

Meeting Snapshot

Benchmarking and Opex Panel members | Costed options deep dive

Wednesday 8 May 2024

Participants

EDPR 2026-31 Panel members

Peter Eben (Chair)
Kieran Donoghue
Mark Grenning

Observers & External stakeholders

Adam Rapoport, AER
Sasha Jergic, AER
Gus Mandigora, AER
Michael Brothers, AER

Apologies

David Prins, AER CCP
Robert Ball, Price Review Manager
Lucy Holder, Customer Engagement Manager

AusNet staff

Charlotte Eddy, GM Regulation and Policy (Distribution)
Fiona Pober, GM Asset Services
Chris Sefton, Assistant Treasurer
Robert Ball, Price Review Manager
Eugene Whittaker, Regulatory Accounting Manager
Darryn Fourie, Manager Digital Delivery Enablement
Phillip Bryant, Manager Network Strategy
Jensen Lai, Manager Gas Asset Management
Angella Nhan, Senior Economist
Michaela Jackson, Senior Engagement Specialist
Astro Sakalis, Regulatory Economist
Chloe Finn, Regulatory Economist
Eliza Cochrane, Regulatory Economist
Emma Ferrie, Engagement Officer

Note: not all AusNet staff and observers attended the entire meeting.

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. Overview of opex forecast

Ausnet's Angella Nhan and Astro Sakalis presented an overview of the opex forecast, comparing early and current forecasts and key changes. They then shared a high-level breakdown of opex current forecast and components that are open to change. Detail included:

- outlining the standard base, step, trend approach
- that the latest forecast is 19% above current period forecast driven by strong energy and customer growth and step changes; 9% increase on early forecast.
- opex in the current period is associated with an increase of \$26.4m due to February storm costs (AusNet to apply in June for a pass-through of this cost.

There is an estimated \$7.6m on storm capex costs and \$18.6m on GSLs. AusNet does not have insurance for storm costs.

During discussion, Benchmarking and Opex panel members probed AusNet on:

- why are we indifferent to the base year and AusNet's degree of confidence in base year forecast? (addressed in following agenda item)
- total costs of the February 2024 storms including capex?
- the accuracy of the storm (opex) costs presented?

AusNet responded that it is showing all the step changes that have been have identified, that AusNet would take on notice the total cost of the storms including opex but expect it is ~\$27m and that the storm-related costs presented today are reasonably certain.

2. Base year & benchmarking

AusNet's Angella Nhan spoke to preliminary productivity and econometric modelling results (with and without February 2024 storms impact). This included:

- initial discussion of where AusNet sits in the AER opex benchmarking ranking, namely in the bottom quartile for 2021-22 (latest data – 2022-23 published in November 2023)
- AusNet forecasts its productivity will be similar in 2022-23 and then fall significantly in 2023-24 when storm costs are included. Angella highlighted that a single storm event is expected to change AusNet's FY24 performance result from efficient to inefficient.
- estimation of next period opex starts with the selection of a 'base year' in the current period – the year when actual costs are known that is a representative year.

Regarding the choice of the base year and the impact on benchmarking and opex, AusNet outlined that the choice of base year does not matter.

There was considerable discussion about:

- Opex Partial Factor Productivity (OPFP) with Benchmarking and Opex Panel members noting convergence over time of networks' performance.
- concerns by AusNet and panel members about the accuracy and robustness of the model, and concerns about the model in its current form. AusNet advised it will pursue issues associated with this methodology as part of its revenue proposal. The AER acknowledged the model is relative in some ways, and there are plans underway to improve the model. The AER noted some issues might be addressed in an individual network revenue reset, while others may need to be part of an overall review across all networks.
- choice of base year, in particular whether to choose 2022-23 or 2023-24 (year 3) or 24-25 (year 4) and noting that usually year 3 or 4 is chosen. This included a question for the AER on timing of AusNet's proposal and decisions the impacts of a 12-month lag between when final benchmarking data is published and when it was collected by the AER. The AER indicated that it would include analysis up to a 2024 base year.

Panel members agreed that they don't have a basis to prefer one base year over another from a consumer perspective, given as long as AusNet are deemed "not materially inefficient" the total opex is essentially the same once EBSS adjustments are factored in. In saying this they noted potential impacts of real price adjustments for materials and labour and the interplay between EBSS and the base year.

3. Trend forecasts & parameters

AusNet's Astro Sakalis presented on trend forecast and parameters, advising that:

- AusNet intends to apply the AER's standard methodology for output growth, price change – labour and materials, and productivity.
- the proposed approach covers cost increases for higher output (e.g., increased customer numbers), price change (materials and labour costs) and network productivity.
- there were concerns about real cost escalation uncertainty and proposed a variation (comprised of ex-ante forecast and pass through).
- AusNet proposed the minimum required 0.5%/year productivity, noted that Energex and Ergon (which are higher on the AER opex productivity table) are proposing 1%/year.

Panel members:

- responded that a variation (ex-ante forecast and pass through) would increase consumer exposure to higher costs if caused by economy wide factors rather than AusNet's behaviour. They also noted that network forecasts are consistently higher than the AER forecasts.
- did not support variation (regulatory uncertainty mechanisms/ pass through) conceptually apart from the difficulty of measuring causation. They flagged the importance of the incentive based capital scheme providing incentives to networks.
- indicated and agreed that AusNet can be more ambitious with its productivity position.

