



**renew.**



# 2021-2026 Victorian EDPR

Joint submission from Victorian Community Organisations

January 2021

---

# Contents

|          |  |           |
|----------|--|-----------|
| <b>1</b> | <b><i>Summary of recommendations</i></b>                                     | <b>4</b>  |
| <b>2</b> | <b><i>The AER's draft determination responds to stakeholder concerns</i></b> | <b>8</b>  |
| <b>3</b> | <b><i>The EDPR and Victorian consumers</i></b>                               | <b>9</b>  |
| <b>4</b> | <b><i>The COVID-19 pandemic – forecasting and other impacts</i></b>          | <b>10</b> |
|          | Forecasting connection numbers and peak demand                               | 10        |
| <b>5</b> | <b><i>Customer engagement</i></b>  | <b>12</b> |
|          | AER Framework for considering consumer engagement                            | 12        |
|          | Relevant considerations of the context of engagement                         | 13        |
|          | Evaluation of New Reg outcomes   | 14        |
| <b>6</b> | <b><i>Opex</i></b>   | <b>15</b> |
|          | Opex overview  | 15        |
|          | Opex trend analysis  | 15        |
|          | Opex base year   | 16        |
|          | Jemena opex base year efficiency   | 16        |
|          | AusNet Services opex base year efficiency                                    | 16        |
|          | Opex step changes  | 17        |
|          | AusNet Services innovation fund  | 17        |
|          | AusNet Services bushfire insurance   | 17        |
|          | Opex growth trends   | 18        |
| <b>7</b> | <b><i>Capital expenditure</i></b>  | <b>18</b> |
|          | Overview   | 18        |
|          | Capex analysis   | 19        |
|          | Repex  | 19        |
|          | CPPALUE Poles Repex  | 20        |
|          | AusNet and Jemena Repex  | 20        |
|          | Augex  | 21        |
| <b>8</b> | <b><i>DER expenditure</i></b>  | <b>21</b> |
|          | CPPALUE DER expenditure  | 21        |
|          | AusNet Services and Jemena DER expenditure                                   | 22        |
|          | Value of DER   | 23        |
|          | Consistent DER integration planning  | 23        |

|   |           |
|---|-----------|
| Upgrades should be implemented within a comprehensive plan for a future network | 24        |
| Evaluation of DER spending  | 25        |
| <b>9 Incentive Schemes</b>  | <b>25</b> |
| Customer Service Incentive Scheme   | 25        |
| Incentive scheme operation and review   | 27        |
| <b>10 Depreciation</b>  | <b>27</b> |
| Consistency of asset life   | 27        |
| Accelerated depreciation – AusNet Services                                      | 27        |
| <b>11 Pass through events</b>   | <b>28</b> |
| Environment Protection Authority Pass Through Events                            | 28        |
| <b>12 Tariff Structures</b>   | <b>29</b> |
| Time of Use Tariffs   | 29        |
| Assignment for legacy TOU customers   | 29        |
| Fixed tariff component  | 29        |
| Network-scale battery tariff  | 30        |
| <b>13 References</b>  | <b>32</b> |



This project was funded by Energy Consumers Australia ([www.energyconsumersaustralia.com.au](http://www.energyconsumersaustralia.com.au)) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas. The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

---

# 1 Summary of recommendations

Victorian community organisations (VCO) have prepared this joint submission to represent the interest of Victorian households and vulnerable consumers, in the current Electricity Distribution Price Reset (EDPR), recognising the importance of distribution spending in maintaining an affordable and sustainable electricity supply.

Brotherhood of St Laurence, Renew and Victorian Council of Social Service are signatories to this submission.

This follows a submission to the initial proposals from a larger group of organisations, who were unavailable to participate in this submission round due the process' schedule through the holiday period.

Our recommendations are informed by research undertaken through an Energy Consumers Australia (ECA)-funded project. Analysis was undertaken by Headberry Partners – the detailed analysis informing this submission is included as the second part of this document.

We'd like to thank the Australian Energy Regulator (AER) for consulting directly with our project on particular issues – and to thank Jemena and the CitiPower/Powercor/United Energy (CPPALUE) networks for being proactive in consulting with us directly during the preparation of their revised proposals.

## Recommendations

- 1. Many of the AER's draft findings directly address the concerns of community organisations, and should be retained for the final determination.**

The AER's determination responded to concerns raised by Victorian Community Organisations and other stakeholders, and we support the majority of the decisions made by the AER.

- 2. Energy affordability remains critical for Victorian consumers. Following the pandemic, achieving this priority will support those households and businesses facing increased hardship.**

A 2020 analysis of calls to a Victorian debt helpline shows that energy bills remain a major source of household debt.<sup>1</sup> The networks' Energy Relief Package, and supports like JobKeeper worked well to shield Victorians from the immediate disruptions of the COVID-19 pandemic. However support agencies have identified

---

<sup>1</sup> Consumer Action Law Centre, 2020, *Bills Here Bills There The Lived Experience of Victorian Energy Reform*, accessed 8 December 2020, <https://consumeraction.org.au/bills-here-bills-there-report-on-the-lived-experience-of-victorian-energy-reform/>

that many households anticipate future hardship as the temporary support measures are progressively lifted.<sup>2</sup>

Some households and businesses are hit particularly hard. Delivering affordable energy is an important way to support vulnerable households and recovery for the state as a whole.

**3. Fundamental cost reductions are needed to secure affordability, rather than a fall in revenue that depends on the current low cost of capital.**

The AER's Draft Determination has identified appropriate reductions in the distributors' claims – however the Draft Determination's nominated revenue is still higher than that of the last period after the impact of the current Weighted Cost of Capital (WACC) is accounted for. Meaningful revenue reductions are needed to secure affordability for consumers over the next period and into the future.

**4. The COVID-19 Pandemic will influence connections, peak demand and economic forecasts, and will increase uncertainty. Accommodating an appropriately conservative forecast will support Victorians through the recovery.**

The VCO support the AER's approach to apply up-to-date AEMO forecasts to demand growth.

The recovery of the Victorian population will depend on international as well as local factors – conservative planning will allow distributors to respond efficiently to any long term trends to emerge from the pandemic.

**5. The results of customer engagement should inform rather than determine regulatory decisions.**

The AER acknowledged the feedback from stakeholders that customer engagement should not displace detailed analysis as part of the regulatory process.

There are many positives in the framework the AER has articulated to evaluate engagement – we also agree that the weight attributed to the outcome of engagement should include a consideration of the consultation's context.

**6. Operational expenditure (opex) efficiency has been declining over the long term for most networks. We support AER's decision to require improvements.**

Opex productivity declined on a long-term trend for most networks between 2006 and 2018. Analysis supports the adjustments applied to Jemena's base year, and suggests improvements are also appropriate for AusNet Services.

---

<sup>2</sup> Australian Council of Social Service, 2020, *COVID shines light on failure of energy system for people experiencing disadvantage*, accessed 8 December 2020, [https://www.acoss.org.au/media\\_release/covid-shines-light-on-failure-of-energy-system-for-people-experiencing-disadvantage/](https://www.acoss.org.au/media_release/covid-shines-light-on-failure-of-energy-system-for-people-experiencing-disadvantage/)

- 
7. **The reduced capital expenditure (capex) allowances of the Draft Determinations address stakeholder concerns about a continually-growing RAB. The revised proposals for capex increases are likely to exceed requirements.**

The AER has determined that initial capex proposals exceed current requirements. Their decision acknowledges concerns raised by many about the implications of ongoing growth in the RAB – although RAB-per-customer still increases in most cases.

