2021-2026 Victorian EDPR

Presentation to AER Public Forum from community organisations

April 2020

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Analysis by Headberry Partners

Contents

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The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

1 Summary

The Brotherhood of St Laurence (BSL), with Renew and Victorian Council of Social Service (VCOSS), have prepared this joint presentation to the Australian Energy Regulator (AER) in order to represent consumers in the 2021 Victorian electricity distribution price reset (EDPR), recognising the importance of distribution spending in maintaining an affordable and sustainable electricity supply. This document replaces a presentation that was to be given to an AER event cancelled due to COVID-19.

This presentation introduces findings from our research that complement and add to the AER's March Issues paper – it does not encompass all issues that we plan to address in our submission, and it focusses on the distributors' initial proposals, rather than questions raised in the Issues Paper. This presentation raises the following issues:

Revenue trends show the need for further cost savings

- The decrease or levelling-off in the distributors' revenue depends on the current low cost of capital – relative to the cost of capital, revenue is increasing. This is an argument for close scrutiny of cost claims for capex and opex, to deliver affordability over the long term, that does not rely on a low cost of capital.
- The regulatory asset base (RAB) is continuing strong growth in absolute terms for all networks, as well as relative to customer numbers and peak demand for most networks. This suggests there is a case for close scrutiny of all capital expenditure contributing to this growth.
- The steady improvement in key reliability indicators is at odds with the strong message from customers that reliability is sufficient, and they are not willing to pay more for ongoing improvements. This demands close scrutiny of proposed replacement and augmentation expenditure intended to increase reliability.
- Low utilisation, in combination with improving reliability, suggests that investment in network infrastructure exceeds that needed to serve customer requirements. This demands close scrutiny of revenue – in particular augmentation expenditure and operational step changes.

Forecasting

- Forecast growth in total energy consumption is at odds with AEMO forecasts and recent trends – associated proposals for augmentation should be considered carefully.

Investment to integrate distributed solar

- Given the likely introduction of a dynamic feed-in tariff (FIT), a re-evaluation of the economic value of proposed augmentation reflecting the dynamic value of exported solar will provide a more reflective indication of value

- Two significantly different approaches to valuing DER exports are used by different businesses. Because this value is fundamental to determining how much expenditure is efficient, a more consistent approach is required.
- Proposals currently differ significantly in their smart grid and their augmentation aspects – consumers will be best served by an EDPR process that advocates a consistent approach.
- There is a case for networks with less forecasted solar to defer most augmentation investment until the next period, while optimal solutions are developed by those facing constraints today

Replacement expenditure

- Repex to avoid component failure, without a credible associated safety risk, is unlikely to be a reflection of customer preferences, and should be closely scrutinised.
- Historical repex expenditure has generally been significantly less than proposed and allowed amounts – this flags repex as an area for careful scrutiny, and does not support the adoption of more-conservative asset evaluation approach

Environmental Protection Authority (EPA) noise regulations

- Without evidence to support the need to upgrade zone substations to protect the public or the environment, government and regulators should work with the EPA to revise draft regulations to clarify that these works are not required for compliance with environmental laws.

Non network and IT capex

- Non-network investment projects that could be deferred from this period would allow this category of expenditure to decrease from historical highs.

Operational expenditure

- Issues raised: opex partial productivity factor trends show a decline over the last decade for most networks, indicating the potential for establishing a more efficient base year, or ongoing productivity improvement targets
- Issues raised: Some distributors have applied for a high number of step change increases to operational costs. AusNet Services has demonstrated the capacity for networks to absorb some of these costs. There is an absence of identified step change decreases, that could serve to balance proposed increases.

NewReg process, and evaluating AusNet's proposal

- There is value in undertaking a full detailed assessment of AusNet's negotiated proposal: as a pilot, it is useful to gain a full sense of what aspects can be usefully negotiated through this type of process, and what can't; some areas, such as solar integration augmentation, are new, and comparison between networks is useful to work towards a consistent and optimal outcome for Victorians; changed circumstances, due to the COVID

19 pandemic, may require significant revisions to underlying assumptions such as customer number trends, and willingness to pay for non-core services

Impacts of the COVID 19 Pandemic

- Significant adjustments to proposals may be required once there is more certainty around the social and economic impacts of the COVID 19 pandemic.

2 About this presentation

BSL, with Renew and VCOSS, have prepared this joint submission to represent consumers through the EDPR, recognising the importance of distribution spending in maintaining an affordable and sustainable electricity supply.

Our recommendations are informed by research undertaken through an Energy Consumers Australia (ECA)-funded project. Analysis was undertaken by Headberry Partners.

We would like to thank the five Victorian distributors as well as the AER and the Department of Environment, Land, Water and Planning (DELWP) for accommodating our questions through the process so far.

The aim of this presentation is to introduce findings from our research that complement and add to the AER's March Issues paper – it does not encompass all issues that we plan to address in our submission, and it focusses on the distributors' initial proposals, rather than questions raised in the Issues Paper.

3 Affordable distribution costs remain critical for vulnerable consumers

Distribution costs make up 30-40% of Victorian household electricity bills. Where distributor revenues are allowed to be higher than necessary, this can drive high energy costs over the long term.

In Victoria, electricity bills rose by 104% in real terms between 2008 and 2019,[1] with the distribution component rising steadily to a peak in 2015, driven by investment in programs like smart metering and bushfire prevention upgrades. [2]

Although the growth in electricity prices has recently slowed, there are many indications that high energy costs are still a cause of financial stress for many Victorians.

