

Coordination Group

# Independent Report on Draft Revenue Proposal 2026 - 2031

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Report for AusNet Services

22 October 2024

## **Acknowledgement of Country**

We acknowledge the Traditional Custodians of the lands on which AusNet owns and operates its electricity distribution networks and facilities, and where its customers, community and stakeholders work and reside. We honour the customs, history and traditions and special relationship of those Traditional Custodians with the land as well as the lands where this report is being prepared. We respect the Aboriginal communities who have cared for the lands for thousands of years and honour elders past and present. These include the lands of the Bidwell, Bun wurrung, Dauang wurrung, Gunai (Kurnai), Jaitmatang, Ngarigo, Ngurailam wurrung, Taungurung and Yorta Yorta peoples.

## Foreword

This report is written by the Coordination Group in response to AusNet's draft proposal for its 2026–31 electricity distribution price review (EDPR). This report and AusNet's draft proposal were developed after a significant level of time and effort from the Coordination Group, the panel members and AusNet.

The Coordination Group was established to provide an overarching governance and coordination role in AusNet's EDPR 2026-31 engagement program. With an aim of working collaboratively with the panels and AusNet to help AusNet prepare a high-quality evidence-based proposal reflective of customers' preferences.

In its draft proposal and during our engagement with AusNet they noted a commitment to:

- listening and responding to their customers' needs
- being held to account for any commitments they make
- submitting a proposal to the Australian Energy Regulator in January 2025 that reflects customer preferences.

AusNet's draft proposal proposes a range of initiatives aimed at investing in the network and assisting in meeting customer expectations at a time when the energy industry is undergoing a period of unprecedented transformation and customer affordability is a key focus.

I am honoured to have been working as independent Chair of the Coordination Group since its establishment. My role as Chair immensely benefited from the exceptional efforts, extensive experience and passion of my fellow Coordination Group members, the broader panel members and the AusNet team.

The Coordination Group and panel members remain fully committed to engaging constructively and collaboratively with AusNet in the coming months as they prepare their proposal.

I sincerely hope that this report provides useful and practical insights and perspectives to inform the next stage of AusNet's EDPR 2026-31 work program.

**Peter Eben**

Independent Chair, Coordination Group

22 October 2024

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# 1 Executive Summary

The Coordination Group commends AusNet on their extensive effort and sincere engagement that has been undertaken in preparing their draft proposal. This report is a formal submission from the Coordination Group in response to AusNet's draft proposal. It is also a summary of AusNet's engagement with its consumer panels that provided input to the draft proposal.

The draft proposal has identified a range of proposed initiatives designed to invest in and deliver stronger reliability and resilience (including for worst served customers), assist in unlocking renewable energy, support the energy transition to net zero and delivering improved customer experience – all at an affordable price.

This is all at a time when the energy industry is undergoing a period of unprecedented transformation, there are more general economic headwinds and uncertainty with a key focus on affordability not only within the energy sector but cost of living and expenditure across the economy more broadly.

The proposed initiatives have been influenced, informed or driven by a combination of at least one or more of the following factors:

- Feedback from customers through direct research and engagement
- Feedback from the customer panels and / or the Coordination Group
- Government and / or regulatory requirements or pressures
- Impacts of storms and other weather events which have heightened the need for investment in certain areas.

The resultant impact of the proposed initiatives is either a slight fall or slight rise in the real level of prices between today and 2031 depending on the customer class (though there can be variation within a customer class depending on how much they electrify over the period). This price trend is very dependent on achieving the forecast growth in electricity connections and consumption. Customers benefit from high asset utilisation in revenue cap regulation. While AusNet argue their demand forecast is 'conservative'<sup>1</sup> it is still highly uncertain and subject to heavy influence by government policy and other factors beyond AusNet's control.

The engagement with the Coordination Group and panels has had a particular focus on 'affordability' (ability to pay) vs 'value for money' (willingness to pay) and AusNet clearly distinguish the two concepts in its draft proposal<sup>2</sup>. AusNet's engagement has focussed more on the latter than the former. Whether or not the value / cost trade off has the right balance is one of the focusses of the consultation process on the draft proposal as AusNet finalises its proposal to the Australian Energy Regulator (AER) in January 2025.

We await to see the potential impact of the Victorian Government proposed resilience rule change<sup>3</sup> and their response to the final Network Outage Review<sup>4</sup> report on the February 2024 storms on any revisions to this January proposal.

## 1.1 Coordination Group and panel key perspectives

The Coordination Group (and panels) key perspectives on the draft proposal include:

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<sup>1</sup> AusNet draft proposal p.72

<sup>2</sup> AusNet draft proposal p.24

<sup>3</sup> <https://www.aemc.gov.au/rule-changes/including-distribution-network-resilience-national-electricity-rules>

<sup>4</sup> <https://engage.vic.gov.au/network-outage-review>

- We reiterate our appreciation of AusNet’s huge efforts in preparing the draft proposal and other materials, their sincerity in engagement and transparency in providing the Coordination Group and the panels the opportunity to be involved in informing and influencing aspects of their draft proposal.
- The panels and Coordination Group were involved and consulted on some but not all aspects of the draft proposal and therefore areas that influence costs and prices. A significant majority of the factors that influence costs, prices and the price path were not part of our consultation. This is not a criticism of AusNet or their approach to engagement but rather a function of items such as:
  - What consumers are able to influence
  - It is the AER’s role to assess the prudence and efficiency of proposed expenditure
  - The practicalities and timeframes of this consultation process.
- We consider the draft proposal provides a good basis for consultation and that it will facilitate beneficial discussions and inform decisions to be made as the proposal is finalised.
- We support AusNet presenting those aspects of the proposed operating and capital expenditure that were consulted on as reflecting consumer preferences.
  - This is subject to any conditions or further work envisaged as outlined in the relevant sections of this report.
  - We also note there are some areas that have not yet been engaged on with the Coordination Group or panels that will be considered as the proposal is further refined.
  - Where we do note further work may be required, we are not prescriptive on how this work should be undertaken or necessarily that AusNet must undertake that work. How AusNet chooses to complete any further work as the proposal is further refined is at their discretion.
- AusNet notes in its draft proposal, and we strongly support this, that further engagement and work on affordability including considering the overall proposals costs, value and trade offs is warranted.
  - Given the investment AusNet has made in building up the knowledge base of the panels and the Coordination Group, we consider that further engagement with both groups would be an effective contribution to further refining the proposal, subject to the constraints of practicality and time.
  - This would consider the costs and prices as a whole and look at the overall bill impacts, opportunities for trade offs to be considered, smoothing and timing options and any opportunities for allocation of costs to certain customer classes where warranted.
  - Further work should also consider the longer term implications of any investments (i.e. implications beyond 2031) and consider strong capital discipline as part of the proposal’s development not just during business as usual (BAU) in the regulatory period. In other words the business should consider now if there are opportunities to reduce costs in certain areas or avoid expenditure. Once a long life asset gets into the Regulated Asset Base (RAB) it stays there for a long time.
- Given the uncertainty in the key assumptions (including forecast consumption and connections) the final proposal may require re-openers and this may drive additional uncertainty as well as being asymmetric (noting that the regulatory framework means that AusNet can reopen a proposal but in practice customers can’t).

- We believe that the uncertainty and impact of not achieving the expected demand forecasts and implications on customer costs should be further explored as too should any risk allocation in this regard. This could be via a scenario analysis or sensitivities.
- Accountability for delivery on commitments was a focus of the engagement with the panels and is a feature of the draft proposal.
  - We appreciate the work to date in this regard and support that stronger accountability is required to ensure AusNet delivers on their core commitments.
  - Within this context our research and this report notes some customers have views that there is a lack of delivery against some current commitments.
  - We do however acknowledge that circumstances can and may have changed since the last regulatory proposal and that more importantly the current regulatory period is still “mid-stream” and there is time for AusNet to deliver on any outstanding commitments.

## 1.2 What does “support” mean in this report

The word support is used throughout this report, however it can have many meanings which can refer to a comment/conclusion/recommendation on process (e.g. our views on the engagement so far and recommendations for the future) or content (e.g. our views on a particular expenditure item or initiative).

Where we use support in relation to process matters we do not believe further clarification is warranted. In relation to where we use the word support for content matters we note that the word support can mean one or more of:

- Support for AusNet having correctly reflected its feedback from the consumer engagement, including engagement with the Coordination Group or panels.
- Support from the Coordination Group to present the relevant content for consultation in the draft proposal.
- Support for spreading the costs of targeted improvements over all AusNet customers.
- Support for a specific level of expenditure if the AER decides it is prudent and efficient

However it is equally important to note that in relation to where we use the word support for content matters it does not mean:

- Support for expenditure or a change to a specific measure where AusNet is yet to provide sufficient details for us to assess the implications for example all relevant project details and costs or information to understand if customers would “pay twice” for an initiative.
- Support for the bill impact of the proposed measure being acceptable to all consumers. We cannot comment on whether the bill impact is acceptable to all consumers because while consumers support spreading the cost across all customers, we do not know how that ‘spreading’ will occur because that will depend on the specific tariff design and that, in turn, will depend on Victorian Government tariff constraints.

## 2 Introduction

This report is written in response to AusNet's draft proposal and is a submission from the Coordination Group. It is intended to be where possible non-technical and for a general audience. However we believe it will be of most benefit to AusNet, the AER, the AER's Consumer Challenge Panel (CCP), and ultimately consumers. It is designed to:

- provide the Coordination Group (and panels') independent views on AusNet's draft proposal - the adequacy of engagement to date and whether it appropriately reflects consumer preferences (based on evidence presented to us and that which the Coordination Group and panels independently obtained) to date.
- identify gaps and areas for further consideration to assist AusNet to prepare a high-quality evidence-based proposal to be submitted to the AER in January 2025.

### 2.1 The Coordination Group

AusNet commenced working on its draft proposal in early 2023, and in May 2023 AusNet established the Coordination Group.

The Coordination Group is an independent group with an overarching governance and coordination role in AusNet's EDPR 2026-31 engagement program to work with a series of customer panels. The Coordination Group has an independent Chair and is comprised of the lead from each of the six customer panels.

The members of the Coordination Group are:

- Peter Eben (Independent Chair)
- Helen Bartley (Research and Engagement panel lead)
- Kieran Donoghue (Availability panel lead)
- Gavin Dufty (Tariffs and Pricing panel lead)
- Mark Grenning (Benchmarking and Operating Expenditure panel lead)
- Dean Lombard (Future Networks panel lead)
- Emily Peel (Customer Experience panel lead)

As noted in AusNet's draft proposal, the purpose of the Coordination Group is summarised as:

- working collaboratively with the panels and AusNet to help AusNet prepare a high-quality evidence-based proposal reflective of customers' preferences.
- identifying and raising conflicts or overlaps between panels and working collaboratively with AusNet to identify opportunities for synergies and additional value creation opportunities across panels, understand and resolve trade-offs for inclusion in the draft and final proposals.
- going into some aspects of further detail on building blocks (incorporating panel inputs) and the price path.
- reflecting customers' interests and values in technical considerations of the draft and final proposals with a clear line-of-sight from AusNet's research and engagement program.
- authoring an independent report(s) including this report on our view of the effectiveness of AusNet's engagement and extent to which customers' preferences are reflected in the draft proposal, per the AER's requirements.

Since May 2023 the Coordination Group has:

- met 18 times with AusNet and other stakeholders to discuss various matters in relation to the development of the draft proposal



- attended three offsite meetings with AusNet, panel members and other stakeholders to inform the development of the draft proposal
- met several times as a group without AusNet to discuss and develop this report.

## 2.2 Report structure

This report is structured with the following sections:

- **Section 1 (Executive Summary):** to provide an overview of the Coordination Group's perspectives on the draft proposal and key areas requiring further consideration.
- **Section 2 (Introduction):** to provide an overview of the report's purpose and structure and the Coordination Group.
- **Section 3 (Context):** to provide an overview of the key internal and external context of relevance to the draft proposal.
- **Section 4 (Research and engagement assessment):** to provide an overview and assessment of the research and engagement process to date.
- **Sections 5– 9 (individual panel chapters excluding research and engagement):** to provide an overview of the panel's perspectives in relation to AusNet's draft proposal. Each of these sections has a consistent structure covering:
  - An overview of the panel's purpose and membership
  - The focus questions that were considered as part of the development of the draft proposal
  - A summary of how AusNet's draft proposal responded to each focus question
  - A summary of how AusNet's draft proposal reflects consumer preferences
  - An overview of this panel's impacts on other elements of the draft proposal
  - A summary of the engagement process to date for each panel
  - An outline of where further work may be required in the development of the final proposal
  - A Coordination Group response to relevant AusNet consultation questions from their draft proposal. These questions have not been discussed directly with the panels (as they were published after the last time the panels met), and so while the Coordination Group have drawn on panel discussions and decisions to respond to them, the responses should not be assumed to be endorsed by the panels.
- **Section 10 (Overall draft proposal conclusions):** to provide an overview of the overall conclusions on the draft proposal, AusNet's engagement with the panels and the Coordination Group and responses to AusNet consultation questions not covered elsewhere in this report.
- **Appendix:** to provide details on the customers interviewed as part of our research program.

## 3 Context

This section is not intended to cover an exhaustive or even an extensive list of all the changes in the energy sector. Rather it is intended to focus on a select group of factors or changes that the Coordination Group consider are relevant to the electricity market and the broader economy that should be considered in AusNet's development of its EDPR.

### 3.1 Electricity market considerations

As noted in AusNet's draft proposal, the energy sector is in the midst of a major transformation which is necessary to reach net zero emissions by 2050. This transformation drives a high degree of change and uncertainty.

Within the context of the extensive change, specific matters the Coordination Group feel are relevant to consider in the development of the draft and final proposals include:

- **Resilience:** there is a far greater focus by governments (including the Victorian Government) on the need for policy and rule changes in relation to resilience.
  - On 30<sup>th</sup> September the AER published its final decision on the Value of Network Resilience<sup>5</sup> (VNR) covering outages longer than 12 hours; these values are available to AusNet to use as it refines its proposal.
  - In December 2024, the AER will publish a revised Value of Customer Reliability<sup>6</sup> (VCR) covering outages up to 12 hours; these values will be available to AusNet to use in refining its proposal.
  - On 3 October 2024 the Australian Energy Market's Commission (AEMC) published a rule change proposal<sup>7</sup> submitted by the Victorian Energy Minister to include distribution network resilience as a relevant driver of expenditure in the National Electricity Rules. The AEMC is aiming to publish a draft determination mid-February 2025 and is not clear yet on when a final determination may be made or when any implementation may commence. This timeframe means AusNet's January 2025 proposal will not be able to incorporate any results, but it may be possible to incorporate some impacts in their Revised Proposal due in December 2025.
  - AusNet's implementation of its February 2024 storms post incident review.
- **Network outage review:** the Independent Panel released its final report<sup>8</sup> on 30 August 2024. A Victorian Government response to the report and any recommendations will be released in late 2024 which may need to be consulted on through 2025 and incorporated into AusNet's revised proposal in December 2025.
- **Tariffs and opt-in:** the Victorian Government's current policy is to only allow residential network tariff reassignments for a subset of customers – essentially, new and altered connections.<sup>9</sup> All other residential customers can only move onto new tariffs if they or their agents explicitly opt in. This decision will have major adverse impacts on attempts to reallocate network costs more fairly to reduce inequitable cross subsidies to those with rooftop solar and the reduce the opportunity for

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<sup>5</sup> <https://www.aer.gov.au/industry/registers/resources/reviews/value-network-resilience-2024/final-decision>

<sup>6</sup> <https://www.aer.gov.au/industry/registers/resources/reviews/values-customer-reliability-2024>

<sup>7</sup> <https://www.aemc.gov.au/rule-changes/including-distribution-network-resilience-national-electricity-rules>

<sup>8</sup> <https://engage.vic.gov.au/network-outage-review>

<sup>9</sup> More specifically: new connections, new solar installations, and certain types of electric vehicle charger connections.

consumer energy resources to unlock non network solutions, greater emission reductions and potentially reduce delivered electricity prices for all consumers.

- **Consumer energy resources (CER):** the pace of technological, policy and regulatory change in CER can materially impact the opportunity for CER to assist in providing resilience to the network. This will also impact considerations between capital and operating expenditure tradeoffs.
- **Electricity demand forecasts:** there is high uncertainty on key drivers of forecast electricity demand – most notably the take up of new technologies, in particular electric vehicles (EVs) and the pace of electrification of gas technologies. Further consideration of this uncertainty and any impacts on future price paths and expenditure requirements is required. For example, while AusNet was preparing its draft proposal, the Australian Energy Market Operator (AEMO) released a new forecast of EV take-up that is materially lower than its previous forecast.
- **Affordability:** there is a heightened focus on energy affordability by consumers, regulators, energy companies and policy makers in the light of cost of living concerns. This has been evidenced in recent regulatory decisions (e.g. Ausgrid's recent determination) and government policy decisions (e.g. federal and state Government energy bill rebates).

## 3.2 Other considerations

Outside of the specific electricity market considerations noted above there are other areas that are equally relevant to consider in the development of the draft and final proposals:

- **Storms and extreme weather conditions:** there is undoubtedly an increase in the frequency and severity of major storms and weather events that can have a material impact on network resilience and related expenditure.
- **Overall economic conditions:** the general economic conditions including the impact of higher than desired inflation, increased interest rates and a strong focus on cost of living (i.e. affordability) necessitates a strong discipline on prudence and a focus on affordability of the overall draft and final proposals.

## 4 Our Research and Engagement Assessment

### 4.1 Approach and context

#### 4.1.1 AER's Better Resets Handbook

In commenting on AusNet's and assessing AusNet's research and engagement program we have considered the AER's expectations as outlined in the AER's Better Resets Handbook (July 2024)<sup>10</sup>. The AER expects networks to undertake high quality engagement with customers on the basis that:

***"High quality consumer engagement is essential for ensuring that networks provide the services that meet the needs of their consumers, at a price that is affordable and efficient."***<sup>11</sup>

Whilst the AER does not prescribe how networks should engage with customers, it does expect networks will engage:

- *Sincerely* to the extent consumers can effectively contribute to the development of proposals
- *Broadly* and *deeply*, using accessible, clear and transparent methods and consult on the outcomes then the inputs.

The AER is also looking for independent consumer support for networks' proposals, such as through submissions or independent reports.

We have considered these principles in our commentary on our role in shaping AusNet's broader engagement with customers, our observations and insights into customer preferences. We have also considered these principles from a panel perspective and how they engaged with AusNet on their respective topics and how the Coordination Group was involved in the overall<sup>12</sup> draft proposal and in deep dives with AusNet on more technical aspects of its draft proposal development.

*Better Resets* also expects networks to consider the different levels of influence customers can have on a regulatory proposal, in line with the International Association for Public Participation (IAP2) Public Participation's Spectrum<sup>13</sup>. The IAP2 Spectrum broadly defines five stages of public participation and the role of the public in an engagement program, beginning with the organisation informing then consulting, involving, collaborating and empowering the public. From a Better Resets perspective, network engagement on issues over which consumers have greater interest and ability to influence the outcomes should be at the upper end of the spectrum.<sup>14</sup>

#### 4.1.2 AusNet's Living Engagement Plan

AusNet's *Engagement Plan* outlines its approach to engagement with customers and other stakeholders to inform its EDPR 2026-31. The original plan was published mid-2022 as the result of a co-design process involving customer representatives and other key

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<sup>10</sup> <https://www.aer.gov.au/system/files/2024-07/AER%20-%20Better%20Resets%20Handbook%20-%20July%202024.pdf>

<sup>11</sup> AER, *Better Resets Handbook*, July 2024, p. 11

<sup>12</sup> The panels and Coordination Group were not consulted on all aspects of AusNet's draft proposal many of the items we were not consulted on may have a material impact on the overall costs and prices.