Distributors' revised applications for capex increases, including AusNet Services and Jemena's rejection of almost the entirety of the AER's decision, reverse this progress.

8. **Replacement expenditure (repex) allowances are significantly higher than the historical average, despite improving reliability measures.**

Reliability indicators have continued to improve for most networks through 2019, despite general customer preference for affordability. Trend analysis did not find evidence to support the approval of repex that was 25% above the historical average.

9. **The Draft Determination's challenge to the CPPALUE networks' proposed pole repex program, through comparison to historical outcomes, is appropriate.**

We support the development of a refined pole repex model that manages bushfire risks, and also aligns with historical outcomes, and properly accounts for differences in the hazard and risk profile of different operating environments (especially urban/rural.)

10. **Trend analysis finds that augmentation expenditure (augex) proposed for the upcoming period is higher than actual spending in the current period, while AEMO's forecast for static state-wide demand growth suggests that an increase would exceed requirements**

While demand growth will not be static in all areas, AEMO's forecast for continuing stable state-wide maximums suggests the next periods' augex should be similar to current levels.

Stable demand at the state level suggests there may be opportunities to optimise the network to accommodate local growth.

11. **DER integration has been introduced as a new class of augex. Customers will benefit from a consistent approach from the distributors.**

The AER's Value of DER study will benefit customers by establishing a consistent and meaningful way to value export.

Customers will also benefit from a detailed understanding of other aspects of the programs, including the proposed technology pathway to alleviate given constraints, and detailed assessment to confirm that the DER proposals of AusNet

Services and Jemena are proportional to their specific demands, despite overall capex trends.

We support the distributors' initiatives to build the smart-grid capability needed to manage and control DER on the network.

**12. Customers benefit where the Customer Service Incentive Scheme (CSIS) is based on quantifiable and consistent metrics calibrated to reward improvement.**

Targets and rewards should be calibrated to support ongoing improvement, and avoid delivering bonus revenue for maintaining the status quo.

**13. Where there are inconsistencies between depreciation and repex schedules, and in the schedules of different distributors after the impact of asset class aggregation is considered, customers will benefit from establishing standard values.**

The AER has suggested that apparent inconsistencies in depreciation and repex schedules are likely to be due to asset class aggregation. Where material differences remain, customers will benefit from optimal and standard values being established across the state.

**14. The Environmental Protection Amendment Act (EPAA) should not be designated for potential pass through before stakeholders have established that the Regulations are considered and fit-for-purpose for distribution infrastructure.**

Stakeholders shared concerns about the original proposed expenditure by the CPPALUE networks to meet EPAA changes – these provisions in the initial proposals were withdrawn, and the question of suitability was not resolved.

Distributors should be proactive in engaging and including stakeholders to determine that Regulations are designed to manage distribution infrastructure appropriately. Without this process, we don't support a pass through for this legislation.

**15. The AER's suggestion to extend opt-out Time-of-Use (TOU) tariff assignment to legacy TOU customers is a sensible measure to reduce complexity.**

We support this addition to the opt-out assignment policy.

**16. We are concerned about the potential implications of the ongoing trend towards higher fixed charges for residential tariffs.**

Increasing the fixed proportion of tariffs will benefit those with high loads. While some types of vulnerable customers may have high loads, others have lower-than-average loads.<sup>3</sup>

---

<sup>3</sup> ACOSS & Brotherhood of St Laurence 2018, *Energy stressed in Australia*, ACOSS, viewed 2 September 2019, [http://library.bsl.org.au/jspui/bitstream/1/10896/4/ACOSS\\_BSL\\_Energy\\_stressed\\_in\\_Australia\\_Oct2018.pdf](http://library.bsl.org.au/jspui/bitstream/1/10896/4/ACOSS_BSL_Energy_stressed_in_Australia_Oct2018.pdf)

---

We are concerned that the shift towards higher fixed charges is continuing without the level of understanding of the relationship between consumption patterns and economic wellbeing that is necessary to satisfactorily understand the impacts.

17. **We support a grid-scale battery tariff that would allow this technology to be fully evaluated against alternative technologies, and that would enable its deployment on the distribution network.**

Option 2 and 4 proposed by the AER have the potential to be pragmatic solutions that would allow grid-scale batteries to be introduced to the distribution network in an appropriate cost-reflective manner.

We support the establishment of a consistent approach between networks.

## 2 The AER's draft determination responds to stakeholder concerns

The AER's determination acknowledged many of the concerns raised by VCO and other stakeholders. In particular:

- The AER has confirmed they are scoping a broad review of incentive schemes.
- The AER has acknowledged the risks of a continually-increasing Regulatory Asset Base (RAB), and has considered this in their assessment of proposed capex.
- The AER interrogated the large number of proposed operational expenditure (opex) step changes proposed by distributors, and has rejected those deemed unqualified.
- The determination questioned the high forecasts in some proposals for connections growth and peak demand. The AER highlighted that forecasts need to be updated to properly accommodate the impacts of COVID-19.
- The AER acknowledged the feedback from many stakeholders that customer engagement should inform rather than determine revenue decisions.
- The AER commissioned a Value of Distributed Energy Resources (DER) report, to establish a standard approach to valuing increased export capacity.

### Key points:

1. The VCO acknowledge the many aspects of the AER's determination that reflect stakeholder concerns, and support their inclusion in the final determination.



### 3 The EDPR and Victorian consumers

Energy affordability remains crucial for Victorian households and given the potential for the COVID-19 pandemic to increase the number of Victorians facing energy stress, it is important that distributor revenues are no higher than necessary.

Energy debts are a strong early indicator of economic hardship and a driver for further household debt.<sup>4</sup> Energy bills consume a high and growing proportion of the expenditure of low-income households.<sup>5</sup> For many households, high energy costs restrict access to necessities.<sup>6</sup>

The pandemic's implications for the circumstances of existing and newly-vulnerable households has been masked through 2020 by the effectiveness of government support programs, including JobKeeper.<sup>7</sup> The impact of COVID-19 is uneven and varied, so that some Victorians are facing more significant set-backs than average economic indicators may reflect. BSL's study of COVID-19's impact on participants of the longitudinal 'Life Chances Study' finds that those with insecure work and fewer resources have been disproportionately impacted.<sup>8</sup>

#### Key points:

1. Delivering affordable energy will be an important way to support households and businesses particularly impacted by the pandemic, as well as the recovery of the economy at large.
2. Consumer priorities should not be assumed to be unchanged since consultation, especially for non-core services, given the scope of the pandemic's impact.

---

<sup>4</sup> Consumer Action Law Centre, 2019, Energy Assistance Report, accessed 1 March 2020 [https://consumeraction.org.au/wp-content/uploads/2019/07/190620\\_Energy-Assistance-Report\\_FINAL\\_WEB.pdf](https://consumeraction.org.au/wp-content/uploads/2019/07/190620_Energy-Assistance-Report_FINAL_WEB.pdf)

<sup>5</sup> Australian Council of Social Service & Brotherhood of St Laurence 2018, Energy stressed in Australia, ACOSS, viewed 2 September 2019, [http://library.bsl.org.au/jspui/bitstream/1/10896/4/ACOSS\\_BSL\\_Energy\\_stressed\\_in\\_Australia\\_Oct2018.pdf](http://library.bsl.org.au/jspui/bitstream/1/10896/4/ACOSS_BSL_Energy_stressed_in_Australia_Oct2018.pdf)

<sup>6</sup> Australian Council of Social Service, 2019, 'I regularly don't eat at all': Trying to get by on Newstart, accessed 1 March 2020, <https://www.acoss.org.au/wp-content/uploads/2019/07/190729-Survey-of-people-on-Newstart-and-Youth-Allowance.pdf>

<sup>7</sup> ACOSS, 2020

<sup>8</sup> Harrison, Ursula et al, 2020, *Setbacks at 30: Life Chances and COVID-19*, Brotherhood of St Laurence, accessed 29 December 2020 [http://library.bsl.org.au/jspui/bitstream/1/12354/1/BSL\\_COVID-19\\_Insights\\_Setbacks\\_at\\_30\\_LifeChances\\_Dec2020.pdf](http://library.bsl.org.au/jspui/bitstream/1/12354/1/BSL_COVID-19_Insights_Setbacks_at_30_LifeChances_Dec2020.pdf)

---

## 4 The COVID-19 pandemic – forecasting and other impacts

### Forecasting connection numbers and peak demand

The potential to overestimate growth factors risks inflated costs for consumers, through unnecessary connection allowances, premature proposed augmentation, incentive program benefits, and fewer customers to cover costs.