A 2019 study of calls to a financial helpline found that energy debts remain a strong early indicator of economic hardship, and can lead to further debt.[3] Energy bills consume a high and growing proportion of the expenditure of low-income households.[4]

[1] The St Vincent de Paul Society 2019, Households in the dark II, accessed 1 March https://alvissconsulting.com/households-in-the-dark2/
[2] Australian Competition and Consumer Commission, 2018, Restoring electricity affordability and Australia's Competitive Advantage, accessed 1 March, https://www.accc.gov.au/regulated-infrastructure/energy/retail-electricity-pricing-inquiry-2017-2018/final-report
[3] Consumer Action Law Centre, 2019, Energy Assistance Report, accessed 1 March https://consumeraction.org.au/wp-content/uploads/2019/07/190620_Energy-Assistance-Report_FINAL_WEB.pdf
[4] 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

For many households, high energy costs restrict access to essential services. Many Newstart and Youth Allowance recipients are unable to afford to heat or cool their homes.[5] An Alfred Health study found most of their hypothermia patients had been discovered inside, with a lack of adequate home heating likely a significant contributing factor[6].

Given that the EDPR will establish the rates charged for a significant proportion of household bills over a five-year period, energy affordability and its implications for vulnerable Victorians in particular remains a critical consideration in this planning process.

4 Revenue trends show the need for further cost savings

Without the current low cost of capital, the distributors' proposed revenue would be higher than in the current period

Proposed revenue for the upcoming period is slightly lower than current rates for most distributors. However, the apparent levelling of recent revenue growth is due entirely to the current low cost of capital - without a continuing decline in interest rates, proposed revenue would be increasing.

Figure 1 shows that if the Weighted Average Cost of Capital (WACC) were held at the 2018 level, the revenue sought would in fact be higher than in the current period, and customers' distribution costs would rise. Figure 2 shows this revenue at constant WACC relative to the energy supplied by the distributors in kWh, which is an approximate indicator for the impact on a flat-rate residential tariff.

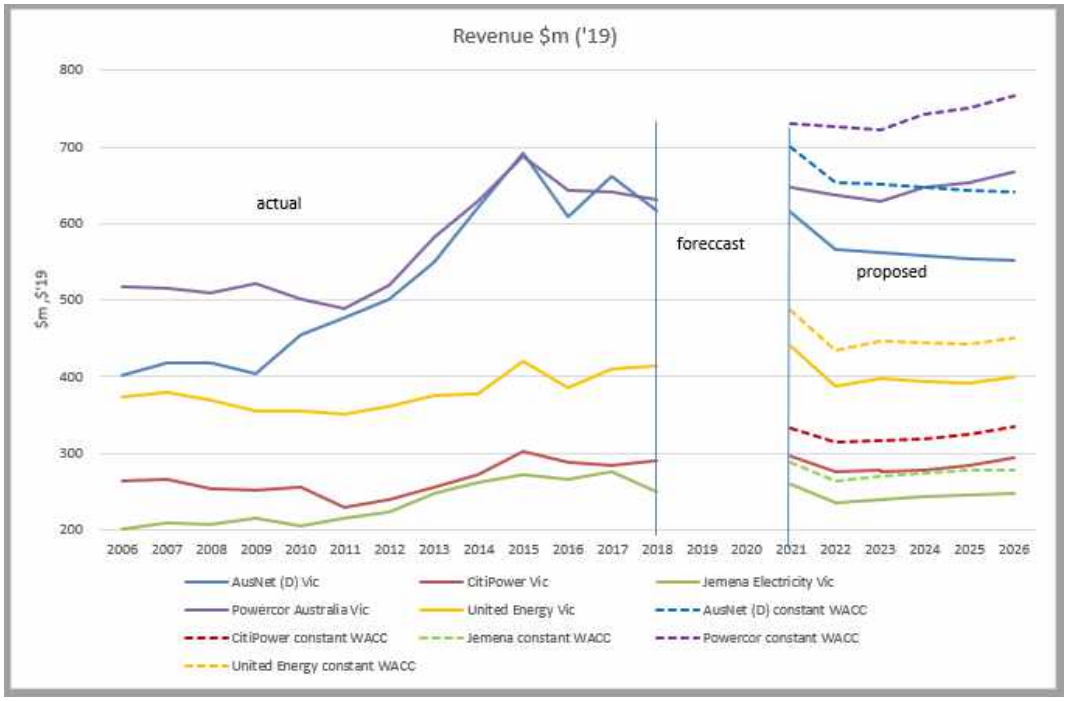
The Australian Competition and Consumer Commission's (ACCC) 2018 inquiry into electricity prices stressed that depending on capital cost reduction alone to underpin price stability would not lead to long-term affordability. The ACCC's report underlined the importance of finding cost reductions that don't rely on external factors, but that instead reflect a real decline in the fundamentals of distribution costs, including the value of the regulated asset base (RAB).[7]

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

[6] DS Forcey et al, 2019 Cold and lonely; emergency presentations of patients with hypothermia to a large Australian Health Network, accessed 1 March, https://www.ncbi.nlm.nih.gov/pubmed/30963670