<sup>13</sup> <https://iap2.org.au/resources/spectrum/>

<sup>14</sup> AER, *Better Resets Handbook*, July 2024, p. 15

stakeholders. AusNet considers its *Engagement Plan* to be a ‘living document’. This Plan informed the establishment of a Stakeholder Reference Group (SRG) early in 2023.

After six months operation, and following discussions with the Chair at the time, AusNet undertook a formative evaluation and reviewed its original engagement plan. The evaluation concluded that EDPR engagement could be improved by establishing the Coordination Group and a Research and Engagement (R&E) panel. Details are documented in the Appendix in Version 3 of AusNet’s *Engagement Plan* published in December 2023.

The Coordination Group commends AusNet on its willingness to reflect and listen to the views of the original SRG and from what it learnt to restructure the SRG into stand-alone panels, each with a lead, and with the leads forming the Coordination Group’s membership. The Chair at the time also opted to step aside due to unrelated commitments and AusNet appointed a new Chair.

The Coordination Group also commends AusNet for establishing the R&E panel dedicated to working with the business to contribute to its EDPR customer research and engagement. The Coordination Group sees this as tangible evidence of AusNet’s commitment to ensuring the business’s research and engagement activities are transparent and reflect customers’ views.

#### 4.1.3 The reset R&E Panel and its activities

AusNet established the R&E panel in May 2023<sup>15</sup> along with a Panel Lead who was also appointed to the Coordination Group.

AusNet appointed the following individuals to the R&E panel:

- Helen Bartley (Lead)
- Tricia Hiley
- Darren McCubbin

AusNet describes the purpose of the R&E panel to:<sup>16</sup>

***“work with AusNet on the design of research and further engagement activities to support the proposal and panels’ deliberations.”***

AusNet further describes the R&E panel as having oversight of “the design and delivery of [the] research and engagement program to support focus Q [question] deliberations across all panels.”<sup>17</sup>

Collectively the R&E panel has significant experience designing, delivering and providing research and engagement advice as well as a significant knowledge of AusNet’s region and customers, including lived experience as customers. Members of the R&E panel also sit on AusNet’s other panels, as well as the Coordination Group and AusNet’s Customer Consultative Committee. Thus, they are not providing advice to AusNet in isolation and are sufficiently informed of the breadth of issues across the different reset panels.

The R&E panel has met regularly with AusNet both face-to face and online. We have contributed to the design, delivery, review of and reflections on AusNet’s key customer engagement and research activities specific to informing the development of its draft proposal. Panel meetings have been collegiate with healthy debate and discussion to

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<sup>15</sup> Prior to the establishment of the R&E Panel, AusNet engaged with the SRG more broadly on its research and engagement plans; the R&E Panel took over in May 2024

<sup>16</sup> December 2023 EDPR 2026-31 Engagement Plan (Version 3), p. 6

<sup>17</sup> Ibid, p. 7

enhance the value of AusNet’s EDPR research and engagement activities, such as ensuring what is presented to customers is balanced and uses language that is familiar to customers. Key areas of R&E panel influence were:

- A series of Customer Workshops undertaken at different stages throughout the development of AusNet’s draft proposal
- AusNet’s research to Quantify Customer Values (QCV)
- Resilience Research (this work is in development at the time of preparing this report)

The R&E panel has also contributed to AusNet’s planning of its deeper engagement with other panels. It has acted as a sounding board for AusNet to test its proposed approach to gathering wider panel member input at the three off-site face-to-face meetings held in August 2023 at Kalorama, March 2024 at Epping and August 2024 in the Yarra Valley. Additionally, the R&E panel has provided general advice on broader customer communication and engagement related to the EDPR, such as AusNet’s broader engagement to gain customer feedback on its Draft Proposal.

Additionally, AusNet funded the Coordination Group to undertake work of our choice provided it was related to and helped inform our advice to AusNet. The Coordination Group in turn agreed to fund panel members to independently gather evidence of customer needs and preferences (customer interviews) to help inform responses to the focus questions and to test customer support or otherwise for AusNet’s proposals. The R&E panel was responsible for the design, delivery and oversight of the customer interviews.

## 4.2 Our perspective on AusNet initiated research

The Coordination Group acknowledges that AusNet has invested considerably in its business-as-usual research program and has shared the findings of this research with panel members to help inform their views. AusNet has also continued to invite panel members to seek more detailed analysis of the research and even suggest further research. Although panel members generally considered they had sufficient information, we commend AusNet for the offer and responsiveness to our queries. Further details as to how the panels formed their views are included in the relevant chapters of this report.

In the following sections we focus on the development of AusNet’s customer workshops and the QCV research as examples of the R&E panel’s work, describing our role, the extent we contributed to the design and delivery this work, and our broad assessment of these research and engagement activities. For details of the methodology and findings, and our assessment of the impact of this broader customer engagement on AusNet’s draft proposal, we refer readers to the relevant sections of AusNet’s draft proposal.

### 4.2.1 Customer workshops

#### 4.2.1.1 Workshop overview

AusNet’s Engagement Plan, Version 2, describes a series of up to five rounds of customer workshops proposed by AusNet to:

***“provide opportunities for direct and meaningful engagement with a diverse range of customers and community members from across [AusNet’s] Victorian electricity distribution network on a variety of identified topics and issues.”<sup>18</sup>***

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<sup>18</sup> December 2023 EDPR 2026-31 Engagement Plan (Version 3), p. 18

The five rounds of workshops were intended to be conducted at different stages in the development of AusNet's draft proposal. The first round in September 2023, aimed to identify themes or issues of concern to customers and understand their future priorities and needs/expectations. The second round in October 2023 initially focused on customers' views on AusNet's priorities for 2026 to 2031, including the balance between cost and service levels and cost sharing to improve service levels. The third round was conducted in February - March 2024 and considered customer service expectations and their appetite to shift their energy use (e.g. clothes washing in the middle of the day) to help manage demand on the network. The timing where four of the five second-round workshops was held so soon after the 13 February 2024 storms also meant customers could share their experiences during and after the event.

Consistent with the IAP2 Spectrum,<sup>19</sup> AusNet's aim for the workshops was to *consult* and *involve* customers in the shaping of its draft proposal.

#### **4.2.1.2 The R&E Panel's engagement with AusNet in developing the workshops**

AusNet *involved* the R&E panel in the development of the Request for Quote (RfQ) to consultants and the design of the workshops. Specifically:

- AusNet provided us with a draft RfQ for comments and suggestions; most of which were incorporated into the final RfQ that AusNet issued to prospective consultants; otherwise we were provided with a reasonable explanation as to why our suggestions were not incorporated.
- AusNet sought the R&E panel's advice on its choice of consultants who would be invited to prepare a proposal in response to the RfQ.
- AusNet provided the R&E panel with copies of the two proposals it received and sought panel members' input into the assessment of the proposals, and final selection of the consultant. The R&E panel and AusNet readily agreed on the preferred consultant.
- The R&E panel participated in the inception meeting with the chosen consultant and actively contributed to the initial workshop planning including workshop approach and composition (mix of online and face to face sessions, and business and residential customers), the locations, timing and recruitment methods.
- AusNet provided the R&E panel with an outline of the focus and draft content for each round of customer workshops and R&E panel members had sufficient opportunity to contribute the content and structure of each round of workshops.
- R&E panel members and members of other panels observed most of the customer workshops in each round so panel members could benefit from directly listening to customers rather than solely rely on consultant reports or AusNet's reports. By directly observing the workshops the R&E panel was also better placed to comment on the effectiveness of the engagement and help shape subsequent rounds of customer workshops.
- The R&E panel and other workshop observers have provided this feedback to AusNet, and in fairness AusNet was also aware of the limitations of the early rounds. The R&E panel is continuing to work with AusNet to explore ways to enhance the feedback it receives from workshop participants as it helps shape the fourth round of workshops to test its draft proposal.

Overall, the R&E panel considers its engagement with AusNet in shaping the customer workshops, regardless of the outcomes, was timely, sincere and transparent. While the

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<sup>19</sup> <https://iap2.org.au/resources/spectrum/>

customer workshops were initiated and led by AusNet, the way the R&E panel worked with AusNet was largely *collaborative*.

#### **4.2.1.3 The R&E Panel's assessment of the workshop delivery**

Reflecting on the customer workshops in the context of the *Better Resets Handbook*, as an R&E panel:

- We genuinely felt *involved* in the development of the workshops, although due to tight timelines sometimes we felt under pressure to contribute quickly to not delay the progress.
- We felt AusNet and the consultants valued our contributions, such as our advice on the locations for the face-to-face workshops to maximise the opportunity to hear from a diversity of customers, the background information customers should be given and how it should be presented.
- AusNet's program of customer workshops was well structured and purposeful, and the blend of face to face and online workshops catered to different customer groups. Although the feel of the online workshops was different to the face-to-face sessions, with greater opportunities for participant interaction in the face-to-face workshops we consider the combination of methods as a valid approach to supporting inclusive engagement. Regardless of the method of engagement we note the challenges and limitations of asking participants to engage on speculative topics, such as how they might behave if they owned an EV, particularly as we noted in one group only one person owned an EV.
- The customer workshop program was agile and responded to customer needs as well as suggestions from the R&E panel. For example, the second round of customer workshops was delayed in recognition of the impact of the February 2024 storms on customers and the sessions were reframed to allow customers to share their experience of the storms and expectations of AusNet.
- Customers appreciated having an AusNet member attend the customer workshops to respond to their questions and hear their concerns directly.
- AusNet shared the draft versions of the consultant's reports with the R&E panel for comment and has shared the final versions with all panel members; they are also available in the public domain.

At the time of preparing this report, three rounds of customer workshops had been completed and the fourth round was in preparation.

Around 25 customers per group were initially recruited, with a small number dropping out between rounds, (with the number per group ranging from 15 to 28 across the three rounds). The 90-minute workshops were highly structured and included a substantial amount of content. Consequently, we are not confident that all participants contributed to their fullest because of the size of the groups and the time taken to present content.

AusNet's intent was to *consult* workshop participants, and we consider at least in the first three rounds the workshop focus was about *consulting* customers to gather evidence to take to the panels, to inform their views on the focus questions. This is apparent from the face to face and online workshops we observed, and also stated in the consultant's reports. For example, the consultant's introduction contained in each workshop report



references “consultation targets”<sup>20</sup>, <sup>21</sup>and the reported results are largely shaped by Slido survey results.<sup>22</sup>

Regardless of the limitations, the workshops garnered valuable insights into customers’ concerns, needs, and preferences and they are not the only source of evidence that AusNet and the panels have relied on in the development of the EDPR.

## 4.2.2 Quantifying Customer Values

### 4.2.2.1 Overview

We recognise the value customers place on different services and service standards is central to a network’s development of its draft proposal, and likewise the AER’s assessment of those network proposals. In 2019 the AER developed a VCR methodology for customers’ willingness to pay to avoid standard outages (up to 12 hours), which the AER is currently reviewing.<sup>23</sup> However, the scope of the AER’s VCR values is limited to broad climate zones, state-based urban and regional zones, which is a limiting factor for individual networks that are seeking more granular values to develop their proposals.

Consequently, AusNet proposed to engage a research consultant to develop its own statistically valid and reliable method to establish dollar values reflective of customers’ willingness to pay for potential service improvements.

### 4.2.2.2 The R&E Panel’s engagement with AusNet in developing the research

AusNet *involved* the R&E panel<sup>24</sup>, establishing the QCV working group<sup>25</sup> in the development of this project to help:

***“ensure [its] approach [was] robust and [would] ultimately build customer and stakeholder confidence in the research findings and how they are applied to [AusNet’s] Revenue Proposal”<sup>26</sup>***

QCV working group activities in developing in the project included:

- AusNet meeting with the QCV working group (in March 2023) to:
  - *Inform* the group of the research context (including the value and limitations of other approaches such as the AER’s VCR), the QCV research purpose, the working group’s purpose, and allowing the group to seek clarification around the project
  - *Consulting* with the group to test the clarity of purpose of the QCV research
  - Presenting the group with tentative themes, possible service metrics and customer outcomes to quantify in the research, and options as to how the quantified values may be applied; then *collaborating* to refine these aspects of the project

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<sup>20</sup> For example, SenateSHJ, *Business and Residential Customer Workshop Report, Round -1 Feedback Report*, October 2023, p. 3

<sup>21</sup> Similarly, SenateSHJ, *Business and Residential Customer Workshop Report, Round -3 Feedback Report*, May 2024, p. 3

<sup>22</sup> Ibid, pp. 58-65 & pp. 72-80

<sup>23</sup> See <https://www.aer.gov.au/industry/registers/resources/reviews/values-customer-reliability-2024>

<sup>24</sup> Including Mark Grenning, given his knowledge of the subject matter and his broader role representing major energy users.

<sup>25</sup> AusNet’s term to describe the R&E panel plus Mark Grenning

<sup>26</sup> AusNet Quantifying Customer Values Research, SRG QCV Working Group Meeting #1, 4 May 2023 (unpublished)

- AusNet seeking suggestions as to possible research suppliers and our agreement on the shortlist of possible suppliers (*involving*).
- AusNet providing us with a draft RfQ for our comments and suggestions (*involving us*); most of our comments were incorporated into the final RfQ that AusNet issued to prospective consultants or AusNet provided us with a fair and reasonable explanation as to why our suggestions were not incorporated.
- AusNet sharing the consultant's proposals and *collaborating* on the selection of preferred consultant, including accepting our detailed feedback to clarify aspects of the preferred consultant's proposal. The QCV working group and AusNet readily agreed on the preferred consultant.
- AusNet *involved* the QCV working group in the inception meeting with the chosen consultant and the QCV working group actively contributed to the research design. This included the consultant's approach to the pretesting (cognitive interviews) to inform the survey design.
- *Involving* the QCV working group in a Stop & Think workshop with the consultant to review the outcomes of the cognitive interviews to help inform the draft QCV questionnaire.
- The QCV working group *collaborating* with AusNet in the review and critique of the draft QCV questionnaire; including *collaborating* with us to ensure the language was customer friendly and the sample design considered those variables that were likely to correlate with different customer values.
- AusNet keeping the QCV working group *informed* of the research progress.
- AusNet responding in a timely and appropriate way when we queried aspects of the research with them. For example, we queried AusNet on the weighting procedure applied to customers' willingness to pay values and an appropriate and timely response which also provided us with reassurance as to the validity of the weights.

Overall, the R&E panel considers its engagement with AusNet in shaping the QCV research was timely, sincere and transparent. While AusNet led the project, the way the R&E panel worked with AusNet in the project's development was largely *collaborative*.

AusNet has published the results of the QCV research on its Engagement Hub. How the QCV shaped AusNet's proposals is covered in its draft proposal, while the various panels' support for different proposal options based on AusNet's application of the QCV values is referenced elsewhere in this report, as appropriate.

## 4.3 Coordination Group initiated research: customer interviews

As previously mentioned, we commend AusNet for providing funding to the Coordination Group which supported various panel members to independently gather evidence of customer experiences, issues and preferences. This also meant AusNet was willing to accept that we may uncover some uncomfortable findings for the business.

The R&E panel prepared a proposal for the customer interviews, which the Coordination Group reviewed and endorsed. Here we provide an overview of the customer interview purpose, our approach, key findings and AusNet's response, while application of the knowledge and how it contributed to our advice to AusNet is considered in the relevant sections of this report, particularly the Customer Experience chapter.

### 4.3.1 Purpose

The Coordination Group agreed to the following customer interview purpose:

- To gather independent evidence of consumer preferences through case studies to help the Coordination Group and its panels support/challenge AusNet's own consumer engagement and subsequent draft proposal.
- To test customer support for AusNet's draft proposals.

#### 4.3.2 Overview of approach

We sought to interview customers in different parts of AusNet's network who could provide us with a range of views as to their experiences and impressions of AusNet's current services as well discussing their future energy aspirations. We did not set out to interview a statistically representative sample of customers, nor did we specifically plan to only interview customers who had experienced issues with AusNet.

Importantly we also wanted to fill voids in AusNet's own engagement program, so we focused our efforts on engaging with customer representatives (such as local council officers and Members of Parliament) and business operators.

We aimed to interview up to around 20 customers /customer representatives within the allocated budget. Ultimately, we interviewed 26 customers/customer representatives located in and representing different parts of AusNet's service area.<sup>27</sup>

We selected customers to interview as follows:

- Customers and customer representatives who the Customer Forum interviewed in 2018 and 2019, to identify any shift in customer perceptions, needs and expectations of AusNet and gather evidence of AusNet's delivery of its last EDPR commitments to its customers.
- Customers we encountered or heard about with significant AusNet stories to tell (e.g. a selection of Euroa traders who had received media attention following significant outages in the lead up to Christmas 2023); or who referred to us in relation to other energy related experiences (e.g. customers involved in new connections, or with interests in the energy transition and resilience).
- Major energy users reached through their EUAA membership or randomly identified through desk research as significant energy using businesses in regional locations.
- Impromptu interviews as result of suggestions from other customers we interviewed

We conducted most interviews face-to-face at the customer's work location to gain deeper insight into their energy use, issues and plans with several providing us with tours of their premises for context. Interviews lasted between around 20 minutes (impromptu interviews) and 90 minutes (scheduled meetings).

At the start of each interview, we simply encouraged customers to talk, to explain their circumstances and experiences with AusNet, positive or otherwise, rather than lead them in a particular direction. In the second half of the interviews we aimed to gather future facing feedback from customers that would help inform/test our views on responses to the various panels' focus questions.

Following each interview we prepared individual reports from each interview to share our knowledge among Coordination Group members. Whilst most participants were happy to be acknowledged in this report, to protect their privacy we are not publishing those individual reports. However we have included a deidentified summary of the key insights in the Appendix, and separately acknowledged the contributions of customers we interviewed.

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<sup>27</sup> A list of participants who were happy to be acknowledged and their locations is included in Appendix A

We also shared what we had learnt with AusNet through prepared summaries, verbal discussions and formal meetings; providing AusNet with an opportunity to respond direct to customers on significant individual customer issues and more generally respond to the Coordination Group and other panel members.

## 5 Availability

The Availability panel was convened to consider the needs and preferences of AusNet's customer base regarding the availability of electricity supply, including understanding broader customer, community, economic and social impacts of electricity outages; the electricity network's resilience to changing risks from climate change, such as increasing severity and frequency of extreme weather events; the value for money of potential solutions to improve network and community resilience and interactions between electricity availability and the availability of other essential services (e.g. telecommunications).

In doing so the panel distinguished between **reliability** (the extent to which customers have a continuous supply of electricity, during normal operation of the network) and **resilience** (the ability to anticipate, withstand, quickly recover and learn from the impact of extreme weather and other disruptive events). The increasing incidence of extreme weather events means that without proactive investment, AusNet customers will likely experience more minutes off supply due to these events. However, the nature of such events means that there is a risk that investment in hardening a specific area of the network will not lead to readily identifiable improvements for customers. There is a risk that customers could pay multiple times – their own behind the meter expenditure in back-up generation, their share of ex-ante investment and their share of ex-post cost pass through. Accordingly, the outcomes from this investment must be carefully monitored.

