) that was not fully defined
- We concluded there was insufficient information to choose different averaging periods; did not support application of a climate risk factor
- Note that the bill impact data for this (and other proposals) only had it for residential customers – also need it for larger customers

#### What step changes do we support?

- Current forecast has 10 step changes totally \$73m
- Detailed discussion on some:
  - Early fault detection devices (\$5.5m) – needed more information - why not part of capex bucket?
  - Expensing corporate overheads (~\$17m) – aligns with other gas/electricity networks; we did not support because of the costs to consumers when they see no benefit – network gets a benefit because of faster recovery of costs that were previously capex recovered through long term depreciation
  - Victorian Emergency Backstop (\$6.7m) – Government requirement – now a pass through in current period; up to AER to assess \$ in 25-30
  - IT cloud/SaaS (\$21.7m) – this is now an opex given it is provided by an external provider rather than in-house – accepted by AER in recent network decisions – leave to AER to assess level of \$\$
  - More frequent pole inspections (\$7.9m) – Energy Safe Victoria direction requiring pole inspections to revert to practice in 2011-16 – so this means the cost should be in base year costs so no argument for a step change
  - Insurance – not yet a step change but might be depending on reports being prepared – we noted the AER rejected Ausgrid's insurance step change in Final decision in April
- There are others to be considered by other Panels over the next couple of months