The VCO's submission to the initial proposals noted that the connections forecasts from AusNet, Powercor and United Energy assumed an escalation in customer growth, and an aggregated peak demand forecast that was significantly higher than Australian Energy Market Operator's (AEMO) 2019 Electricity Statement of Opportunities (ESoO). This increase was applied despite that AEMO demand growth forecasts have proven to be conservatively high in the past.

The AER rejected distributor demand forecasts exceeding AEMO's Transmission Connection Point (TCP) Forecast (November 2019, confirmed against AEMO's August 2020 ESoO to account for COVID-19 impacts). COVID has been generally assumed to act as a temporary shock followed by a recovery rather than an enduring lag.<sup>9</sup>

Analysis from Headberry Partners (attached) shows that some distributors' customer forecasts are much higher than the Victorian budget figures (see Figure 14). The aggregate peak demand forecast by distributors is also significantly higher than that in AEMO's Victorian ESoO – despite the fact that AEMO's forecasts can be shown to be conservatively high (see Figure 16). (The analysis points out that AEMO's 10% PoE has never eventuated in the NEM, and the 50% PoE has rarely been exceeded.)

The AER flags that it will update their applied forecasts if there are significantly divergent official forecasts released at the time of the final determination.

We support the AER's approach, especially in rejecting forecasts that exceed estimates from AEMO. We also note the following considerations as relevant to the final forecasts adopted:

- Some distributors have argued for a more optimistic revision of forecasts, given some positivity in recent economic figures, and Victoria's effective control of community transmission of the COVID-19 virus.<sup>10</sup>

---

<sup>9</sup> AER, 2020, *Powercor Distribution Determination 2021 to 2026 Attachment 5 Capital Expenditure*, accessed 1 December 2020, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/powercor-determination-2021-26>

<sup>10</sup> AusNet Services, 2020, *Revised Regulatory Proposal EDPR 2022-26*, accessed 19 December 2020, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/AusNet-services-determination-2021-26/proposal>

However, the uncertainty created by the pandemic is an argument for conservatism. Where distributors are able to accommodate possible growth through the deployment of available measures - such as new demand management capabilities supported by the period's future grid projects – this will support the state's recovery from the pandemic.

- Long term post-COVID trends are not yet clear. Observed patterns, such as urban to rural migration may shift growth on the network.<sup>11</sup> Conservative estimates will help accommodate changed trajectories that endure post the pandemic.
- Lower birth-rates, and lower overseas migration will both impact Victoria's growth in connection numbers.

Births contribute to households upsizing and new construction in the suburbs. COVID-19 accelerated a declining trend for birth-rates in Victoria.<sup>12</sup>

Overseas migration, especially student migration, was the key driver for growth in Victoria before the pandemic. Its recovery will depend on global economic conditions as well as local management of COVID-19 and our economy.

The university sector's recovery is expected to take years. A recent estimate considered 'optimistic' in a Melbourne University study anticipated recovered rates by the end of the upcoming period.<sup>13</sup>

- Forecasts with a long-term outlook anticipate an enduring lag after the rate of growth recovers. This is seen in the federal Centre for Population's recent Annual Population Statement, as well as their federal and state forecasts.<sup>14</sup>
- Population growth has been steadily falling in Melbourne's growth corridors for a number of years, including areas of planned augex, such as Whittlesea

---

<sup>11</sup> Minister for Population, Cities and Urban Infrastructure, December 2020, *First annual population statement released today*, accessed 29 December, <https://minister.infrastructure.gov.au/tudge/media-release/first-annual-population-statement-released-today>

<sup>12</sup> Minister for Population, Cities and Urban Infrastructure, December 2020, *New Projections for Australia's Future Fertility Rate*, Federal Government's Centre for Population, accessed 29 December 2020, <https://minister.infrastructure.gov.au/tudge/media-release/new-projections-australias-10-year-fertility-rate>

<sup>13</sup> Ian Marshman and Frank Larkins, 2020, *Modelling individual Australian universities resilience in managing overseas student revenue losses from the COVID-19 pandemic*, accessed 1 December 2020, <https://melbourne-cshe.unimelb.edu.au/lh-martin-institute/insights/modelling-individual-australian-universities-resilience-in-managing-overseas-student-revenue-losses-from-the-covid-19-pandemic>

<sup>14</sup> Australian Government Centre for Population, 2020, *Annual Population Report*, accessed 1 December 2020, <https://population.gov.au/publications/publications-population-statement.html>

---

Shire, which includes Doreen.<sup>15</sup> The context of declining growth pre-pandemic increases the possibility of a shock from COVID-19 to endure.

- The Victorian Government's Big Housing Build program has the potential to increase connections by a known quantity. It's important that the additional 12,000 dwellings are not accounted for more than once, between the distributors.

Consultation should be undertaken with the Victorian Government to establish the distribution of these dwellings. Where locations are undecided, dwellings should be allocated systematically, e.g. in proportion to existing customer numbers.

**Key points:**

1. VCO support the AER's adjustments to customer number and peak demand forecasts, as well as the proviso that numbers be adjusted as information becomes available. Most long-term forecasts predict an enduring lag in population numbers in Victoria rather than a V-shaped recovery.
2. The Pandemic has increased the uncertainty of forecasts, however adopting a conservative approach will support Victoria's recovery and the wellbeing of Victorians particularly hard-hit. Drawing on non-network solutions to accommodate growth, will also allow an optimal response to long-term shifts resulting from the Pandemic.

## 5 Customer engagement

The AER acknowledged input from the VCO and other stakeholders that customer engagement undertaken by distributors should inform rather than determine regulatory outcomes, and that distributors' representations of consumer priorities determined through engagement should not displace regulatory scrutiny.

### AER Framework for considering consumer engagement

The engagement presented to inform the EDPR process has been evaluated by the AER according to the framework outlined in Table 7 of the Draft Determination. These guidelines specify the AER's weighting of the outcome of each consultation process. We support the AER's position that this structure is not a 'fixed view'. It is important that critical evaluation is applied to all distributor-led customer engagement processes, and the weight given to engagement outcomes may need to change in different contexts.

---

<sup>15</sup> Australian Government Centre for Population, 2020, Whittlesea Population Growth Dashboard, accessed 1 December 2019

Much of the Table 7 framework is appropriate, and in line with existing industry guidance such as the 2016 Guideline from Energy Networks Australia (ENA).<sup>16</sup>

We note that the table does not include the common requirement<sup>17</sup> to account for diversity within the customer base, and understanding the priorities of customer sectors. We think this is an important consideration – especially for low income and vulnerable customers, for whom access to an essential service may sometimes be in the balance against other customers’ willingness-to-pay for non-core services.