The panel's views were informed by information and analysis provided by AusNet including its QCV research (See section 4.2.2). Various panel members also drew on what they heard from customers who had been impacted by poor reliability to inform their views and challenge AusNet on aspects of its proposals. The panel was also cognisant of parallel processes that may impact AusNet's final proposal and the AER's decision. These include:

- AER's refresh of its VCR<sup>28</sup> and its final decision on the VNR<sup>29</sup>
- The Victorian Government's response to the Network Resilience Review<sup>30</sup> and its recent lodgement of a rule change<sup>31</sup> to ensure resilience can be taken into account in network proposals
- The Network Outage review<sup>32</sup>
- AusNet's ongoing storm response activity, such as implementation of the February 2024 storms post incident review<sup>33</sup>

Noting that many categories of capital expenditure and operating expenditure contribute to the maintenance of reliability, the panel's remit did not extend to all elements of expenditure that could affect reliability, only those discussed in this section.

The Availability panel comprised:

- Kieran Donoghue (Lead)

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<sup>28</sup> <https://www.aer.gov.au/industry/registers/resources/reviews/values-customer-reliability-2024>

<sup>29</sup> <https://www.aer.gov.au/industry/registers/resources/reviews/value-network-resilience-2024/final-decision>

<sup>30</sup> [https://www.energy.vic.gov.au/\\_data/assets/pdf\\_file/0026/680822/government-response-to-the-electricity-distribution-network-resilience-review.pdf](https://www.energy.vic.gov.au/_data/assets/pdf_file/0026/680822/government-response-to-the-electricity-distribution-network-resilience-review.pdf)

<sup>31</sup> <https://www.aemc.gov.au/rule-changes/including-distribution-network-resilience-national-electricity-rules>

<sup>32</sup> <https://www.energy.vic.gov.au/about-energy/safety/network-outage-review>

<sup>33</sup> <https://www.ausnetservices.com.au/outages/storm-response>

- Emma Birchall
- Mark Grenning
- Chris Harvey
- Jeff Nottle
- Helen Bartley
- Tricia Hiley
- Piang Lilian

## 5.1 Availability panel focus questions

In completing our work, the panel considered the following focus questions:

- How might we efficiently improve reliability for our worst served customers to a level that is considered value for money to all customers? [**Worst served customers**]
- How might we assess how customer characteristics and activities are influencing the value they place on reliability and ensure our investment plans reflect this? [**Customer values of reliability**]
- How might we work with customers and other stakeholders to identify and plan for resilience solutions that meet our customers' needs? [**Resilience**]
- How might AusNet minimise adverse impacts of power quality and variability on customers? [**Power quality**]
- 5 How might AusNet best plan its works to minimise adverse impacts of planned outages on customers?<sup>34</sup> [**Planned outages**]

## 5.2 How AusNet's draft proposal responds to the focus questions

Table 5.1 on the following page summarises:

- the areas where AusNet's draft proposal addresses the focus questions
- our response and perspectives – noting these are covered in further detail in Section 5.3
- How AusNet could be held accountable to deliver on any commitments in the draft proposal.

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<sup>34</sup> Also considered by the Customer Experience Panel

Table 5.1: AusNet's draft proposal and availability panel focus questions

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
<b>Worst served Customers</b>	<i>Section 5.1</i> - AusNet is proposing a capital expenditure program of \$100m, comprising \$37m to improve reliability on the 10 worst served feeders and a further \$63m on a Regional Reliability Allowance (RRA) for other projects that will improve reliability for customers on feeders at least 4x worse than the average.	The panel is supportive of expenditure to improve reliability of the worst served customers on equity grounds. While expenditure should be efficient in terms of being the lowest cost to deliver the defined outcome, we do not expect it to pass the standard AER cost benefit analysis – this is why these worst served customers have had to endure poor reliability for so long.	This expenditure should be provided on a use-it-or-lose it basis <sup>35</sup> , that is AusNet should not benefit simply by not carrying out the proposed works. Progress reporting should include the projects undertaken and post-implementation reliability outcomes. Further work is required to define the purpose and project selection criteria for the RRA.
<b>Customer values of reliability</b>	AusNet proposes to use the values of customer reliability and resilience obtained from its own research where it considers them to be robust. This will impact its replacement expenditure (repex) and augmentation expenditure (augex) programs as well as the expenditure discussed in this chapter.	The panel agrees with AusNet that network-specific values are more appropriate providing they are sufficiently robust. The panel expects AusNet to apply the values (for both under and over 12 hour outages) consistently across the draft and final proposals.	Our support for AusNet’s use of network-specific values assumes that the AER will satisfy itself that these values are suitably robust and have been applied in a consistent manner.
<b>Resilience</b>	<i>Section 5.2</i> AusNet proposes a significant program of works (\$468m capital expenditure and operating expenditure) primarily aimed at improving resilience. The program includes network hardening, community hubs, standalone power systems, mobile response, digital upgrades, hazard tree removal, partnerships with councils and infrastructure providers	The panel supports AusNet’s proposed program, with the caveat that we have not had the opportunity to evaluate the proposed hazard tree element.  The size of the program as a whole means it’s a larger contributor to bill increases than others arising from customer preferences and commitments. If affordability concerns require AusNet to find savings, the network hardening program could be spread out over two reset periods.	Progress reporting should summarise the expenditure by category and report on outcomes in parts of the network where investment has been undertaken  At a high level, community engagement and partnerships on hubs and other community assets should be reported.  We also expect that the AER will assess that the components of the program pass the cost benefit test using an appropriate VNR.

<sup>35</sup> Use-it-or-lose-it refers to a situation where if the network does not carry out the expenditure specified in its proposal, then the full amount of the expenditure is deducted from its allowed revenue at the next reset, rather than being subject to the expenditure incentives. An example is the innovation allowance.

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
<b>Power Quality</b>	Power Quality expenditure was not separately identified in the draft proposal.	The panel expects AusNet to both meet its service standard on Power Quality and for its performance to be comparable to the other Victorian Networks	Existing monitoring of power quality is likely to be sufficient.
<b>Planned outages</b>	<i>Section 7</i> AusNet proposes a range of improvements to communications around and the timing of planned outages. As these are part of a broader customer experience investment program there is not a specific \$ cost attached. AusNet will also continue to include customer satisfaction with planned outages in its customer incentive scheme.	The panel supports these proposed improvements on the proviso that we do not expect these to add materially to AusNet's cost base.	AusNet should continue to report on accuracy of forecast restoration times and customer satisfaction with planned outages, as well as the percentage of planned outages that are cancelled or deferred.



## 5.3 How AusNet's draft proposal reflects consumer preferences

This section provides further detail on how AusNet's draft proposal addresses the specific availability focus questions.

### 5.3.1 Worst served customers

AusNet's customers have expressed broad support for the principle that rural and regional customers should enjoy equivalent reliability levels to urban customers (91 per cent per Customer Sentiments Survey).

AusNet's QCV research established a willingness to pay figure (rebased) of \$29.88/year to improve reliability for the worst-served customers (specifically to improve reliability to average levels for 10,000-20,000 customers). This is equivalent to an investment program of \$800m, or up to \$80,000 per customer who benefits. In comparison, the proposed investment is \$100m.

The Network Outage Review Interim report, drawing on customer feedback, also recommended action to improve worst performing feeders, noting

**"The resilience of customers impacted by frequent and/or prolonged power outages erodes with each event, as the economic, social, and personal impacts cumulate with each event."**<sup>36</sup>

This was confirmed in the final report, with Recommendation 12 stating that:

**"To support reliable electricity supply to communities impacted by prolonged power outages, a minimum service level standard should be introduced for Victorian distribution feeders, which if breached, requires remediation by the relevant distribution business. The service level standard must account for customers' experience of prolonged power outages. This recommendation should be implemented by June 2025."**<sup>37</sup>

### 5.3.2 Customer values of reliability

See detailed discussion in Section 5.4 below.

### 5.3.3 Resilience

AusNet's resilience survey carried out shortly before the February 2024 storms confirmed the significant costs and inconveniences that long outages impose on customers, with the key themes being inability to work, loss of food and risks to health and safety (particularly where customers are reliance on powered medical devices).

The town of Mirboo North was one of the worst hit in the storms. Residents' feedback illustrates the serious impact such incidents have:

**"We lost power to the whole town. I work in town so having no power meant no work. Having no power at home was ok as we know how to 'camp' and have solar hot water. Having no power to petrol station, pharmacy, supermarket and bank wasn't ideal."**

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<sup>36</sup> Network Outage Review Interim Report p51

([https://www.energy.vic.gov.au/\\_data/assets/pdf\\_file/0021/710409/interim-report-network-outage-review-2024.pdf](https://www.energy.vic.gov.au/_data/assets/pdf_file/0021/710409/interim-report-network-outage-review-2024.pdf))

<sup>37</sup> Network Outage Review Report p10

([https://www.energy.vic.gov.au/\\_data/assets/pdf\\_file/0035/717749/network-outage-review-report.pdf](https://www.energy.vic.gov.au/_data/assets/pdf_file/0035/717749/network-outage-review-report.pdf))

**“We had no power for 8 days after the tornado. Loss of food, my husband has sleep apnoea and could not use his cpap machine so as a consequence loss of much needed sleep.”**

Similar feedback can be found in the Network Outage Review reports, such as these comments from The Hills community engagement session:

**“I was hyper alert trying to work out a plan on what to do to keep my husband alive without internet or mobile phone access”.**

**“Event led to trauma in the community and had to fight for assistance afterward”<sup>38</sup>**

AusNet’s QCV research established a figure of \$39.60/year as the average incremental cost a residential customer would be willing to pay to avoid one 24 hour outage. The proposed expenditure on resilience has a considerably lower bill impact but does not deliver the outcome that all customers will experience one fewer long duration outage. The network hardening proposals are targeting higher risk parts of the network and so only a proportion of customers will directly benefit.

Additionally, where customers have already invested in their own resilience, there may be lower support for paying for network resilience investment:

**“Ideally we don’t want the power going out, but the business has built out its own resilience, we have no interest in supporting AusNet to build out resilience – the pub has become the community hub.”<sup>39</sup>**

#### 5.3.4 Power quality

Power quality issues are relatively rare and most customers do not even notice them. Accordingly, residential customers in general have little to say about the topic, although business customers are more likely than residential customers to detect an impact from voltage fluctuations and other power variability issues, and where issues are experienced it is often a major concern for those businesses. Our understanding is that the draft proposal includes sufficient expenditure to ensure AusNet meets its power quality standards and delivers comparable power quality performance to the other Victorian DNSPs. The Panel’s view was that meeting these standards where economically justified was supported as best practice. In meeting these targets we expect AusNet to improve performance for the worst served areas for voltage. This approach appears appropriate and consistent with the value most customers place on the issue.

#### 5.3.5 Planned outages

AusNet measures customer satisfaction with planned outages on a 10-point scale and this metric is part of their customer service incentive scheme. Since 2018, customer satisfaction with planned outages has increased from 7.3 to 7.6. Dissatisfaction with planned outages can be grouped around themes such as frequency of planned outages, disruption, financial impacts (especially for business customers) and inappropriate timing. In the latter case, we heard from businesses in several towns where AusNet planned outages on the day of major local events, which were also a significant source of income for businesses. Further, AusNet was unresponsive to customer requests to change the

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<sup>38</sup> Cockatoo Emerald Gembrook Monbulk Engagement Summary, May 2024  
([https://www.energy.vic.gov.au/\\_data/assets/pdf\\_file/0026/705914/cockatoo-emerald-gembrook-monbulk-engagement-summary.pdf](https://www.energy.vic.gov.au/_data/assets/pdf_file/0026/705914/cockatoo-emerald-gembrook-monbulk-engagement-summary.pdf))

<sup>39</sup> Customer interview by Coordination group, see section 4.3 for background.

date, including one case where the customer whose supply was being upgraded was willing to have the planned outage deferred for several months to avoid inconveniencing their community. AusNet's draft proposal includes expenditure on improved customer service and communications that is expected to lead to better outcomes for customers during planned outages.

## 5.4 The role of customer values of electricity availability

The deemed values that customers place on electricity availability and the avoidance of electricity outages are a key driver of a network's proposed expenditure. They form the basis of the valuation of a key class of benefits in the cost-benefit analysis that networks and the AER use to evaluate the efficient and prudent level of expenditure on the network.

Two key metrics are relevant to AusNet's draft proposal:

- **Value of Customer Reliability (VCR):** This is a well-established metric that puts a value on how much customers are willing to pay to avoid one kilowatt hour of unserved energy<sup>40</sup>. Values are typically established for residential customers and different classes of business customers. The AER reviews the values every 5 years and is currently in the midst of updating the values<sup>41</sup> to apply from 2024 (which would replace 2019 values that have been indexed by the consumer price index (CPI)). However, the AER does not publish values at a network level but instead at a climate zone and remoteness level.

Given the VCR is not network-specific; to provide a more granular assessment of customers' willingness to pay, AusNet involved the R&E panel to develop its own survey using similar techniques to the AER to establish VCR figures for its own customers (QCV Research).<sup>42</sup> It focusses on outages up to 12 hours duration. We support AusNet's draft proposal to use its own figures for VCR for residential customers on the proviso that the AER will satisfy itself that these values are suitably robust and have been applied in a consistent manner. We also support AusNet substituting in the AER's VCR for large businesses on the basis that the survey was unable to achieve a sufficiently large or representative sample of these customers. We are unclear on the rationale for AusNet also substituting in the AER's VCR for small and medium-sized businesses, given it has a larger and reasonably representative sample of these customers, and we consider AusNet should carefully consider its choices to ensure it does not appear to be cherry-picking values. In principle, AusNet could disaggregate its results further to get more granular information on customers' VCR by network location or by customer characteristics (e.g. dual fuel vs electricity only). However, this would be a new precedent and the robustness of more granular data and the equity implications would need to be carefully considered before doing so. Future consideration of customer values of reliability may need to become more nuanced and sophisticated as more and more customers adopt CER that allows them to maintain some level of supply during outages.

- **Value of Network resilience (VNR):** This concept is relatively novel and recognises that customer may value longer outages (which often happen in the context of extreme

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<sup>40</sup> For example, if a customer had a consistent electricity usage of 3kW and they experienced a 2 hour outage, that would be 6 hours of unserved energy. If they indicated a willingness to pay \$300 to avoid the outage, that would equate to \$50/kWh.

<sup>41</sup> <https://www.aer.gov.au/industry/registers/resources/reviews/values-customer-reliability-2024>

<sup>42</sup> See Section 4.2.2 for further details.

weather events that can also be widespread across the network) of longer than 12 hours differently from outages up to 12 hours. For example, we are aware of businesses investing in large generators and satellite communications to mitigate against the impacts of long duration outages. The regulatory framework has been somewhat “blind” to the impacts of such outages, known as Major Event Days (MEDs), excluding them from standard reliability metrics and compensation schemes, for example. This is starting to change and networks are beginning to propose expenditure specifically aimed at improving network resilience.

AusNet’s research has resulted in some potential values for avoidance of longer outages. Using the same technique as for VCR resulted in values, when expressed as a \$/kWh, of around a quarter of the VCR. This may be because the total figure to avoid a multi-day outage is very high when using the VCR, and customers consider it an unaffordable amount or one that “feels” too high when compared with an anchor figure such as their annual bill or there is a tipping point or frequency of MED events that lead to customers building their own resilience. Accordingly, there may be a downward adjustment in the figure they report to researchers. AusNet has also attempted to develop an alternative figure based on reported direct costs actually incurred by customers during a long outage – which is the methodology the AER uses for large customer VCR. Economists often favour revealed costs such as these overstated preferences. However, the use of direct costs may require further refinement to be robust for use in this way. For example, the cost of a backup generator (which is one of the largest items in direct costs) is then useful over subsequent outages, so arguably one shouldn’t put the full capital cost into a direct cost estimate of a single extended outage.

Meanwhile the AER has published an interim methodology for a VNR<sup>43</sup> that can be used by AusNet. The AER’s approach for residential customers is to use a multiple of the VCR (1x for the first 12 hours, 2x for the next 12 hours and 1.5x until the cap is reached), with a cap based on the costs of back up generation and other non-network solutions (\$3,447 per residential customer). For business customers, a similar approach with smaller multipliers is proposed. As the updated VCR figures are yet to be published it is not possible to quantitatively compare AusNet and AER VCR/VNR figures. For this reason, AusNet is proposing to consider further the appropriate VNR to use before its final proposal<sup>44</sup>.

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<sup>43</sup> <https://www.aer.gov.au/documents/final-decision-value-network-resilience-2024>

<sup>44</sup> AusNet draft proposal, p62

## 5.5 Impacts on other elements of AusNet's draft proposal

We consider that on the basis of the matters we have specifically been consulted on, AusNet's draft proposal should measurably increase reliability on its network. Network investments for resilience in areas at high risk of impact of major weather events should also improve reliability in those areas. Customers on the worst served feeders account for 11 per cent of all GSL payments. AusNet's proposal to use a higher VCR than before will lead to a higher level of investment to improve reliability (in line with consumers' preferences). We therefore expect to see this reflected in the following elements of the final proposal:

- Higher levels of reliability should result in lower GSL payments and so GSL forecasts should be lower than historical averages.
- STPIS targets should rise over the period rather than be held constant as is usual, or AusNet should commit to fund some of the program from STPIS rewards.
- Maintenance requirements should be lower if reliability is higher.

AusNet states that part of the expenditure to improve availability

**“will be funded through our reliability incentives program [STPIS]...we have not yet done the work but commit to putting this adjustment into our final Revenue Proposal... we have also reduced our forecast Guaranteed Service Levels (GSL) payments by \$3.8m because we are not expecting to make these payments to customers if we deliver these projects.”<sup>45</sup>**

We await further advice from AusNet on how the large resilience investment reduces maintenance costs.

## 5.6 Overview of AusNet's engagement with the panel

AusNet and the panel met nine times, with a view to “collaborating”, per the IAP2 spectrum of public participation and in line with the AER's Better Resets Handbook expectations. Most panel members also attended AusNet's three all-panel offsite meetings which included other stakeholders and where relevant issues were discussed in detail.

Panel members participated in a joint DNSP workshop on resilience. The Coordination Group also participated in a workshop on how AusNet's QCV research could inform the values it uses for unserved energy in assessing the cost-effectiveness of projects.

AusNet gave panel members the opportunity to provide feedback on AusNet's draft submissions to the AER's VCR and VNR processes.

The panel's interactions with AusNet were constructive and ranged from “inform” to “collaborate” on the IAP2 spectrum. AusNet provided an impressive level of background information and analysis to assist the panel in its work and provided multiple channels for feedback. High levels of collaboration were achieved on the selection criteria for worst served feeders. Time pressures meant the panel did not have a chance to consider the step-up in hazard tree removal and while the panel supported the concept of the RRA, we did not land on a suitable figure nor the detail of the governance arrangements. These caveats aside, noting that there were a range of views among the panel, the relevant elements of the draft proposal are reflective of at least most of the panel's preferences.

## 5.7 The panel's view of areas where further work may be required

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<sup>45</sup> AusNet draft proposal, p. 56

We have had limited to no opportunity to consider in detail the following:

- The design of the RRA, and the appropriate amount of funding
- The hazard tree operating expenditure program
- Whether the proposed interactions between STPIS and GSL forecasts and the overall availability expenditure are appropriate

While the AER will review each of these, we consider that it would be consistent with AER guidance for AusNet to carry out further consumer engagement on these topics.