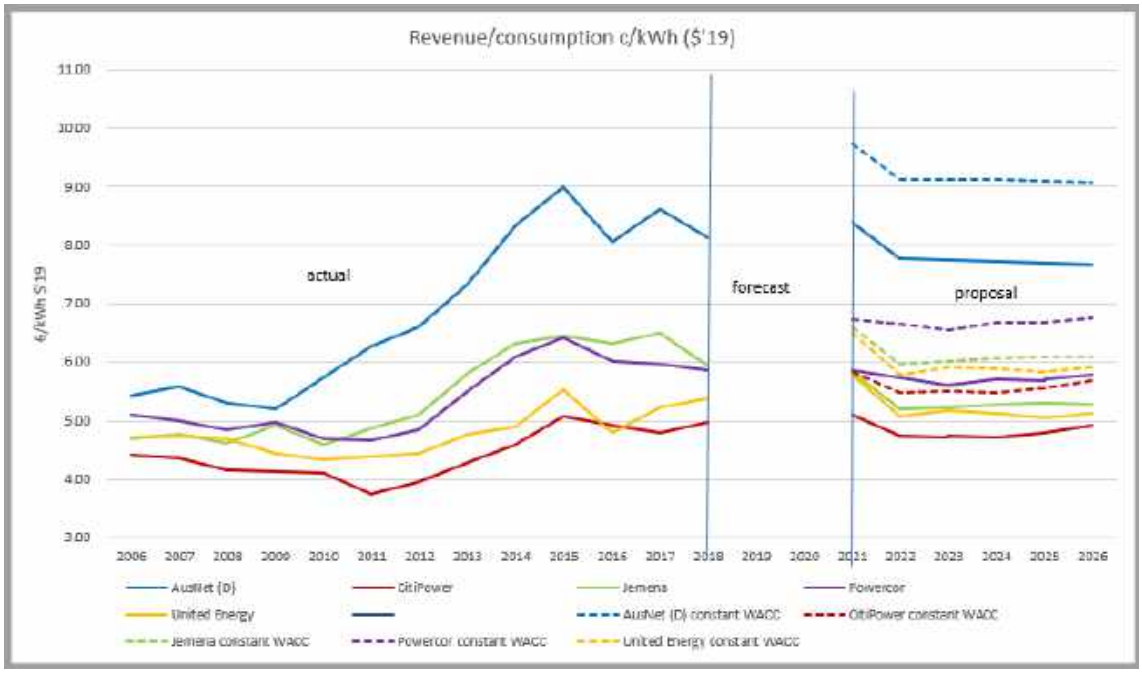
[7] Australian Competition and Consumer Commission, 2018, Restoring electricity affordability and Australia's competitive advantage, accessed 1 March, https://www.accc.gov.au/regulated-infrastructure/energy/retail-electricity-pricing-inquiry-2017-2018/final-report

Figure 1 - proposed revenue adjusted to the 2018 WACC (dashed line)



Source: AER Electricity Distribution Networks Performance data report 2006-2018, DB proposals, sponsor calculation

Figure 2 – proposed revenue per kWh supplied, adjusted to the 2018 WACC (dashed line)



Source: AER Electricity Distribution Networks Performance data report 2006-2018, DB proposals, sponsor calculation

Issue raised: The increase in revenues seen where the costs of capital are kept constant is an argument for close scrutiny of cost claims for capex and opex, to deliver true and robust decreases in network costs.

The Regulatory Asset Base is continuing to grow, locking in future costs for customers

The RAB for all distributors has increased over recent periods, and current proposals apply for further growth. The RAB and WACC are a major component of distribution costs, and a growing RAB locks in costs for decades ahead. Investment that would increase the RAB should be considered carefully, in terms of demonstrated demand as well as efficiency.

Figure 3 to

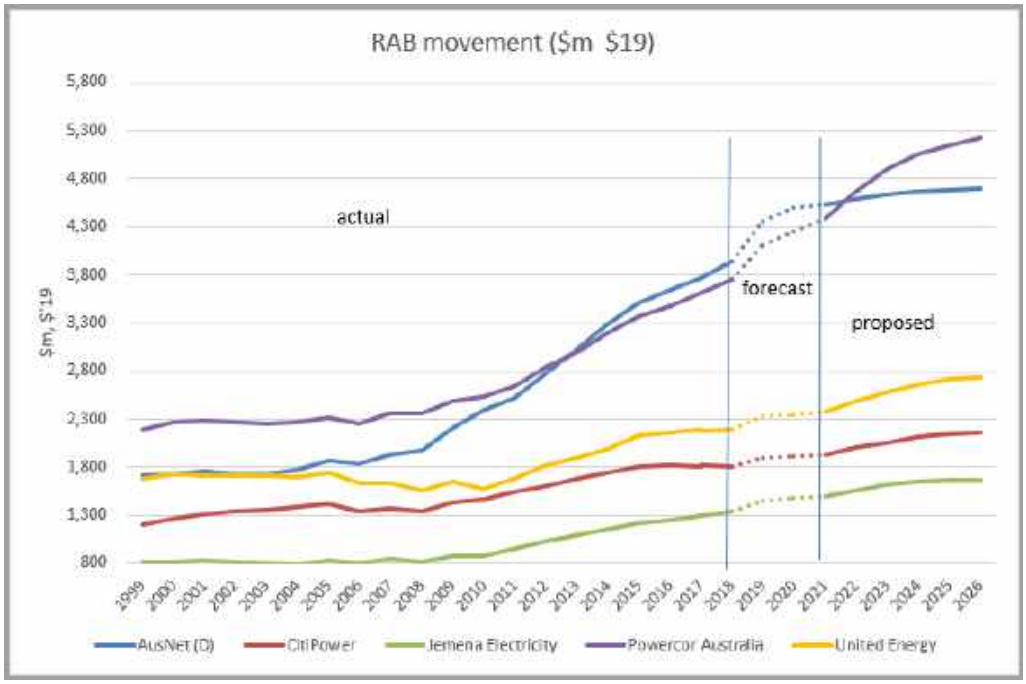
Figure 5 show that the RAB is growing in absolute terms, as well as in relation to key drivers of traditional augmentation, customer number and peak demand.

Where a growth in customer numbers drives investment in the RAB, costs per customer may not increase. However, Figure 4 shows RAB per customer increasing for all distributors except AusNet Services. Where distributor forecasts are higher than real customer growth, the impact of this trend will be amplified.

A top-down assessment to limit the RAB is analogous to the common practice of businesses in competitive industries to cap their capital spend, in line with their capacity to finance investment – therefore we feel that a fall in RAB, or a fall in RAB per customer would be an appropriate target for an approved revenue package, to adjust for the increases seen to 2015.