We note that the CPPALUE engagement program was the most successful of the Victorian EDPR processes in testing the priorities of different sectors within their base. While Jemena accounted for diversity in the proportional makeup of the People’s Panel, their approach did not allow distinction between the groups’ priorities. Understanding diversity was a particular weakness of AusNet Services’ program. It’s possible that the CPPALUE program’s focus on customer segmentation may have contributed to the fact that their customers were less directly ‘involved’ in decision making. Where different groups are surveyed separately, a third party is required to synthesise results, which might interrupt direct involvement.

The different advantages and disadvantages of the various approaches taken to customer engagement reflects the fact that there are limits to which engagement can accurately reflect customer priorities. Barriers such as the imbalance in knowledge between the parties can be ameliorated, but not resolved.

## Relevant considerations of the context of engagement

We support the AER’s provision that considerations beyond those listed in Table 7 are relevant. We support the evaluation of engagement in the context that the process was conducted.

This is particularly relevant where engagement is undertaken on topics that are unfamiliar to the participants. While customers may choose to engage on areas that are new to them, it’s valid to consider the extent to which customers are likely to have properly understood the full relevant context of the decisions presented. Although the engagement may include education or backgrounding - by the distributor or an independent third party - the further the topic of engagement is from participants’ knowledge and experience, the more susceptible the engagement will be to intentional or unintentional influence.

---

<sup>16</sup> Energy Networks Australia, 2016, *Customer Engagement Handbook*, Accessed 1 December, [https://www.energynetworks.com.au/assets/uploads/customer\\_engagement\\_handbook\\_engagement\\_draft\\_april\\_2016.pdf](https://www.energynetworks.com.au/assets/uploads/customer_engagement_handbook_engagement_draft_april_2016.pdf)

<sup>17</sup> ENA, 2016

---

In some instances, customer engagement has been organised by distributors to challenge aspects of the Draft Decision by demonstrating customer support for their original claim.

We question whether customer engagement of this kind – that focuses on specific questions with direct significant revenue consequences – are likely to be as free from influence – intended or otherwise – as general engagement on customer priorities.

Additionally, where engagement focuses on questions of efficiency – an area where by definition business and customer interests are directly opposed – we also question whether the outcome of engagement should be considered with equal weight as engagement on customers’ preferences and priorities.

## Evaluation of New Reg outcomes

We note that AusNet Services cite the AER’s approval of their customer engagement process as a key reason for the AER’s general acceptance of their proposal.<sup>18</sup> While there were positive aspects of AusNet Services’ New Reg customer engagement process, there were also comparative weaknesses.

Each of the different approaches adopted by the distributors were associated with pros and cons – sometimes these reflect inherent limitations on business-led engagement, due to barriers such as knowledge imbalance between the parties.

Examples of weaknesses in the AusNet Services New Reg process include a consultation process that did not effectively survey different sectors of their base – large energy user representatives have reported a lack of engagement through the process<sup>19</sup>, and there was no specific engagement with vulnerable consumers.

The Customer Forum’s customer engagement process has been criticised as ad-hoc and reactive – for example, surveying beneficiaries regarding proposed augex projects rather than the wider customer base.

We do not agree that AusNet Services’ New Reg engagement process should have contributed to any decision to apply a less detailed assessment from the AER than otherwise.

---

<sup>18</sup> AusNet Services, 2020, *EDPR 2022-26 Revised Regulatory Proposal*, accessed 1 December 2020, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausnet-services-determination-2021-26/proposal>

<sup>19</sup> Major Energy Users Association, 2020, Presentation to AER Public Forum, accessed 1 December, [https://www.aer.gov.au/system/files/EUAA%20-Presentation%20%20-%20Predetermination%20conference%20-%20Victorian%20Electricity%20Distributor%20Determination%202021-26%20-%2015%20October%202020\\_3.pdf](https://www.aer.gov.au/system/files/EUAA%20-Presentation%20%20-%20Predetermination%20conference%20-%20Victorian%20Electricity%20Distributor%20Determination%202021-26%20-%2015%20October%202020_3.pdf)

**Key points:**

1. The AER acknowledge stakeholder input that community engagement is an important part of the distributors' planning process that should inform rather than determine revenue allocation.
2. The AER framework for evaluating engagement is reasonable. It omits some important factors that are included in most industry guidance, such as understanding priorities of customer sectors.
3. The New Reg process – like the process undertaken by all distributors – was associated with relative strengths and weaknesses. We do not agree that it warrants a less-detailed scrutiny of the distributors' offering.
4. It is appropriate for the AER to also consider aspects of engagement context that are not articulated in the guidelines – such as the prior familiarity of customers with topics of engagement, the extent to which business and customer interests are opposed, and the amount of revenue directly at stake.

## 6 Opex

### Opex overview

The AER's draft decision adjusted AusNet Services proposed opex by 3.7%, largely to accommodate COVID-19 impacts. Jemena's was reduced by 13.3%, United Energy and Powercor by about 12%, and CitiPower by 17%.

AusNet Services has returned revised opex 1.4% higher than the Draft Decision, challenging decisions on step changes and trend, and introducing new step change proposals. The CPPALUE networks have challenged step change decisions. Jemena has challenged the application of the base year efficiency adjustment, as well as aspects of the trend inputs.

### Opex trend analysis

Analysis by Headberry Partners highlights the consistent tendency for distributors to under-spend their allowance most years. It's argued that were the opex base year approaching efficiency, the allowance would be regularly exceeded.

The analysis highlights the productivity decline over time for all distributors except United Energy. The average annual decline in opex productivity over the last 14 years of available data exceeds the AER's requirement for an opex improvement, with trends

---

ranging between -1% and -2.7% decline per year, versus the AER's nominated 0.5% improvement.

A bottom-up 'sanity check' has been proposed as a potential step in evaluating efficiency.

## Opex base year

The base year for CPPALUE networks was updated for real 2019 figures, which reduced the allowance for these networks. Jemena's base year was determined to be inefficient, and a reduction by 15% was recommended, to be achieved over the course of the period.

### Jemena opex base year efficiency

We support the AER's decision to apply an efficiency adjustment to Jemena's base-year opex.

We note that Jemena already achieved almost half of the applied efficiency adjustment before it was imposed, by applying the gains from their 2019 transformation program in their initial update.

In the VCO's submission to the initial proposals we noted that Jemena's benchmarked opex productivity was low not just compared to other networks, but had also declined over the long term (See **Error! Reference source not found.**). This decline over time – unlike the low benchmarking result against other distributors – is not resolved by addressing objections raised by Jemena in their revised proposal, such as the treatment of capitalisation.<sup>20</sup> (We also note that Jemena ranks behind the other urban Victorian networks in capex productivity according to the October 2019 Economics Insight benchmarking report, in a trend that is also declining.<sup>21</sup>)

This demonstrates the case for the AER's decision to apply a glide path towards a 15% efficiency improvement on the base year over the course of the period.

### AusNet Services opex base year efficiency

The VCO's submission to the initial proposals also raised the potential that AusNet Services' opex base year was inefficient.

Attached analysis from Headberry Partners puts forward several points of evidence to support this case: AusNet's opex is consistently and significantly lower than Powercor's

---

<sup>20</sup> Jemena, 2020, *2021-2026 EDPR Revised proposal Attachment 5, Operating Expenditure*, accessed 1 December 2020, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/jemena-determination-2021-26>

<sup>21</sup> Economic Insights, 2020, *Economic Benchmarking Results for the Australian Energy Regulator's 2019 DNSP Annual Benchmarking Report*, accessed 1 December 2020, <https://www.aer.gov.au/system/files/D19-190817%20Economic%20Insights%20AER%20DNSP%20Benchmarking%20Report%20-%20October%202019.PDF>



(Victoria's other rural network), on a range of measures, and AusNet's productivity has declined most steeply over time.

