Report to Energy Consumers Australia

A review of Victorian Distribution Networks

Revised Proposals 2021-2026

Spencer&Co

Business advisory services

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Introduction

Purpose of this report

The purpose of this report is to highlight issues on behalf of Energy Consumers Australia (ECA) and energy customers to help the AER determine if the Victorian distributors regulatory proposals are in the long-term interests of customers and should be accepted.

Promoting the long-term interests of consumers means that current and future consumers pay no more than they need to for the quality of service they require.

In simple terms it means:

> *Not one dollar more is spent than necessary; Not one day earlier than needed.*

The Regulatory proposals must show how the networks will deliver distribution and metering services that promote the long-term interests of customers with respect to price, reliability, quality and security of supply.

Further, the proposals must comply with the requirements of the Rules including being able to demonstrate engagement with customers.

Scope of works

Spencer&Co has been engaged by ECA to review the Revised Proposals put forward by the five distribution networks in Victoria - Jemena, AusNet Services, Citipower, Powercor and United Energy.

This follows a similar review by Spencer&Co of the Victorian Business's Draft Plans submitted in Feb 2019 and the Regulatory Proposals submitted in Jan 2020.

We are grateful for the opportunity to contribute to this process and to the long term interests of electricity customers in Victoria. We have enjoyed working with representatives of the businesses, other stakeholders and the Australian Energy Regulator (AER) and commend the businesses on their professionalism and engagement throughout this review process, particularly during the prolonged COVID-19 lock-down in Victoria.

Key questions for assessing the Revised Proposals

In responding to the Revised Proposals we have looked for answers to the following key questions:

- Have the businesses engaged with their customers in response to their proposals and the AER's Draft Determination?
- How have the businesses responded to what they heard?
- Does the response take account of the interests of customers?

Ultimately, the question for us is whether the proposals are capable of acceptance as a whole.

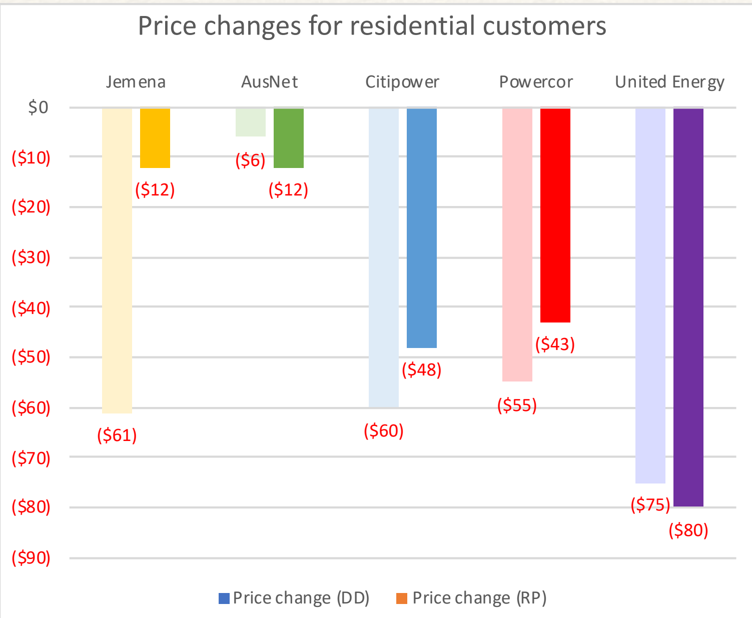
They are capable of acceptance if they reflect:

- prudent and efficient investments;
- have been designed with the long term interests of customers in mind; and
- promote the interests of long term interests in terms of price, quality, safety, reliability and security of energy supply.

To assist the AER in their assessment, we have reviewed the major issues identified by the AER in its draft determinations and raised by the Victorian businesses in their revised proposals.

We have indicated whether we are satisfied with the new information provided by the businesses, whether we support the business's claims, and made recommendations as to how the AER might proceed in making its final determinations. Minor issues common across all businesses are tabled together with recommendations on page 18, and issues that are specific to each business are addressed on pages19-23.

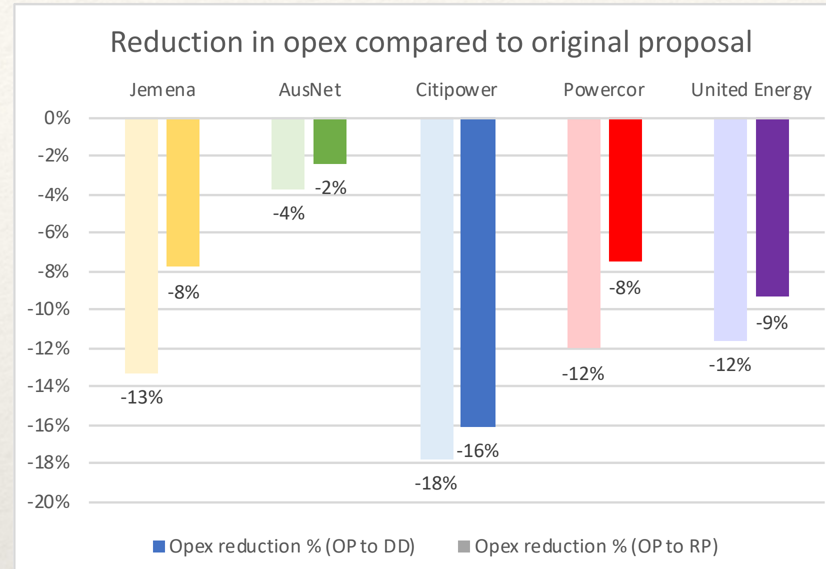
Revenue & Price outcomes



The majority of Victorian customers will receive price reductions for distribution services from July 2021.

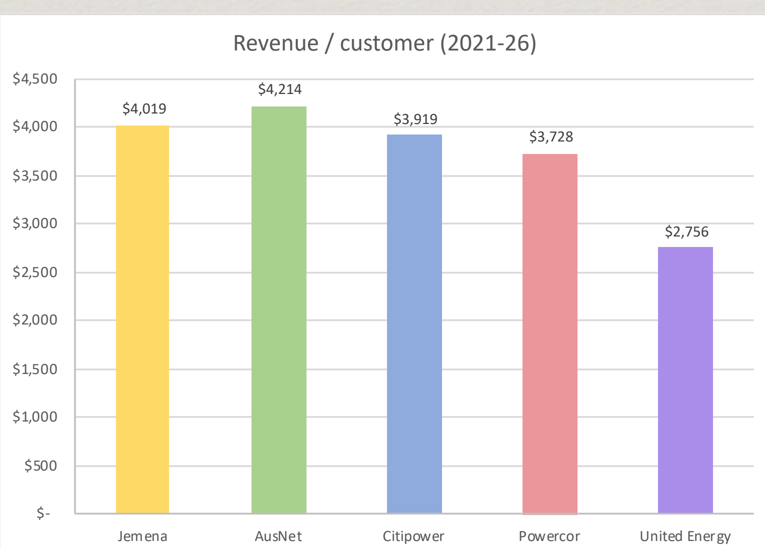
A substantially lower cost of capital, lower demand forecasts due to softening economic circumstances and lower tax allowances were the major contributors to price reductions in the draft determination (first bar).

The distributors accepted many of the AER's changes but have re-proposed some costs in their revised proposals (second bar).

