FQ How might benchmarking be applied to give customers confidence they're paying no more than necessary for an efficient service?

Key outcomes of engagement

- **Following discussions with the Panel and the AER there was agreement to close out this focus question, given AusNet has been affirmed as a benchmark comparator (unless there are further updates that materially change the benchmarking results).**
- **We will consult with the Panel further on any material updates to either our costs (including extreme weather events) or the AER's benchmarking methodology.**

Additional comments from AusNet:

- The AER's benchmarking models currently show AusNet is a benchmark comparator firm with an efficiency score above 0.75. This is due to a change in the AER's approach, whereby it now accounts for the impact of capitalisation differences between Distributed Network Service Providers (DNSPs). This was a long-standing issue that was addressed in the AER's latest 2023 annual benchmarking report.
- However, AusNet believes it is necessary for the AER's benchmarking models to account for operating environment factors (OEF) such as terrain and severe storms. We will continue to push this position, including in our Revenue Proposal.



Status: Answered

Approach in Draft Proposal

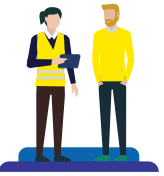
- According to the AER's latest 2023 annual benchmarking report, AusNet is a benchmark comparator firm with an opex efficiency score above 0.75.
- The AER's 2024 preliminary benchmarking report opened for consultation in August 2024 (through to November 2024 when the final report will be published) which contains data for the 2022-23 regulatory year. The 2024 preliminary report shows that AusNet is a benchmark comparator firm with an opex efficiency score above 0.75.
- Due to the extreme storm in February 2024 impacting 2023-24 opex, this is no longer our preferred base year. Instead, we will propose 2022-23, the second year of the current regulatory period, as being more reflective of ongoing opex, which will be the subject of the November 2024 benchmarking report.
- Similarly, the extreme storm in September 2024 has impacted 2024-25 opex, meaning it is also not a suitable base year.
- We will continue to advocate for a change in the OEF methodology to account for factors such as terrain and severe storms (particularly given the impact of the Feb and Sep 2024 storms). This impacts many aspects of our opex including Guaranteed Service Level payments, vegetation management costs, emergency response opex, and emergency management (including potential new preparedness requirements arising from the Victorian Government's Network Outage Review).
- However, to progress some of the changes we have proposed to the OEF approaches, we are reliant on the AER to collect consistent data across the distributors.

Benchmarking & Opex

FQ How might we be confident that AusNet's opex represents value-for-money and prudent and efficient expenditure?

Key outcomes of engagement

- AusNet should seek to identify any negative step changes.
- There is no strong preference on base year, revenue neutral and the AER will assess efficiency.
- GSL opex should be reduced if funding improvements for worst served feeders
- Interested in demand response and managing peak demand, and how this opex can be used to offset capex.



Status: Answered

Approach in Draft Proposal

- **Our draft proposal opex forecast** is an increase on current period expected spend (~19%) and slightly above our current period allowance. This level of increase is consistent with our peers, e.g., SAPN's proposed 18% increase. **It contains several step changes and a commitment to reduce our opex forecast to account for savings that are expected to be delivered through the digital expenditure program (should that be approved).**
- **This increase is driven by strong growth in demand and customer numbers - we have applied the AER's standard approach to escalation;** as well as **step changes** to meet new obligations, manage network resilience and safety, respond to evolving customer needs and manage capex/opex trade-offs.
- **Base year:** Due to the impact of the February 2024 storm event on our opex for 2023-24 (which we had previously identified as a suitable base year) we intend to propose 2022-23 as our base year**.** This will be included in this year's AER Annual Benchmarking Report, due to be published in November 2024.
- **Trend growth**. Our draft proposal opex includes the following trend parameters **(consistent with standard AER practice)**:
  - **Price growth:** While we are concerned that the AER's standard Wage Price Index escalation measure understates movements in our labour costs, we intend to adopt the AER's standard approach of averaging a WPI forecast prepared by the AER's consultant with a forecast prepared by our consultant.
  - **Output growth:** We intend to apply the AER's standard output growth methodology.
  - **Productivity:** We intend to propose the AER's standard 0.5% productivity approach. This is consistent with AER practice and is a reasonable indication of productivity improvements in the next regulatory period, given long term historical trends and our benchmarking efficiency. We will also apply this adjustment to capitalised corporate overheads.
- **Step changes –** 9 step changes are currently under consideration, including:
  - **New obligations -** More frequent pole inspections due to a recent Energy Safe Victoria direction (changes to the Wood Pole Management Plan we are obligated to deliver), effective January 2024. We have looked more closely on the need for this in light of feedback from the opex and benchmarking panel and are still finalising our approach.
  - **Meeting customer needs -** Customer relationship management (including Community Energy Solutions Support) with greater resourcing to support communities considering these investments; Broad customer communications campaign resourcing to empower customers by building agency.
  - **Improving network safety and resilience -** Early Fault Detection Device Rollout – devices that assist in the identification of expected faults down to a specific location on a powerline; More targeted, proactive hazard tree program to reduce risk of prolonged outages.
  - **Capex/opex trade-offs -** These include transition to cloud-based solutions, management of flexible services and non-network solutions; expensing of corporate overheads due to change in accounting practice; negative step change due to AusNet EV fleet electrification.
- **GSL forecast.** We have estimated a reduction GSLs opex to reflect the benefits of investment in worst served areas and will confirm this amount in our Revenue Proposal.