Our support for discretionary<sup>46</sup> expenditure in this area (i.e. that over and above what is required to maintain service levels) is predicated on appropriate accountability, and we expect AusNet to address that in its final proposal and the AER to do so in its decision.

AusNet may need to revisit its draft proposal if customer feedback indicates it has not put sufficient weight on affordability concerns. In this case, we note that there are several large discretionary programs that could be revisited, either in terms of overall funding (e.g. the RRA) or the rate of activity (e.g. the network hardening could be spread over two periods) in order to put downward pressure on tariffs.

## 5.8 Responses to AusNet's draft proposal reliability and resilience related questions

This Section provides our responses to the questions in AusNet's draft proposal on the topics of reliability and resilience. The feedback represents the views of the Coordination group, as the panel has not specifically considered these questions .

- *How do you feel about plans for maintaining similar levels of reliability for most customers, focussing on improving for those customers with the poorest reliability? (AusNet consultation question 6)*

### **Our response**

This is an appropriate focus, as discussed above, there is general customer support to improve reliability for worst served customers. While the question refers to "similar" levels of reliability, we would expect that the combination of resilience investment and the use of a higher value of customer reliability in evaluating capital investments should result in a measurably higher level of reliability for customers in general than in the previous period.

- *Should we be looking at improving reliability for more feeders, or fewer feeders? (AusNet consultation question 7)*

### **Our response**

This is a novel area of expenditure and, if the premise is accepted by the AER, there may be scope to expand the program further in future reset periods. There is no objective standard that can be applied in this case, noting that the general preference for equal levels of reliability across the network would be prohibitively expensive to achieve.

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<sup>46</sup> Discretionary expenditure is used here to refer to expenditure that is not necessary to meet existing legislative and regulatory requirements. Such expenditure can still be very important to customers and may be justifiable on those grounds.

- *Our plan targets improving reliability on the worst served feeders. What level of reliability should we be targeting for our customers with poorest reliability? (AusNet consultation question 8)*

**Our response**

See answer to AusNet consultation question 7 above. Remedial action on the worst served feeders should at least target taking customers on those feeders out of the “inadequate service level” category (4x worse than average).

- *What criteria should we apply to guiding spend under the Regional Reliability Allowance? (AusNet consultation question 9)*

**Our response**

We recommend further consultation with the panel to work up the governance of the RRA. Useful guiding principles could include targeting other feeders where customers are inadequately served; consulting with consumers on target feeders; setting up an advisory panel as an independent check and seeking to maximise net benefits within the budget.

- *What do you think of the shift from reactive repair to proactive preparation? (AusNet consultation question 10)*

**Our response**

Some shift is reasonable and clearly in line with government preferences, which, in turn, are informed by consumer feedback to the two post-storm event reviews. Nonetheless, given the risks that proactive investment does not actually deliver the modelled benefits (either because that area of the network still experiences an outage during extreme weather, or because other locations bear the brunt of future extreme weather events), it’s important that AusNet’s methodology for identifying the parts of the network at greatest risk from extreme weather and evaluating the best value response is highly robust.

- *How comfortable or otherwise are you with there being no guarantee that resilience investments will “pay themselves back”? (AusNet consultation question 11)*

**Our response**

This concern was raised during the panel discussions. One way to address it would be to assign “probabilities of success” to investment proposals. A project that appears to deliver net expected benefits based on a low probability but high impact may be downgraded on this basis if it’s assumed that customers are risk-averse. However, we have limited evidence on the level of risk aversion across the customer base, so this could be an area for AusNet to gather further evidence prior to its final proposal.

- *How do you feel about the cost of responding to climate change impacts being spread across all AusNet customers, rather than paid for in full by the communities most at risk of extreme weather events? (AusNet consultation question 12)*

**Our response**

This is consistent with the “postage stamp” pricing approach applied to network tariffs. In other words, to the extent it represents a cross-subsidy it is not a new one, just a continuation of existing practice that expenditure is not directly recovered from the specific beneficiaries. There is a broader question as to whether the costs should be spread among all Victorians or all Australians and also what safeguards there are

against new housing developments in very high-risk areas if those are especially expensive to protect and repair. But these are questions for governments rather than AusNet.

***General comment on AusNet questions 6-12***

The total package of availability expenditure based on panel feedback on the focus questions is a substantial one. It is also effectively discretionary at this time, noting the Victorian government's signal that it expects networks to uplift their resilience programs and the recommendations from the Network Outage Review could result in new obligations.

The AusNet focus was much more on 'value for money' of particular components than affordability (see AusNet's definitions<sup>47</sup>) of the total package of measures consulted on in the context of the total proposed expenditure. While this is the only practical way AusNet could prepare a proposal reflective of customer input, it meant that when we came to consider the overall impact on bills of the draft proposal, there was a risk of an endowment effect influencing our views. That is, that because we had agreed on individual programs, we were collectively reluctant to consider removing them once the overall bill impact was clear. In that light the Coordination Group considers it imperative that AusNet continue to consult on the overall affordability of the draft proposal..

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<sup>47</sup> AusNet draft proposal p24



## 6 Future networks

The Future Networks panel's role was to dive into the key questions relevant to AusNet's need to transition to its future form – a network in which electricity flows are two-way, generation and storage are distributed with a mix of public, community and private (both individuals and businesses) ownership, and fossil fuel appliances and vehicles have largely or completely electrified. This is a huge change facing energy networks around the world, and has major implications for network planning, investment and operations.

The Future Networks panel comprised:

- Emma Chessel (to February 2024)
- Gavin Dufty
- Kate Hansen
- Chris Harvey
- Dean Lombard (Lead)
- Linus Mayes (to August 2024)
- Darren McCubbin
- Nando Ochoa Pizzali

### 6.1 Future networks focus questions

In completing our work the panel considered the following focus questions:

- How might we best prepare for, and accommodate, the anticipated electrification of gas and transport loads (and other fuels)? **[Electrification of gas and transport]**
- How might we support communities to realise their needs and energy aspirations? **[Community energy solutions]**
- How might we lay the foundations for a low-cost decarbonised future, where everybody can benefit? **[Efficient integration of CER<sup>48</sup> and renewables]**
- How might we unlock more value for customers and reduce unit costs through an efficient mix of smart grid technology and new capacity? **[Using smart grid technology to improve network utilisation]**
- How might we support customers in unlocking CER value streams? **[Optimising customer outcomes and unlocking CER value]**

### 6.2 How AusNet's draft proposal responds to the focus questions

Table 6.1 on the following page summarises:

- the areas where AusNet's draft proposal addresses the focus questions
- our response and perspectives – noting these are covered in further detail in Section 6.3
- How AusNet could be held accountable to deliver on any commitments in the draft proposal.

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<sup>48</sup> CER: consumer / community energy resources (formerly known as DER: distributed energy resources) i.e. small-scale storage, generation and controllable loads (such as rooftop solar, home batteries and hot water systems) connected to the distribution network.

Table 6.1: AusNet's draft proposal and Future Networks panel focus questions

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
<b>Electrification of gas &amp; transport</b>	<p><i>Section 6.1:</i> Investment of \$340m in new zone substations and targeted upgrades to existing zone and distribution substations, sub-transmission lines, and HV and LV lines to accommodate increased demand valued at \$1,486m.</p> <p>An operating expenditure step-change of \$6m for a demand management incentive framework to defer augmentation valued at \$37m.</p> <p>Enhanced forecasting approach by considering a wider range of independent data sources, drawing on data from the recent Customer Segmentation Study, and using more sophisticated analysis of meter data.</p> <p>Using potentially conservative results from forecasting to account for the greater uncertainty of future demand growth, with a request to allow revenue decisions to be re-opened if demand growth leads to materially higher augmentation expenditure – this limits price growth at the beginning of the period but could lead to increases later.</p>	<p>The panel supports expenditure necessary to meet anticipated demand increases due to electrification of gas and transport and welcomes the inclusion of a demand management program to incentivise non-network solutions as part of it.</p> <p>The panel can not comment on the extent the forecasts used by AusNet are conservative.</p> <p>But in concept, the panel supports conservative forecasting when there is significant uncertainty when it favours underspending against overspending, which is appropriate in the current economic climate. However, some conservative forecasting – e.g., customer response to tariff signals – may lead to more expenditure. A summary showing the net impact on demand of the main categories of conservative forecasting would improve transparency – along with some estimates of the impact of changes in demand that would warrant regulatory reopeners.</p>	<p>Periodic reporting to stakeholders such as reporting to AusNet’s Customer Consultative Committee on tracking against forecasts would provide transparency and guide future forecasting.</p> <p>Any process for regulatory reopeners that may be introduced needs to be transparent and consultative with a clear customer benefit.</p>
	<p><i>Section 6.5:</i> Considered increasing the cost-sharing of supply upgrades needed to support electrification, but is not proceeding with this due to lack of support from the Coordination Group.</p>	<p>The panel acknowledge a need to consider the broader benefits for necessary upgrades to individual customer supply to enable electrification, but concludes that there is a strong case for this to be funded by taxpayers via a state government program rather than AusNet customers.</p>	<p>Not applicable.</p>

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
<p><b>Community energy solutions</b></p>	<p><i>Section 6.2:</i> Improved network data access and guidance material available to help community energy groups scope projects, including \$3m to expand and improve data sharing portals.</p> <p>\$1.5m operating expenditure step change for dedicated resources to better support communities looking to invest or partner in community energy solutions.</p> <p>Including capital investment in community energy solutions such as Stand Alone Power Systems ( SAPS), community hubs, mobile generators and emergency response vehicles of \$47m and \$8m operating expenditure for network resilience.</p>	<p>The panel supports giving greater access to data and modest investment to assist communities developing solutions to meet their own energy needs.</p> <p>We also support investment in community energy solutions where they are cost-effective ways to improve resilience with positive customer benefit.</p> <p>Distinguishing between the network benefit and other community benefits of community-driven projects should guide the degree to which AusNet co-invests.</p>	<p>AusNet should monitor usage of data sharing portals to help understand the value.</p>
<p><b>Efficient integration of renewables</b></p>	<p><i>Section 6.2:</i> Introducing Flexible Exports and optional two-way CER tariffs to increase hosting capacity without network upgrade4s; and investing \$35m in network upgrades to enable additional solar exports where the value – according to the AER’s Customer Export Curtailment Value (CECV) and Value of Emissions Reduction (VER) – exceeds the cost. (expected to unlock \$67m energy value and reduce 85.3 kt CO<sub>2</sub>.)</p>	<p>The panel supports a rapid transition to flexible exports in 2026-31 period because it helps avoid augmentation, sets up an approach that will be able to respond quickly to changing needs, and comes at a low incremental cost because it leverages already required investment for the new Emergency Backstop Mechanism obligations. The panel also recognises that there may be some social licence issues to manage with respect to solar orchestration and CER tariffs, and clear customer information about the value of CER and showing the net benefit of orchestration and pricing strategies will be needed.</p> <p>The panel supports efficient investment to further enable solar injections where there’s a</p>	<p>AusNet should report to stakeholders on the capacity and value of solar exports enabled and how this track with forecasts and compares to costs.</p>

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
		net benefit to customers. This reflects clear customer preferences.	
	<i>Section 6.3:</i> Capital expenditure of \$121m to increase network upgrades to connect large generation to the sub-transmission network (increase from \$108m which reflects expenditure in the 2026–31 for projects already in train).	<p>The panel agrees that enabling growth of renewable generation is important. There is majority support for the increased investment, but some panel members want more detail on net benefit compared to the alternative (transmission connection). However, it was recognised that with so many factors determining whether, when, and in what way projects might go ahead if unable to connect to sub-transmission, such an assessment is difficult to make with any confidence.</p> <p>As the cost impact on customers compared to status quo is marginal, the panel was comfortable supporting this proposal if there's a net benefit.</p>	<p>Our support is contingent on the AER approving the expenditure as prudent and efficient.</p> <p>Reporting on actual costs and benefits of these projects will assist transparency.</p>
	<i>Section 6.5:</i> Due to considerable forecasting uncertainty, connection costs related to new customer types ( <i>Public</i> EV chargers, hybrid facilities, grid-scale batteries, and data centres) are excluded from the capital expenditure incentive scheme (CESS) to limit adverse impacts on other customers.	The panel supports this approach as it is likely to have less impact on customers if investment is markedly different than expected.	The degree of known uncertainty in load growth for this period is unprecedented. Assessment at the end of the period of the expected impact on customers if these had been included in the CESS compared to the actual impact on customers due to cost pass-throughs or rebalancing would provide transparency and inform future approaches where forecasting is similarly uncertain.
	<i>Section 8.1:</i> Changes to tariff structures to allocate costs more fairly between customers with and without CER, and to better convey the value of CER in the system: <ul style="list-style-type: none"> <li>• Time-variant tariff with a solar soak period for residential customers – default opt-out</li> </ul>	AusNet worked closely with community stakeholders and the other Victorian distribution networks in developing the tariffs, and undertook considerable customer impact assessment. Originally proposing mandatory reassignment for residential customers, the	Refer Section 8 (Tariffs and Pricing).

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
	<p>for new connections and new solar and specific EV charger customers (with customers with specific EV chargers unable to opt-out), and opt-in for others.</p> <ul style="list-style-type: none"> <li>Optional two-way CER tariffs</li> </ul> <p>Refer Section 8 (Tariffs and Pricing) for further detail.</p>	<p>proposal was changed to opt-in for most existing customers after advice from the Victorian Government. The panel prefers the original proposal and has urged AusNet to promote the new tariff to existing customers who will benefit (in conjunction with additional, more targeted customer impact modelling to identify types of customers adversely impacted by the new tariff).</p> <p>Refer Section 8 (Tariffs and Pricing) for further detail.</p>	
<p><b>Using smart grid technology to improve network utilisation</b></p>	<p>Section 6.2: \$37m ICT investment and a \$9m operating expenditure step change to support flexible exports and dynamic network management:</p> <ul style="list-style-type: none"> <li>Flexible Exports for all new solar customers from 1 July 2026.</li> <li>New dynamic connection agreement and dynamic import and export services for commercial customers (e.g., EV charging stations), batteries and generators.</li> <li>Expanding and improving network data sharing portals, including network visibility and opportunities data.</li> <li>Simplifying and increasing opportunities for third parties to provide non-network solutions, through use of platforms and simplified contractual arrangements.</li> <li>Integrating systems with AEMO’s new announced CER Open Data Exchange, aimed at simplifying retailer and aggregator exchange of information with distributors</li> </ul>	<p>The panel supports efficient expenditure on dynamic management systems to increase utilisation and enable efficient CER. This reflects customer preferences to support renewable energy and enhance network performance while still prioritising affordability.</p> <p>The panel supports a rapid transition to flexible exports in 2026-31 period because it helps avoid augmentation, sets up an approach that will be able to respond quickly to changing needs, and comes at a low incremental cost because it leverages already required investment for the new Emergency Backstop Mechanism obligations. The panel also recognises that there may be some social licence issues to manage with respect to solar orchestration, and clear customer information about the value of CER and showing the net benefit of orchestration will be needed.</p>	<p>Reporting on the impact of these new measures on utilisation will give greater clarity of the value proposition and guide future innovation.</p>

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
	<p>and AEMO.</p> <p>These amounts are additional to the \$29m already required for the Victorian Government’s <i>Emergency Backstop Mechanism</i>, which provides part of the core functionality.</p>		
<p><b>Optimising customer outcomes &amp; unlocking CER value</b></p>	<p><i>Section 6.4:</i> Up to \$15m expenditure (expanded from \$7m in the last period) on the innovation program to develop and trial new approaches and tech to meet network needs, in areas like:</p> <ul style="list-style-type: none"> <li>• Network modelling and monitoring</li> <li>• Data access and sharing</li> <li>• Vehicle-to-grid</li> <li>• Energy storage</li> <li>• Electrification of gas loads</li> <li>• New types of tariffs.</li> </ul>	<p>The panel supports this expansion as these projects are important developing capability to make the energy transition, customers have expressed relevant preferences (preparing for low-carbon future, improving reliability, innovating to enhance performance) and the cost is modest.</p> <p>Support for this expansion hinges on maintaining and improving these critical aspects:</p> <ul style="list-style-type: none"> <li>• The existing governance approach is maintained and strengthened (codesigned with the Innovation Advisory Committee comprising key stakeholders)</li> <li>• Projects are appropriate for an innovation fund approach (rather than BAU investment)</li> <li>• Outcomes and learnings are shared with other networks and relevant stakeholders</li> <li>• Funded under a ‘use it or lose it’ model – the budget allocation is a cap, not an amount that must be spent.</li> <li>• The panel notes that the above aspects are all part of Ausnet’s proposal and have all characterised the current period’s innovation program. The Innovation Advisory Committee reports that these criteria have been met but</li> </ul>	<p>Clear reporting on project outcomes to stakeholders, and articulation of how the findings will lead to new BAU projects and processes.</p>

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
		has recommended (and AusNet agreed) that the codesign aspect could be strengthened.	

## 6.3 How AusNet's draft proposal reflects consumer preferences

These initiatives are broadly supported by the panel and also AusNet's customers, according to the consultation and research AusNet has undertaken. Evidence of this is expanded on in the sub sections below.

However, there are some unanswered questions about aspects of the customer research that should be clarified if firmer conclusions are to be drawn from the findings, as discussed in Section 6.6.

### 6.3.1 Electrification of gas and transport

#### *Customer intentions for electrification*

Recognising that the electrification of gas appliances is a relatively new concept for many people and that some of the alternatives are not widely known, AusNet's research on customers' views and preferences about electrification used different ways of asking questions to get a clearer picture.

Research asking customers when they expect to electrify found that around a quarter expect to electrify their gas appliances within ten years, while almost half expect to retain some gas appliances. Customers who experience prolonged outages are more likely to expect to keep some gas appliances.

Research asking customers how they would replace their existing gas appliances at end-of-life consistently shows a distinct preference for electrification of gas hot water systems, cooktops and heating (around three-quarters or more of customers) with a smaller majority (60-75 per cent) expecting to replace a gas oven with an electric one. The exact proportions move around but over time, but the trend is clear (though the timing is not).

It's likely that people find it more tangible to think of specific appliances than the more abstract concept of electrification, and that many expect their existing appliances to last more than ten years. Still, these findings make a good case that preparing for electrification is in customers' interests and will meet their needs.

The research results on EVs are more straightforward: almost half of AusNet's residential customers and almost a third of small and medium business customers intend to purchase an EV in the next ten years.

However, stated preferences do not always match decisions or behaviour. Currently only eight (8) per cent of new car purchases are EVs<sup>49</sup>, while mass electrification of gas appliances has yet to take off, so current trends will need to change significantly for these forecasts to hold.

#### *Customer appetite for orchestration*

AusNet's proposal for a demand response program is a good complement to the augmentation plans to support electrification. And the preparedness of around a third of customers to shift usage if incentivised – and for AusNet or their electricity retailer to manage it – demonstrates support for it.

It's worth noting that the customer research on load shifting preference and incentives indicates that there is still considerable caution about orchestration, especially on its interaction with amenity. Ensuring that load shifting can be done while preserving

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<sup>49</sup> <https://evcentral.com.au/2024-electric-car-sales-in-australia-a-deep-dive-into-the-state-of-the-ev-market-led-by-tesla-and-byd/>



amenity and that customers understand this will be critical. With this understanding, it is likely that more customers would be open to load shifting. And this is supported by Monash University's Digital Energy Futures research, which found that people were generally open to automation of appliances.