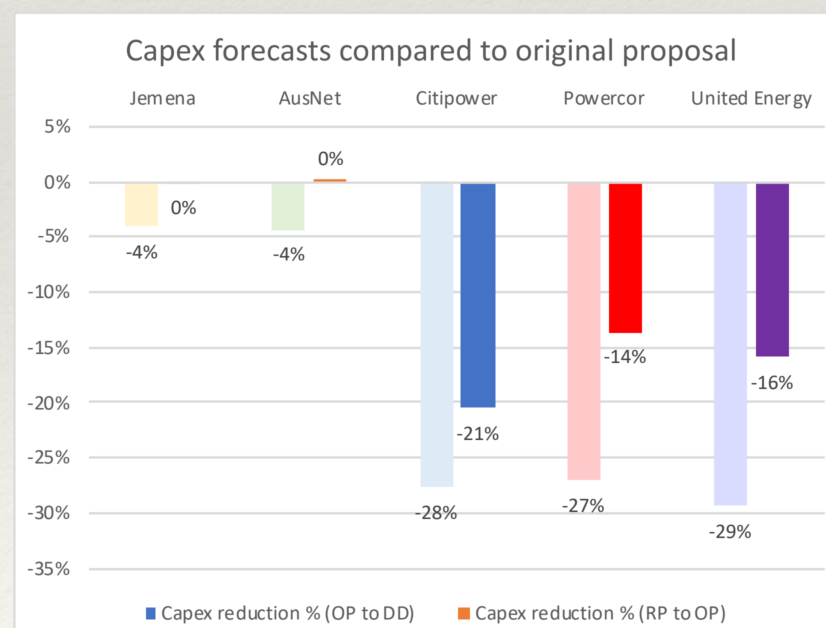


The AER's draft determination reduced opex allowances for all five distributors as a result of lower expectations of cost inflation over the period, and several proposed step changes in costs were rejected (first bar).

The businesses have re-proposed some step changes and updated their costs for expected labour cost changes over time (second bar).



United Energy's customers will pay the least for network services across Victoria on average.



The AER's draft determination reduced capital allowances for all five distributors as a result of lower expectations of cost inflation over the period, and rejected several proposed increases in replacement programs being rejected (first bar).

The businesses accepted much of the AER's draft determination but have provided more information in support of certain programs, namely poles. Overall, the revised proposals propose smaller replacement programs than the original proposals (second bar).

Response to issues raised in our submission

Issue	Our concerns	What was included in the Draft Determinations and offered in Revised Proposals
Expenditure is high	We were concerned that expenditure in the proposals was much higher than the last regulatory period despite concerns about affordability, particularly in context of large capex-underspends. We recommended that networks review their investment programs.	The AER's draft determination made substantial cuts to capex programs, many of which have been accepted by businesses in their revised proposals. Expenditure is now more in line with history (pole replacement is the exception).
COVID-19 impact	We expected to see a thorough review of forecasts to take account of the impact of COVID-19 and predicted that the impact would be most likely seen in forecasts of connections, some augmentation projects, Distributed Energy Resources (DER), and cost escalation.	All businesses have examined the impact of COVID-19 on their businesses and its likely impact on forecast costs. All have accepted the AER's adjustments for connections and non-labour escalators. The businesses have also described how they have modified operations to reduce impact of outages on customers.
Distributed Energy Resources (DER)	We were keen to see more information about how cost estimates for network's DER programs were estimated. We were concerned that estimates were based on a justifiable mix of possible solutions. We were also interested in a phased approach to manage costs and the uncertainty around solar penetration.	All businesses accepted AER's cuts to their DER programs and will deliver the program to budget set by AER. Several have committed to targeting areas of most value first. We have not seen the detail about how the program solutions were costed, but overall, the AER's draft determination forces a phased approach.
Connections	We requested an update of connections expenditure that took account of the economic slow down and explicitly tested forecasts against more than one forecast methodology.	All businesses have accepted AER's use of Housing Industry Association (HIA) forecast for residential connections, and adjustments to output growth. All have rejected application of HIA to large connections as these are driven by specific circumstances including Govt stimulus.
Rapid Earth Fault Current Limiter (REFCL)	Given the +$1billion cost of the REFCL program for Victorian customers, we asked networks to continue to work with ESV to revise costs down as much as possible, particularly in this economic environment.	Powercor, AusNet Services and Jemena have all reduced their REFCL program costs as a result of changes to ESV requirements around testing and some updated technical analysis leading to a change in design.
Pole replacement	We were concerned that the decision to increase pole replacement had not taken into account the reduced bush fire risks REFCL has created. We sought assurance that the risk assessment had been taken into account. Further, we requested a review in the context of affordability impacts on customers.	Citipower and United Energy have removed the 'risk-driven' component of their pole replacement programs but Powercor has increased this component. However, Powercor's program has reduced overall as a result of updated modelling assumptions with real data from field trials and removal of visual failure criteria.
Step changes	We sought rationalisation of the step changes requested by networks and a rigorous assessment of what costs were part of normal operations, particularly in the context of significant EBSS rewards.	Several businesses have proposed new step-changes to cater for increased insurance premiums. Many step changes were rejected by AER, and large step changes for Environment Protection Act compliance proposed as a pass-through.
Incentives	We sought assurance that the proposed Customer Service Incentive Scheme (CSIS) would produce service improvements to customers that are well above what customers would expect from the investments in IT that have been proposed. Customers should not pay twice.	We are satisfied that the CSIS put forward by Citipower, Powercor, United Energy and AusNet are focused on areas that customers value. We note that data limitations has influenced parameters and encourage Jemena and AusNet to collect more performance data to allow parameters to be set in 2024.

Customer engagement

Satisfied with information provided: Yes, we are satisfied with the business's processes and the outcomes of their customer engagement.

Our reasons:

The level and quality of engagement of customers has been very high from all businesses. The time period over which engagement has taken place has required a commitment to engagement, and thorough planning leading up to the January proposal and since.

Customer engagement shows increasing levels of maturity as networks have learned from the experience of others and pushed the boundaries in terms of methods, topics, time periods over which engagement has occurred, and numbers of customers engaged. Engagement is becoming business-as-usual practice.

Networks have taken different approaches and all have been successful in eliciting customers' views. The different approaches have facilitated varying depths of discussion on topics, demonstrating that the method chosen for engagement is important when considering the engagement for topic.

The Customer Forum played a special role for AusNet Services and brought the customer view to the table in a way that could not be ignored. The Customer Forum conducted some engagement for AusNet - an unexpected benefit. It will be important for AusNet to engage with a broader set of customers and widen its focus from the Customer Forum in future.

We acknowledge the difficulties confronted by businesses to engage in COVID times. The effort and commitment of all networks during the lock-down period has been impressive.

Response to findings in Draft Determination

All companies have engaged with customers since the Draft Determinations to discuss outcomes and test recommendations for the revised proposals.

Citipower, Powercor and United Energy have highlighted what customers have said and their response is clear and succinctly set out in their revised proposals. We are satisfied that the revised proposals for all three companies adequately link customer views to the outcomes proposed.

Jemena asked its People's Panel whether it had been engaged in sufficient depth. Jemena found that a majority of panel members were interested in understanding more about benchmarking. The Panel intends to make its own submission to this process once detailed benchmarking workshops have taken place.

AusNet also discussed its revised proposal with the Customer Forum and have highlighted areas where the Customer Forum has endorsed its previous recommendations and agreements.

Customer Engagement Guideline

We welcome an AER guideline for Customer Engagement. However, we consider that consultation should take place outside the confines of a reset to ensure a broader set of stakeholders is involved in this review.