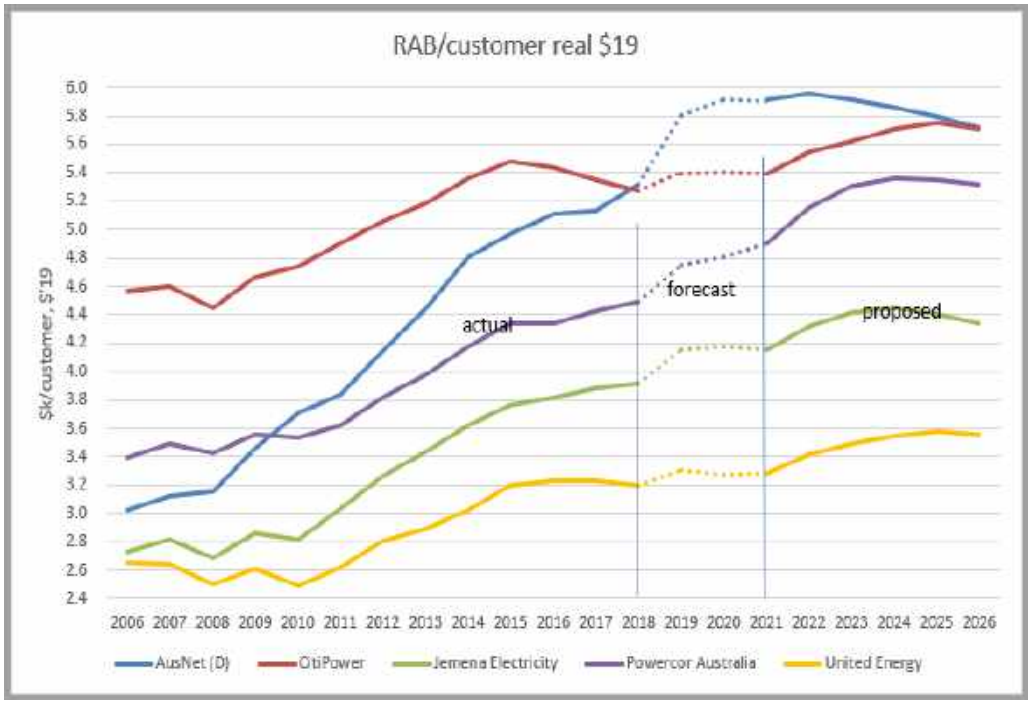
We also note the multiple incentives for distributors to err high in estimation of required future network capacity: the allowance for financing approved capital, that the distributor receives whether or not the capex is executed or not; the bonus under the Capital Expenditure Sharing Scheme for capex deferred; and the dependence of network profit on the rate of return.

Figure 3 – RAB actual and forecast



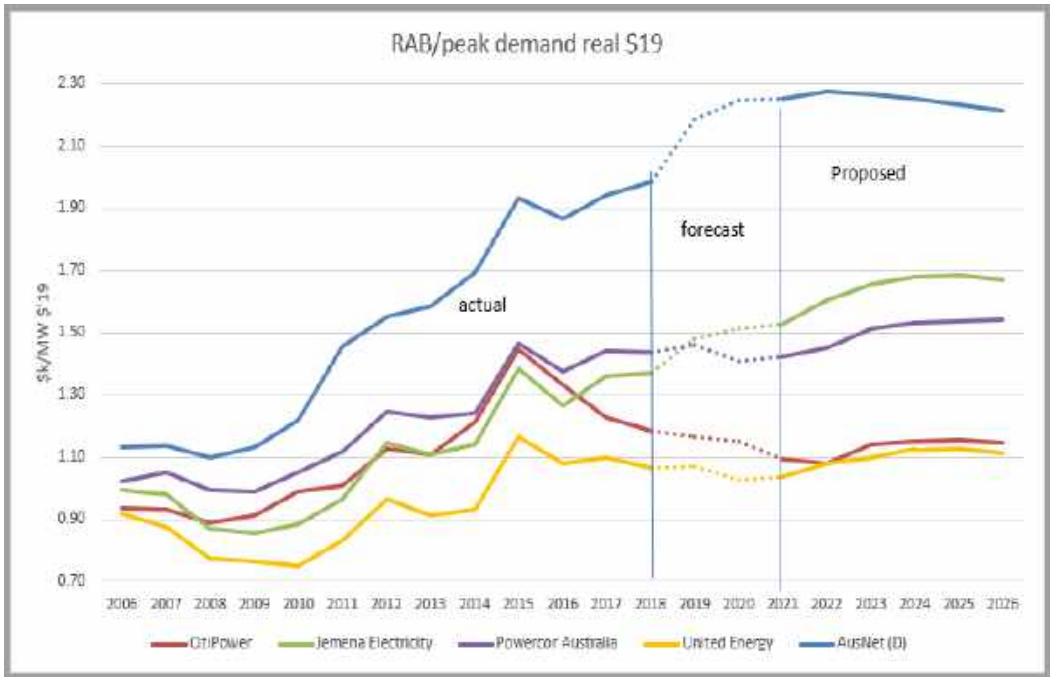
Source: AER Electricity Distribution Networks Performance data report 2006-2018, DB proposals

Figure 4 – RAB per customer



Source: AER Electricity Distribution Networks Performance data report 2006-2018, DB proposals

Figure 5 – RAB relative to peak demand forecast



Source: AER Electricity Distribution Networks Performance data report 2006-2018, DB proposals

Issues raised: The RAB is continuing strong growth in absolute terms for all networks, as well as relative to customer numbers and peak demand for most

networks. This suggests there is a case for close scrutiny of all capital expenditure contributing to this growth.

Reliability continues to improve, while customers do not indicate a willingness to pay for ongoing improvements

Distributors have succeeded in delivering continued improvement in key indicators of reliability: the average minutes without supply per customer (SAIDI), and the outage frequency (SAIFI).

A reliable network benefits consumers, however there is strong evidence that customers are not willing to pay more for further improvements.

The results from the distributor-run customer engagement programs indicated a preference to maintain - not improve – reliability. For example, this was expressed in the seventh recommendation of the Jemena People's Panel[8]. The AER's Value of Customer Reliability, a standardised longitudinal measure, has shown a declining value this year.[9]

Issues raised: The steady improvement in key reliability indicators is at odds with the strong message from customers that reliability is sufficient, and they are not willing to pay more for ongoing improvements. This demands close scrutiny of proposed replacement and augmentation expenditure intended to increase reliability.