### **6.3.2 Community energy solutions**

Engagement on customer service issues has indicated a strong preference from customers involved with community groups for more support from AusNet with regard to community energy projects. The modest expenditure proposed for this is an appropriate response, and AusNet's proposal to invest in projects where there's a network benefit in resilience or reliability is consistent with the general principles of investing where the benefits exceed costs.

### **6.3.3 Efficient integration of renewables**

AusNet's CER integration proposals generally reflect customer needs and expectations, as indicated by customer intentions and preferences expressed in the customer research undertaken by the business.

- Almost half of AusNet's residential customers and around a quarter of small and medium business customers intend to purchase solar and/or a battery in the next decade. This is in line with other Victorian DNSP and statewide forecasts.
- AusNet customers generally indicated they support expenditure to enable CER, some orchestration of solar and batteries, and (when given the time and information to understand how it works and its impact, and having their suggested adjustments reflected in the tariff) the proposed time-of-use tariff with solar soak period.
- Monash University's Digital Energy Futures research, also referenced by AusNet, found that people were generally accepting of some orchestration of CER if it enabled them to make better use of it, and changes in the way energy is paid for so long as it is fair.
- The proposal to invest in capacity to enable more connections of large renewable generation and storage to the sub-transmission system aligns with AusNet customers' expressed preference for the business to help prepare the network for a low-carbon future and more generally support the energy transition.

However, it's important to note that research indicates these preferences rank lower in importance than affordability, which was the number one issue for most customers. This means it's critical that in preparing its final proposal AusNet consider affordability further including total cost, price levels and price paths.

### **6.3.4 Using smart grid technology to improve network utilisation, and optimising customer outcomes & unlocking CER value**

*ICT investment for dynamic network management, data platforms and flexible services*

Increasing utilisation leads to lower network costs overall – this lowers costs for customers, especially if cost-reflective tariffs allocate the savings fairly. AusNet's customer research also found that customers generally support AusNet enabling renewable energy and enhancing network performance while still prioritising affordability. Thus investment in this should be guided by whether costs exceed benefits without increasing customer bills.

*Innovation program*

Customers have expressed support for innovating to enhance network performance cost-effectively; and the proposed focus areas for the innovation program relate to issues customers have expressed support for: smart network management, CER enablement, electrification and tariff reforms. This suggests that the innovation program, providing it

has positive outcomes overall and is appropriately governed and undertaken, is in line with customer preferences. AusNet has committed to doing further customer research on support for innovation expenditure.

## **6.4 Impacts on other elements of AusNet's draft proposal**

### **6.4.1 Relationship with tariff proposals**

Many of the Future Network proposals interact with the tariff proposals in a number of ways:

- Orchestration of CER and load affects the degree to which tariff value signals are needed to guide investment and improve utilisation.
- The value proposition of future network led investment for customers hinges on the degree to which tariffs allocate costs fairly to customers.

Overall, initiatives to support electrification, integrate CER, advance dynamic network management and allocate costs appropriately all affect each other, and the best customer outcomes will flow from all these initiatives being well-designed and successfully implemented.

### **6.4.2 Valuing the benefits of investment**

Assessing the net benefit of investment to address CER enablement and to support electrification of gas and transport requires valuation of avoiding unserved energy and enabling additional energy flows in the same way that investment for reliability and resilience does. Thus, the question of whether to use the AER's VCR or a more network-specific VCR (based on more accurate metrics and is more reflective of customer preferences) such as the one derived from AusNet's QCV study arose in the Future Networks panel in the same way it did for the Availability panel. The Future Networks panel came to the same conclusion as the Availability panel on the merits of using the QCV VCR values for residential customers, which is described in more detail in Section 5.4 above. In particular, the panel's view was that if it is used at all, the QCV VCR should be used wherever VCR is used with respect to residential customers in the interests of consistency.

The modelling undertaken by AusNet to illustrate the implications of using the QCV VCR instead of the AER's VCR was shared and discussed with the panel. In some applications, the additional expenditure unlocked by the QCV VCR (due to the higher value it placed on unserved energy) was relatively minor, but in others it was more significant. The panel's view is that where the bill impact on customers compared to what the AER's VCR would deliver is material, AusNet should plan investment in such a way as to mitigate price shocks.

- The panel's support for use of the QCV residential VCR is also contingent on the AER being satisfied that these values are suitably robust and have been applied in a consistent manner.

### **6.4.3 Impact on reliability and resilience**

Many of the measures taken to support electrification, enable CER integration and facilitate the energy transition will likely contribute to increased reliability and resilience in some areas of the network, depending on the extent that these measures lower demand and enhance local energy availability and the degree to which these outcomes reduce maintenance requirements and outage severity and time. Section 5.5 of this report discusses these factors (with regard to how they could be improved by resilience and reliability investment more specifically) in more detail.

## 6.5 Overview of AusNet's engagement with the panel

AusNet met nine times with the Future Networks panel in addition to the attendance at the three all panel offsites with other AusNet stakeholders:

- Seven times between March 2023 and March 2024 to collaboratively develop the focus questions and explore how to address them. AusNet was very responsive to the panel's input, and the panel played a key role in shaping and finalising the focus questions.
- Once in June 2024 for a deep dive into costed options for CER enablement and enabling electrification (as well as to discuss opportunities and options for the smart meter replacement program).
- Once in August 2024 to revisit aspects of proposals to address the focus questions that were not yet settled, in preparation for the combined panels workshop later in August.

AusNet showed a strong commitment to engaging deeply with the panel, providing comprehensive background material and useful analysis to guide discussion and decision-making. AusNet was responsive to panel views, adjusting proposals in response to feedback, choosing options supported by the panel, and withdrawing proposals when the panel made a strong case to do so (for example, the proposed Export Services Incentive Scheme, which the panel determined was not needed due to no evidence that there was scope for a higher level of service beyond what was already justified by existing obligations). Generally, the engagement ranged from the "consult" to "collaborate" levels of the IAP2 spectrum of public participation with most being around the "involve" and "collaborate" levels.

## 6.6 The panel's view of areas where further work may be required

### 6.6.1 A plan to promote voluntary uptake of cost-reflective network tariffs

Feedback from the Victorian Government on residential tariff reassignment led AusNet to walk back from its initial proposal to reassign all customers to the new time-of-use tariff, a revised proposal to only reassign new connections, and existing customers with new solar and battery connections and those installing EV chargers requiring a modified connection – making the tariff opt-in only for other customers. The panel recommends that AusNet proactively encourage customers to opt in by promoting the benefits and by doing additional targeted tariff impact assessment to identify customers who may be unduly impacted by the new tariff and working with the government on strategies to manage those impacts.

### 6.6.2 Building a stronger case for investment to support large renewable connections

The panel agrees that enabling and thus encouraging more utility scale renewable and storage connections to the sub-transmission network is likely to advance progress toward emissions reduction targets and will benefit AusNet customers if the expenditure is efficient (as proposed). However there are different views on whether this is the best approach without clear analysis demonstrating that it is more beneficial to AusNet customers than if the sub-transmission investment is not made and these projects ultimately connected to the transmission network. At the same time, the panel recognised the difficulty in comparing the net benefit of sub-transmission and transmission connections with any confidence. The panel nevertheless supported the proposal. Clear reporting of costs and benefits of projects undertaken during the period will give greater clarity about the value of this type of investment to AusNet customers.

### 6.6.3 Reflecting customer preferences on affordability

AusNet should consider customers' affordability preferences and implications for the final proposal at a holistic level.

AusNet customers (especially residential) ranked affordability higher than their other preferences – suggesting that while other things were also important to them, affordability was their highest concern. This should include considering areas where discretionary programs can be changed or delayed if the overall price implications are perceived to be excessive.

## 6.7 Responses to AusNet's draft proposal future network related questions

This Section provides our responses to the questions in AusNet's draft proposal on the topics of growth, electrification and renewable energy sources.

- *We have proposed what we feel are conservative forecasts for electricity demand (i.e. leaning lower than we expect). Do you agree they are conservative? (AusNet consultation question 13)*

### **Our response**

The panel is not in a position to judge whether these are appropriately conservative forecasts. However, the approach taken does produce more conservative demand forecasts than the alternatives in most cases; though conservative forecasts in relation to the level of demand response to orchestration or tariff signals leads to higher demand forecasts, and it's not clear how these opposing dynamics interact.

- *The conservative forecasts are designed to take the pressure off prices, and reduce customers' exposure to the risks of demand forecasts being wrong. Do you think this is the right approach? (AusNet consultation question 14)*

### **Our response**

The panel supports the principle behind using conservative demand forecasts, with an option to reopen if demand increases at a materially higher rate become more predictable. This approach leads to lower prices now, but possible price increases later. The rationale for supporting assumptions that result in lower demand growth forecasts is twofold:

- Cost of living pressures currently being experienced by customers favours lower prices now even if they may increase toward the end of the decade; and
  - There are likely to be more options and possibly cheaper solutions for managing demand growth in the future if required, due to better understanding of demand trends, technological advances, and more experience with innovative solutions.
  - The panel notes though that conservative demand response forecasts could lead to some over-forecasting of demand at certain times, and this must be considered in the overall impact of demand forecasts.
- *What do you think of the proposal to move to flexible exports? (AusNet consultation question 15)*

### **Our response**

It's long been clear that flexible exports will be an essential part of making an equitable transition to the future grid. Flexible exports are complementary to value-reflective tariffs. Delays in tariff reform means that flexible exports will need to do

more of the heavy lifting for managing the growth of CER that is expected in the near future.

- *Do you have any feedback on our proposed distributed system operator (DSO) initiatives? (AusNet consultation question 16)*

**Our response**

Flexible exports are one aspect of the broader suite of DSO initiatives. It's worth noting that one part of this suite, the Emergency Backstop mechanism capability, is non-negotiable as it has been mandated by the Victorian Government – and implementing that creates the platform on which many of the other initiatives will be based, reducing the marginal cost of those other initiatives. The panel supports the development and growth of these capabilities at a rate that is consistent with delivering a net benefit to customers; but notes that value-reflective tariffs will be required to share costs fairly, and delays in tariff reform could impact some customers during the transition.

- *Do you support additional planning and investment in the sub-transmission network to enable large generators to connect where efficient? (AusNet consultation question 17)*

**Our response**

The panel supports this in principle but would like to see clear reporting of actual costs and benefits as projects are implemented to give greater confidence that customers are getting value.

- *What do you think of the design of the \$15m innovation fund and governance? (AusNet consultation question 18)*

**Our response**

The panel strongly supports this expansion contingent on maintaining and (where necessary) improving these critical aspects:

- The existing governance approach is maintained and strengthened (codesigned with the Innovation Advisory Committee comprising key stakeholders)
- Projects are appropriate for an innovation fund approach (rather than BAU investment)
- Outcomes and learnings continue to be shared with other networks and relevant stakeholders
- Funded under a 'use it or lose it' model – the budget allocation is a cap, not an amount that must be spent (this is consistent with the current approach).

## 7 Customer experience

The Customer Experience panel was established to consider the needs and preferences of AusNet's customer base, to advise AusNet on the service levels customers value and expect and recommend how customers might want to interact with AusNet now and into the future. The panel's role included deep dives into five key questions relevant to this hypothesis. The panel's engagement focused on: customer pain points, diverse customer groups' experience with energy, review of the Customer Service Incentive Scheme (CSIS) and development of accountability mechanisms to ensure commitments are delivered.

The Customer Experience panel comprised:

- Emily Peel (Lead)
- John Mumford
- Jeff Nottle
- Mark Grenning
- Piang Lillian
- Tony Robinson
- Jonathan Kneebone
- Lynne Chester (to June 2023)

### 7.1 Customer experience panel focus questions

In completing our work the panel considered the following focus questions:

- How might we design a CSIS that delivers maximum benefit for customers? [**Review and update the CSIS**]
- How might we minimise the adverse impacts of outages on customers<sup>50</sup>? [**Outages**]
- How might we ensure fit-for-purpose service for all customers, including those with specialised support needs? [**Fit for purpose service**]
- How might we meet customers' preferences on the form, content and frequency of communication, as well as educational material that improves customer experience? [**Customer communications**]
- How might we design connection processes that meet evolving customer expectations, across all our customers? [**Customer connections**]

### 7.2 How AusNet's draft proposal responds to the focus questions

Table 7.1 on the following page summarises:

- the areas where AusNet's draft proposal addresses the focus questions
- our response and perspectives – noting these are covered in further detail in Section 7.3
- How AusNet could be held accountable to deliver on any commitments in the draft proposal.

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<sup>50</sup> This focus question was also considered by the availability panel.

Table 7.1: AusNet's draft proposal and Customer Experience panel focus questions

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
<b>CSIS</b>	<i>Section 7.2 - AusNet is proposing refreshed CSIS metrics and an increase in the revenue at risk to 1 per cent. Refer to Figure 31: Proposed CSIS elements for 2026-31.</i>	The Panel supports the proposal, provided that the metrics are sufficiently challenging and that customers are not paying twice, i.e. they are not funding a significant increase in capital expenditure. Panel members anticipate that prior to the finalisation of its revenue proposal, AusNet will consult on these metrics.	The panel's support for this is on the understanding that customers will not pay twice for service improvements, whether through the CSIS or ex ante expenditure allowances. We look forward to further consultation on these stretch targets.
<b>Outages</b>	<i>Section 7 - AusNet has proposed a broad range of improvements to communications around and the timing of planned outages. AusNet is proposing to keep unplanned outages in the CSIS (7.1), reduce the impact of outages on customers and communities by uplifting its customer relationship management (7.3) and increase the accuracy and timeliness of outage communications (7.5) As these are part of a broader customer experience investment program there is not a specific dollar cost attached.</i>	The panel would like to see Unplanned Outages explicitly included in the Customer Commitments (Table 5).  The panel supports proposed improvements especially around providing clear, accurate, timely and informative messaging to customers and offering customers a variety of ways for receiving notifications. Communications should specifically include why the planned outage is occurring and the expected improvement of the network because of the planned outage works.  This is on the proviso that it does not materially add to AusNet's cost base and customers do not pay for the same service twice.	AusNet should continue to report on the accuracy of restoration times and customer satisfaction with planned outages, as well as the percentage of planned outages that are cancelled or deferred.
<b>Fit for purpose service</b>	<i>Section 7.3, 7.4 and 7.5 - AusNet proposes customer relationship managers who are intended to provide customised and targeted services for commercial customers to meet their specialised needs.</i>	The Panel is supportive of AusNet addressing this issue and supports each individual expenditure category.	Updates on this program should be communicated to a restructured Customer Consultative Committee, to ensure it is effectively representing customers and adheres to a clear set of obligations.

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
	AusNet proposes to create a targeted communications campaigns to better align with its customer diversity and invest in digital systems to improve the customer experience for those with specialised support needs. Improving systems for capturing and tracking data on customers' specialised needs and vulnerabilities, will enable more targeted communications campaigns and other services like claims assistance.		
<b>Customer communications</b>	<i>Section 7.4 and 7.5</i> - AusNet proposes to uplift its broader customer communication through a targeted communications campaign and invest in digital systems to improve customer experience - both which will focus on the content, form and types of communications.	The Panel is supportive of AusNet addressing this issue and supports each individual expenditure category.	Updates on this program should be communicated to a restructured Customer Consultative Committee, to ensure it is effectively representing customers and adheres to a clear set of obligations.
<b>Customer connections</b>	<i>Section 7.5</i> - AusNet proposes to invest in digital systems to improve the customer experience which includes allowing for continuous connections process improvements for both small and large customers.	The Panel is supportive of AusNet addressing this issue and supports each individual expenditure category.	Updates on this program should be communicated to a restructured Customer Consultative Committee, to ensure it is effectively representing customers and adheres to a clear set of obligations.



## 7.3 How AusNet's draft proposal reflects consumer preferences

The panel notes that AusNet's draft proposal addresses the services considered important in the feedback from consumer engagement and discussion groups with the Coordination Group. It remains to be seen if customers are prepared to pay for these services in totality.

The panel believes the proposed Customer Experience investment will enable AusNet to better respond to a wider range of customer needs in the future. Notably, the panel has identified a critical need for improvements in accessible customer communications, emphasising the importance of enhancing accuracy, reliability, and specificity across all channels.

Additionally, there is a need for dedicated customer service relationship managers and increased accountability into the next reset. Importantly, the investment responds to the sentiments expressed through robust customer satisfaction research as well as the service requirement needs raised with the panel members during customer interviews. Given we have yet to see many details on the costing of these various initiatives we are not able to say whether there is an appropriate balance between the benefits of these initiatives and affordability concerns that are the most important issue for customers.

In addition to the discussion panel members had with AusNet about developing a more effective response to customer service requirements, AusNet also sought to enhance a series of customer experience commitments that arose as a result of the Customer Forum seeking to make AusNet accountable not just through 2022-26 but into the next reset. AusNet's advised that it will be aligning its response with the discipline of the Energy Charter which it became a signatory to following the recommendation of the Customer Forum in the previous reset. The panel members support the proposed recalibration of this reporting but also want to see additional forms of accountability to customers such as through the AusNet's Customer Consultative Committee.

### 7.3.1 Further detail and considerations on customer preferences and feedback

Customer feedback received by the panel from both residential and commercial customers indicated that there is more AusNet needs to do to meet its customers' expectations. This aligns with AusNet's own evidence which shows that customers satisfaction is dropping over time<sup>51</sup>. Reconciling the *customer satisfaction* recorded through the organised research and the *dissatisfaction* of customers interviewed in the two regions was the subject of considerable discussion by the panel.

Panel members recognised that customer research tools used by the electricity industry involve small numbers of customers compared to the total base.<sup>52</sup>

These examples collectively point to the need for AusNet to enhance its operational responsiveness, communication, and customer service to better meet customer expectations and improve overall satisfaction.

Through mid-2024 panel members advised AusNet that customer service levels needed to be improved in order to meet customer service requirements and that consideration needed to be given to dedicated customer relationship managers, a preference frequently expressed by customers during the customer interviews. AusNet proposed a new customer responsiveness function, but Customer Experience panel members argued

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<sup>51</sup> Slide 43 – EDPR August 2024 Offsite Research Evidence Pack

<sup>52</sup> The Energy Sentiments Research program involves 300 residential and 100 business customers out of a customer base of over 800,000.

that it needed to be better focussed on actual customer managers charged with developing relationships with specific customers. As a consequence of this feedback AusNet has proposed dedicated commercial customer engagement and support as well as community engagement managers as part of their draft proposal.

## **7.4 Impacts on other elements of AusNet's draft proposal**

It is important to note that the Customer Experience initiatives come with associated costs. Whilst the panel is supportive of the initiatives within the context of each individual expenditure category, the panel has not been provided with a total cost of all categories. Once provided a proper assessment can be completed and customer experience cost increases should be further considered against all other cost increases customers may experience, and an overall decision on affordability must be balanced in a way to ensure that any proposed enhancements do not impose undue financial burdens on customers.

## **7.5 Overview of AusNet's engagement with the panel**

The panel has met eight times for 2–3-hour meetings since its establishment in March 2023. In addition, the panel's work has progressed at the three off-site AusNet meetings at which customer experience discussion and agreement was confirmed: Yarra Ranges (August 2023), Epping (March 2024) and Yarra Valley (August 2024). These two-day events provided valuable opportunities for broad discussion with AusNet as well as ratification of progress being made by the different panels.