It is important that existing best practice is leveraged. ECA's Consumer Engagement Award application criteria provides a guide for assessing good customer engagement. Further, the principals in the IAP2 Quality Assurance standard should be used as a starting point.

We hope a collaborative process will deliver a clear and agreed framework for designing successful engagement processes in future - one focused on outcomes rather than methods, and one that acknowledges the importance of internal cultural shifts within businesses to focus on customers.

The impact of COVID-19

Satisfied with information provided: Yes, we are satisfied with the business's response

Our reasons:

Our last report called for the distributors to review their forecasts and economic assumptions in light of the impact that COVID-19 was having on the broader economy. We are pleased that all businesses have undertaken detailed analysis of COVID-19 on their business and have noted the uncertainty of forecasting in an inherently uncertain environment.

We note that there are many ways that a network can manage risks of higher than forecast demand, but very few ways that customers can avoid paying higher prices once regulatory proposals have been determined. We called on businesses to take a conservative approach to their assumptions where possible to ensure that customers would not be required to pay more than they should, particularly at a time of wide-spread economic hardship.

Recent economic data shows the Australian economy is technically out of recession, but recovery will be a longer term process. Victoria's recovery lags the rest of the country due to longer lock down period. Recent COVID outbreaks in South Australia and in NSW demonstrate the uncertainty of living with COVID but have also shown the ability of government's to contain the disease and minimise economic impacts.

We are satisfied that the networks have reviewed this issue and heeded our request to err on the side of conservative forecasts in customers' interests.

Energy and demand forecasts

The businesses have provided evidence of how COVID-19 has impacted energy consumption and demand. We are satisfied with the networks' assessment of the changes and the implications for prices, DER and demand driven projects. We do not consider that Australian Energy Market Operator's (AEMO) forecasts are sufficiently granular for practical use in distribution planning and support the decisions made to reject AEMO's demand forecast for application to the determinations.

Customer forecasts

We note that all businesses have accepted the AER's adjustment for residential connections based on Housing Industry Association (HIA) forecasts. However, none have accepted the HIA adjustment for their large connection forecast. We agree that large connections are better forecast using actual connection applications. We accept the distributors information that no slow down in large connections is evident to date, and is less likely in future given that Government spending on infrastructure and housing policy settings are being used to spur the economic recovery in Victoria. We accept the distributors intention to base forecasts of major customer connections on a combination of known future applications and history.

Rate of change - output

The businesses have all accepted the AER adjustments to output growth based on recent economic data and note that the non-labour rate of change is 0%. We assume the AER will review its calculations closer to the time of the Final Determination and update this rate as necessary.

Rate of change - labour

COVID-19 has increased the level of economic uncertainty making it more difficult than ever to predict economic parameters. While we note that BIS Oxford Economics (BIS) forecasts are often more bullish than Deloitte Access Economic's (DAE) forecasts, we are of the view that multiple forecasts should be utilised to predict the future where possible, particularly at a time of heightened uncertainty. We are comfortable with an average of more than one reputable forecaster being used.

We raised concerns about the impending changes to the superannuation guarantee and the likelihood that employers will actually pass the full super increment on to employees. We note that BIS and DAE have both addressed this matter in their forecasts predicting that wages will absorb part of the super increase. We are satisfied that this issue has been addressed.

Changes to business operations

We are pleased to hear of changes the businesses have made to their operations to minimise the impact of planned outages on customers in response to more customers working from home.

We hope that this added customer focus becomes the new normal for Victorian networks and similar efforts will be made in future to minimise planned service interruptions to customers. The application of an incentive to planned outages will assist this.

'New Reg' process

Satisfied with information provided: Yes, but we consider additional AER review is required

Our reasons:

We support the exploration and experimentation with the 'New Reg' model. We consider that opting in to the new process was a decision of courage for AusNet Services and we note the considerable effort required by the AER, AusNet Services and the Customer Forum to make the process work.

We noted in our earlier report that the Customer Forum was very effective in bringing the voice of the customer to the table. We consider that the Customer Forum were able to negotiate some good outcome for customers.

Despite the positive aspects of the New Reg process, we have three broad concerns:

1. The scope given to the Customer Forum was narrow. The Customer Forum reviewed 7% of AusNet Services capital program. The remaining 93% of the capital program was not subject to detailed scrutiny by the AER or its consultant. We do not consider that the high level review undertaken by the AER is sufficient examination of costs that customers will have to bare.

   We are also concerned that capex in the 2015-21 period did not represent 'business-as-usual' for AusNet as higher levels of safety and replacement spending occurred in response to Black Saturday bushfires and the findings of the Royal Commission. AusNet accepts that last period's capex includes one-off expenditures. We do not consider the high level comparison of capex between two periods by the AER is sufficient to indicate that a $2.2.billion capex program is efficient. The AER's comment that "we expect that the information to support specific capex projects proposed by AusNet Services will be fully supported by rigorous evaluation" (p5-21) is meaningless as there has been no rigorous evaluation of projects.

2. The Customer Forum members were consumers who, despite their professional expertise, were not able to scrutinise AusNet's expenditure programs at a level of detail commensurate with that applied by the AER's technical engineering consultants, EMCa, to the other Victorian distributors.* The capex outcomes reflect this difference.

   This raises a further concern that the New Reg process may have led to opportunities for further efficiencies being missed, leading to a larger capex program and a higher revenue requirement than would have occurred had a more traditional review process been undertaken.

3. It is inappropriate for the AER or AusNet to rely on the Customer Forum's statement that it considered the whole proposal capable of acceptance given the narrow remit given to the Customer Forum.

   The 'out of scope' elements of the building blocks contribute the bulk of AusNet's approved revenues (i.e. 93% of AusNet's $2.2billon capital program, $1.2 billion worth of base year opex and $200m worth of accelerated depreciation).

We reiterate that we are supportive of exploring new methods of regulation and commend the efforts and outcomes achieved by the Customer Forum. However, it is important that customers are the focus of the AER's regulatory process and that customer outcomes reflect justified expenditure levels, not the choice of regulatory model applied and the potential for one model to offer a less robust review than another.

Recommendations from trial of New Reg:

- The scope of review needs to be more consistent between the models applied. 100% of opex and capex must be subject to a similar level of expert technical review (such as EMCa) for all businesses regardless of the model applied.
- Modelling assumptions should also be subject to review by technical experts (such as EMCa) regardless of the model.
- The Customer Forum should not be asked to accept the proposal 'overall' unless they are given the scope to review the proposal 'overall'.
- Engagement with stakeholders should include residential, small and medium business and C&I customers for whom energy costs make up a significant cost.

*EMCa was asked by AER to review two of AusNet's IT step changes. Both were rejected.

Use of benchmarking

Satisfied with information provided: No. The AER's reliance on benchmarking modelling to determine an alternative opex for Jemena should be handled with caution and other mechanisms considered.

Our reasons:

The AER reduced Jemena's opex by $59m or 10.6% as a result of adjustments to the base year based on its benchmarking analysis (15% reduction to base year) in its draft determination, and also made adjustments to address COVID-19 impacts.

AER benchmarking modelling

We have ongoing concerns with the AER's use of benchmarking analysis to determine alternate opex.