The analysis also notes the increase in repex over time and in the current period, and the expectation that an increase in repex should be expected to reduce the opex requirement.

### Opex step changes

The AER's Draft Determination addressed the concerns many stakeholders raised about the legitimacy of proposed step changes from all distributors.

Many of the step change decisions were accepted by distributors, with a number still in negotiation via the revised proposals.

The CPPALUE networks objected to the AER citing materiality as grounds for challenging step changes. We support the arguments included in Headberry Partners' analysis in defence of the validity of materiality as a criterion – small increases in operating costs should be expected to be offset by equivalent reductions which are unlikely to be nominated as negative step changes.

The analysis has suggested materiality as a relevant reason to challenge the proposed AEMO fees and ESV levy, which we support.

### AusNet Services innovation fund

We support the innovation projects proposed by AusNet Services and acknowledge the importance of building capacity in the areas nominated. In this case, we are not opposed to granting the funds nominated, given that the total funding for the seven projects is not excessive, and AusNet has agreed to claim only money spent, without applying CESS.

However, allowing regulated businesses to charge customers for innovation projects is not best practice. It is preferable that innovation projects to benefit consumers be selected through a competitive process, and that funds be administered by an independent external party. Proper oversight will also ensure that knowledge from publicly-funded projects is properly shared by distribution businesses.

Although we do not oppose AusNet Services innovation proposal for this EDPR, we recommend that a better independent framework to ensure accountability is established for future resets.

### AusNet Services bushfire insurance

AusNet Services has made a revision in their revised proposal to allow for increased insurance costs from those anticipated a year ago, despite taking measures to reduce

---

ongoing insurance cost by carrying more risk (increasing the deductible and reducing coverage).

We support the attached report's appeal for an analysis of the insurance proposals from each distributor, to consider the balance of risk and coverage implied by each – and to ensure that AusNet Services' new step claim for \$10.5 million in insurance costs, and the other networks' pass-through request, will not lead to double-counting with any of the other elements of the insurance proposals.

Given that the driver of these costs is climate change, increases can be expected to continue in future periods, which highlights the importance of ongoing consultation on how to best manage this issue, beyond the EDPR process itself.

## Opex growth trends

We support the AER's decisions on opex growth trends, and the application of a consistent approach for the Victorian networks.

### Key points:

1. Opex productivity is declining over time. Distributors underspend their opex allowance in most years, and are awarded through incentive schemes. If opex were at an efficient level, the allowance would be expected to be exceeded more often.
2. Declining opex productivity over time suggest that both AusNet Services and Jemena's base year is not competitively efficient, and an efficiency adjustment is appropriate for both networks.
3. We support the AER's decisions on opex growth trends, and we advocate for the application of a consistent approach for the Victorian networks.
4. We support the AER's scrutiny of opex step changes, and the decisions imposed in the Draft Determination.

## 7 Capital expenditure

### Overview

The Draft Determination reduced AusNet Services and Jemena's proposed capex by 4.4% and 4% respectively, as an adjustment to address the changed context post COVID-19. The Draft deemed CPPALUE proposed capex not capable of acceptance, and put forward capex determinations that were 26-27% lower than their proposals.

AusNet Services' and Jemena's revised capex proposals are close to their initial claims. AusNet Services' revised proposal includes a claim for a 13.7% increase on connections, and a 4.1% increase on augex. Jemena's challenges the decision on repex and augex, and increased non-network and DER claims.

The CPPALUE networks have challenged aspects of the Draft Determinations, with revised repex proposals, and a higher claim for connections capex than the initial proposal. Their augex claim is slightly increased from the Draft Determination.

## Capex analysis

The attached analysis from Headberry Partners indicates that the networks' revised capex proposals are likely to exceed requirements.

The analysis highlights the following trends, which together indicate that the capex claims are too high:

- Distributors are proposing to increase capex in the next period compared to the actual spend in this period, despite declining productivity,
- SAIDI and SAIFI continue to improve in 2019, accompanied by increasing capex productivity decline for most networks (Figure 11).
- A diminishing return for improved reliability is evident for the increasing investment in the RAB. At the same time, the fall in asset-utilisation is accelerating (Figures 9 and 10).
- The value of the RAB relative to peak-demand was higher in 2019 than forecasted (see Figure 8), supporting the argument that near and mid-term demand forecasts are likely to be overstated.
- The Draft Determination capex allowance is similar to the capex actuals of the last period (except in the case of AusNet Services, whose capex has decreased after recent periods' elevation). Given static state peak demand forecasts, increases on the Determination allowance are likely to exceed requirements.
- Current period capex spending has fallen short of the initial proposals in the 2015 EDPR, and also the AER's allowance.

## Repex

Analysis from Headberry Partners shows that the Draft Determination's repex is 25% higher than the historical average, and 15% higher than the actual repex expenditure of the current period. In the context of steadily-improving reliability and the customer priority for affordability, exceeding historical averages may indicate an excess.

---

### CPPALUE Poles Repex

CPPALUE made a significant increase in the proposed repex for wood poles across their three networks in response to an ESV review in 2019.

Powercor proposed to increase pole repex by 243% on the current period, with United Energy and CitiPower also proposing significant increases.

The AER challenged the proposed repex by budgeting for the replacement rate from the most recent period where Powercor exceeded failure rate targets, 2010-15, as well as a 'backlog' from the intervening years.

CPPALUE has rejected the AER's decision, on the grounds that the asset management practices behind the 2010-15 rate are no longer approved by the ESV and meet compliance obligations of the Electrical Safety Act.<sup>22</sup>

Stakeholders also challenged CPPALUE for failing to distinguish between the failure rate, and the consequences of pole failure in an urban environment and the rural networks. This shortcoming is particularly apparent given that concerns over bushfire risk have driven this process.

We accept that CPPALUE are adjusting their processes to meet new risk-management requirements. We also feel that calibration of these processes against historical results – given the large number of assumptions that feed into the new models, and the sensitivity of the model to estimation of the failure rate – is a reasonable challenge from the regulator.

We support the application of a refined model, consistent with historical results, and detailed enough to properly consider different hazards and risks applying to urban settings.

We note that CPPALUE accepted the AER's decision that it is appropriate to reinvest CESS benefit towards pole safety, and we commend this commitment pending the wider revision of the incentive framework currently being scoped by the AER.

### AusNet and Jemena Repex

Analysis from Headberry Partners argues that the AER's general acceptance of the proposed repex from these two networks relies on a comparison to expenditure in the current period, without a full consideration of the extent to which the current period has increased from the historical trend.

The analysis also questions the approval of a higher repex allowance for AusNet Services than Powercor, given the similarities in the asset base of these networks.

---

<sup>22</sup> Powercor, 2020, *Revised Proposal 2021 – 2026*, accessed 1 December 2020, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/powercor-determination-2021-26>

The CESS award granted to these networks as a result of underspending the repex allocation for the last period is a reason for careful consideration of these networks' revised submission for increased repex from the Draft Decision, despite the approval of a large percentage of their initial claim.

## Augex

Headberry Partners' analysis draws attention to the potential for optimising network assets rather than augmenting the network to address local peak demand increases, in the context of static state-wide peak demand and falling utilisation.

AEMO forecasts do not anticipate Victorian peak demand to exceed the current period. This indicates that augex requirements for the upcoming period should be analogous to the actual requirement of the current period, given that non-coincident demand to 2019 did not exceed that of 2014.

