

Addressing CAP feedback

Customer Advisory Panel – Meeting 7/2023

Table 1: Framework and approach (F&A)

What we heard	What we propose to do
<ul style="list-style-type: none"> There was a strong preference for national consistency in F&A approach and a recommendation to consider this when drafting requests for amendments to the current Victorian F&A 	<p>We have engaged collaboratively with other Victorian distributors who are on similar reset timelines, and we plan to engage further with the AER and other networks around the country through the AER’s F&A consultation process. We know that the AER prefers consistency in regulatory arrangements around the country</p>
<ul style="list-style-type: none"> There was concern that the business may invest to capitalise on essential system services (ESS) opportunities and that customers ultimately pay twice i.e., once through the regulatory asset base (RAB) and again through the Australian Energy Market Operator (AEMO) fees 	<p>We are looking to share the revenue received from providing ESS with customers to ensure customers share in the benefits of service provision and are investigating regulatory mechanisms to facilitate this. One approach is to develop a small-scale incentive scheme</p>
<ul style="list-style-type: none"> There were concern the business’s presence in ESS markets may cannibalise competitors creating a monopoly in future regulatory periods 	<p>We do not intend to create a monopoly for service provision, rather to make more ESS available to AEMO to stabilise the grid and make better use of existing customer investments in the shared network to deliver further value to customers.</p>
<ul style="list-style-type: none"> A question was raised as to how customers who may be negatively impacted by the business providing an ESS service, would be compensated 	<p>We do not intend to provide ESS in circumstances where customer service levels will be pushed beyond compliant boundaries (i.e., voltage levels). This will minimise or negate negative impacts on customers. The benefits of providing ESS also far outweigh the costs.</p> <p>By way of example, we previously provided Reliability and Emergency Reserve Trader services (a form of ESS) before the regulatory framework for ESS was established. AEMO called on us to load shed 160,000 customers on the 25th of January 2019, and we were able to avoid load shedding to a further 66,200 customers by providing RERT services to</p>

AEMO. Providing these services ensured that more customers had access to electricity to support their safety during a severe heatwave.

Table 2: Reset strategic narrative

What we heard	What we propose to do
<ul style="list-style-type: none"> The document raises good questions and considerations however, a plan on a page using more simple language would be helpful as it is quite dense 	<p>A summary slide has now been developed.</p>
<ul style="list-style-type: none"> Recommendation to lift up the narrative around changes to the National Energy Objective (NEO) and blend it into the Customer Energy Resources (CER) narrative as this will bring in emissions reductions which the AER will be looking for. By optimising CER, the business can improve emissions reductions which meets the changes in the NEO 	<p>The impact of NEO changes on our regulatory proposal is still being understood and will be considered further following the pending publication of emissions reduction values. We agree that emissions reduction is a key driver of our required investment over the 2026–2031 regulatory period and have sought to base much of the narrative around achieving net-zero by 2045 (per Victorian government commitments).</p>
<ul style="list-style-type: none"> It reads as though the business is seeking to enable individual customers to maximise the value of their CER. Recommendation to reframe this to focus on CER maximising benefits for all customers 	<p>We have committed to enabling the energy transition by ‘enabling all customers to maximise the value created from CER’ but will review this drafting to better highlight the focus on ‘all’ customers.</p>
<ul style="list-style-type: none"> Recommendation to include messaging around ‘economic efficiency’ in the energy transition narrative rather than just affordability and equity i.e., ‘help ensure the energy transition and the adoption of customer energy resources maximises value for all energy users and participants’ 	<p>We will review the drafting to highlight the role of economic efficiency (noting the AER will require us to demonstrate economic efficiency as well).</p>
<ul style="list-style-type: none"> Recommendation to build out the narrative around electrification as there is a strong interest in this issue amongst the wider community 	<p>As above, we have sought to ground much of the narrative around achieving net-zero by 2045 but will work to ensure this is linked more directly to electrification.</p>
<ul style="list-style-type: none"> The customer experience pillar could be elevated to a higher-level objective under which the other three strategic pillars reside 	<p>We agree, and are seeking to re-align the specific priorities under the customer experience pillar across the remaining three strategic pillars (e.g. digitising and modernising our services and operations will be re-allocated to the energy transition pillar, whereas providing effective</p>