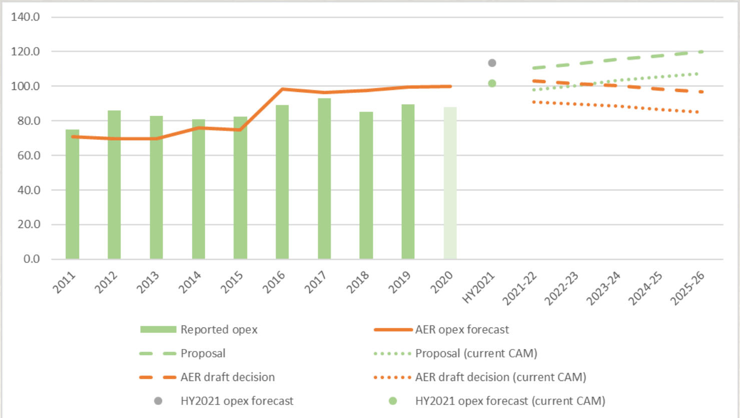
- Recent updates to parameter weights within the models have shown that the models are very sensitive to inputs and that such changes have a significant impact on the efficiency scores for businesses. The degree of sensitivity of the model to different weightings heightens the risks of using the models in a deterministic way to set opex, particularly when there is statistical evidence that the models do not have a particularly good fit (low R^2 values).
- We are concerned by CEPA's analysis which shows that capitalisation policy is also likely to have a material impact on modelled outcomes. Again, we consider that using the modelled outcomes in a deterministic way is risky.
- We are also concerned that Jemena's newly expenses corporate overhead costs being included in the analysis and that the reductions applied to opex reduce costs that, save for the change in Capital Allocation Methodology (CAM), would likely have been accepted by AER as part of its capex forecast.

  This adds further weight to the argument the AER should review the impact of capitalisation policy on the model as a matter of urgency.

Consistency over time

The AER's decision for Jemena is a difficult one given that Jemena has spent less than its allowance in the last period, and that allowance was deemed to represent efficient costs at the time. Jemena also received a $25m Efficiency Benefit Sharing Scheme (EBSS) reward as a result of spending within its allowance.

Jemena's opex over time ($ million, 2020–21)



Source: AER Determination, Jemena - Opex, p 6-27.

Jemena's base year opex reflects the change to its capitalisation policy for corporate overheads. When this impact is removed, Jemena's opex is similar to the efficient allowance set in the prior period.

Finally, we note the AER's benchmarking report notes that Jemena's productivity has been relatively stable over time, but comparatively, other distributors have become more efficient, and thus impacted Jemena's relative efficiency.

Recommendation

We consider that there are sufficient questions about the accuracy of the AER's benchmarking models that a substantive reduction of >10% in opex should be treated with caution.

We would be interested to understand how the AER's reduction to opex with a glide-path approach compares to Jemena's proposal to bring forward the benefits of its transformation program with an application of a higher productivity estimate. (We note Jemena initially proposed a productivity rate of 1% in its Draft Plan prior to AER's report on productivity). This could be an alternate mechanism to encourage Jemena to increase its productivity and keep pace with its peers without relying on the AER's model to determine opex - a model in which we have limited confidence.

Pole replacement

Satisfied with information provided: Yes. However, we rely on the AER being satisfied that the models being used to set the level of expenditure produce sound outcomes.

Our reasons:

We agree that Citipower, Powercor and United Energy need to be provided with sufficient capex to meet their compliance obligations. We also agree that the replacement program should be based on most up to date information including modern asset management practices. We acknowledge that Powercor's previous asset management plan for poles did not meet ESV requirements, and that changes are therefore required.

Further, we agree that failure rates are a lag indicator and indicate the robustness of a business's asset management methodology. Condition, inspection and age data are all lead indicators used to predict future intervention requirements.

The outcome of the change in asset management practices needs to be considered in the context of network risk and affordability, particularly in the current economic circumstances.

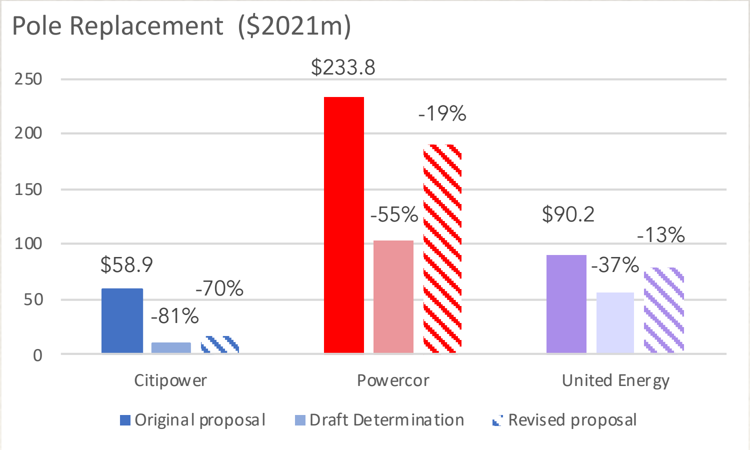
It is difficult for customers to accept large increases in repex when significant benefits from Capital Efficiency Sharing Scheme (CESS) have been awarded. We welcome Powercor's decision to accept the AER's reduction to CESS reward to account for the deferral in pole replacement from last period (worth $10m).

Powercor's revised $190m pole program adds around $14m to total revenue for the period. We note that Powercor provides he lowest prices in Victoria and therefore has a greater margin for customers to cope with additional costs particularly if it is to manage safety risks.

What we liked:

- Changes to modelling to remove risk-driven replacement for Citipower and United Energy.
- Powercor accelerated its pole strength trial and the results have informed and reduced the pole program of Powercor, Citipower and United Energy.
- Powercor updated its inspection and governance practices.
- Explicit modelling of REFCL impacts showed very limited overlap between REFCL and pole replacement risk analysis with <1% of poles justified for replacement in REFCL locations.
- Models were peer reviewed.

Revised proposals:



Powercor proposes a 29% drop in number of poles replaced which has reduced the cost of the pole program cost by 19% based on updated field data and changes in visual pole failure criteria.

Powercor is concerned it will be held to account for delivery of a policy that requires, in its view, a level of pole replacement that will not be supported by AER funding. Powercor has proposed a 'pole management' pass-through event to manage the risk that the gap in funding to deliver compliance will be material.

We are sympathetic to Powercor's predicament and note the difficulty in preparing a compliance program for Energy Safe Victoria (ESV) at the same time as a regulatory review. We note the new data made available through pole trials, testing of assumptions, expert review of models, and the relatively small impact on customer prices (net revenue impact of <$1m per annum). However, we also note that this proposed program has the potential to set a precedent for the wider industry. It is therefore important the AER is satisfied that the updated models used by Powercor and its sister networks are based on good data, accurate assumptions and produce reasonable outcomes when tested. We anticipate that with open dialogue and transparency around modelling assumptions, an appropriate funding level can be agreed. Like the ESV, we will be expecting Powercor to deliver the full program of pole replacement in the period.

The replacement criteria used by Citipower is the same for Powercor. United Energy's proposal is based on historic pole condition information, and we note that the risk-driven program has been removed.

REFCL

Satisfied with information provided: Yes. However we recommend further review of Kalkallo costs (AusNet), and REFCL testing costs (all)

Our reasons:

The Victorian distributors continue to feel the impact of Black Saturday bush fires and the outcomes of Victoria's Bush Fire Royal Commission.

We noted in our report on the original proposals that Victorian distributors proposed to spend in excess of $400m on REFCL program in the 2021-26 period, taking the total cost of the program to +$1billion since 2016.

We asked the businesses to review the costs of the REFCL program and to negotiate with the ESV to reduce the costs of compliance as much as possible.

We are pleased by news that the REFCLs that were operational during the 2019-20 summer operated more than 100 times to limit the potential bush fire threat. While we consider the cost of the REFCL program to be substantial, we are pleased that there is evidence the scheme is working as intended to protect the Victoria community from the risk of bush fire.