Initial augex proposals were similar to the initial claims for the current period, despite the significant underspend of this period in an analogous static demand environment. This trend analysis supports reduction to proposed augex beyond the decision in the Draft Determination.

### Key points:

1. An analysis of capex trends discovers a range of indicators that the capex claims in the revised proposals exceed the requirements of the networks.
2. Repex proposals are higher than for the last period, and significantly higher than historical levels.
3. In the context of AEMO forecasts for minimal Victorian peak demand growth, trend analysis suggests that forecast augex requirements should be commensurate with the current period.

## 8 DER expenditure

The AER undertook a detailed assessment of the DER expenditure for CPPALUE. Less extensive assessment was undertaken for Jemena and AusNet Services, given that overall capex was deemed capable of acceptance for these networks, although the AER flagged potential issues with the assumptions underlying both claims.

### CPPALUE DER expenditure

The AER reduced the allowance for expenditure on DER integration for the CPPALUE networks due to deviations in the assumptions of their business case assessment from

---

accepted standards (such as the NPV period). In general terms, CPPALUE's physical network augmentation spending allowance was reduced, while the budget for developing smart grid capabilities was allowed.

VCO supports this approach in line with our position that we share and recognise broad support for investment to accommodate DER, but also understand the importance that it demonstrate benefits.

CPPALUE made a strong case for smart-grid programs such as dynamic voltage management, and that many of the functions of the proposed platform, such as dynamic operating envelopes will be necessary as the grid develops whatever the ultimate level of DER uptake will be.

These functionalities will allow network constraints to be safely managed while significantly reducing the need to restrict customers from installing PV and connecting to the network. Consumers hope that establishing and operating these systems will inform a more detailed and specific understanding of where auxex is required to enable DER integration, and where this provides a net benefit to customers.

## AusNet Services and Jemena DER expenditure

The AER accepted the DER proposals from AusNet and Jemena in the context of accepting capex overall, despite 'concerns about the underlying assumptions and forecasts of AusNet Services' DER integration capex'<sup>23</sup> and elements 'not demonstrated against capex criteria' for Jemena.<sup>24</sup>

The Value of DER adopted by AusNet Services differed from the approach recommended in the AER-commissioned Value of DER Study.<sup>25</sup> The AER also queried Jemena's assumption that interventions would be required where penetration reached 30% - despite other networks demonstrating that higher penetrations can be achieved than the point at which issues first emerge.

Compared to the businesses for whom export constraints are a present issue, Jemena's forecast expenditure needs have been estimated with reference to less network data, and rely more heavily on assumptions. In this context, it is worth considering that the forecast penetration for Jemena by the end of the period is close to the current penetration of AusNet Services and Powercor, where issues have until now been largely managed through manual tap changes and other opex measures.

---

<sup>23</sup> Ausnet Services, 2020

<sup>24</sup> Jemena, 2020, *2021-2026 EDPR Revised proposal Attachment 4, Capital Expenditure*, accessed 1 December 2020, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/jemena-determination-2021-26>

<sup>25</sup> CSIRO and Cutler Merz, 2020, *Value of Distributed Energy Resources Report*

## Value of DER

The Value of DER study undertaken by the AER addresses the concerns raised by the VCO and other stakeholders around the business case evaluation methodology employed by the distributors, including the assumption that the value of exported energy would remain unchanged over time, and the benefits of pursuing a consistent approach between networks.

We would like to make the following points about relevant considerations in adopting or applying these recommendations:

- Many submissions to the Value of DER study argued that there were differences in the value of enabling kW of PV to be installed by consumers on the distribution network, rather than having equivalent kW installed in large generators. No difference was recognised by the Value of DER study.

Equity between early and late adopters is one reason stakeholders see value in allowing consumers to access PV.

The value of providing access to install and connect PV provides different values to customers than alleviating export constraints during periods of excess generation.

- The study does not include a recognition of the carbon cost alleviated, although it accommodates the possibility for this to be considered in line with state government policy.

We support the inclusion of the cost of carbon, in line with strongly-demonstrated customer preference for transition to a low-carbon network.

## Consistent DER integration planning

The Value of DER study is an important contribution to a framework that will maintain consistency between Victorian networks as they undergo transition (with respect to the constraints of existing infrastructure).

There are other aspects of the DER implementation planning where aiming for a consistent approach will deliver best value for consumers, and enable consistent customer interaction with DER across the state.

Important examples are: proposed technology pathways in response to particular constraint contexts, deployment policies for dynamic operating envelopes, agreed constraint levels (relevant to the network context) to trigger remediation, etc.

---

An exploration of the networks' planning policies for these aspects would allow a closer understanding of a proportional investment proposal for DER integration that is appropriate to a distributors' current situation.

Some decisions will also have implications for DER-customer interactions and decision-making. For example, consultation with AusNet Services and the CPPALUE networks early in 2020 suggested that at that time they had different strategies for deploying dynamic constraints. This may have implications for customers as to the appropriate response – increasing or decreasing loads - when there is a local voltage constraint active.

This year's determination introduced this new class of expenditure to the Victorian process. It is a useful opportunity to compare the detail of this planning between the networks.

### Upgrades should be implemented within a comprehensive plan for a future network

Consumer advocates would like to see more evidence that DER augmentation proposals are implemented within the context of a comprehensive plan for a future network, so that we can be confident that its benefits have been properly valued, and that the network is developed without redundancies.

We are concerned that augmentation to accommodate an expanded voltage range or reverse flows in constrained areas of the network lead to constraints developing elsewhere, potentially upstream as PV penetration increases on multiple branches across the low voltage network.

Where this is possible, it is a relevant consideration for business case assessments for proposed augex. Where business case assessments neglect to consider the possibility for constraints to occur elsewhere on the network, then it is likely that the benefits of proposed augex will be overstated.

This issue was not considered explicitly as part of the Value of DER study, however it is relevant to preparing a representative business case. It's also important to take this into account to properly evaluate the relative value of all potential technical solutions. Distribution grid-scale storage, for example, may be more expensive upfront than a transformer upgrade, but may provide better support for the greater network.

The importance of establishing a better understanding of the likely development of the network's transition is another argument in support of the AER's determination regarding the DER capex proposals of the CPPALUE networks. It is likely to be equally relevant to the other networks.



## Evaluation of DER spending

The outcomes of DER spending are not currently addressed by existing incentive mechanisms, so this may create an unbalanced incentive for distributors to underspend allocated DER funds.

We are also concerned that any scheme developed to incentivise or oversee DER spending should not incentivise inefficient excessive augmentation for DER enablement. Some distributors have proposed that they measure the outcome in terms of the amount of constrained exports enabled. The consumer outcomes-focused approach is positive, however the value of exports should also be considered with respect to the development of the network as a whole, as discussed above.

AusNet Services' indication that they will return unspent funds is also a positive step. It is also important that the augmentation undertaken is confirmed to return a net benefit.

### Key points:

1. We support the approach of the AER's Draft Determination for the CPPALUE networks' DER integration proposal – we also suggest that the critiques made for the other networks are equally valid.
2. Given that this is a new class of expenditure, we believe that customers would benefit from a consistent approach across the state (relative to local network conditions.) The Value of DER report will support a uniform approach, however other aspects of network planning are also relevant.
3. We welcome measures from the networks to provide accountability for DER integration spending. A uniform approach should be developed, that demonstrates value for customers.

## 9 Incentive Schemes

### Customer Service Incentive Scheme

The proposed Customer Service Incentive Schemes (CSIS) is an example of the way different customer consultation processes can lead to different outcomes.