Panel members were also involved closely in two elements of AusNet's customer research and engagement program:

- Members observed selected Customer Workshops in each of the rounds conducted to date at Epping, Morwell and Wangaratta where they learned first-hand about customers' expectations of AusNet with a particular focus on 2026-31 and beyond.
- Panel members also participated in the Customer Interview Program initiated through the Coordination Group (see Section 4.3 for details) in which customers across AusNet's service area consistently indicated their dissatisfaction with their customer experience.

AusNet has responded positively to the feedback provided by panel members around customer service and acknowledges that its attention over recent years to these concerns has not been consistent.

### **7.5.1 Engagement over February 2024 storm events**

The panel also met regarding AusNet's response to the Victorian February Storm event. On February 13, 2024, severe storms struck large parts of Victoria, causing significant damage to the state's electrical transmission and distribution systems. Approximately 12,000 kilometres of distribution lines and 1,100 powerlines were impacted, resulting in over a million customers losing power. The worst-hit network was AusNet's, where 360,000 customers went off supply, and the network experienced 1,863 faults, the highest number ever recorded. The most affected areas included Mirboo North, Cockatoo, Emerald, Gembrook, Monbulk, and Upper Beaconsfield, some of which had been severely impacted by a storm less than three years prior.

The collapse of transmission towers and a 500-kilovolt line failure led to the disconnection of the Loy Yang A power station from the grid, causing load-shedding. Many customers remained without power for days, with 20,000 AusNet customers off supply for three days and around 3,000 still disconnected a week later. The event also caused the loss of power to around 1,100 mobile and broadband carrier network sites, leading to widespread communications system failures.

For AusNet customers, the loss of power was compounded by the collapse of the distributor's communications capacity. This affected the operation of AusNet's call centre, SMS service, and Outage Tracker, an internet-based service advising customers of the cause and approximate location of faults along with an estimate of the time supply would be restored. The Outage Tracker was non-functional for almost 185 hours, and where SMS advice notices were sent, the information was often general and of little value.

In the aftermath of the storm, AusNet's communications system was overwhelmed by a large volume of inquiries from customers whose supply had been interrupted. Despite experiencing large storms in June (297,000 customers lost supply) and October 2021 (526,000 customers lost supply), where the communications capacity was challenged but did not collapse, the exact reasons for the February 13 communications failure have not been made public.

The impact of the storms was uneven across the network, and customers expressed multiple frustrations during an online Working Group session in March. Concerns included: the loss of telecommunications, extended confusion over power restoration timelines which lessened the capacity of customers to manage their day to day lives, financial losses from spoiled food exacerbated by the already high cost of living pressure, and some customers indicated they could not afford to replace all the food they lost, lack of readily available compensation for customers who experienced loss was widely felt to be unfair and the expense of having to purchase and operate generators. The cumulative effect of repeated outages and the communications failure had a noticeable impact on customers' mental health. The common need of customers was to see AusNet effectively address its failings and minimise future outage event impacts on them.

In contrast, Epping Working Group participants reported minimal impact due to the largely undergrounded network in the outer northern suburbs. The panel believes that the failure of the Outage Tracker was a fundamental failure by AusNet to meet customer expectations. At a time of great need, the inability to understand when supply might be restored exacerbated anxiety and made it harder for customers to plan how to adjust to the days ahead. While customers understand that networks cannot prevent storms and that repairs take time, they expect accurate information on repair progress. Unfortunately, AusNet was unable to meet this fundamental need for over a week.

Panel members involved in the previous AusNet reset noted no pre-existing concern within the business about lacking funds to maintain communications during storms. Some of the previous reset's proposed capital expenditure investment was intended to improve communications and management of outages. Improvement of the outage tracker, customer contact centre and the claims process were Customer Commitments made by AusNet in the 2021-2026 period which have not been delivered. This failure exacerbated the customer experience in the February 2024 storms. Customers made it clear in their feedback to panel members that AusNet's communications failure was unacceptable and should never happen again. AusNet needs to ensure that its service can withstand heavy demand following storm events and other natural disasters.

Panel members anticipate that in coming weeks, prior to the finalisation of its revenue proposal, AusNet will discuss the measures it intends to take to ensure this outcome. We need to have confidence that any proposed additional expenditure to improve the communications system is not simply paying twice for something that previous expenditure failed to efficiently address.

## **7.6 The panel's view of areas where further work may be required**

We have noted that further consideration is required on overall affordability of all Customer Commitments in relation to the total cost for consumers. The Coordination Group has requested additional material be presented and anticipates it will be discussed prior to the final proposal being completed.

At a panel level we await more detail on costs and / or other information before being able to support a specific proposal on:

- The targeted communications campaign
- The proposed Customer Relationship Management (CRM) System
- The terms of reference, make-up, agenda and cadence of any Customer Consultative Committee

## 7.7 Responses to AusNet's draft proposal customer experience related questions

This Section provides our responses to the questions in AusNet's draft proposal on the topic of customer experience.

- *What do you think of these customer commitments? Are there any missing? (AusNet consultation question 19)*

### **Our response**

There is a customer commitment missing in relation to explicitly addressing improving unplanned outages.

Amendment suggested to Section 7.1 of the AusNet draft proposal, Table 5 , Commitment - Significantly improve customer experience by making customer's interactions with AusNet quicker and easier and fixing customer pain points:

Sub-commitment:

"Regular check-ins with our Customer Consultative Committee on progress against the proposal commitments, and engaging on forward plans to deliver against them"

change to:

"Regular check-ins with our Customer Consultative Committee on progress against the proposal commitments, *and any changes to our agreed EDPR commitments* as well as engaging on forward plans to deliver against them"

- *What do you think of this CSIS design? (AusNet consultation question 20)*

### **Our response**

The Panel supports the proposal, provided that the metrics are sufficiently challenging and that customers are not paying twice, i.e. they are not funding a significant increase in capital expenditure. Panel members anticipate that prior to the finalisation of its revenue proposal, AusNet will consult on these metrics.

- *Do you see value in customer relationship managers for commercial customers? (AusNet consultation question 21)*

### **Our response**

Yes. This is consistent with the feedback we received from most business customers we interviewed. Business customers want a dedicated and knowledgeable human

AusNet person they can contact direct who can address their specific needs acted upon quickly.<sup>53</sup>

Customers appear to have greater faith in dedicated human resources than either a general inquiry line or an on-line AI generated tool.

Some customers recalled that AusNet had previously funded dedicated customer engagement managers and expressed a desire for that support to be reinstated<sup>54</sup>.

- *Are there any other areas of communications we should be focusing on? (AusNet consultation question 22)*

**Our response**

The proposed building customer agency pillar is too vague. It should clearly include and outline the proposed customer education campaigns AusNet are going to undertake.

- *Does our investment proposal address interactions that customers want to see improved? (AusNet consultation question 23)*

**Our response**

The categories of proposed investment do address the interactions that customers want to see improved. While AusNet presented the Coordination Group with proposed capex expenditure in a range of categories, we are unable to assess whether that expenditure will prudently and efficiently achieve those improvement areas. That is the role of the AER.

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<sup>53</sup> *Lack of a dedicated point of contact* - A common refrain of dissatisfied customers was that the only available recourse was to contact AusNet on a 1300 number. None said that calling provided constructive advice or a quick resolution of the problem they confronted.

<sup>54</sup> Customers appear to have greater faith in dedicated human resources than either a general inquiry line or an on-line AI generated tool. Some customers recalled that AusNet had previously funded dedicated customer engagement managers and expressed a desire for that support to be reinstated.

## 8 Tariffs and pricing

The Tariffs and Pricing panel was established to provide input and expertise to help AusNet design and implement network pricing that reflects customer behaviour and how customers interact with electricity. This includes how best to transition customers to new tariffs as part of the energy transition.

All members of the Tariffs & Pricing panel have a professional and/or personal interest in tariffs and include AusNet customers, a retailer, customer advocates and tariffs experts. Members are:

- Chris Harvey
- Dean Lombard
- Emma Chessell (to February 2024)
- Gavin Dufty (Lead)
- Jeff Nottle
- Kate Hansen
- Nick Mason-Smith

### 8.1 Tariffs and pricing panel focus questions

In completing our work the panel considered the following focus questions:

- How might we allocate revenue across different tariff classes in a balanced, justified and proportional way, that also provides support for customers with specialised needs? **[Tariff allocation]**
- How might we better analyse and understand customer impact, including understanding the impact of ‘doing nothing’, to help us make more informed decisions? **[Customer impact analysis]**
- How might we use tariffs to enable and facilitate an energy transition without unexpected downside impact, and reflect the value of CER in the energy system irrespective of their specific technologies? **[Facilitate transition]**
- How might we build customers’ agency on tariff choices, and smoothly support customers to transition to cost-reflective tariffs? **[Customer agency]**
- How might we ensure tariff design reflects agreed pricing objectives? **[Tariff design and objectives]**

### 8.2 How AusNet’s draft proposal responds to the focus questions

Table 8.1 below summarises:

- the areas where AusNet’s draft proposal addresses the focus questions
- our response and perspectives – noting these are covered in further detail in Section 8.3
- How AusNet could be held accountable to deliver on any commitments in the draft proposal.

Table 8.1: AusNet's draft proposal and tariff and pricing panel focus questions

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
<b>Tariff allocation</b>	<p>Cost allocations between customer classes has not been discussed within the draft proposal. However, Section 8 of the draft proposal with its focus on “solar soak” type tariffs does seek to reallocate costs within customer classes.</p> <p>We discussed revenue allocation in our third Tariffs and Pricing meeting, on 27 September 2023. The key takeaway from that discussion was that there is not enough flexibility for networks to make significant re-allocations between tariff classes</p> <p>We note this has been done to support the energy transition laying durable pricing foundations as new technology is introduced and to assist in unwinding current and limit future cross subsidies within customer classes.</p>	<p>We note that there has been no consideration of cost allocations between customer classes. Where within customer class allocations have been considered we also note that this has been muted due to the opt-in policy adopted by the Victorian Government.</p>	<p>The regulatory framework and government policy directions will be the primary mechanism to hold AusNet accountable for implementing tariff reassignments.</p>
<b>Customer impact analysis</b>	<p>Section 8 of the draft proposal confirms that AusNet have undertaken significant modelling of various scenarios at the request of the panel to explore the customer impacts by segment under different assumptions.</p>	<p>The panel appreciates AusNet’s analysis and assessment however is disappointed that the Victorian Government has not approved the mandated reassignment to new sun-soaker tariffs, this has implications for efficient CER update and other less than optimal outcomes (i.e. efficient investment more broadly and lower costs to consumers).</p>	<p>Not applicable: this analysis is an input to the development of tariffs proposed and not an area AusNet can be held accountable for any commitments.</p>
<b>Facilitate transition</b>	<p>Sections 6.1, 6.2 and 8 of the draft proposal note that the proposed tariff structures would not only support the energy transition (electrification of transport and reticulated gas) but also help redress the significant cross subsidies that currently exist between solar and non-solar households. It also provides solid foundations that limit future cross subsidies as more behind</p>	<p>The panel appreciates AusNet’s efforts in addressing their requirements but believes the Victorian Government intervention limits optimising the energy transition.</p>	<p>The regulatory and policy framework will be the primary mechanism to hold AusNet accountable for any commitments.</p>

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
	the meter assets are installed by households on the AusNet distribution network		
<b>Customer agency</b>	<p>Sections 7 and 8 of the draft proposal note the need to build customer agency and will include the development of an education campaign in this regard.</p> <p>The tariffs proposed by AusNet will also in the medium to long term offer the opportunity to improve consumer agency.</p>	<p>The panel notes and appreciates AusNet’s approach to building customer agency. However the panel also notes that tariffs and AusNet are only one part of the overall supply chain and to give strong effect to any changes need a whole of industry and government response.</p> <p>The government policy of opt-in will necessitate AusNet to work hard to ensure uptake is maximised to ensure overall consumer and network benefit is realised. This will also have direct impacts to the proposed initiatives and benefits outlined in section 6 of the draft proposal.</p> <p>Hopefully some of the issues will be resolved with the work stream announced by the AEMC - Electricity pricing for a consumer driven future</p>	<p>AusNet will need to be held to account to deliver the strategies noted in Section 7.3 of their draft proposal that covers:</p> <ul style="list-style-type: none"> <li>• building consumer agency</li> <li>• improving diversity this particularly relates to CALD communities</li> <li>• Supporting the energy transition</li> <li>• Resilience and preparedness</li> </ul> <p>The Customer Consultative Committee is an appropriate forum to assist in providing accountability and transparency.</p>
<b>Tariff design and objectives</b>	<p>Section 8.1 of the draft proposal notes that there needs to be flexibility in any tariff design to enable adaptation to changes.</p> <p>Notwithstanding that there are elements of the design included in the draft proposal that respond to objectives such as the solar soak tariff.</p>	<p>The panel notes that proposed tariff design and objectives are sound as they align with the other Victorian DNSPs and hence mean a consistent foundation across the Victorian jurisdiction. This will both benefit consumers and their “agents” such as energy retailers.</p> <p>AusNet has been responsive to panel requests and has worked collegiality with other Victorian distribution businesses to ensure consistency and across the state.</p>	<p>Noting the need for flexibility in design, the regulatory and policy framework will be the primary mechanism to hold AusNet accountable for any commitments it makes on tariff design.</p>



### 8.3 How AusNet's draft proposal reflects consumer preferences

We believe that the draft proposal is not reflective of consumer preferences, due to the impact of the broader Government policy context the Victorian distribution companies are operating within.

The consumer preferences reflected in the draft proposal were developed through both direct engagement particularly focused on engagement with key stakeholders including consumer representative groups, government representatives, energy industry participants additional research on preferences was undertaken with households and communities in the AusNet network area. This engagement and research was part of a broader engagement undertaken by all Victorian electricity DNSPs. This was to ensure there was consistency in tariff design across the state. This broader engagement was welcomed by consumers as it will support continuity and consistency within the broader energy market.

The joint electricity DNSP tariff consultation explored in detail various tariff propositions, including not introducing tariff reform and the implications of no new tariffs, and various new tariff options such as time of use tariffs and two-way pricing. In addition, consultation included time of use tariff structures and reassignments, time of use price signals and a community energy resource tariff.

Consumer preferences were supportive of the introduction of a solar soak tariff with a shorter peak period and keeping the tariff consistent throughout the year.

***"A solar soak tariff is a great idea for businesses, many are in a position to benefit."<sup>55</sup>***

Consumers were also supportive of both assigning new customers onto and reassigning all existing consumers to the (daytime saver) time of use tariff on the date of the commencement of the electricity distribution price review 2026 - 2031.

This reassignment to new tariffs had the caveat that education and information informing of the change would be forthcoming, and warnings and messaging to consumers were seen as critical to inform and assist consumers of the change to tariffs so they could optimize their situation and were aware of the impacts this may have for them.

Key consumer support for these changes were:

- Enabled the transition to net zero
- Addressed concern about the current and potential continual and growing cross subsidy between solar and non-solar households.
- Created the foundation for a broader energy transition such as the electrification of reticulated gas, transport and other behind the meter investments that household will make such as home batteries.

In this context the introduction of daytime off peak time of use tariffs (solar soak / daytime saver tariffs) would in part address this issue. The option of doing nothing was seen as not tenable as the current cross subsidy with the future forecast for solar penetration make it incredibly regressive and not sustainable. This coupled with an

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<sup>55</sup> Customer interview by Coordination group, see section 4.3 for background.

energy transition that includes the electrification of vehicles and the phase out of reticulated gas appliances further highlighted the imperative for tariff reform.

### **8.3.1 Strength of price signal**

The Victorian distribution companies had an extensive consultation regarding the strength of the price signals that should apply to any new tariffs. Three options were put to consumers – weak, medium and strong – again after consultation. It was agreed that the strong price signals option was preferred.

It was agreed that due to the significant and once in a generation transition of the energy sector to net zero and the electrification of the economy allowing the sound foundations in tariffs would ensure the most equitable and speedy transition possible.

### **8.3.2 The Victorian government position**

During the consultation networks and consumer advocates continue to seek clarity from the Victorian government around its policy position regarding new tariffs to support the energy transition. Currently the Victorian government policy is to only allow tariff reassignments that are opt in, that is consumers, or their agents opt in to these new tariff designs. This opt in policy position would also apply to the introduction of modest two-way pricing charges for injections.

### **8.3.3 Consumer response to the Victorian government position**

In response to the Victorian governments policy position regarding distribution tariff reform from the commencement of the 2026 period, several consumer advocates and representatives chose to write a letter to the minister expressing our concerns with the government policy position the implication for consumers and requested the government to reconsider their position.

In response to this letter, the Minister's office requested a meeting with the signatories of this letter, this invitation was gratefully accepted. The ensuing meeting with the minister and consumer representatives again raised the concern we had with the opt-in only option.

## **8.4 Impacts on other elements of AusNet's draft proposal**

There are significant implications of the opt-in-option regarding future tariffs. The implications include changes to future demand and cost allocation of the cost of the EDPR 2026-2031 in this regards AusNet has been very responsive in providing updated modelling on the implications of various uptake rates of cost reflective tariffs and what this might mean for individual customer classes. These impacts will not only have a material effect on electricity consumers in AusNet's area.

These implications include impacts on community energy resources integration, impacts on network utilisation, impacts on capital expenditure, operating expenditure, equity implications for consumers and the potential to limit CER integration and carbon emission reductions.

## **8.5 Overview of AusNet's engagement with the panel**

The panel is supportive of both AusNet's direct engagement but also the joint DNSP engagement around tariffs and tariff reform. The engagement was detailed, included a diverse group of customer classes, consumption types and those with various community energy resources.

The engagement included responsive modelling, which further enhanced and nuanced consumer preferences. This was expressed in adjustments to the peak rate window, the

strength of the price signals, the appetite for two-way pricing and preferences regarding the community energy resource tariff.

Unfortunately, the key enabling piece for the introductions of the supported tariffs is contingent on a change in the Victorian government policy.

## 8.6 The panel's view of areas where further work may be required

There is ongoing work both by the networks and consumer advocates to ensure that cost reflective tariffs are implemented and as importantly taken on board by as many consumers as possible as soon as possible.

## 8.7 Responses to AusNet's draft proposal tariffs and pricing related questions

This Section provides our responses to the questions in AusNet's draft proposal on the topic of tariffs and pricing.

- *Do you have any feedback on our tariff proposal? (AusNet consultation question 24)*

### **Our response**

The panel believes that the tariff proposal has been significantly impacted as a result of government policy. We suggest that the AusNet and other Victorian DNSPs continue to seek way to progress new tariff structures that underpin an orderly, low cost and equitable to a net zero energy system, including the electrification of transport and reticulated gas.

- *How should we communicate the benefits of our changed tariff structures, including a solar soak, to customers? (AusNet consultation question 25)*

### **Our response**

We believe this is best done in a broader context (given the relationship that AusNet has with customers and communities and its role in the supply chain). We suggest highlighting changes to the generation mix and when the new off peak is and the opportunities that come with this. Targeted conversations should also be made toward optimal EV charging and to dual fuel households (gas) on how best to electrify.

- *Does AusNet having flexibility to call a variable number of Critical Peak Demand days a year impact C&I customer operations? If so, how? (AusNet consultation question 26)*

### **Our response**

We understand that AusNet is undertaking a separate consultation process on these changes as well as others impacting on C&I customers (solar soak and ICC tariffs that pass through location transmission pricing signals). Further an invitation has been sent to members of the Energy Users Association of Australia to comment on the proposed changes to Critical Peak Demand days. It is not possible to provide a response covering all of these customers as their views will be based on their individual circumstances.