All three businesses that have been obliged to install REFCLs have updated their program cost estimates in response to customer's calls for restraint. Negotiations with ESV regarding compliance and testing requirements have reduced costs of the program overall.

Powercor

The AER made cuts to Powercor's REFCL program of $46.5m. Powercor has reduced its proposed REFCL program in its revised proposal by $55.9m which includes removal of $30m for Ballarat West which Powercor proposes to be treated as a contingent project.

We are sympathetic to Powercor's argument that actual costs are the best indicator of future costs, particularly as Powercor has the greatest number of compliant REFCL installations that are operational. We share their concern about opaque engineering cost analysis and ask the AER to revisit Powercor's cost estimates.

We are comfortable with the Ballarat West project being treated as a contingent project given the uncertainty surrounding the costs. We consider it is in customers interests that compliance driven projects are assessed when there is sufficient information to justify expenditure, rather that have an allowance incorporated into the forecast that is overstated or ultimately not required.

AusNet

AusNet has revised the costs of its REFCL program with a $27m reduction overall, not withstanding a substantial increase in costs for the Kalkallo project which is a joint project agreed with Jemena.

We are pleased to see that AusNet has reviewed its technical solutions to align with solutions deployed by Powercor, and that the costs of the overall program have reduced as a consequence.

We are also pleased to see that AusNet has taken steps to ensure that changes to its REFCL forecast will not inadvertently lead to CESS rewards being earned as a result of updated forecasts and project deferrals. However, we consider the costs for the Kalkallo zone substation are considerable and that the costs of AusNet's REFCL compliance should be carefully reviewed by the AER's technical consultant prior to approval.

Jemena

The costs of REFCL compliance for Jemena is relatively small and is driven by the technical solution at Collaroo and the joint solution with AusNet for Kalkallo referred to above. We are pleased that following further negotiations with ESV, the costs of Jemena's REFCL program have reduced.

We note Jemena has provided detailed cost estimates for testing that include 20% uplift for potential delays to testing as well as 50% up-lift for pre-testing checks prior to ESV attendance. While the amounts in question are very small for Jemena, the AER should review the proposed testing costs to ensure a consistent approach to estimating REFCL testing is being taken by all three distributors. Testing costs are a significant ongoing cost to Victorian customers and should be reviewed in detail.

Depreciation

Satisfied with information provided: No

Our reasons:

We are concerned about the application of accelerated depreciation for two reasons:

1. ***Affordability*** - Accelerated depreciation brings forward revenue that would otherwise be recovered from customers over a longer period. There is an argument that depreciation should align with the use of the asset. But bringing forward revenue inflates the revenue requirement and prices for today's customers. We question the decision to accelerate depreciation in the current economic environment.
2. ***Consistency*** - We are concerned with the lack of consistency applied by the AER in its examination of depreciation.

AusNet

AusNet proposed more than $200m of accelerated depreciation in its proposal.

We share the concerns raised by the Energy Users Association of Australia (EUAA) and EnergyAustralia about the impact that accelerated depreciation has on customer prices - in AusNet's case, it effectively counteracts the reductions in revenue driven by the AER's recent Weighted Average Cost of Capital (WACC) and inflation decisions.

We note that accelerated depreciation was not reviewed by the Customer Forum specifically and we reject AusNet's reliance on the fact that the Customer Forum approved the entirety of its proposal to infer their support for this element.

The AER's draft determination accepted the quantum of depreciation including AusNet's proposal to accelerate depreciation for REFCL related assets ($3.9m).

The AER smoothed the accelerated recovery of depreciation for AusNet over the next two periods for some assets, thus reducing the cost impact to customers in the 2021-26 period. We support the AER taking steps to smooth the impact on revenues, but question whether it has gone far enough given the impact on prices for AusNet customers.

Powercor

Powercor proposed to accelerate depreciation of REFCL related assets. The AER rejected this claim and accelerated depreciation was reduced from $74.5m to $29.5m in Powercor's draft determination.

We request the AER to review is approach to accelerated depreciation of REFCL assets in particular, to ensure consistency across Victoria distributors.

Recommendation

We acknowledge accelerated depreciation is a question of timing rather than quantum of revenue recovered from customers.

We support the AER's draft determination to smooth the proposed depreciation of assets over two periods for some asset classes as per the Customer Challenge Panel-17's recommendations.

However, we consider the AER needs to review its approach to accelerated deprecation in the context of affordability and consistency. AusNet's revenue is forecast to increase in the next period. The other four distributors* propose falling revenues and their customers already pay lower lower prices than AusNet's customers. This provides a difficult context in which to approve large amounts of accelerated depreciation. Further, the AER should review its approach to ensure depreciation is being treated consistency across distributors.

*The four distributors were all reviewed by the AER's technical consultant, EMCa who recommended substantial reductions to their capital programs.

Distributed Energy Resources (DER)

Satisfied with information provided: Yes.

Our reasons:

The AER made adjustments to the DER programs of all networks other than AusNet.

We support the adjustments the AER made to Citipower, Powercor, United Energy and Jemena's DER programs. We are pleased that the networks have accepted the changes and are determined to deliver a program commensurate with the budget targeting areas of highest value first.

We consider this outcome delivers a good balance between investing in new technology and infrastructure that will facilitate the transition to a more diversified supply side network whilst managing affordability concerns for customers. It provides a no-regrets pathway to the transition of distribution networks to a multi-directional flow network supplied from the transmission network supported by customers themselves.

AusNet

AusNet's program was not adjusted by AER but was agreed by the Customer Forum. We support the concerns raised by AER in its review and look forward to further testing of AusNet's program prior to AER's final approval.

Citipower, Powercor and United Energy - Solar enablement step change

Citipower, Powercor and United Energy have re-proposed their solar enablement program opex step changes arguing that the opex component of their DER program is essential for the program to work. The businesses argue that the introduction of the dynamic voltage management system (DVMS) requires site visits to tap voltages on distribution transformers to allow the DVMS to work, and that this cost is incremental to existing maintenance tasks. The program is designed to complement traditional capacity augmentation.

The AER was clear in its intention to support investment in DER technology. We recommend the AER review this step change to satisfy itself that the cheapest opportunities for capacity expansion and DER facilitation are not being overlooked. It is in consumers interests that businesses are incentivised to invest in the most efficient solutions, either capital or opex and that there is no bias between the two. We are cognisant that this step change up is a one-off and should be removed in future periods once the DVMS is introduced.

Solar enablement step change

$m (2021)	Step change	Revised step change	% change
Citipower	1.3	1.0	-22.5%
Powercor	6.2	4.8	-22.5%
United Energy	4.2	3.9	-7%
Total	11.7	9.7	-17%

Jemena

Jemena has made minor adjustments to its program but has accepted the AER's changes made in the draft determination. The AER rejected Jemena's opex step change which has prompted Jemena to revise its program to take out the opex program which provided an incentive for customers to modify the settings on their DER inverters. While we have concerns about the potential to discourage programs that would have benefits simply because they are expensed rather than capitalised, in this case, we suspect there is sufficient incentive for a customer to change their inverter settings to avoid tripping without an additional incentive being applied.

DER Guideline

We are sympathetic to the businesses claims that the VaDER study (Value of DER) was released too close to the revised proposal submission date to be included in the DER modelling, and that the Guideline itself has not been finalised.

We appreciate the information provided by businesses to show how their existing modelling aligns with the recommendations in the report.

