AusNet



Benchmarking & Opex Panel

Meeting #3 | Summary Notes

Details	Members	AusNet Staff	Observers
11.00am-1.00pm Monday 23 October 2023 **Online (MS Teams)** **Chair: Charlotte Eddy** **Secretariat:** AusNet	Kieran Donoghue Mark Grenning	Charlotte Eddy Angella Nhan Lucy Holder Robert Ball Astro Sakalis Emma Ferrie	Adam Rapoport, Australian Energy Regulator (AER)

The focus of this session

Focus Question	Objective of the meeting	Key agreed positions	Next meeting objectives
FQ2: How might we be confident that AusNet's opex represents value-for-money and prudent and efficient expenditure?	Inform on opex environment and drivers, and consult on current period performance (i.e. EDPR 2021-26).	Agreement that FQ1 (Benchmarking) is now complete pending any further information that warrants reopening, with focus of the Panel shifting to FQ2 (opex) ongoing	Variously inform to collaborate on aspects of EDPR 2026-31 opex forecasting methodology including step changes (depending on drivers)

Item	Time	Topic	Lead/s
	11:00am	Acknowledgement of Country and Agenda	Charlotte Eddy
01	11:05am	General Items	Charlotte Eddy
02	11:10am	Our Opex Drivers and Historical Performance	Robert Ball
03	11.40am	Current Period Opex Outlook	Robert Ball
	11:55am	*Break*	
04	12:00pm	Opex Drivers for 2026-31	Robert Ball
	12:45pm	Other Matters, Next Steps & Close	Charlotte Eddy

Summary

Welcome & Introduction

Charlotte Eddy from AusNet welcomed the group and introduced that the meeting was going to on the focus question of how we might be confident that AusNet's Opex represents value for money and prudent and efficient expenditure.

01 General Items

Discussion points

- AusNet updated that there are no outstanding actions for this meeting, and that previous actions have either been addressed, or will be addressed during this meeting.
- AusNet asked the group if they were comfortable putting the first focus question of; 'How might benchmarking be applied to give customers confidence they're paying no more than necessary for an efficient service?' on pause. This is due to AusNet's efficiency score being above 0.75 under the AER's latest updates for capitalization. AusNet suggested bringing the question back to the group if and when there are benchmarking developments. The panel members agreed with this approach.

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02 Our Opex Drivers and Historical Performance

Rob Ball from AusNet provided an overview of AusNet's Opex drivers and historical performance. This included:

- an overview of the Opex forecasting methodology
- recap of the fundamentals of the base step trend approach
- analysis of trends in the long term of AusNet's expenditure and productivity performance, including analysis on what's driven AusNet's Opex productivity over the long term
- analysis of data on the composition of AusNet's actual Opex over the last five years, demonstrating the key components of Opex including what's controllable and what's not controllable.

Discussion points

- A panel member asked for clarification if there is a standard materiality threshold (e.g., percentage of opex) for step changes. The AER responded by saying that is an area that they personally don't do a lot of work in but know that it is an issue others at AER are looking at.
- A panel member raised that slide 11 doesn't seem to consider the possibility that there might be subtractions. AusNet agreed that step three should say add positive or negative step changes.
- AusNet asked if panel members had any preference on base year or any other considerations. A panel member responded by saying that the latest audited year is fine given the EBSS interaction [the EBSS's interaction with the opex forecasting methodology means that customers are indifferent to the choice of the base year]. Another panel member raised that there is some modest merit in taking the latest available information that is audited. The AER agreed on the general point on choice of the base year and its revenue equivalence. However, the AER raised that in the Better Resets Handbook (which contains the early signal pathway process) which they put out approximately a year ago, they were explicit about saying from a procedural point of view, there are advantages in proposing and sticking with the base year Opex that is known and audited at the time of the initial proposal, which in practice is usually the third year. The AER expressed that they would be supportive for all the DNSPs to take this direction because they could then

assess the initial proposal and make a draft decision and not then have to assess a new base year in a revised proposal. AusNet noted that would suggest FY24 being the base year for them.