Jemena has retained the STPIS phone answering metric, in response to the advice of the Peoples' Panel that a CSIS is not warranted.

---

The CPPALUE networks introduced a CSIS in their revised proposal, in response to AusNet Services' program.

CPPALUE surveyed customers to inform the design of the scheme. This resulted in a proposal that would reward improvement on planned SAIFI and SAIDI metrics, SMS notification for outages, and a smaller amount for the call-answering metric.

These metrics are reasonable and are a likely reflection of customer priorities. Metrics that are easily measurable will provide a more accurate indication of improvement than sample data collected through a survey (this is especially true given the uneven distribution of reliability events across the network). The scheme will allow benchmarking over time and between networks that will assist in setting appropriate targets to underpin ongoing improvement.

The metrics identified through CPPALUE's engagement program are similar to those nominated by AusNet Services' customers. AusNet Services' proposed scheme measures customer satisfaction with planned and unplanned outages, new connections and complaints, through a survey.

(Unplanned outages are already included in the STPIS, so that surveying customers on their experiences in this area may double up on incentives here, in a context where stakeholders have already raised the concern that reliability may be over-incentivised.)

Given this similarity, there is an opportunity to standardise these schemes.

Although the new CSIS has been designed intentionally as a principles-based scheme, to allow flexible response to changes in priorities – the similarities in the design of the CPPALUE and AusNet Services schemes show that currently, the services valued by customers are similar, and relate to basic core distribution business offerings. Given this result, we suggest that it is worth considering whether the scheme's capacity for flexibility outweighs the benefits that might be gained from applying uniform benchmarks.

We are also concerned that the targets and rewards be set at appropriate levels to incentivise improvements, not generate additional revenue for the status quo. Our approval of the scheme is dependent on the AER's scrutiny and satisfaction with the target set.

#### Key points

1. Where CSIS schemes are applied, customers will benefit from those that adopt directly measurable metrics, rather than using survey results, and those that set an appropriately-high bar for reward. We recommend that customers would benefit from negotiating a uniform CSIS between networks to allow benchmarking between networks and over time.

## Incentive scheme operation and review

The attached analysis by Headberry Partners includes commentary on the function of the EBSS, CESS and STPIS, and identifies indications that these schemes may not be working to achieve value and efficiency for consumers: by incentivising a service level in excess of customers' needs or priorities; by rewarding savings against revenue allowances that don't represent real productivity gains; or through other inconsistencies.

We welcome the incentive scheme review currently being scoped by the AER, and submit that the issues raised in the attached analysis be considered for review.

### Key points

1. We welcome the incentive scheme review currently being scoped by the AER, and submit that the issues raised in the attached analysis be considered for review.

## 10 Depreciation

### Consistency of asset life

VCO's submission to the initial proposals noted the disparity in asset lives between the distributors' schedules, and noted that consumers would benefit where common rates were established.

The AER addressed this concern in their Draft Determinations, and suggested that much of this apparent difference is due to aggregation of asset classes. Headberry Partners has raised specific examples where they believe differences to persist.

Where asset lives do differ between networks and between the depreciation and repex schedules, we believe that customers will benefit from a review to optimise and standardise these schedules.

### Accelerated depreciation – AusNet Services

Headberry Partners' analysis has highlighted some specific concerns associated with the accelerated depreciation claims included in AusNet Services' proposals, and raises concerns about the implication of this decision for the depreciation schedule for the other assets included in this class (See Section 5.1).

---

#### Key points

1. Where there are differences in the schedule for a given asset class, between distributors or between repex and depreciation schedules, customers will benefit from establishing a consistent approach.
2. The acceptance of AusNet Services' proposed accelerated depreciation of assets within a class raises questions regarding the implications for the altered accuracy of the schedule applied to other assets.

## 11 Pass through events

### Environment Protection Authority Pass Through Events

A number of distributors have flagged that the enactment of the new Environmental Protection Amendment Act 2018 may trigger the need for cost pass-throughs.

The CPPALUE networks' inclusion of a large amount of repex and other spending increases in their initial proposal (withdrawn before the draft determination) gives an indication of the volume of additional revenue that might be sought in relation to these amendments.

Many stakeholders questioned whether there were any real-world drivers for the proposed compliance measures, such as a large amount of noise-related repex. Consultation with distributors confirmed that noise-related complaint volumes were very low. The EPA confirmed, during consultation in early 2019, that distribution infrastructure had not been considered through the drafting stages. Many similar infrastructure installations were listed in the Regulations as exclusions.

Our initial submission stressed the importance of proactive engagement on this issue, to ensure that any final regulations were specifically drafted to be appropriate to manage any real environmental risks relating to distribution infrastructure, and to avoid unnecessary expenditure.

The extension of the Act's enactment provided an opportunity for these issues to be resolved, and for further engagement to ensure that the regulations were considered and appropriate for distribution infrastructure.

Without the resolution of consumer doubts relating to the need for this investment and the extent to which the regulations are fit-for-purpose, it is not appropriate that this spending be approved as an appropriate pass-through.

**Key points**

- 1 We do not support the inclusion of EPA regulation compliance as a pass through, given the lack of consideration of distribution infrastructure in the regulations' drafting process, and the lack of consultation undertaken with the EPA to resolve these concerns after the CPPALUE networks' initial EPA-related expenditure was redacted.

## 12 Tariff Structures

### Time of Use Tariffs

The networks have proposed a time-of-use tariff for distribution pricing, with higher residential charges between three and nine PM for affected households. The tariff will be assigned to some consumers (new solar consumers, new connections, electric vehicle owners, and three-phase consumers), on an opt-out basis for most networks. We understand that retailers will be required to continue to offer a basic flat tariff through the Victorian Default Offer.

### Assignment for legacy TOU customers

The AER recommended that legacy TOU customers be assigned to the new tariffs on an opt-out basis. Distributors have confirmed that the majority of customers on existing TOU customers will be better off under the new rates.

VCO support this proposal, which will simplify the range of available offers.

### Fixed tariff component

Jemena and United Energy have proposed significant increases in the fixed component of their tariffs.

Distributors have justified this shift on the grounds that fixed tariffs more closely reflect the sunk costs that make up the majority of distributors' costs, and that this satisfies the NER requirement for cost reflectivity.

Jemena and United Energy currently have a lower proportion of their tariffs charged through fixed rates than other NEM distributors.

Consumers benefit from achieving reasonable consistency in tariff structures between the Victorian networks. VCO accepts consistency as a principle for bringing the tariffs into closer alignment.

---

However, we are concerned about the potential customer impacts of the ongoing trend of increasing fixed charges, and it has not been demonstrated to us that they have been fully considered.

Higher fixed charges may benefit the type of vulnerable customer that typically has a larger-than-average load – due to factors like inefficient appliances and housing, non-discretionary loads like air-conditioning needs, large families, or a lack of control over their lived environment (like renters.) This type of vulnerable customer is often represented amongst identified hardship customers.

However, many low income households, who are burdened by high and growing costs-of-living, generally have lower-than-average loads. These customers are disadvantaged by increasing fixed charges.

Further, higher fixed charges reduce the capacity of consumers to act to reduce their electricity costs by changing their behaviour when they are unable to afford their bills.

We are particularly concerned that these decisions are being made without a strong understanding of the relationships between electricity consumption patterns (especially total annual volumes) and income/vulnerability to energy stress, and the relative numbers of different types of vulnerable customers – low versus high consumers – are in our community. A quantitative understanding of this correlation is needed to make an informed decision about customer impact. Additionally, more clarity about the business reasons for setting the fixed charge at the proposed level would aid our assessment of how well the networks have balanced cost-reflectivity with customer impact.