We look forward to the AER's finalisation of this Guideline which will facilitate a consistent approach applied across the NEM in future.

Connections

Satisfied with information provided:

- Connections: Yes, with caveats for non-dwelling connections.
- AusNet cost forecast: No, AusNet's updated cost forecasts should be rejected.

Our reasons:

COVID impact on connections

The AER applied a COVID adjustment to all business's forecast of connections for the 2021-2026 period based on HIA forecast of the impact of COVID-19 on Victorian housing construction activity as of April 2020. The AER adjusted connections down by up to 40% for the first year of the period with a transition back to trend.

HIA has since updated its forecasts in November and noted that the housing market has rebounded faster than anticipated. However, HIA confirms that Victoria is lagging in the speed of its recover due to the extended lock down. Further, HIA notes that the recovery seen across Australia is being driven by approvals for detached dwellings and that multi-unit apartment starts are forecast to be at their lowest level since 2012 and not expected to recover until 2025.

The networks have all accepted the AER's adjustment to the connection forecasts for residential connections. However, all five businesses have rejected the application of the HIA adjustment to major connections. We are sympathetic to this position as growth in major connections are driven by factors other than economic conditions. Direct government investment in infrastructure and well as indirect investment through policy measures is being used to stimulate Australia's (and Victoria's) economic recovery.

Recommendation for COVID impact

We agree that in the short term, the forecast of major connections can realistically be based on applications and known projects but the forecast for outer years is more difficult. We note that the 2016-21 period has seen significant activity in connections in Victoria. However, we note the HIA comment that multi-unit dwelling activity is not likely to recover until the end of the period (ie 2025).

We are comfortable with the premise that major non-dwelling connections could return to the relatively high levels seen in the prior period as a result of Government stimulus. However, we consider that the networks should take account of the prolonged slow down in multi-unit dwellings in their major connection forecast which is being driven by longer term trends of reduced migration and greater demand for detached housing which we agree, will take many years to return to pre-Covid trend.

AusNet

AusNet claims an increase in its customer connections forecast in its revised proposal to account for an increase in unit rates that was not factored into its original proposal.

Further, AusNet forecasts a substantial step up in large embedded generation connections in the period, which represents a large turnaround from the declining connections included in AusNet' original proposal.

Recommendation for AusNet connections

The AER did not undertake a detailed analysis of AusNet's capex program. The top-down analysis that the AER did undertake set an allowance that could be prioritised to projects as required. An increase in AusNet's allowance could only be justified by a detailed analysis of the entire capex program to determine why there would not be sufficient flexibility within the allowance in which to prioritise projects to account for changes in forecast assumptions including changes in future cost.

We are not convinced that the 40% increase in large embedded generator connections since the draft determination is realistic, nor can we substantiate the +200% jump in large embedded generator connections in 2021-22 based on the information AusNet have provided. We recommend the AER carefully scrutinise the drivers of AusNet's large embedded generator forecast prior to final approval.

Bushfire risk premiums

Satisfied with information provided: Yes. However we have concerns for longer term cost trajectory.

Our reasons:

All businesses have now included a step change in costs for bushfire insurance premiums. Jemena's $28.8m step changes included in its original proposal was accepted by the AER. AusNet Services and Citipower, Powercor and United Energy have all put forward step changes for bushfire insurance in their revised proposals to cover actual premium changes in 2020.

We are concerned at the increase in premiums driven by reinsurers' exposure to global events and acknowledge that premium costs are largely outside the control of network. That said, we are concerned that Victorian customers bear the brunt of these cost increases on top of $1billion of capex for upgraded network safety requirements by end 2025.

It is clear that the networks are also concerned about the cost of bushfire premium increases and the impact on customers, and as a result have taken steps to mitigate the cost impact as much as possible.

- All the networks have reduced the amount of insurance coverage they hold in response to availability and cost.
- AusNet has increased its deductible for bushfires from $10m to $25m.
- AusNet has nominated a pass-through event to capture costs should an event occur that cost AusNet more than the 1% revenue threshold and up to the new $25m deductible.
- AusNet and Citipower, Powercor and United Energy have all based their step change on actual premium increases in 2020 and have not included a forecast of future premium increases. The businesses will take the risk that premium levels in future years are higher.

Recommendations

We are pleased with the steps taken by networks to mitigate the cost impacts on customers.

We consider that the pass-through of payments up to the deductible in the case that an event occurs, reflects a reasonable sharing of risk between networks and customers, and we note that customers will only pay for these costs in the event that occurs.

We consider that the businesses response to insurance premium increases is reasonable in the circumstances.

The longer term strategy

We remain concerned about the trajectory of premiums, the declining number of re-insurers in the market and the impact of international events on insurance costs borne by Australian customers.

We believe the AER should consider a review of insurance available to networks to determine whether the market failure in reinsurance is reaching a point where the risks in Australia are not reflected in the global insurance offerings available to Australian networks.

In the context of more and more extreme weather events including bushfires expected as a result of Climate Change, it may be time to consider alternate risk mitigation strategies. Alternate strategies are likely to require Federal and State Government involvement. Given the substantial cost increases already being seen, we consider a conversation should begin so as to mitigate the risk and costs to Australian customers.

Customer Service Incentive Scheme (CSIS)

Satisfied with information provided: Yes

Our reasons:

All Victorian businesses other than Jemena have proposed a Customer Service Incentive Scheme (CSIS) to apply in the 2021-26 period.

In our draft report we raised two concerns with the scheme:

1. The standard service should be good service and rewards should reflect service that is above standard.

2. Targets should reflect the future state and any step change in performance as a result of IT projects included in the proposal should be accounted for in the targets to ensure customers do not pay twice.

We also raised three further issues to be considered:

- Sufficiency of data
- Target poorest performance
- A paper trial.

Citipower, Powercor and United Energy

Citipower, Powercor and United Energy engaged with customers and stakeholders on the design of their CSIS and have targeted areas that customers identified as having the most value to them. We note that the scheme targets quantitive outcomes rather than qualitative outcomes. We note that the proposed scheme has strong support of customers.

The proposed scheme targets speed and quality of information customers receive during outages, both planned and unplanned, and reduced duration of planned outages. The scheme also acknowledges the importance of traditional communication channels such as telephone answering for a sub-set of customers.

We note that the targets proposed by Citipower, Powercor and United Energy for unplanned outage communication appear to be stretch targets with <30% of current communications meeting the proposed 6-minute target. We note that the SMS notification must contain a minimum standard of information to qualify and that United Energy's targets have been set to be consistent with Citipower and Powercor's standard before an incentive reward applies. We consider these elements to be consistent with a scheme that only rewards service that is superior to a standard level of good service.

Citipower, Powercor and United Energy propose targets for planned outages based on average SAIFI (frequency of outages) and SAIDI (duration of outages) for planned outages over 2015-20. We would encourage the businesses to assess whether practices adopted during COVID to minimise disruptions to customers have introduced a step change in planned outage 'standard performance' and whether the targets should stretch performance further so as to only reward superior performance based on the ***new*** standard performance.

We support the incentive rates applied to each element of the scheme.

AusNet

AusNet has designed its scheme around measures of qualitative outcomes such as customer satisfaction.

AusNet has argued that actual performance outcomes for unplanned outages measured by STPIS is a different measure than a customers' satisfaction with the outage. We agree and note that the difference between the two is likely to be linked to information availability and communication (aspects of which are being targeted specifically by Citipower, Powercor and United Energy in their schemes).