- *Should we be standardising storage tariffs without sufficient trial learnings, or continue the trials until 2031 to obtain more learnings? (AusNet consultation question 27)*

### **Our response**

In the broader joint DNSP consultation it was originally proposed that there should be a "postage stamp" battery / storage tariff, i.e. the same tariff across each network regardless of location. This was rejected by participants, who recommended locational

storage tariffs where such storage would offer overall benefit to the network and ultimately consumers through lower costs through avoided network expenditure.

## 9 Benchmarking and operating expenses

The Benchmarking and Operating Expenses panel was convened to examine some more technical aspects of the EDPR – the development of the forecast operating expenditure applying the AER’s ‘base, step, trend’ modelling approach and how the AER’s benchmarking reports would be applied in determining the efficient ‘base year’ operating expenditure. It has not considered how AusNet’s capital expenditure spend might respond to the AER’s capital expenditure benchmarking results. This latter benchmarking data will be a focus of the panel’s consideration of the January 2025 capital expenditure proposal.

Operating expenditure is a key component of the overall revenue requirements. It is what is referred to as ‘fast money’ in that the network gets an immediate return of what it is spent – costs flow directly and quickly through to prices. This is in contrast to capital expenditure where the network gets a return on (WACC) and a return of (depreciation) over the life of the asset which could vary from 5 to 40 years - ‘slow money’. This is why the ‘efficiency’ and ‘productivity’ of operating expenditure is so important. Measurement of that productivity, and how the results should be applied to networks, has had a chequered history. While the AER seeks ever more complex econometric measurement techniques to enable comparisons among networks, the networks themselves seek to differentiate themselves from their ‘peers’ to argue that they are not strictly comparable arguing that it is difficult to get an objective test of relative productivity.

But the AER’s operating expenditure productivity measures are the only independent measures consumers have to assess network productivity. As is usually the case in these debates there are elements of truth on both sides. The networks raise methodological issues that, if adopted, are likely to put that particular network in a higher ranking. Consumer advocates have their own list of factors that AER should review all with the aim of requiring increased productivity from all networks, particularly the poor performers. But these matters are not for debate in an individual reset – they are only considered either in the AER’s annual productivity report or in network wide reviews<sup>56</sup>.

Given the AER’s “base step trend” methodology, very little of the total operating expenditure is open to customer influence. In this draft Proposal, consumers in theory may have an influence over very little of the total proposed operating expenditure:

- None of the ‘base’ - \$1,432m or 83 per cent of total
- A few step changes – perhaps ~\$50m of \$127m
- Productivity – whether it is >the required 0.5 per cent which is AusNet’s position in this Draft Proposal
- None of the debt raising costs.

At best this would be no more than ~5 per cent of total operating expenditure open to customer influence.

The Benchmarking and Operating Expenses panel comprised:

- Kieran Donoghue
- Mark Grenning (Lead)

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<sup>56</sup> The most recent being the review of the operating expenditure productivity in 2018 that led to the current minimum requirement of 0.5% per year

<https://www.aer.gov.au/industry/registers/resources/reviews/review-our-approach-forecasting-operating-expenditure-productivity-growth-electricity-distributors/initiation>

## 9.1 **Benchmarking and operating expenses panel focus questions**

In completing our work, the panel considered the following focus questions:

- How might benchmarking be applied to give customers confidence they're paying no more than necessary for an efficient service? [**Benchmarking**]
- How might we be confident that AusNet's operating expenses represents value-for-money and prudent and efficient expenditure? [**Operating expenses**]

## 9.2 **How AusNet's draft proposal responds to the focus questions**

Table 9.1 below summarises:

- the areas where AusNet's draft proposal addresses the focus questions
- our response and perspectives – noting these are covered in further detail in Section 9.3
- How AusNet could be held accountable to deliver on any commitments in the draft proposal.

Table 9.1: AusNet's draft proposal and benchmarking and operating expenses panel focus questions

Focus Question area	AusNet draft proposal reference	Panel response	Accountability
<b>Benchmarking</b>	AusNet has proposed 2022-23 as its 'base year' and they expect it to pass the AER's efficiency assessment when the 2022-23 Benchmarking Report is published in November 2024.	We await publication of the AER's 2022-23 benchmarking report in November 2024.	Base costs will be set by the AER which will provide the necessary accountability.
<b>Operating Expenses</b>	A range of step changes have been proposed – some reflecting regulatory requirements, some a change in accounting standards and some new initiatives.	We do not support AusNet's position of applying the minimum required operating expenditure productivity factor of 0.5%/yr, arguing there is a case for 1%/yr. Our engagement on step changes is a work in progress	We look forward to further engagement on step changes and annual productivity to come to a landing on our second focus question on whether the proposed operating expenditure might be considered 'value for money'. Our case for a higher annual productivity will be influenced by AusNet's position in the November 2024 benchmarking report

## 9.3 How AusNet’s draft proposal reflects consumer preferences

### 9.3.1 What are AusNet’s proposed operating costs and approach?

Table 9.2 summarises recent history of AER allowances, actual and forecast spend in the current period and AusNet’s proposed spend in 2026-31. It shows the significant increase in proposed operating expenditure compared with the forecast for the current period and the AER allowance for the current period. Consumers pay 70 per cent of any cost overrun under the EBSS incentive scheme.

**Table 9.2: Summary of historic actual and forecast operating expenditure**

\$2025/26m	2016-2020		2021-2026		2026-2031		
	AER allowance	Actual	AER allowance	Actual/Forecast	Forecast	% change vs 2020-25 AER allowance	% change vs 2020-25 actual/forecast
<b>Total operating expenditure (excl debt raising)</b>	1,581	1,426	1,592	1,431	1,700	7%	19%

AusNet has adopted the AER’s ‘base, step, trend’ approach to developing its operating expenditure forecast as outlined in Table 9.3.

**Table 9.3: Operating expense forecast approach**

Component	Approach used in the draft proposal
<b>Base</b>	<ul style="list-style-type: none"> <li>The base year of 2022-23 has been selected as a ‘...year with no storms and was the most recent audited operating expenditure’ (p.117)</li> <li>The base year is considered ‘not materially inefficient’ on the AER’s benchmarking analysis</li> </ul>
<b>Step</b>	There are 8 positive (increases costs) step changes (total of \$127.5m) and one negative (decreases costs) (-\$0.7m) for a net additional cost of \$126.8m ; there is one further proposed negative step change relating to digital costs that has yet to be quantified; positive step changes cover legislative requirements, new functions and capital expenditure to operating expenditure move from the impact of changes in accounting standards; there may be a negative step change relating to planned digital investments which has yet to be quantified.
<b>Trend</b>	<ul style="list-style-type: none"> <li>Uses the AER’s standard approach for output growth, real price growth in labour (av of AER’s and AusNet’s consultants’ forecasts) and non-labour (zero real increase) costs.</li> <li>Incorporates the mandated 0.5 per cent/yr productivity improvement in total operating expenditure (base + step + trend).</li> </ul>
<b>Incentive scheme</b>	Supports application of EBSS

### 9.3.2 Base year operating expenditure

AusNet has proposed that the base year be 2022-23 as it is the most recent audited year and representative of a ‘normal’ year with no storms, unlike 2023-24. The Benchmarking and Operating Expenses panel does not have strong views on the selection of the year as



this will be assessed by the AER. Once the year is chosen, the next step is to determine whether the base year cost level is ‘not materially inefficient’.

AusNet’s relative operating expenditure productivity performance is poor. Table 9.4 summarises its 2021-22 position in the range of AER measures for the 13 electricity distribution network businesses<sup>57</sup>.

**Table 9.4: AusNet operating expenditure productivity ranking**

AER methodology	AusNet rank <sup>1</sup>
MPFP 2006-22	12 <sup>th</sup>
Econometric model average (2006-2022)	6 <sup>th</sup>
Econometric model average (2012-2022)	5 <sup>th</sup>

1. Addressing capitalisation differences

The AER assesses whether the proposed base year operating expenditure is ‘not materially inefficient’ drawing on the econometric cost function results. While AusNet’s ranking on these cost function measures might seem relatively high, there is no way to measure efficiency in absolute terms. As discussed below, the long-term trend is for the DNSPs’ operating expenditure productivity to converge, with the most efficient firms experiencing declining productivity. The ‘not materially inefficient’ threshold is 0.75 where the best (the ‘efficiency frontier’) is 0.95-1.0. AusNet was just above 0.75 with most DNSPs below it. AusNet comments in their draft proposal (p.116) that:

***“We expect 2022-23 to pass the AER’s efficiency assessment in its Annual Benchmarking Report, due to be published in November 2024.”***

### 9.3.3 Step changes

The panel has had preliminary discussions on the proposed step changes that have been quantified:

- Those that relate to new obligations e.g. Emergency Backstop Mechanism and ESV direction on pole inspections - \$24.4m
- Digital (including Software as a Service (SaaS) operating expenditure/capital expenditure trade-off) - \$52m
- AusNet initiatives e.g. resilience and customer management – \$51.1m

Little detail is provided in the draft proposal so our comments are limited.

- The AER recently accepted Ausgrid’s step change for SaaS capital expenditure/operating expenditure trade-off for 2024-29<sup>58</sup>. SaaS costs have historically been treated as capital expenditure in revenue determinations. However, in April 2021, the International Financial Reporting Standards Foundation determined that these implementation costs should be an operating cost, not a capital cost. This change in accounting treatment means that ICT capital expenditure is lower than it

<sup>57</sup> <https://www.aer.gov.au/system/files/2023-11/2023%20Annual%20Benchmarking%20Report%20%E2%80%93%20Electricity%20distribution%20network%20service%20providers%20%E2%80%93%20November%202023.pdf>

<sup>58</sup> See p. 14 <https://www.aer.gov.au/system/files/2024-04/AER%20-%20Final%20Decision%20Attachment%206%20-%20Operating%20expenditure%20-%20Ausgrid%20-%202024%E2%80%93%20Distribution%20revenue%20proposal%20-%20April%202024.pdf>

would otherwise be, although ICT capital expenditure is still forecast to be \$100m more than in the current period

- Initial discussions suggest there was an earlier ESV direction on pole inspections, in which case the cost would already be in the base costs. We need to understand how the new direction differs from the past direction and how that might justify a step change.
- AusNet initiatives were considered as individual proposals by the relevant panels and supported in principle by them with the AER to decide the proposed level of expenditure is prudent and efficient. The exception is the increase in hazard tree management, which was presented late in the process, leaving no opportunity for consideration.

#### 9.3.4 Trend

We support the approach of following the AER's methodology on output growth and labour and material real price growth. The panel has advocated for an annual productivity improvement of 1 per cent rather than the minimum mandated 0.5 per cent that AusNet has chosen<sup>59</sup>.

The debate on what should be the productivity factor goes down familiar lines of argument.

Our arguments for a 1 per cent annual factor are:

- (i) It is well below recent operating expenditure productivity trends

AusNet argues the 0.5 per cent is the same as the DNSP average over the 'long' data period of 2006-22. However, the average annual productivity improvement for all DNSPs over the more recent AER benchmarking period of 2012-22 (the averaging period AusNet uses for assessing its performance on the econometric models) is 2.9 per cent. AusNet's operating expenditure MPFP was on a downward trend from 2006 to 2016 and an upward trend from 2016 to 2022. However, 2022 productivity was below 2006<sup>60</sup>.

- (ii) The very conservative definition of 'not materially inefficient'

The 0.75 threshold that AusNet just gets over, is very generous to the network. This definition means that even though it is 20-25 per cent less efficient than the most efficient network, it is still regarded as 'not materially inefficient'. That approach seems incongruous in a regulatory framework that is designed to replicate a 'workable competitive' market. We find it difficult to imagine a private sector industry where a player can survive in the long term being 20-25 per cent less efficient than the most efficient firm in the industry.

Consumer advocates have made frequent submissions to the AER to review the 0.75 threshold originally set in 2015 as part of the delayed final decisions for the NSW DNSP's 2014-19 reset.

We believe that a reasonable starting point for assessing the relative inefficiency of a regulated network, where the aim is to replicate a workably competitive market, would

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<sup>59</sup> AusNet has applied its proposed 0.5 per cent annual operating expense productivity to capitalised overheads, a saving of ~\$4m in a total net capital expenditure budget of \$3.9b. Capital expenditure benchmarking will be considered in our submission on the final proposal.

<sup>60</sup> See Figure 13 p. 36 <https://www.aer.gov.au/system/files/2023-11/2023%20Annual%20Benchmarking%20Report%20%E2%80%93%20Electricity%20distribution%20network%20service%20providers%20%E2%80%93%20November%202023.pdf>

be to adjust i.e. decrease, the base year costs of all networks that are below the most efficient network on the 'frontier' (adjusted for OEFs). That is what would be expected over time in a competitive market – firms adjust to the frontier (which should be constantly 'moving out') and if they do not, they go out of business as new entrants come in with lower costs. This approach was rejected by the AER in its 2015 decision which pointed to the incentive regulatory framework and reliance on revealed costs as networks respond to the incentives. It seems the AER believes that the incentive framework will, over time, mean all networks gradually get to the efficiency level of the frontier firm.

Yet it can take time for a network to respond to the EBSS incentive and, in the meantime, consumers are paying for that inefficiency. Over time DNSP operating expenditure efficiency has converged – the worst getting better (driven no doubt by EBSS and base year adjustments) and the best declining. So the AER's approach means the worst are being compared with the efficiency frontier firms that are not improving. The longer the adjustment, the more consumers pay for a network's inefficiency as it goes on the long and winding road to the frontier.

The impact on bills is then exacerbated by the propensity for networks to propose step changes rather than to absorb new costs within the base and trend allowances (as competitive firms typically would have to). Information asymmetry means that step changes are likely to contain scope for efficiency gains themselves, so where networks are proposing material step changes this also strengthens the case for a higher productivity target.

A major reason the AER gave for the conservative definition, based on the lowest of the efficiency scores in the top quartile of possible scores, was that<sup>61</sup>:

***“The purpose of assessing base operating expenditure under the Guideline approach is to identify material inefficiency. We must ensure, therefore, that our comparison point appropriately reflects our satisfaction that a service provider's revealed operating expenditure is materially inefficient before we reduce it.”***

The AER went on to say<sup>62</sup>:

***“However, given this is our first application of economic benchmarking, our view is this application is appropriate for this determination. That is, we have applied a wide margin between the frontier firm (0.95) and the benchmark comparison point (0.77). Service providers should be aware, however, that as we refine our approach and receive more data, we may reduce the size of the margin when making adjustments to base open to develop alternative operating expenditure forecasts.”***

We would argue that the AER has considerably more information 9 years later and would justify a review sooner than the currently proposed 2026. The AER's 2023 Benchmarking Report noted that, given past support from the CCP to review the 0.75 and the increased maturity of the benchmarking models<sup>63</sup>:

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<sup>61</sup> See pp.271-2 [https://www.aer.gov.au/system/files/AER%20-%20Final%20Decision%20Ausgrid%20distribution%20determination%20-%20Attachment%207%20%E2%80%93%20Operating%20expenditure%20-%20April%202015\\_0.pdf](https://www.aer.gov.au/system/files/AER%20-%20Final%20Decision%20Ausgrid%20distribution%20determination%20-%20Attachment%207%20%E2%80%93%20Operating%20expenditure%20-%20April%202015_0.pdf)

<sup>62</sup> Op cit p. 272

<sup>63</sup> See pp. 83-4 <https://www.aer.gov.au/system/files/2023-11/2023%20Annual%20Benchmarking%20Report%20%E2%80%93%20Electricity%20distribution%20network%20service%20providers%20%E2%80%93%20November%202023.pdf>

***“...we are proposing to commence a review of the benchmarking comparison point from 2025–2026. This would be after the Victorian distribution revenue determinations have been settled, and in preparation for the next ‘round’ of determinations.***

***As noted in Section 3, given the sustained operating expenditure productivity growth since 2012 observed for DNSPs is higher than the operating expenditure productivity growth rate assumption of 0.5% per year used in regulatory decisions, this may also be an area for review.”***

The longer the threshold stays at 0.75 the longer consumers pay 70 per cent of that relative inefficiency. In a climate of high affordability concerns, we would encourage the AER to consider how to expedite the reviews of the default productivity assumption and the threshold for material inefficiency. Arguably, such matters are simply AER judgments and the AER is entitled to make a different judgement based on changing circumstances. However, if the AER considers that stakeholder consultation is essential, one option would be to signal an intent to change these parameters during the 2026-31 Victorian DNSP reset review and to allow stakeholders to provide feedback as part of their feedback on the AER’s draft decision.

(iii) The importance of affordability

The specific affordability measures in this draft proposal are relatively minor (we are yet to see the relative importance of the digital negative step change). The draft proposal (p.116) mentions two affordability measures that total \$12m or 0.7 per cent of total operating expenditure, noting that these are not negative step changes but are rather national savings against a counterfactual where AusNet proposed even higher step changes. Other reductions in operating expenditure (fleet fuel costs and GSL costs) are appropriate reductions given that consumers are paying for the capital expenditure that will deliver these savings. We appreciate that in proposing a reduction in forecast GSL costs, AusNet is departing from a previous norm of using historical costs.

In recent years several networks have agreed to a 1 per cent annual productivity – Ausgrid in 2019-24 and Ergon and Energex for 2025-30. This was in addition to both bearing a base year efficiency adjustment from being below the 0.75 threshold<sup>64</sup>.

AusNet’s arguments for 0.5 per cent are:

(i) It is the same as the average productivity improvement for all DNSPs over 2006-22

See above.

(ii) The conservative assumptions for material and labour real price growth

The AER’s methodology is likely to result in a flat or small real increase for materials and labour when the costs AusNet is facing a rising at a much higher rate. AusNet argue this could effectively increase the productivity factor.

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<sup>64</sup> Ergon - <https://www.aer.gov.au/system/files/2024-09/AER%20-%20Draft%20Decision%20Attachment%206%20-%20Operating%20expenditure%20-%20Ergon%20Energy%20-%202025-30%20Distribution%20revenue%20proposal%20-%20September%202024.pdf>

Energex - <https://www.aer.gov.au/system/files/2024-09/AER%20-%20Draft%20Decision%20Attachment%206%20-%20Operating%20expenditure%20-%20Energex%20-%202025-30%20Distribution%20revenue%20proposal%20-%20September%202024.pdf>

- (iii) The lack of full consideration of Operating Environment Factors (OEFs) in the benchmarking calculations

AusNet argues that OEFs are a much bigger factor given the geography of their network coverage (see the discussion in Section 4.2 p. 45). Full incorporation of these factors would result in a rise in AusNet's position on the productivity ladder. AusNet has submitted a Benchmark Methodology Paper to the AER proposing an update of the AER's benchmarking models to include OEF more explicitly. This cannot be done solely for AusNet but would require the AER to collect OEF data across networks to enable it to be incorporated into the benchmarking analysis.

Many networks argue they are disadvantaged because of their particular OEFs and exclusion biases the benchmarking results against them. Energex's recent proposal for 2025-30 presented a consultant's report from Frontier<sup>65</sup> that argued an adjustment for OEF's would contribute to Energex not being material inefficient and hence no base year adjustment would be required<sup>66</sup>. Unsurprisingly, no networks argue that they should face an adjustment for OEFs where they are in a more favourable position than other networks (and consumers do not have the information that would support them making robust claims of this nature). Logically however, if AusNet does in fact face materially higher network costs because its terrain is more challenging than the average DNSP, then some other DNSPs must have less challenging terrain than the average and are in fact less efficient than they appear. In other words, any such adjustments should effectively be a zero-sum across all the networks.