- A panel member raised that larger customers get no GSL payment but pay their contribution to the costs. A panel member raised that there is an issue between different classes of customers, raising that there is already some dissatisfaction in some regional areas with the lack of minimum standards. The panel member suggested a move towards changing frameworks to create conditions where the poorer served customers are getting their reliability issues addressed would make a stronger case for reducing the GSL opex. This would be due to other customers chipping in for the higher costs of improving those customers' reliability. It was also noted that if there's no progress on this front, then it would be suspected that customers would be reluctant to give up their GSL. AusNet agreed that this is a good point and will be thinking about the interactions between Capex and GSL Opex as they progress.
- A panel member asked if AusNet has the opportunity or option of reducing GSL payments in return for greater investment, or if it's a requirement from the state government. AusNet confirmed that the amounts are set out in the electricity distribution code of practice. There was further discussion around if it's beneficial to invest more in Capex with the expectation that would reduce the frequency of GSL payments.
- A panel member encouraged AusNet to explore their options by setting up a 4 way conversation with customers, the AER and the Victorian Government, so that customers were satisfied that Opex were being traded out for the Capex in an appropriate way.
- A panel member asked if AusNet has seen any reduction in their insurance premiums following Capex investments such as REFCL. AusNet responded by saying that a part of the process in seeking out bushfire insurance involved AusNet setting out bushfire risk programs and mitigation strategies that include the benefits of REFCL in terms of reduced risk of bushfire start. A panel member asked what the comparison is with NSW energy distributors. AusNet responded by saying they have the highest level of bushfire risk across Australia.
- A panel member raised that other electricity distributors had extensive engagement with their coordinating group equivalents on insurance premiums which gave them confidence that the networks had done as much as they could to share the residual risk between owners and customers.
- A panel member raised that AusNet has a really good track record for the last reset heading into the current one of outperforming the Opex allowance quite significantly. The panel member raised that it's a double-edged sword from the customer's perspective, as they get some of that but through the EBSS. The panel member furthered by saying that the other way to look at this question is if the AER's Opex framework is as tight as it should be, and whether there should be a bit of slack that could be addressed in the next reset. The AER responded by saying that this is a big topic, but they need to strike a balance and provide incentives of cost reductions etc. However, this is not straight forward and is always a challenge. The panel member responded by suggesting the AER use other tools including productivity assumptions to increase efficiency.
- AusNet asked the panel members for their thoughts on the breakdown of Opex. A panel member raised that they are interested knowing more about the non-network alternatives costs, particularly as it appears to be on a declining trend. The panel member suggested that making the non-network alternatives costs bigger would be worth it due to the Capex savings. AusNet agreed that as they enter this new era of expected growth in peak demand, they will definitely be looking at non-network alternatives like demand response and demand management.
- The panel member also raised that customer service is a small proportion of AusNet's overall Opex which would be worth bearing in mind when discussing potential customer service improvements. This is because if customers were suggesting they wanted something, the proportionate increase of customer service would be 0.6% of Opex and therefore presumably are even less material part of the overall bill, but in itself doesn't mean it's the right answer. However could be worth contextualising the things customer service panel are discussing and how much they would add to the revenue forecast.
- A panel member asked if the cost pressures, particularly for labour and materials costs, mostly impact network operating cost categories, or also in the other categories. AusNet responded by saying there's a general pressure in regards to increasing competitions for resources that are needed to deliver the energy transition. The maintenance and network operating costs account for the largest shares of AusNet's Opex. There's additional pressure on the types of trades and skilled people that delivering the services within those two categories that are going to have a disproportionately large impact on the total Opex.

- A panel member asked why AusNet and Powercor differ. AusNet responded by saying that the chart presenting the Opex PFP for all distributors doesn't include the capitalisation changes. The charts don't account for the complexity of AusNet's terrain. The AER broadly agreed with this explanation and furthered by saying the Operating Environment Factors (OEFs) are not included in these charts, so they need to be seen with that context.
- A panel member asked what the chance was of getting results that include OEFs. The AER responded by saying it's around feasibility, particularly around taking into account the pre modelling adjustments and considerations around the sort of data, data availability and feasibility in any particular case. There was broader discussion around the constraints of including OEFs, acknowledging that there's still consumers putting pressure on the distribution networks to improve their performance and address affordability issues.
- A panel member raised that one way AusNet could improve their benchmarking would be through input increases from electrification and take up of EV's. The panel member noted that if AusNet could do a better job than other networks of containing the peak demand impact, then AusNet will get more throughput without the Capex drivers.

03 Current Period Opex Outlook

- Rob Ball from AusNet provided an overview of the current period Opex outlook and the emerging Opex pressures.

Discussion points

- A panel member noted that AusNet should present where topics of Opex trade offs are occurring in whichever direction they're going in.
- Additional discussions included the interaction between opex and EBA negotiations.

04 Opex Drivers for 2026-31

- Rob Ball from AusNet presented AusNet's current thinking on Opex drivers for the regulatory period from 2026 – 2031. This included the potential step changes that have been identified, current thinking on trend parameters and the increasing demand for skilled labour and materials as we move through the energy transition.

Discussion points

- A panel member asked how AusNet accounts for its own use of electricity and if the company has to buy it through a retailer? AusNet responded by saying that they do and paying their electricity bill forms part of their Opex.
- A panel member asked if AusNet is thinking about an insurance step change. AusNet responded by saying that belongs as a "maybe" on the list. AusNet furthered by saying that when it comes to insurance, it depends where the market heads in the current period, including any impact of recent bushfire events that are not yet known.
- Discussion around the AER including insurance premium step change in other distributors proposals. A panel member asked the AER if they accepted the insurance step change on its own merits as part of overall

opex. The AER directed the panel member to look at the Endeavour Electricity Distribution's Draft Decision report.

- A panel member asked how the AER evaluates productivity growth forecast numbers. The AER responded by saying they have the standard 0.5% that they will use in their alternative estimate.
- AusNet asked if the AER would be reviewing the output growth factors next year, or if they are able to share anything about that at some stage. The AER responded by saying that they're hoping to facilitate an independent review this year. They will then possibly use that opportunity to calculate those output weights ensuring they are in line with any change they make to the methodology. AusNet responded by asking if that work might start this year and flow into next year. The AER clarified by saying that would be the independent review, however, they couldn't predict where that could go. They might keep the approach they currently have or they might recalculate the weights, but this is still a couple of steps away.
- AusNet asked the panel members if they had any suggestions on how the output weightings could be improved. The panel members responded by saying that the ball is in AusNet's court when deciding this. There was further discussion around the interactions between opex and minimum system demand.
- A panel member raised that they are interested to know how AusNet is building up their future maximum demand forecast, assuming that there are key drivers of relatively novel things like EVs and electrification start to come into the mix.
- A panel member raised that there's a real risk of recency bias when looking at some of the drivers for Opex, and the importance of seeing signals through the noise, and getting the price control period to reflect the underlying cost drivers that aren't going away. AusNet responded by agreeing that this is a good point.

Open Floor & Next Steps

- Charlotte thanked everyone for attending and closed the meeting.

Action items

Action	Assigned to	Status	Due date
AusNet agreed to consider the link between GSL's and out worst serviced customer plans when putting forecasts together.	Regulation	Not yet started	Meeting #4
AusNet to check the network operating costs in 2019 which is presenting as an outlier.	Regulation	Not yet started	Meeting #4