The Customer Forum was supportive of the parameters and targets put forward by AusNet. We are satisfied that the scheme reflects customers' interests and that the targets have been updated for most recent data. We would encourage AusNet to acquire performance data so that a quantitive approach can be taken in future.

Jemena

We applaud Jemena's position not to pursue a CSIS at this time in line with their customers' wishes. We agree that customers should not pay more for a standard level of service. However, we note that the CSIS would replace existing revenue at risk under the STPIS for telephone answering and therefore have no impact on price per se.

To ensure Jemena is not without data on which to base CSIS parameters in the future, we suggest a paper trial be introduced to allow for parameter data to be captured. Once Jemena achieves a step change in service performance in this period, a CSIS could apply in the following period to reward service above standard level service.

Tariffs

Satisfied with information provided: Yes

Our reasons:

The AER was generally satisfied with the Tariff Structure Statements (TSS) put forward by the Victorian distributors, but recommended some further actions would contribute to greater compliance with the pricing principles. This included to:

- move customers off legacy tariffs as quickly as possible
- provide an incentive for customers to move on to more cost reflective tariffs
- allow DER customers to opt out to a flat tariff; and
- provide a more focused peak window for business customers
- explain how tariff proposals are integrated with demand management and other initiatives.

From our review we consider that the businesses have all responded to the AER's suggestions and have changed their TSS to address the issues raised by the AER, thereby providing an improved TSS.

Lack of long term strategy

There remains a lack of overall narrative in the businesses' TSS. None of the TSSs set out a story or a longer term strategy for pricing which is surprising given the significant transition that the distribution networks are beginning to experience.

The 2021-26 period provides the perfect opportunity to drive pricing reform as for most businesses, total revenues are forecast to decline which leads to most customers receiving price reductions. We are pleased that the businesses have taken up the AER's suggestions to close legacy tariffs to move customers on to more cost reflective tariffs, but more could be done. The strategy of assigning customers with new or upgraded connections to newer tariffs is good but is still a relatively slow transition path.

The number of Electric Vehicles (EV) being connected to the network is still relatively small, but over the next decade, we expect EV uptake to increase. Connecting an EV to ones' home provides a one-off opportunity for households to consider how they use electricity. Networks would be wise to consider how they want customers to respond to prices and provide the information, the mechanisms, and incentives to customers and their retailers at the time they are organising their EV connection to ensure they are incentivised to charge their vehicle and consume electricity more generally in ways that do not place additional strain on the network where possible.

We recommend that networks develop a longer term plan for network pricing in this period to ensure that future tariff structure statements are aligned with the strategy. A long term, forward looking strategy designed to accommodate known technologies such as EV connection, the permanent change in generation mix, and the greater use of batteries can help signal network costs up front and help to minimise future network augmentation costs and maximise the efficiency of the existing network.

Common issues - minor

Issue	Proposal	Recommendation	Reasons
Treatment of fees and levies	All the Victorian distribution businesses have proposed to recover fees and charges levied by market regulators including ESV as a part of control- mechanism	Accept	General support for this position. Incentive regulation designed to incentivise businesses in costs they can control. Distributors cannot influence the level of fees being levied. Therefore, seems appropriate to have as a pass-through from customers via control mechanism. We agree that fees and charges do not move with economic cycle and would not be captured by producer price index. Agree too that EBSS should not apply where actual fees are raised above forecast allowances.
Allocation of metering costs	The businesses proposed allocating a greater portion of AMI costs to SCS	Accept	In a market where there is no metering competition, the allocation of costs between Alternative Control Services (ACS) and Standard Control Services (SCS) makes little difference to the customer who pays for the entire bundle. We accept that AMI data is used predominantly for network operations. In the absence of metering competition or a need to compare metering costs across jurisdictions, we have no objection to the reallocation of costs to SCS.
EPA / contamination remediation event	Changes to the EPA Act have been foreshadowed but have not yet been implemented in Victoria. The impact of the future changes is difficult to estimate.	Reject	We agree that changes to Victoria's EPA Act could trigger additional compliance costs for DBs. However, we question why such changes would not be captured by a Regulatory Change Event under the Rules.
HIA forecast adjustments for major connections	All DBs have rejected the application of the HIA forecasts to adjust major connections.	Accept subject to review	We note HIA has provided an updated forecast in November 2020 that acknowledges a quicker than expected recovery of housing starts, except for multi-unit dwellings. In this context the use of history to establish major connections forecasts may over-estimate high-rise dwelling connections. This may be of more significance to networks that have relatively higher proportions of high-rise dwellings in their major connection forecasts.
Connection Policy changes	The AER have proposed changes to connection policies of Citipower, Powercor and United Energy that have the effect of increasing the threshold over which customers are obliged to pay for augmentation of the shared network.	Accept	We are surprised that the AER would make changes to a connection policy that would lower the level of customer contributions where their connection size has an impact on the shared network. This approach seems to contradict the AER's philosophical stance on tariffs where the AER has encouraged businesses to provide signals to customers so that their usage behaviour is reflected in charges they receive. We do not consider that increasing the threshold at which customers contribute to augmentation of the shared network is in the interests of the majority of customers whose connections are small. To do so increases the costs shared by smaller customers which we do not support.
Customer contributions	All businesses have adjusted their forecast of customer contributions to connections based on changes to prices and WACC	Accept	We are surprised by the fall in customer contributions forecast, but have been assured by the businesses that the reduction in WACC has driven the fall in expected value of customers' contributions, and a commensurate rise on business funding for connections. We accept this position as reflecting broader economic circumstances which will change with the economic cycle in future.

AusNet

Issue	Proposal	Recommendation $ impact compared to draft determination	Reasons
Additional CESS benefit	AusNet claims an additional CESS benefit as a result of delays in delivery of projects due to COVID leading to less capex spent in 2015-21 period. AusNet argues that it will be subject to CESS penalties in 2021-26 period when it spends the (unspent) capex in the following period. We do not believe that AusNet will spend above its allowance in the next period and thus receive no future penalty to counterbalance the benefit it claims.	Reject $16m	CESS must reward efficient behaviour only, not failure to deliver projects. To provide a reward in these circumstances the AER must demonstrate how the CESS mechanism is not being mis-applied.
Capex	AusNet claims an increase to its capex program since the draft determination. We consider It is inappropriate that only 7% of AusNet's $2.2billion capex program has been assessed in detail. Given the size of the cuts to programs recommended by the AER's consultant EMCa for the other businesses, we suspect that a thorough review of AusNet's capex by EMCa would have resulted in reductions.	Reject $64m	We do not support the additional costs being added to the program without a detailed engineering review of AusNet's <u>entire</u> program.
Major cyber cost pass-through	AusNet propose a new pass through event to address the material risk associated with a non-terrorism related cyber-attack. We are concerned that protection against cyber attack is core business for distributors who are responsible for critical infrastructure and should therefore be included in opex as core costs or as part of business insurance coverage.	Reject $0m	It is important the regulatory model tries to emulate competitive markets as much as possible. Cyber attacks are part of core business risk mitigation for banks and other industries who have no access to a pass through of costs.
GSL	GSL updates are reasonable given the changes to the scheme. However, we have a general objection to the design of the scheme as it does not penalise the business for poor performance, but simply re-distributes revenues from customers with good performance to those that experience sub-standard performance.	Accept $16m	We accept the logic of this claim in the context of changes to MED thresholds. However, we consider the Victoria scheme design entrenches sub-standard performance for some customers and believe its design should be reviewed.
Embedded generator connections	AusNet has updated its forecast for large embedded generator connections citing Government policy and renewed focus on meeting its VRET targets by 2025.	Reject $27.5m	We do not consider the forecasts to be reasonable or justified by the information provided by AusNet.