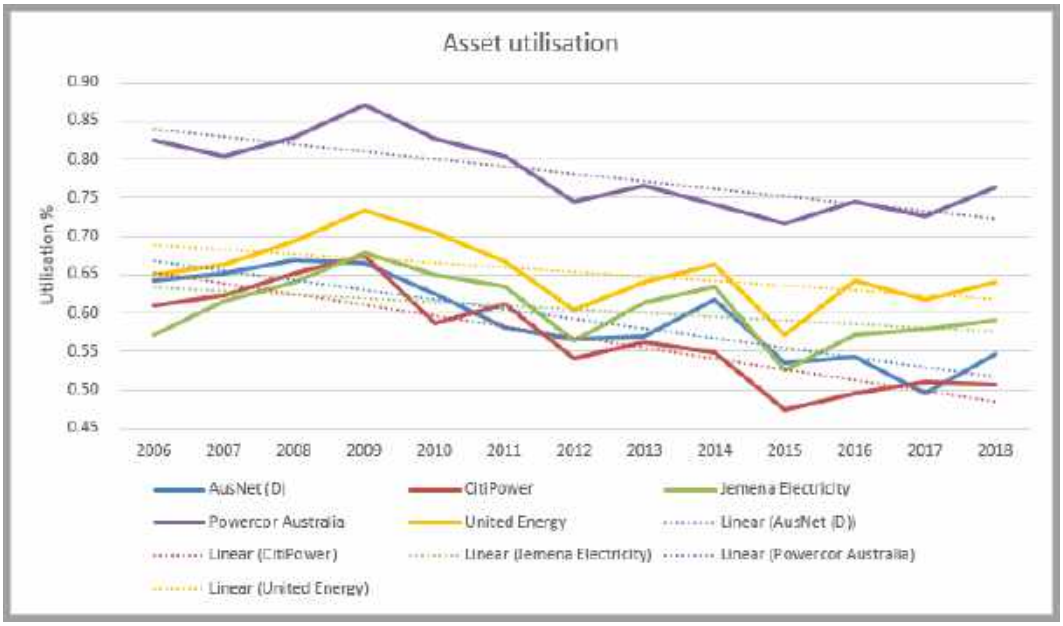
Distribution assets are being used less – the average capacity of infrastructure exceeds our needs

Asset utilisation fell significantly to 2015, and remains low. The total annual load has fallen as have peak loads in many parts of the network. Proposals for augmentation and forecast increases in demand should be considered carefully in the context of falling asset utilisation – this trend suggests that consumers may be paying to maintain infrastructure that exceeds their requirements.

[8] Jemena, 2020, 2021-26 Electricity Distribution Price Review Regulatory Proposal Attachment 02-01 Our customer, stakeholder and community engagement

[9] AER, 2020, Values of Customer Reliability Report, accessed April 1 https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/values-of-customer-reliability/decision

Figure 6 – Asset utilisation trends



Source: AER Electricity Distribution Networks Performance data report 2006-2018

- **Issues raised: Low utilisation, in combination with improving reliability, suggests that investment in network infrastructure exceeds that needed to serve customer requirements. This demands close scrutiny of revenue – in particular augmentation expenditure and operational step changes.**

5 Forecasting

The total growth in energy consumption is forecasted by most distributors to increase, contradicting AEMO forecasts and recent trends

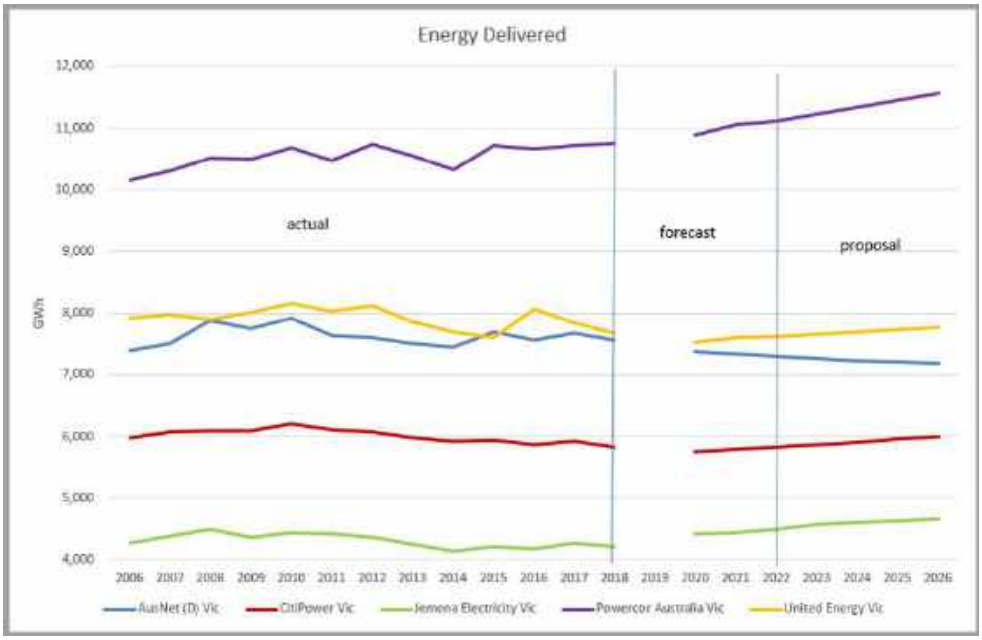
The accuracy of forecasts is critical in planning infrastructure to meet our needs.

The forecasting methodology adopted by the networks differs from that of the Australian Energy Market Operator (AEMO). Networks other than AusNet Services have all forecast a steady increase in electricity consumption over the next period, at odds with AEMO's expectation.

The forecasts are also a marked departure from trends over this period, throughout which there were a significant number of new connections in Victoria.

Forecasts should be considered closely, in conjunction with associated proposals for augmentation.

Figure 7 – Forecast total energy delivered



Issues raised: Forecast growth in total energy consumption is at odds with AEMO forecasts and recent trends – associated proposals for augmentation should be considered carefully.