	customer services and energy literacy support will be split across both the reliability, safety and resilience, and affordability and equity pillars).
<ul style="list-style-type: none"> • More emphasis could be placed on the regulatory and political environment. Reference should be made to the many unique Victorian arrangements i.e., non-contestable metering, Essential Services Commission (ESC) and the role of the Victorian Government 	Agreed. We will amend the general discussion on strategic drivers to better outline some of the Victorian-specific considers (e.g., smart meters).
<ul style="list-style-type: none"> • There should be more acknowledgement of non-network solutions as an alternate to traditional network investment in the future regulatory environment. Especially in terms of how it will impact the way the networks operate and interact with communities 	A specific priority under the energy transition pillar is supporting the uptake and optimal use of other CER solutions, including EVs and storage, with tariff and non-network solutions (where efficient). The narrative is intended to remain high-level, but our DSO narrative will explore non-network solutions in greater detail.
<ul style="list-style-type: none"> • View that the term ‘customers experiencing vulnerability’ misunderstands the concept of vulnerability. Recommendation to reframe this to talk about ‘customers being in vulnerable circumstances’ and what those circumstances are 	We will reframe our language.
<ul style="list-style-type: none"> • View that First Nation’s customers are not transient in their space of vulnerability. Colonisation is an ongoing structure that continues to keep First Nation’s customers vulnerable 	We acknowledge that some vulnerable circumstances will be transient, whereas others are more systemic or ongoing. We are seeking to develop initiatives to support both cohorts.
<ul style="list-style-type: none"> • Energy literacy should not be viewed as a throwaway line. It is valuable in First Nations communities and can support customers managing their energy bills. Energy literacy provided through the community members, can have a direct impact on customers engaging in energy markets without feeling intimidated. 	We consider energy literacy is one part of how we can support customers, including those customers being in vulnerable circumstances. We are exploring ways to tailor our support to different customer cohorts.

Table 3: Innovation fund for 2026-2031

What we heard	What we propose to do
<ul style="list-style-type: none"> • There was concern that finding suitably qualified people to participate in a supervisory committee could be challenging. Recommendation to explore whether there are opportunities to amalgamate or share governance across distributors to economise the use of people’s time 	The innovation committee is only expected to meet quarterly or biannually, therefore we consider there will be sufficient and suitable experts to participate in the governance committee.

<ul style="list-style-type: none"> • Whilst there are regional differences between distributors, there a large number of common issues that networks should be innovating on jointly 	<p>We currently participate as an observer in AusNet Services innovation fund committee. This approach balances the risk of duplicative projects with operational agility, and our preference is to invite representatives from other Victorian DNSPs to observe our innovation fund committee.</p>
<ul style="list-style-type: none"> • Cost-benefit ratios and expected long-term impact on customer costs needs to be considered in a probabilistic sense otherwise there will be minimal opportunity for innovate projects to be approved 	<p>We agree that the nature of innovation implies that not all projects will deliver the expected benefits, and therefore it is important that innovation assessments consider both the likelihood of success and the magnitude of potential benefits. We consider that a general fund, rather than an indicative project list, better supports a probabilistic approach. We also propose a fast-fail approach, so that projects that become unlikely to succeed are interjected on quickly, in either the planning or implementation stage.</p>
<ul style="list-style-type: none"> • View that consumers should not be paying for innovation that should be considered business as usual, for example, employee safety which is considered an employee benefit. If consumers are to fund a scheme, there needs to be more rationale provided as to how they would benefit 	<p>We will remove references to employee safety in our proposed criteria (noting this remains of fundamental importance to our business, and is being removed solely with reference to the innovation funding proposal). We consider the remaining criteria (e.g., the need for projects to drive down long-term customer costs, and to demonstrate a positive cost-benefit ratio) appropriately recognise that any innovation project approved to proceed must provide a rationale for how customers are expected to benefit.</p>
<ul style="list-style-type: none"> • It is important to consider that any business operating in a contestable market would have to constantly innovate to survive. Should this not be the case for distributors? 	<p>Many innovation projects are not expected to deliver benefits in the prevailing regulatory period (i.e., benefits for longer-term innovations will only accrue in future periods). As our regulatory allowances are reset every five years, and these resets take into historical investments, we are unlikely to benefit from (and therefore unlikely to invest in) such longer-term innovations. Therefore, in the absence of a dedicated fund and/or regulatory framework reform, distributors are likely to continue to under-invest in major innovations that could otherwise deliver long-term benefits for customers. For the avoidance of doubt though, we have a</p>

	<p>strong history of ‘self-funding’ productivity improvements that can reduce or avoid capital or operating expenditure within the prevailing regulatory period (e.g., our works scheduling tools). Customers share in approximately 70% of these benefits through the EBSS and CESS.</p>
<ul style="list-style-type: none"> • Business innovation has not always been successful when it is not integrated into business functions that are responsible/benefit 	<p>A key benefit of a dedicated innovation funding allowance is that it would support a holistic and structured innovation culture within the business.</p>
<ul style="list-style-type: none"> • Partnership strategies are important i.e., engaging external bodies and agencies that support industry innovation. There is a role for external agencies to develop technology however, it is a distributor’s role to apply that technology and be clear on the benefits for customers and identify the problem that could potentially be solved with the application of new technology. This should drive decision making 	<p>We agree and propose to incorporate strategic partnerships with external bodies in the innovation fund proposal. This means that we will seek to leverage the innovation fund allowance to engage in strategic partnerships, such as with universities, agencies such as ARENA, DEECA, and other stakeholders with shared interests in advancing distribution network innovation.</p>
<ul style="list-style-type: none"> • It is important to consider the stages of innovation and at what point funding should transfer from the customer to the business 	<p>We consider that innovation projects should be ‘self-funded’ where benefits will accrue to the business within the prevailing regulatory period. Where an innovative project transitions to business-as-usual, this should be reflected in regulated allowances (i.e., per the AER’s standard assessment approach).</p>
<ul style="list-style-type: none"> • It is important to consider which demographic groups will benefit from innovation and to ensure that typically underrepresented groups will share in the benefits of the fund, particularly First Nations and farming communities. 	<p>Our proposed innovation criteria include, for example, that projects should be (i) primarily focused on supporting the energy transition through the themes of CER integration, storage, electrification, climate resilience, bushfire safety and digitisation and AI, (ii) be customer centric, driven by their evolving needs and expectation, and (iii) solve specific, strategic problems. These criteria have been included to support prioritisation of innovation funding to initiatives that are expected to benefit all customers. Our innovation governance committee will also include external stakeholders, and we expect diverse representation on this will ensure different customer cohorts and/or demographics will benefit from the fund.</p>