Jemena

Issue	Proposal	Recommendation $ impact compared to draft determination	Reasons
Tariffs for large customers	Jemena has implemented many of the recommendations made by AER in the Draft Determination. Jemena did not pursue optional tariffs for very large customers as they have a very small number of customers in this bracket and 5 out of 8 customers are on individually priced tariffs as is.	Accept	We support Jemena's position. There needs to be a balance between cost reflectivity of tariffs and the costs incurred in implementing them. Jemana's position is a practical one we support.
EBSS	Jemena is due to receive an EBSS reward based on out-performing its regulatory allowance in the 2015-21 period. We find this hard to reconcile in the context of the AER making significant cuts to Jemena's base year opex.	Review	We raise this issue as a comment about the difficulty in reconciling the AER's benchmarking model outcomes with the incentive regulation mechanisms the AER has put in place.

Citipower

Issue	Proposal	Recommendation	Reasons
Under-recovery	Citipower has under-recovered 5% revenues in 2020 as a result of a 12% reduction in energy consumption as a result of COVID-19. Citipower is seeking a decision from the AER to allow it to recover revenues over the full 5 year period rather than recovering the revenue in a single year as per the Rule requirements.	Accept $0m	We consider this to be a sensible proposal and one that will minimise the impact on customers in a single year and minimise price volatility. We consider this change to be in customers interests.
Yarra Trams	Citipower has re-proposed its program as a category specific program so as to avoid the program being incorporated into the base year opex. The step change has been revised down based on actual volumes (previously estimated) and updated cost estimates from $12.7m to $4.8m	Accept $4.8m	Based on the information provided, we are satisfied that the arrangement with Yarra Trams is in the interest of Citipower's customers. Without access to shared infrastructure, costs to Citipower's customers would be higher.
Security of infrastructure step change	Citipower has re-proposed the step-change for security of infrastructure. We understand this step change in costs results from Federal Government requirements to house critical data centres and other infrastructure on Australian shores. For Citipower this means reversing a previous strategy of off-shoring these services due to cost.	Accept. Note: This program is shared with Powercor.	The requirement to reverse this otherwise efficient decision is being externally imposed on Citipower and therefore, outside its control. We consider this step change to be reasonable in the circumstances, particularly as it is based on tendered costs. Market testing of services has reduced expected costs.
CBD pits	Citipower rejects AER's draft determination to provide $2.9m for its CBD pits over five years. The program was rejected on the basis of simplistic modelling due to lack of data. We note that Citipower has reduced the scope of remediation and reduced the number of sites within this program. Costs have also been updated (reduced) to reflect programs in flight.	Accept increase in program, but estimate in revised proposal is too high	Citipower inspection data availability has improved with 85 of 484 sites being inspected. Using data provided by Citipower in an addendum, the estimate of $14.2m appears over-stated. Major remediations are said to cost $265k, and medium priority works range from $90k-$265k. The estimate appears to be based on all remediation costs at the upper bound. Based on the proportion of 13% of sites that require medium priority work with a proportion costing less than $265k, the estimate appears too high.
Zone transformer replacement	Citipower re-proposes step change for transformer replacement based on updated analysis and provides further basis for cost estimates.	Accept $9.1m	Based on information provided by Citipower, the AER's cost estimates require review. We agree with Citipower that costs of replacing zone transformers encompass more than the material cost of the transformer itself, and the program should allow the accompanying costs to be covered.
Switchgear	Citipower has revised down its switchgear replacement program from five to three units based on a no-regrets strategy.	Accept $4.3m	We accept that oil-filled switchgear is reaching end of the life and is being replaced by many networks, including Ausgrid. We support this program including incremental costs for bus protection.

Powercor

Issue	Proposal	Recommendation	Reasons
Replacement - switchgear	Powercor argue that its CRO-tagged interrupter program is required in addition to its existing switchgear replacement program and therefore represents a step up in replacement requirements.	Review	Powercor has an existing switchgear replacement program which the AER has referenced when approving Powercor's switchgear program for 2021-26. We consider the AER should review why replacement of CRO-switchgear must be added to the program rather than prioritised within the allowance.
Network Overheads	Powercor rejects the AER's adjustment to network overheads through assumptions that a part of capitalised overheads will vary in proportion to the reduction to its capital program.	Accept Note: this issue applies equally to Citipower and United Energy.	Powercor's explanation of overheads demonstrates that the AER's draft determination provides for network overheads that are lower than actuals reported in all previous years since 2016. We are sympathetic to the arguments put by Powercor, Citipower and United Energy, and rely on their reputation as being amongst the most efficient distribution networks in the NEM.
ClickSoftware	Powercor has proposed the inclusion of the replacement rather than the update of its field management system ClickSoftware as the product is being removed from the market.	Accept. Note: this project is shared with Citipower and United Energy.	Powercor's cost estimate is based on actual tenders and the step change represents the net cost of replacing the system (the costs of updating it has already been included in the forecast). We note the importance of this scheduling tool in delivering efficiency of services and reduced costs to customers and support Powercor continuing to have this functionality in the future.
Price path	AER strayed away from its traditional practice of applying the full reduction of revenue in year 1 and a CPI increase thereafter. Powercor proposes returning to traditional method as it delivers maximum cost benefit to customers up-front and will minimise price change impacts at the next reset which WACC is expected to be higher.	Review	Given the unusually low WACC in this period, we are concerned that price changes in 2026 could be substantial. We recommend the AER actively consider this issue when setting a price path for customers.

United Energy

Issue	Proposal	Recommendation $ impact compared to draft determination	Reasons
Property estimates	United Energy has changed its Burwood depot upgrade to a new site and expanded the scope of its Keysborough depot development in recognition of its increasing importance to the growing urban fringe.	Accept $20.5m	Based on information shared with us, as well as the updated benefits modelling and sensitivity analysis undertaken, we consider the changes to scope is reasonable for both Burwood and Keysborough.
Zone transformer replacement	The AER halved United Energy's zone transformer replacement program in the draft determination arguing that several assumptions underpinning the model were overstated, particularly network risk.	Accept $8.5m	We note United Energy's mature approach to transformer replacement designed to manage the consequences of asset failure. We accept United's sensitivity analysis that shows all of the units proposed for replacement in the revised proposal would be replaced under a 50% PoE scenario.
Demand management	United Energy put forward a step change to support the growth of Demand Management (DM) projects. The step change was rejected by AER on the basis of lower demand forecasts which either remove the requirement for augmentation (HV feeders) or lead to lower forecast costs of DM. AER amended the forecast to take out the cost of DM being initiated on behalf of AusNet transmission on the basis that the costs of DM should be borne by the proponent. We agree with this part of the AER's decision.	Review $8.6m	We are not convinced that AEMO forecasts are sufficiently granular to be used for distribution network planning. We suggest AER re-examine the two DM projects using United's Energy's updated forecasts to ensure that they are not required. We are supportive of United's Energy's commitment to DM.
Customer enablement program	The program has been reshaped based with the most supported initiatives kept and other initiatives that could be provided by the competitive market excluded, reducing the cost of the program by $15m across Citipower, Powercor and United Energy. The re-scoped program was presented to the Customer Advisory Panel (CAP).	Accept $10.2m Note: This program is shared with Citipower and Powercor	The program is designed to improve the functionality of customer facing services. We have reviewed the information provided to the CAP and are comfortable it addresses concerns raised by stakeholders. We note the CAP's endorsement of this project.