6 Augmentation expenditure

Distributed Energy Resources (DER) capacity augmentation should demonstrate the best value for solar and non-solar customers – the current proposals raise the following questions

Investment to increase the network's capacity to host PV is a significant new area of augmentation expenditure. The particular solutions deployed will have implications for the energy costs of solar and non-solar customers, and the functionality of a transformed grid.

A representative value for enabling exported solar

All networks undertook a business case assessment to test the value of proposed capacity augmentation investment, which is to be commended.

As an input to this analysis, AusNet Services and Jemena used the Essential Services Commission's (ESC) Feed in Tariff (FiT), while the Victorian Power Networks (VPN) commissioned Jacobs to determine a value determined. The VPN networks' value (4.7c/kWh) is a more conservative assumption than the FIT, but includes similar elements – there is a component reflective of generation costs (wholesale prices for the FiT, and fuel costs for the

VPN figure) and a cost for carbon (for the FiT, the Victorian Government's social cost, for Jacobs, the most recent value from the Emissions Reduction Fund (ERF) auction). The FiT also considers transmission losses avoided, which the Jacobs value doesn't.

This value is used to evaluate the economic value of augmentation expenditure to accommodate additional solar capacity on parts of the network forecast to be constrained.

However, reform processes are currently underway that are likely to charge solar customers for solar-related investment, as well as to impose dynamic FiTs that reflect the value of solar at the time of export.

At the time of current solar constraints, it is likely that the generation and carbon-related values of displaced grid power are much lower than average, given that constraint occurs when loads are low and solar generation is high.

Given that a dynamic FiT is likely to be introduced, a re-evaluation of augmentation expenditure is warranted in line with the variation in value of the generation and carbon cost elements. This approach may return a higher economic value for implementing solutions such as dynamic constraints, rather than investment in augmentation to enable export to the High Voltage network at times of low load.

Issues raised:
- Given the likely introduction of a dynamic FIT, a re-evaluation of the economic value of proposed augmentation reflecting the dynamic value of exported solar will provide a more reflective indication of value

- Two significantly different approaches to valuing DER exports are used by different businesses. Because this value is fundamental to determining how much expenditure is efficient, a more consistent approach is required.

A consistent approach between networks is in the best interests of Victorian consumers

Networks should be commended for a proactive and independent response to the issues caused by increasing solar connections so that consumers have the benefit of considering a range of approaches.

However, consumers will be best served by an EDPR process that achieves as a final outcome, a more uniform approach to factors such as: the functionality of smart-grid platforms developed; the type of network augmentation deployed, in terms of hardware upgrades, and; the investment decision making process.

This will provide the opportunity to consider which approach from the networks provides the best value for solar and non-solar customers. There is also value in achieving consistency

between the network areas, so that Victorians have equal access to the network, relative to the capacity of their local connection point.

Issues raised: proposals currently differ significantly in their smart grid and their augmentation aspects – consumers will be best served by an EDPR process that advocates a consistent approach.

There may be value in deferring investment for those networks with lower levels of current penetration

Supporting materials to the distributors' proposals suggest that Jemena, Powercor and United Energy have forecast a rate of solar uptake that will see a level of solar penetration in 2026 close to the current rate in Powercor and AusNet Services' networks today.

As such, there may be an argument for these networks to scale back their proposed augmentation, and defer spending where possible to next period, to allow an optimal approach to be demonstrated by those facing immediate problems.

Issues raised: There is a case for networks with less forecasted solar to defer most augmentation investment until the next period, while solutions are developed by those facing constraints today

7 Replacement expenditure

Replacement expenditure (repex) to reduce the risk of outages is not likely to be in line with customer preferences

The largest component of capex for the upcoming period is the replacement of assets judged at risk of failure over the next five years.

As stated in Section Four above, reliability has continued to improve over the last decade - and customers now indicate they are not willing to pay for ongoing improvement. The reduction in both SAIDI and SAIFI show that assets are being replaced earlier, while they are at lower risk of failure.

Repex proposed to avoid component failure in the next five years, where these upgrades are not associated with a credible safety risk, should therefore be closely scrutinised.

Issues raised: Repex to avoid component failure, without a credible associated safety risk, is unlikely to be a reflection of customer preferences, and should be closely scrutinised.

In previous resets, distributors have generally proposed more repex allowance than was required - this indicates a case for lower repex allowances

In 2016 to 2020, the repex initially proposed by distributors ranged from 37% higher than actual repex spend (including forecasts for 2019 and 2020) to 160% higher – the repex allowed by the AER's final decision was also significantly higher than what proved to be needed. As shown in Section Four, this underspend did not lead to a fall in reliability indicators – ongoing improvements were recorded.

This flags a need to closely scrutinise replacement programs – including an understanding of why there is a discrepancy between planned and implemented replacement programs. The low levels of actual repex implemented in the current period does not support the adoption of the more conservative condition assessment programs being promoted by some networks.

Table 1 – Proposed, allowed and actual repex for Victorian distributors 2021-2020

Repex $m ($'19)	2001-2005 RQM + 50% ESL actual	2006-2010 RQM + 50% ESL allowed	2006-2010 RQM +50% ESL actual	2011-2015 RQM + 50% ESL allowed	2011-2015 Actual	Initial proposal 2016-20	AER Preliminary Decision 2016-20	Revised proposal 2016-20	AER allowed 2016-20	2016-2020 Actual	initial proposal 2021-2026
AusNet	$259	$336	$245	$592	$736	$966	$813	$862	$748	$457	$629
CitiPower	$112	$438	$155	$322	$164	$279	$213	$279	$253	$107	$295
Jemena	$58	$72	$93	$210	$175	$240	$240	$274	$244	$182	$202
Powercor	$323	$466	$278	$598	$475	$774	$653	$720	$653	$387	$601
United Energy	$152	$316	$186	$375	$435	$627	$455	$605	$478	$314	$465
Total	$904	$1,629	$958	$2,097	$1,985	$2,886	$2,373	$2,740	$2,377	$1,447	$2,193

Source: ESCV reset documents for reset 2006-2010, AER reset documents, DB proposals

Issues raised – Historical repex expenditure has generally been significantly less than proposed and allowed amounts – this flags repex as an area for careful scrutiny, and does not support the adoption of more-conservative asset evaluation approaches

EPA noise regulations should not lead to capex where there has been no real-world demonstration of material noise issues associated with distribution infrastructure

The Environment Protection Amendment Act 2018 (EPA 2018) is a new law coming into effect in July this year, with associated Regulations (EPR) currently drafted and undergoing review.

