AusNet



EDPR 2026-31

Benchmarking & Opex Panel Meeting #7

Friday 8 November 2024

Details	Members	AusNet Staff
Friday 8 November 2024 **Online (MS Teams)** **Chair:** Charlotte Eddy **Secretariat:** AusNet	Kieran Donoghue Mark Grenning **Observers:** David Prins, AER CCP Anthony Weir, AER Sasha Jergic, AER Adam Rapoport, AER	Charlotte Eddy, GM Strategy and Regulation (Distribution) Lucy Holder, Customer Engagement Manager Rob Ball, Manager Regulation (Distribution) Angella Nhan, Senior Economist Nadia Kettle, Senior Engagement Specialist Astro Sakalis, Regulatory Economist Lia Mavrias, Business Graduate

Agenda

Welcome & Agenda

1. **What we've heard engaging on the draft proposal** | Summarising feedback from Panels (via Coordination Group), submissions, customer workshops & other sources
2. **Summary of Availability inclusions in Proposal** | Recapping the impact the Panel has had on the proposal, Summarising proposal inclusions that are being changed from draft to final
3. **Addressing outstanding items** | a) Opex forecast b) Capital productivity benchmarking

Key outcomes

The panel members were informed on each line item that would be updated from the draft plan to the final proposal, and shared their feedback on these changes. The implications and rationale behind the adjustments were thoroughly discussed.

AusNet presented the key drivers behind its capex productivity benchmarking performance, and sought input from AER representatives where relevant. Additionally, the panel reviewed and discussed AusNet's performance in the benchmarking process.

Key discussion points

Agenda item	Key discussion points
Welcome	AusNet's Charlotte Eddy opened the meeting with an Acknowledgement of Country, welcomed participants then outlined the meeting purpose and agenda.
1. What we've heard engaging on the draft proposal	AusNet's Lucy Holder briefly discussed the information heard from customers, keeping in mind the panel members will be in other panel sessions where the same information will be discussed.
2. Summary of Benchmarking & Opex inclusions in Proposal	AusNet's Astro Sakalis detailed the summary of changes that will be enacted form the Draft Proposal to the Revenue Proposal to the AER. Discussion included: • The panel's influence on the proposal has been mainly focused on addressing negative step changes in B&O and other panel discussions. However, given the structured and framework-driven nature of the content, its overall impact has been more limited compared to other panels. • AER representatives were asked of the working definition of materiality in step changes. There is not strict materiality test, the better resets handbook indicates the AER's preference. Businesses typically experience cost increases and decreases across various categories, but the AER does not heavily regulate cost decreases. As a result, relatively small cost changes that are proportional to the overall business should generally be absorbed within the base case. • The drivers behind the deliver partner change from Downer to Zinfra were discussed and potential areas of impact in the Revenue Proposal. Overall, there will not be reductions in forecast costs as, despite being the lowest cost option, Zinfra unit rates are more reflective of current market pressures than the Downer rates underpinning the Draft Proposal. • Panel members emphasized the need to justify to stakeholders why the change from Downer to Zinfra is in the best interests of customers. At present, it remains unclear whether capex will be reduced. The only potential benefit appears to be improved performance, a panel member suggested utilising a method to record these improvements, perhaps by more robust CSIS incentives. AusNet is currently grappling with these questions and working through the regulatory complexities. While the framework can accommodate this, the challenge lies in identifying the most effective approach, particularly given the recency of the announcement. • No change in the deductable in insurance. In the last reset, the deductable was increased from $10m to $25m. However, at this stage a further increase in the next period is not warranted. It was suggested to make it clear in the proposal when the last increase was. • Clarified the SOCI meaning more physical security rather than cyber. Noted that it is not as material in comparison to other step changes, subject to refinement. • Panel members look forward to understanding risk analysis behind the network risk reductions for Hazard Trees. • A panel member suggested it is generally the practice of networks not to categorise costs in the base year that are expected to decrease significantly, even as part of the smallest positive step change. AusNet highlighted that, while some expenditures, like vegetation costs, are notably lower in the base year compared to the next revenue period it has not proposed step changes in these circumstances. AusNet is mindful of the AER's framework in this context. The base year is around $40 million lower than other years, which makes even a $2 million

difference more significant. Ultimately, the base year itself is less critical than the step change when evaluating costs.

- An observation was made from customer workshops that customers expect bills to remain stable or rise minimally, despite significant increases in Opex and Capex. There is confusion over what they're paying, with some questioning whether charges, like $800/year for network costs, are good value. This highlights the need for clear communication on changes in the draft proposal and opportunities for feedback before the final submission. AusNet acknowledged the complexities of gathering ongoing customer feedback on evolving costs but emphasised the necessity of drawing a firm line in the process, as constant feedback would otherwise delay progress.
- Regarding GSLs, without reliability investment, it would approximately increase by $2 million, added to the $54 million proposed.
- AusNet has not spent its allowance as the 2018 base year used in the previous reset was relatively high compared to the years that followed as they were able to find efficiencies. The discussion then shifted to determining how much of these savings should be shared with customers. Ultimately, any efficiency gains will lead to benefits for customers in the long-run.

3. Addressing Outstanding Issues

AusNet's Angella Nhan detailed the benchmarking scores and provided an overview of the following outstanding issues:

a) Final opex forecast

b) Capital productivity benchmarking

Discussion included:

- Benchmarking results are notably lower than in 2006 due to an increased frequency of storms impacting the network and the rising costs associated with Opex, which have contributed to lower performance scores
- Final benchmarking report is unlikely to be different from the recent draught report
- AusNet, like many comparable organizations, has shown a downward trend in capital productivity, which may be attributed to it being a stock measure that reflects the inherited capacity of the network at the time of privatization. While AusNet has generally remained in the middle tier from 2006 to 2023, within the last 5 years, they are within the bottom quartile
- Gas networking trending down, whilst electricity trends upwards.
- A panel member clarified with AER representatives that OEFS are not applicable to capex productivity. Currently, OEFS are not being applied to capital productivity
- AER representatives were asked if investing in resilience, assuming no impact on capacity, would affect benchmarking capital. They noted no direct impact, but potential indirect effects over time, as certain mechanisms could influence Opex productivity
- Doubling costs does not affect capital productivity, just as reducing costs by half has no impact. It's possible to lower spending without changing the benchmark score. However, in specific cases, such as augex, there may be an effect due to the expansion of the network
- AER representatives were queried regarding the timeline for an investment or change to impact capital productivity. They clarified that any asset is reflected in productivity scores and charts once it is recorded in the Economic Benchmarking RINs. However, for large regulated asset bases tied to a single project, the impact on percentage increases is likely to be minimal and lag for the scored to catch up.

Close and Next Steps	AusNet's Charlotte Eddy closed the meeting and outlined the next steps for the EDPR draft proposal, noting this was the last Benchmarking & Opex Panel meeting.

Action items

Action	Assigned to	Status	Due date
AusNet to provide in its Revenue Proposal how the EBSS is calculated and the benefit to customers for the 2026-31 period	AusNet Reg team	Underway	January