## Network-scale battery tariff

The determination flags that they are seeking input on the proposals from some distributors for grid-scale battery tariffs, while also noting that upcoming rule changes proposed by AEMO may supersede decisions made in relation to these proposals.

The AER proposes four potential approaches:

1. Accept the Victorian distributors' proposed treatment of grid-scale batteries.
2. Require AusNet Services and Jemena to offer similar network tariff exemptions to those proposed by CitiPower, Powercor, and United Energy.
3. Require all Victorian distributors to exempt grid-scale batteries from the residual component of network tariffs.
4. Require all distributors to exempt grid-scale batteries from network tariffs if the battery is registered as a scheduled load.'

VCO welcome the distributors proposals to formalise arrangements for grid-scale batteries. We are keen to see the development of a framework that will enable the full lifecycle costs and benefits of batteries to be fairly evaluated against other potential solutions to given grid constraints.

Fully cost-reflective tariffs are appropriate for grid-scale batteries. Battery operators should cover any cost that they directly incur— such as augmentation required to enable export at times of high grid voltage if required, or a modest cost to administer their establishment on the network. However, they should not be required to cover general sunk or ongoing operation costs in line with any consumption/export charges that relate to consumers – they should instead be considered network infrastructure. Distribution charges must be consistent with the treatment of other technologies available to resolve grid constraints, such as transformer upgrades, to allow meaningful business-case options analysis.

In line with this principle, Option 2 (depending on the nature of the contracts established, of which little detail is provided) and Option 4 appear to be practical approaches to accommodating early grid-scale batteries on the network.

Option 2 may provide advantages where it is possible to use API platforms to define dynamic envelopes rather than scheduled operation – so that operators are able to seek value from other markets, within boundaries that also support the distribution network.

We support a consistent approach between networks.

#### Key points

- 1 We support the assignment of the new TOU tariff to legacy TOU customers with consistent optionality to the other classes (in this case opt-out).
- 2 We are concerned about the ongoing trend towards higher fixed charges, without a quantitative understanding of the relationship between consumption patterns (especially volume) and vulnerable consumers of all kinds (including but not limited to hardship customers).
- 3 We support the introduction of a framework that supports grid-scale batteries to be deployed, and for their costs and benefits to be fully and fairly evaluated against other available solutions to network constraints. The AER's proposed Option 2 and Option 4 have the potential to provide this, for early installations.

---

## 13 References

AusNet Services, 2020, Revised Regulatory Proposal EDPR 2022-26, accessed 19 December 2020, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/AusNet-services-determination-2021-26/proposal>

Australian Council of Social Service, 2020, COVID shines light on failure of energy system for people experiencing disadvantage, accessed 8 December 2020 [https://www.acoss.org.au/media\\_release/covid-shines-light-on-failure-of-energy-system-for-people-experiencing-disadvantage/](https://www.acoss.org.au/media_release/covid-shines-light-on-failure-of-energy-system-for-people-experiencing-disadvantage/)

Australian Council of Social Service & Brotherhood of St Laurence 2018, Energy stressed in Australia, ACOSS, viewed 2 September 2019, [http://library.bsl.org.au/jspui/bitstream/1/10896/4/ACOSS\\_BSL\\_Energy\\_stressed\\_in\\_Australia\\_Oct2018.pdf](http://library.bsl.org.au/jspui/bitstream/1/10896/4/ACOSS_BSL_Energy_stressed_in_Australia_Oct2018.pdf)

Australian Council of Social Service, 2019, 'I regularly don't eat at all': Trying to get by on Newstart, accessed 1 March 2020, <https://www.acoss.org.au/wp-content/uploads/2019/07/190729-Survey-of-people-on-Newstart-and-Youth-Allowance.pdf>

Australian Energy Regulator, 2020, Powercor Distribution Determination 2021 to 2026 Attachment 5 Capital Expenditure, accessed 29 December, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/powercor-determination-2021-26>

Consumer Action Law Centre, 2020, Bills Here Bills There The Lived Experience of Victorian Energy Reform, accessed 8 December 2020, <https://consumeraction.org.au/bills-here-bills-there-report-on-the-lived-experience-of-victorian-energy-reform/>

Consumer Action Law Centre, 2019, Energy Assistance Report, accessed 1 March 2020 [https://consumeraction.org.au/wp-content/uploads/2019/07/190620\\_Energy-Assistance-Report\\_FINAL\\_WEB.pdf](https://consumeraction.org.au/wp-content/uploads/2019/07/190620_Energy-Assistance-Report_FINAL_WEB.pdf)

CSIRO and Cutler Merz, 2020, *Value of Distributed Energy Resources Report*

Economic Insights, 2020, *Economic Benchmarking Results for the Australian Energy Regulator's 2019 DNSP Annual Benchmarking Report*, accessed 1 December 2020, <https://www.aer.gov.au/system/files/D19-190817%20Economic%20Insights%20AER%20DNSP%20Benchmarking%20Report%20-%20October%202019.PDF>

Energy Networks Australia, 2016, *Customer Engagement Handbook*, Accessed 1 December, [https://www.energynetworks.com.au/assets/uploads/customer\\_engagement\\_handbook\\_engagement\\_draft\\_april\\_2016.pdf](https://www.energynetworks.com.au/assets/uploads/customer_engagement_handbook_engagement_draft_april_2016.pdf)

Essential Services Commission, 2020, Coronavirus financial hardship continues to hit Victoria, accessed 29 December, <https://www.esc.vic.gov.au/media-centre/coronavirus-financial-hardship-continues-hit-victoria>

Harrison, Ursula et al, 2020, Setbacks at 30: Life Chances and COVID-19, Brotherhood of St Laurence, accessed 29 December 2020, [http://library.bsl.org.au/jspui/bitstream/1/12354/1/BSL\\_COVID-19\\_Insights\\_Setbacks\\_at\\_30\\_LifeChances\\_Dec2020.pdf](http://library.bsl.org.au/jspui/bitstream/1/12354/1/BSL_COVID-19_Insights_Setbacks_at_30_LifeChances_Dec2020.pdf)



Minister for Population, Cities and Urban Infrastructure, December 2020, First annual population statement released today, accessed 29 December, <https://minister.infrastructure.gov.au/tudge/media-release/first-annual-population-statement-released-today>

Jemena, 2020, *2021-2026 EDPR Revised proposal Attachment 4, Capital Expenditure*, accessed 1 December 2020, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/jemena-determination-2021-26>

Jemena, 2020, *2021-2026 EDPR Revised proposal Attachment 5, Operating Expenditure*, accessed 1 December 2020, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/jemena-determination-2021-26>

Major Energy Users Association, 2020, Presentation to AER Public Forum, accessed 1 December, [https://www.aer.gov.au/system/files/EUAA%20-Presentation%20%20-%20Predetermination%20conference%20-%20Victorian%20Electricity%20Distributor%20Determination%202021-26%20-%2015%20October%202020\\_3.pdf](https://www.aer.gov.au/system/files/EUAA%20-Presentation%20%20-%20Predetermination%20conference%20-%20Victorian%20Electricity%20Distributor%20Determination%202021-26%20-%2015%20October%202020_3.pdf)

Minister for Population, Cities and Urban Infrastructure, December 2020, New Projections for Australia's Future Fertility Rate, Federal Government's Centre for Population, accessed 29 December 2020, <https://minister.infrastructure.gov.au/tudge/media-release/new-projections-australias-10-year-fertility-rate>

Powercor, 2020, *Revised Proposal 2021 – 2026*, accessed 1 December 2020, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/powercor-determination-2021-26>