The three VPN networks, CitiPower, Powercor and United Energy, have judged that significant replacement expenditure is required in order to comply with the noise regulations in the EPR, totalling over $160m. The other two networks have proposed none, but have confirmed in discussions that they are considering the issue – they have suggested they may include an

application for noise-related capex in the revised proposal. There is a risk that an even greater amount of unnecessary expenditure may eventuate from this draft regulation.

Discussion with AusNet Services and Jemena determined that noise complaints relating to zone substations or other infrastructure were very rare, and it is unlikely that the generated noise represents a genuine risk to the environment or the public. (VPN networks have not yet responded to that particular question.)

We recommend that consultation be undertaken with the EPA to clarify these Regulations, and their potential application to distribution infrastructure. If necessary, the Regulations should be revised to avoid unnecessary upgrades of electricity distribution infrastructure.

Issues raised: Without evidence to support the need to upgrade zone substations to protect the public or the environment, government and regulators should work with the EPA to revise draft regulations to clarify that these works are not required for compliance with environmental laws.

8 Non-network and IT capex

This year's proposals maintain non-network and IT spending at historically high levels

Capital expenditure on non-network assets, including IT, accelerated significantly between 2001 and 2020 for all networks, both in real terms and as a proportion of total spend. Expenditure in this year's proposals maintain expenditure at historically high levels. We will look closer at this area in our ongoing analysis.

Table 1 – Proposed and actual non-network and IT expenditure since 2001

Gross Capex less augex and repex $m	2001-2005 actual	2006-2010 allowed	2006-2010 actual	2011-2015 allowed	2011-2015 Actual	Initial proposal 2016–20	AER allowed 2016-20	2016-2020 Actual	initial proposal 2021-
AusNet	$442	$448	$709	$835	$832	$803	$1,141	$1,443	$1,027
CitiPower	$273	$57	$343	$415	$378	$570	$544	$585	$634
Jemena	$158	$188	$214	$229	$456	$510	$539	$480	$405
Powercor	$576	$559	$689	$985	$825	$1,337	$1,487	$1,690	$1,706
United Energy	$291	$245	$227	$441	$487	$475	$524	$583	$764
Total	$1,740	$1,497	$2,182	$2,905	$2,978	$3,695	$4,234	$4,780	$4,537

Issues raised: Non-network investment projects that could be deferred from this period would allow this category of expenditure to decrease from historical highs.

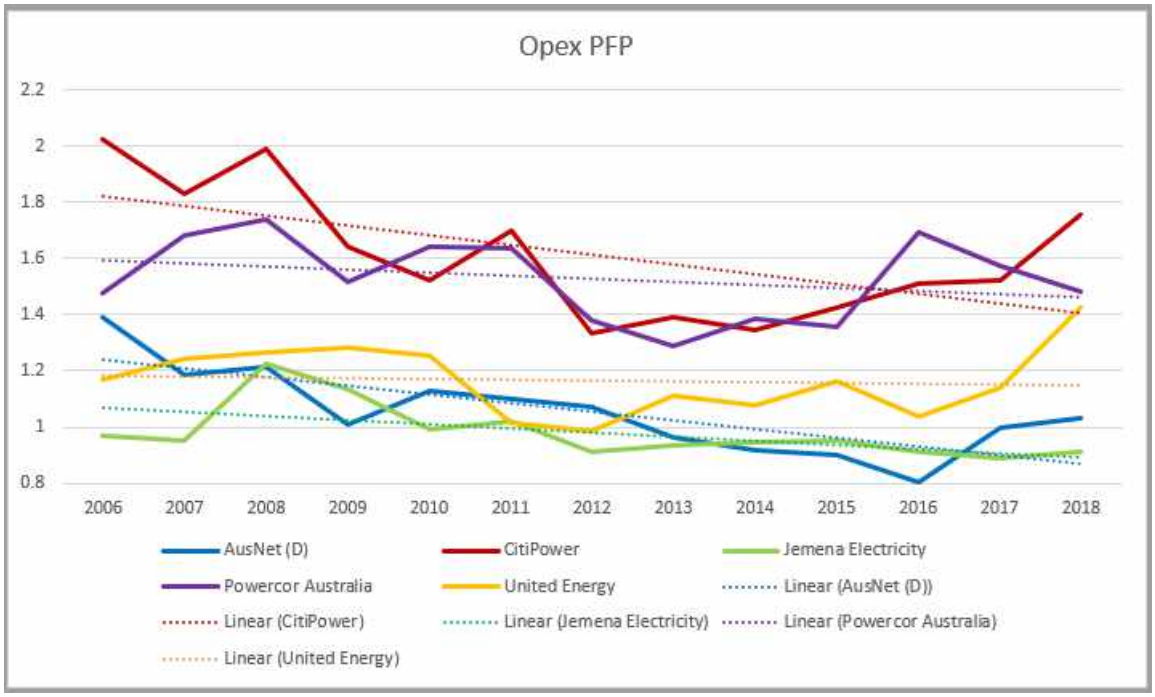
9 Operational Expenditure

Productivity trends do not indicate that 2018 is an efficient base year for all networks

In general, operational expenditure (opex) productivity declined for most networks declined between 2006 and 2018 – only Citipower has increased productivity to 2018, from a lower base than other networks.

This trend has implications for establishing an appropriate level as the efficient year, as well as establishing an appropriate level for opex efficiency improvements.