As a result of this discussion, AusNet also agreed as part of their future analysis to:

- clarify if customer equates to an NMI, whether EVs will have their own NMI, and the impact of this on our analysis
- consider what proportion of staff have the technical specific skill sets that couldn't be acquired from other industries, as part of their analysis.

AusNet will also investigate if a report jointly commissioned by Victorian DBs on workforce demand can be shared with panel members.

4. Guaranteed Service Levels (GSLs)

AusNet's Angella Nhan and Astro Sakalis presented an overview of how GSLs are treated (in opex), before asking for input whether AusNet should adopt a 5- or 10-year average in GSL forecast or adjust for climate change. Discussion covered:

- various aspects related to predicting and managing the impact of storm events on infrastructure and associated costs
- various averaging periods and whether it should be escalated by a climate risk factor (increased change of storms meaning increased chance of GSLs) that was not fully defined.

Panel members:

- highlighted that some consider AusNet should have greater exposure to GSL costs than they currently do, to serve as an incentive to minimise customer impacts of weather events (noting that they can't do anything about the weather itself).
- concluded there was insufficient information to choose different averaging periods without exploring the AusNet capex streams in more detail. They did not support the application of a climate risk factor.
- suggested that AusNet show bill impact for classes of customers other than residential

- indicated that the Availability Panel needs to be aware that if AusNet does spend on resilience, they could be spending it on areas where the storm doesn't occur and still have high GSL (regarding capex/GSL trade-off).
- suggested and AusNet agreed that it will look into targeting specific feeders around this GSL and trade-offs ahead of the availability panel workshop.

5. Step changes

Several AusNet staff shared details and consulted panel members on step changes related to corporate overheads, Cloud/SaaS, EV electrification, ESV pole inspections.

There was considerable discussion on:

- early fault detection devices, with panel members indicating they needed more information to justify a step change and questioning why this is not part of AusNet's capex spend? AusNet agreed to undertake further analysis and revert to B&O panel.
- expensing corporate overheads, which, while aligning with other gas/electricity networks, the panel did not support because of the costs to consumers when they see no benefit (networks receive a benefit because of faster recovery of costs that were previously capex recovered through long term depreciation). This was seen as "NPV neutral" - moving costs from capex to opex, whereas the other step changes represent extra costs overall. The panel suggested AusNet engage on this more broadly, in the context of the overall proposal and show what and how much it will save customers in the future. If it results in an increase in network prices then retain the current approach of capitalising a proportion of corporate overheads would help shorter-term affordability.

Panel members also:

- noted that the Victorian Emergency Backstop is a government requirement and a pass through in current period. It is up to AER to assess value in 2026-31. There was discussion of the limited awareness customers currently have, and the need for AusNet and the government to drive educational awareness around this. AusNet to provide more information closer to the submission around how they intend to flatten the maximum and minimum electricity demand curve caused by hot water systems that are programmed to run at night.
- indicated IT cloud/SaaS is opex given it is provided by an external provider rather than in-house. Panel members were divided and preferred to leave the decision to the AER on this item, noting this has been accepted by AER in recent network decisions. Panel members agreed that feedback on the cloud migration initiatives/cloud hosting step changes will be sought at the digital costed options workshop (as it is inextricably linked to the overall digital program).
- regarding pole inspections, a panel member noted an Energy Safe Victoria direction requiring pole inspections to revert to practice in 2011-16, meaning cost should be in base year costs. A panel member pressed AusNet for correspondence with ESV to confirm they are doing everything they can under the direction of ESV. AusNet agreed to provide this, more information on pole scanning, and further analysis on EFD and SWER line step change and revert back to the Benchmarking and Opex panel.

6. Insurance

AusNet's Chris Sefton provided an update on insurance market conditions, indicated that AusNet is considering an expert forecast to assess whether a step change is necessary, and the approach to insurance being considered for EDPR 2026-31.

- panel members felt that insurance is not yet a step change but might be depending on reports being prepared. They noted the AER rejected Ausgrid's insurance step change in Final decision in April. A panel member suggested AusNet look whether they are optimising their captive.

- The panel and AusNet agreed to revert later in the year once AusNet has figures and discuss what this means for the reset.

7. Engagement for remaining step changes

AusNet asked panel members the role they want to play and how to best engage with other panels on remaining step changes.

Resilience and DSO were identified as the most material topics among remaining step changes. Noting both panel members are already members of other panels, they preferred to be invited to upcoming meetings, and then choose which they attend.

8. Close, actions and next steps

Charlotte Eddy thanked the group for their contributions and feedback and noted that agreed actions would be circulated following the meeting.

Action items

Action	Assigned to	Status	Due date
AusNet to determine the total cost of the February 2024 storms including opex and revert to the panel.	AusNet Reg Team	Open	August
AusNet to clarify if customer equates to a NMI, whether EVs will have their own NMI, and the impact of this on our analysis.	AusNet Reg Team	Open	August
AusNet to circulate draft labour escalation report that was jointly commissioned by the Victorian DBs can be shared.	AusNet Reg Team	Closed	
AusNet agreed that it will look into targeting specific feeders around this GSL and trade-offs ahead of the availability panel workshop.	AusNet Reg Team	Closed	
AusNet agreed to undertake further analysis into EFDs and SWER lines and revert back to B&O panel.	AusNet Reg Team	Open	August
AusNet to investigate whether they are optimising their captive (insurance).	AusNet Reg Team & Chris Sefton	Open	Q4 2024