- Question as to whether other models of innovation have been explored. Understanding and researching the success of how other regulated industries have approached innovation would be useful. It would also be useful to understand what other sources of funding are available through agencies such as ARENA.

We recognise that other jurisdictions and/or industries have alternative models but recognise that large-scale regulatory reforms to innovation would take time that will further inhibit innovation in the short-term. This would be counter-productive to customers in the context of the energy transition today, so our innovation funding proposal therefore reflects learnings from other distributors (e.g., Ausgrid and AusNet Services). We also acknowledge there is funding available through agencies such as ARENA, though as outlined in the pre-read pack, these funding sources are limited in scope, are subject to uncertainty (i.e. whether funding is approved for a specific project or not), and do not allow for the business to be agile and adaptive to fast-changing network and customer needs. We propose to continue seeking funding from agencies such as ARENA, while using the innovation fund as a complement rather than an alternative to these opportunities to fund innovation projects.

Table 4: Non-network expenditure 2026-2031

What we heard	What we propose to do
<ul style="list-style-type: none"> • Question raised as to whether the business has explored all asset sales possibilities that could assist in reducing the expenditure ask 	<p>There are less opportunities available for asset sales in 2026–31 following the higher volume of asset sales in the current regulatory period. Notwithstanding, we are continuing to explore opportunities for asset sales in 2026-31.</p>
<ul style="list-style-type: none"> • There was interest in understanding if re-siting depots may help improve network reliability and resilience 	<p>Our proposed depot and control room replacement works are currently driven by age of the facility, emerging physical constraints, health and safety requirements, ongoing maintenance requirements and the changing needs of communities. In selecting new sites (if required), resilience and/or reliability considerations will be assessed alongside availability and financial factors (e.g., site values).</p>
<ul style="list-style-type: none"> • Question raised as to whether the maintenance cycle is the same for electric vehicles (EVs) as it is for combustion vehicles 	<p>We will investigate this to better understand and articulate the relativities of operating costs of EVs and hybrids compared to petrol vehicles.</p>

	<p>However, vehicle replacement policies have typically been based on the number of kilometres travelled.</p>
<ul style="list-style-type: none"> It would be helpful for the business to present the consumer benefit of a depot redevelopment 	<p>We propose depot redevelopments to ensure that regular business operations and service delivery do not deteriorate as our network grows. This has indirect consumer benefit, such as avoiding an increase in connections and maintenance works wait times. We will include these benefits cases as part of our regulatory proposals.</p>
<ul style="list-style-type: none"> It is important to demonstrate visible actions the business is taking towards emissions reduction (in terms of the mandatory reporting) and whether this is being undertaken for the shareholder or customer benefit 	<p>Our sustainability and emissions reduction investment proposals are linked to our sustainability strategy and emissions reduction targets. This includes mandatory ESG and NGER reporting. Moreover, our customer engagement has demonstrated that customers value emissions reduction and the environment.</p>
<ul style="list-style-type: none"> It is important the business presents targets (in terms of emission reductions) and be able to demonstrate how the projects being presented assist in reaching those targets. This is an important metric that the business should be communicating i.e., roadmap to decarbonise 	<p>Our business target is to achieve a 30% reduction in carbon emissions by 2030 compared to 2019 levels. We will demonstrate how any proposed initiatives to reduce emissions are aligned and mapped to our broader targets.</p>
<ul style="list-style-type: none"> It is important to consider what impact changed ways of working has had on the business's investments. This was raised in the context of greater working from home and its impact on needs for office space and fleet 	<p>We agree that this is important. The property forecast for depot and head office investment proposals are based on post-Covid office cost guidelines which incorporates updated hybrid work environment requirements.</p>
<ul style="list-style-type: none"> There is a quality aspect when it comes to pricing. If the business is investing more to get a better outcome or product, then that is a valid reason to invest It is important to consider the value that customers can derive from investments and what the potential impact would be in terms of damaging consumer interest if the business decided not to invest. 	<p>We agree and take on this feedback to develop better connections between the cost of investment and the quality or value of the product or outcome.</p> <p>Our proposed investment in sustainability, such as EVs and other efforts to lower our emissions, responds to what we heard during our broad and wide and deep and narrow customer engagement processes; our customers care about and value sustainability and communicated that they want us to invest more in sustainability and emissions reduction.</p>