Figure 8 – Opex partial productivity factor



Issues raised: Opex partial productivity factor trends show a decline over the last decade for most networks, indicating the potential for establishing a more efficient base year, or ongoing productivity improvement targets

A wide range of step change increases to operational costs are claimed by some networks, with few step change decreases volunteered

All distributors have cited opex step change increases with some in particular proposing a long list. We will look closer at these step changes as part of our project's analysis.

Some step changes, such as CitiPower's Yarra Trams project are fixed-term operational projects, rather than permanent changes in the operational environment – as such, these projects may be more appropriate to accommodate through other means.

AusNet Services has, agreed, through negotiation with the Customer Forum, to absorb many of the operational costs that were nominated by other networks, such as increased bushfire insurance costs, most of the cost for migration to cloud platforms, and compliance with new EPA laws, demonstrating the capacity for networks to meet these costs under the current arrangements.

It is also notable that the high number of step change increases are not accompanied by step change reductions. An example of a potential for a step change reduction seems evident in relation to Jemena's Transformation Program undertaken in 2019 – although this program has been completed, Jemena's proposal does not account for anticipated operational cost savings as a step change reduction. It is likely that projects undertaken by other distributors in recent years may provide similar potential cost savings that could be returned as a step change reduction.

Issues raised: Some distributors have applied for a high number of step change increases to operational costs. AusNet Services has demonstrated the capacity for networks to absorb some of these costs. There is an absence of identified step change decreases, that could serve to balance proposed increases.

10 Customer engagement

All distributors undertook expanded customer engagement programs

All distributors undertook engagement programs that were expanded from the consumer consultation completed for previous price resets, with the different programs broadly conforming to the non-prescriptive consultation guidelines issued by the AER and Energy Networks Australia (ENA).

The results from this engagement have led to useful interventions on behalf of customers, such as the energy literacy initiatives from Jemena and the VPN networks, and the customer service initiatives by AusNet Services.

However, there are limitations to the extent to which the results of a distributor-run engagement program should be understood as a complete reflection of customer priorities – the imbalance in knowledge between distributors and their customer base remains an intrinsic limitation to achieving independent research.

The growth in revenue (where the influence of the low cost of capital is controlled) does not reflect customer preferences

Distributors found that energy affordability remained a concern for residential and business customers, and in most cases, was their priority concern.

While distributors acknowledged this concern, this priority is not reflected in the ongoing growth in the RAB, and in the increase in revenue that's evident without the influence of the current low cost in capital.

Further reductions in cost are warranted from most distributors, in order to accommodate customer priorities.

There is value in undertaking a full assessment of the AusNet proposal negotiated through the NewReg trial

In relation to the NewReg trial, the AER's issues paper stated:

> 'This comparison, and the agreed positions between AusNet Services' and the Consumer Forum, combined with our existing understanding of AusNet Services' proposal gained through the New Reg trial will inform the level of detail needed for our assessment of components of that proposal. In particular, our preliminary view is that compared to other Victorian DNSPs' proposals, we may focus our assessment on total opex and capex, and conduct less extensive assessment of components of capex and opex forecasts in AusNet Services' proposal, compared to other Victorian DNSPs' proposals. That said, AusNet Services is proposing a significant increase in depreciation which warrants further analysis.[10]'

We acknowledge the productive process that AusNet Services and the Customer Forum undertook, and its positive results for customers.

However, we advocate a full assessment of AusNet Services, for the following reasons:

- as a pilot, it is useful to gain a full sense of what aspects can be usefully negotiated through this type of process, and what can't – a thorough investigation of the NewReg process will allow a proper evaluation of the NewReg trial, and whether this is a robust approach to revenue determination in a regulated market,
- some areas, such as solar integration augmentation, are new, and comparison between networks is useful to work towards a consistent and optimal outcome for Victorians,

[10] AER, 2020, Issues Paper, Victorian electricity distribution determination, 2021 to 2026

- changed circumstances, due to the COVID 19 pandemic, may require significant revisions to underlying assumptions such as customer number trends, and willingness to pay for non-core services.

Issues raised: There is value in undertaking a full detailed assessment of AusNet's negotiated proposal: as a pilot, it is useful to gain a full sense of what aspects can be usefully negotiated through this type of process, and what can't; some areas, such as solar integration augmentation, are new, and comparison between networks is useful to work towards a consistent and optimal outcome for Victorians; changed circumstances, due to the COVID 19 pandemic, may require significant revisions to underlying assumptions such as customer number trends, and willingness to pay for non-core services

11 Accommodating the impact of the COVID-19 pandemic

Energy Networks Australia (ENA) Relief Package

BSL, VCOSS and Renew acknowledge the proactive response made by all distribution networks through the ENA in response to hardship to households and businesses caused by the COVID-19 pandemic.

Potential for network revenue pathways to be adjusted to support economic recovery after the COVID 19 shutdown

Distribution networks developed a revenue pathway based on consultation with consumers, who generally indicated a preference for savings to be delivered from the start of the period, rather than ramping down.

The anticipation of a financial downturn following the period of initial crisis, and the need to support a recovery when restrictions are lifted, point to a role for a re-adjusted pathway to relieve households through the economy's recovery phase, by shifting revenue from the start to the end of the period.

We would welcome considerations about how an adjustment of the proposed pathway might be a useful way to support households and businesses as they recover.

Networks recognise the importance of flexibility to accommodate revised forecasts, as the situation develops

In discussions with the networks, they acknowledged that the consequences following the COVID-19 pandemic may influence many forecasts and other inputs into the planning for the proposals. Generally, networks felt that it was too soon to anticipate how these inputs might

change – customer numbers in Melbourne could possibly be lower or higher than otherwise anticipated, for example.

However, as the outcomes from COVID-19 become more clear, it is important that distributors are able to adapt their proposals in the interests of customers.

Issues raised: Significant adjustments to proposals may be required once there is more certainty around the social and economic impacts of the COVID-19 pandemic

12 References

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