## 9.4 Impacts on other elements of AusNet's draft proposal

A consistent theme in our report is that AusNet has focussed more on its view of 'value for money' than 'affordability'. This is the case with operating expenditure. And we noted above the identified affordability measures are only 0.7 per cent of proposed total operating expenditure.

## 9.5 Overview of AusNet's engagement with the panel

The Benchmarking and Operating Expense panel met with AusNet on five occasions, including one in depth face to face meeting. Engagement covered 'inform' and 'consult' on the IAP2 spectrum.

The panel had a number of detailed discussions with AusNet on the base case, impact of benchmarking and trend estimates. We have also benefitted from the discussion with the AER Operating expenditure team on this topic. We had some detailed discussions on cost options in step changes and we look forward to further discussions in the coming months before being able to come to a view on our second focus question around 'value for money'.

## 9.6 The panel's view of areas where further work may be required

In addition to engagement on affordability, there are two areas we look forward to further discussion on prior to submission of the final proposal:

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<sup>65</sup> <https://www.aer.gov.au/system/files/2024-02/Energex%20-%2006.04%20-%20Frontier%20Economics%20-%20Opex%20benchmarking%20report%20-%20January%202024.pdf>

<sup>66</sup> See p.5 <https://www.aer.gov.au/system/files/2024-02/Energex%20-%2006.04%20-%20Frontier%20Economics%20-%20Opex%20benchmarking%20report%20-%20January%202024.pdf>

- Review of the November 2024 AER Benchmarking Report to assess AusNet's base year costs position and the proposed 0.5 per cent annual productivity, and
- More detailed engagement, along with other relevant panels, on the step changes.

## **9.7 Responses to AusNet's draft proposal benchmarking and operating expenses related questions**

AusNet's draft proposal contained no specific questions in relation to benchmarking and operating expenses.

## 10 Overall draft proposal conclusions

This section provides a summary of our overall conclusions of the draft proposal, our perspectives of AusNet's engagement with the Coordination Group and panels and responses to AusNet's consultation questions not covered elsewhere in this report.

### 10.1 Summary perspectives of draft proposal

At a headline level AusNet's draft proposal results in either a slight fall or slight rise in the real level of prices between today and 2031 depending on the customer class (though there can be variation within a customer class depending on how much they electrify over the period). This price trend is very dependent on achieving the forecast growth in electricity connections and consumption. Customers benefit from high asset utilisation in revenue cap regulation. While AusNet argue their demand forecast is 'conservative'<sup>67</sup> it is still highly uncertain and subject to heavy influence by government policy and other factors beyond AusNet's control. There is also a reduction in metering costs for small customers.

The engagement with the Coordination Group and panels has had a particular focus on 'affordability' (ability to pay) vs 'value for money' (willingness to pay) and AusNet clearly distinguish the two concepts in its draft proposal<sup>68</sup>. AusNet's engagement has focussed more on the latter than the former. Whether or not the value / cost trade off has the right balance is one of the focusses of the consultation process on the draft proposal as AusNet finalises its proposal.

We are (generally) supportive of the proposed initiatives as a basis for consultation as they are a generally accurate reflecting of consumer preferences (with specific caveats and conditions called out) and note the following:

- The engagement we were involved in that was above 'inform' on the IAP2 spectrum covered only ~5 per cent of operating expenses.
- For capital expenditure the engagement focussed on proposed changes e.g. use of QCV in business case evaluation and new categories e.g. resilience rather than the 'BAU' type capital expenditure such as replacement expenditure, connections and ICT which are a considerable portion of total capital expenditure and which have standard AER processes to assess prudence and efficiency.
- We have not reviewed the specific proposals or costs from a prudence or efficiency perspective, this is for the AER to consider and determine. Our focus has been on the initiatives reflecting consumer preferences.
- Some proposed initiatives and analysis are a work in progress and will require further work, information and engagement to finalise the proposal. This includes items such as the hazard tree program, the RRA, some customer experience initiatives, identified step changes and benchmarking of capital expenditure.
- The accountability controls, measures and considerations will also need to be finalised and in particular accountability on areas related to discretionary expenditure and where prior customer commitments are perceived not to have been fully met.
- Consistent with AusNet's statements in its draft proposal, further consideration and engagement on affordability will be required. Engagement has focussed on the individual components within each panel and we have had limited opportunity to consider the overall bill impact of all of these together and then combined with the expenditure we have not engaged on.

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<sup>67</sup> AusNet draft proposal p.72

<sup>68</sup> AusNet draft proposal p.24

Given affordability is the major concern of customers, we look forward to AusNet engaging further on the affordability of the overall package and the risks to that affordability being achieved.

Noting the conditions above, a brief summary of key perspectives from each panel (except research and engagement which is covered in the next section) is outlined below.

#### **10.1.1 Availability**

The panel is supportive of the proposed proposals and initiatives and that they are suitable for being presented for stakeholder consideration. The panel is pleased that it will improve resilience and reliability most notably for worst served customers.

The panel also supports the QCV related analysis and approach that should provide a more accurate assessment of proposed expenditure. The panel expects the detail to be reviewed by the AER and applied consistently across the proposal.

#### **10.1.2 Future networks**

The panel is supportive of the proposed initiatives and expenditure to deliver the requirements for electrification, CER and to better integrate renewables into the network and that they are suitable for being presented for stakeholder consideration.

The panel also supports the QCV with similar conditions as noted above.

We also note that the demand forecasts are highly uncertain and may need revision due to factors such as EV uptake that has recently been revised down by AEMO. The uncertainty and level of forecast usage can materially impact final prices for consumers and should be further assessed.

#### **10.1.3 Customer experience**

The panel is supportive of the proposed additional customer service and experience related initiatives and measures and that they are suitable for being presented for stakeholder consideration. The panel welcomes and acknowledges that if implemented appropriately it should lift customer service standards and address many pressing issues customers are facing.

We do however also note that there were and are areas where some stakeholders believe that customer service has been below expectations. In such areas there is a need for additional accountability and transparency of the implementation of any initiatives going forward.

#### **10.1.4 Tariffs and pricing**

The panel is supportive of the tariff design work, the proposed tariffs and the consistent approach across the DNSPs.

We do however also note that the benefit of any tariff changes has been significantly impacted by the Victorian Government opt-in decision and that this will impact take up and ultimately the allocation of costs to different classes of consumers.

#### **10.1.5 Benchmarking and operating expenditure**

The panel is appreciative and supportive of the work to date however we note that it is still somewhat a work in progress. We note further data and work is required in areas such as step changes, capital expenditure benchmarking and we would still welcome engagement and consideration of the use of a 1 per cent productivity factor for operating expenditure.



## **10.2 Summary views on AusNet's engagement with the panels and the Coordination Group**

The Coordination Group commends the extent of AusNet's engagement to inform its draft proposal which AusNet describes in Section 3 of its draft proposal. We acknowledge and appreciate the significant number of hours AusNet staff have spent preparing content for the panels and Coordination Group, responding to questions and information requests and directly engaging with members of the Coordination Group and the individual panels.

Chapter 3 of the Better Resets Handbook provides a useful perspective of the core expectations of consumer engagement. Utilising this framework our overall views on AusNet's engagement with the panels is outlined below.

### **10.2.1 Nature of engagement**

AusNet's engagement has been sincere, transparent and responsive and the panels and Coordination Group have been kept informed of research and status of the process in a timely and considered manner. Panels were provided with adequate information in generally a timely manner and consistent format to assist in effective engagement.

AusNet collaborated with customers and stakeholders in the development of its engagement approach (through a co-design workshop in October 2022) and undertaking this work well in advance of commencing its formal engagement. They developed a "living" engagement plan (as mentioned earlier in our report), with clearly defined objectives, regularly reviewing the plan and refreshing its approach in response to feedback from panel members.

There were however instances where some panel members did not feel fully across the work of other panels that may have at times exacerbated with delays (at times) in AusNet updating their engagement hub and sharing information. This issue is not unique to AusNet and is more a reflection of the volume of information to maintain and update than a lack of willingness or desire.

In relation to accountability AusNet have worked with the panels and Coordination Group to develop some initial measures that are included in their draft proposal for consultation and some are commented on in this report. Our customer interviews and some panel members have noted that AusNet have not yet fully delivered on some commitments in its current price period, however we appreciate this period is still in progress and that circumstances may have changed since the last price review that warranted changes in approach and timing of delivery.

Unsurprisingly, and consistent with network related engagements more generally, this engagement was heavily weighted towards canvassing panel and Coordination Group views on initiatives proposed by AusNet. That meant for example that the options under consideration were essentially all additive, that is over and above what AusNet consider to be BAU. This is not a criticism of AusNet's approach to engagement and in fact may be inevitable in such consultations and may reflect the heavily regulated nature of electricity networks, although it may also have limited consideration of options to a relatively narrow window. However, as a balancing feature within the discussion of the options, some of the proposed accountability measures and identified trade-offs that AusNet has included in its draft proposal were initially suggested by the panels.

### **10.2.2 Breadth and depth**

AusNet covered a wide variety of topics in its engagement with panels and used a number of different methods to engage some of which have been noted in this report

including meetings, deep dive workshops, and three in person offsite sessions. AusNet also allowed the Coordination Group to engage directly with customers to inform our report and assessment.

AusNet consulted with panel members to find amenable meeting dates and times for formal meetings and holding these at a sufficient frequency to maintain continuity and build knowledge. There was collaboration with individual panels to articulate focus questions, based on evidence of customer preferences to ensure sufficient coverage of the important topics. However, it is important to appreciate that the panels and Coordination Group were not consulted on all aspects of AusNet's draft proposal, many of which have a material impact on the overall cost levels and prices. Some areas are naturally too technical for panels to consult on (these are more appropriate for the AER to consider) and others were excluded due to AusNet having limited discretion.

In relation to specific meetings there was clarity of meeting intent, objectives and desired outcomes including the level of engagement with respect to the IAP2 spectrum which varied from inform to consult to at times collaborate.

As noted in our report (and AusNet's draft proposal) further consultation in some areas is warranted most notably affordability (including willingness to pay) which would cover overall costs, price impacts and the price path.

### 10.2.3 **Clearly evidenced impact**

As noted throughout this report there has been clear evidence of AusNet taking panel (and consumer) preferences into account in many areas. There are also times when the panels provided conditional support that have generally been noted and other times when panel members did not have a uniform view in which case the majority view prevailed.

We have also noted that there are some areas not yet considered in AusNet's draft proposal that the panels will be consulted on in the development of the final proposal.

Affordability and the overall costs, price levels and price path have been noted as an area requiring further information and consultation and we note that this is a focus of AusNet's questions in its draft proposal. We also consider that accountability, especially for discretionary expenditure supported by customers, is an area that requires further work.

## 10.3 **Responses to AusNet's draft proposal general questions**

This Section provides our responses to the remaining questions in AusNet's draft proposal.

- *What aspects of the proposal are you most pleased to see? (AusNet consultation question 1)*

### **Our response**

The Coordination Group believes that the draft proposal is well structured and well written, uses visuals to aid in readability, is not overly lengthy and provides a good basis for consultation with stakeholders on the key issues. There is a broad coverage of the key issues and considerations within the draft proposal.

In the prior sections of this report we noted several areas where we support the positions taken in the draft proposal and that AusNet has based the draft proposal on a sincere and strong engagement process with the Coordination Group and the panels.

Examples of specific areas we are pleased to note in the draft proposal include:

- A clear focus on worst served customers from a reliability perspective
  - The level of analysis provided to support the draft proposal expenditure on reliability and resilience (though much more will be required for the final proposal).
  - The expanded customer relationship management capability especially for larger customers
  - Some initial data on the cross-subsidies from those without rooftop solar to those with rooftop solar (we have recommended that AusNet provide more in its final proposal)
  - Perspectives of approaches to managing AusNet's accountability for its customer-supported proposals.
- *Are there any aspects of the proposal you particularly don't like? (AusNet consultation question 2)*

### **Our response**

Whilst the Coordination Group is supportive of many aspects of the draft proposal there are some areas where we believe further work is required and / or we have concerns.

Examples of specific areas we did not necessarily like or we felt could have been better addressed / considered or provided further detail in the draft proposal include:

- We have discussed our concerns on the need for further consideration on affordability in aggregate and this includes considering opportunities for more material cost reductions and identification of areas where less expenditure may be warranted not just where additional expenditure is warranted.
- In its analysis of the QCV study, AusNet described an apparent disparity between willingness to pay for improved service and willingness to accept compensation for reduced service – suggesting that this demonstrates a recognised issue where customers' perceived value of compensation for service issues outweighs the perceived benefit of service enhancements. An alternative explanation could be that customers expect a certain level of service that they already pay for, and that receiving this level of service is far more important than receiving a higher level of service than considered acceptable. Another explanation could be that willingness to pay is constrained by income while willingness to accept compensation is not. Intuitively the latter is likely to be higher than the former. AusNet should seek to better understand this issue in order to appropriately weight the customer value of improvements on either side of the accepted standard, and factor this into the cost–benefit analyses for augmentation projects.
- We have noted that we were not consulted on all aspects of the draft proposal and this was not as clearly stated as we would have preferred.
- There was acknowledgement of the high degree of uncertainty but this was not as fully integrated into the draft proposal as it could have been. For example scenarios could have been used rather than just using "best estimates" which could assist in better highlighting the impact of uncertainty and then suggest options to address it.
- Further aspects of specific detail could have been beneficial such as:
  - A simple summary of the proposed expenditure levels of the current period vs forecast and prior periods.
  - It was sometimes difficult to locate the expenditure allocated to different initiatives discussed in the specific sections (e.g. section 6.1 describes augmentation to support electrification but does not say the cost). Clearly

showing expected costs of proposed work would make this a more reader-friendly document.

- Some increases were unclear if they were nominal or real. For example on page 26 the use of medium and large bill impact data as ‘x% (excluding inflation)’ was somewhat confusing on if it is nominal or real.
- Where sections outline key investment in specific initiatives to provide value (e.g. section 6.1 on investment to increase hosting capacity) there is missing detail on the cost of investment and value derived.
- There is sometimes a lack of detail on the areas where there was not uniform agreement across stakeholders or mixed views. We believe this is a missed opportunity to highlight the engagement process and show how there was considerable (but not universal) support. For example the RRA had mixed views and this detail could have been further elaborated on in the draft proposal
- More specific C&I customer bill impacts considering network costs explicitly
- Clearer articulation of cost vs value for initiatives that are predicated on benefits exceeding costs.

- *How do you feel about the overall: a) value for money of the proposal (i.e. customers’ willingness to pay)? b) affordability of the proposal (i.e. customers’ capacity to pay)?*

*If you think we think we’ve got the service level to cost balance wrong, please tell us which areas you think we should look at cutting back or spending more on.  
(AusNet consultation question 3)*

#### **Our response**

Whilst we have noted support for many of the individual initiatives in the draft proposal we have also discussed that before finalisation we consider affordability as an important area that warrants further engagement and consideration. This should be a key focus in the lead up to the development of the final proposal.

- *Is there anything you were hoping to see in our proposal that is not there? (AusNet consultation question 4)*

#### **Our response**

We have noted further details and areas we would have liked to see in our response to question 2 above.

- *Do you think our deep engagement has focussed on the right topics? (AusNet consultation question 5)*

#### **Our response**

Broadly we do consider that AusNet’s deep engagement focussed on the right topics and was consistent with the engagement approach discussed with the panels and Coordination Group.

We have however noted some specific areas in this report where we believe further engagement is necessary and most notably affordability, the overall costs, price levels and price path as well as accountability, especially for discretionary expenditure supported by customers. These should be a clear focus of engagement in the development of the final proposal.

- *Are you supportive of AusNet advocating on behalf of its customers, helping represent their interests with governments and policy-makers? (AusNet consultation question 28)*

**Our response**

The Coordination Group acknowledges the feedback from the panels was that AusNet should be advocating on customer's behalf. However the final decision would be something the AusNet Customer Consultative Committee would be best placed to consider.

- *Are there any advocacy priorities you disagree with? Or any you would like to see added? (AusNet consultation question 29)*

**Our response**

The Coordination Group acknowledges that the panels provided feedback to AusNet on specific topics and priorities. The final list of prioritised topics and what AusNet should advocate for would be something the AusNet Customer Consultative Committee would be best placed to consider.

- *Do you have any feedback on our proposed metering approach? (AusNet consultation question 30)*

**Our response**

The proposed metering approach is consistent with what was discussed at a costed option workshop with the Coordination Group. It is important to note that whilst the Coordination Group supports this approach the engagement was between inform and consult on the IAP2 spectrum and the content covered was reasonable but was only at a relatively high level.

## A. Customer interview participants

The Coordination Group would like to acknowledge the following customers and customer representatives who participated in our customer Interview program. These customers have been named with their permission. Their time and contributions have been invaluable in providing us with independent unscripted evidence of customer energy needs, preferences and expectations and rest assured we have considered their feedback in our broader advice to AusNet on its 2026-31 regulatory proposal.

Interview	Location
1. Scentre Group (Westfield)	Mill Park, City of Whittlesea
2. Euroa traders a. Balmattum Butchery b. Fare Enough (Café) c. The Nest (Café, florist and gift shop)	Euroa, Shire of Strathbogie
3. Winton Wetlands (Ecological and Yorta Yorta cultural site with camping, and café/function centre on location)	Winton North, Shire of Strathbogie
4. Benalla Business Network and Licensed Post Office	Benalla, Rural City of Benalla
5. Marathon Electrical a. Energy future (Sale) b. Fault issue (Heyfield)	Sale, Shire of Wellington
6. Orchard (anonymous),	Narre Warren, City of Casey
7. Shire of Wellington Council a. Storm impacts b. Connections	Sale, Shire of Wellington
8. Australian Sustainable Hardwood	Maffra, Shire of Wellington
9. South Gippsland Water	Foster, South Gippsland Shire
10. Willandra Farms	Clydebank, Shire of Wellington
11. Qube, Barry Beach Marine Terminal	Barry Beach, South Gippsland Shire
12. City of Latrobe	Moe, City of Latrobe
13. Euroa Health Service	Euroa, Shire of Strathbogie
14. Manna Gum Community House	Foster, South Gippsland Shire (online interview)
15. Rural City of Wodonga Council	Wodonga, Rural City of Wodonga
16. State Member for Benambra	Wodonga, Rural City of Wodonga
17. Business Wodonga	Wodonga, Rural City of Wodonga
18. Alpine Shire Council	Bright, Alpine Shire

<b>Interview</b>	<b>Location</b>
19. Yackandandah Progress Association	Yackandandah, Indigo Shire
20. Yackandandah Information Centre and Post Office	Yackandandah, Indigo Shire
21. Australian Textile Mills	Wangaratta, Rural City of Wangaratta
22. Moyhu Licensed Post Office	Moyhu, Rural City of Wangaratta
23. Whitfield Licensed Post Office	Whitfield, Rural City of Wangaratta
24. Pizzini Wines	Whitfield, Rural City of Wangaratta
25. Cheshunt Licensed Post Office	Cheshunt, Rural City of Wangaratta
26. Bright Brewery	Bright, Alpine Shire (online interview)