

Issues Paper 2024-29 Revenue Determinations: Ausgrid, Endeavour, and Essential Energy

1 June 2023

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About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage.

PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. Our work combines:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change and public interest outcomes.

Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program works for better regulatory and policy outcomes so people's needs are met by clean, resilient and efficient energy and water systems. We ensure consumer protections and assistance limit disadvantage, and people can make meaningful choices in effective markets without experiencing detriment if they cannot participate. PIAC receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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1. Introduction

PIAC welcomes the opportunity to respond to the Australian Energy Regulatory (AER) Issues Papers on the 2024-29 Revenue Proposals for Ausgrid, Endeavour Energy and Essential Energy.

This regulatory reset process has been a significant departure from previous experience. It has involved significant challenges for the businesses as well as a wide variation in responses from the business, both to those challenges and to changes in expectations stemming from the development of the AERs Better Resets Handbook.

At this stage of the process PIAC has decided to focus our submission on key aspects of the AERs Issues Papers, presenting both PIACs perspective as a consumer stakeholder on how well DNSP proposals promote the interests of their consumers issues, as well as our observations of the degree to which the proposals of each of the businesses reflect consumer preferences. The intent is to identify areas where further work can be done by the businesses to address identified issues throughout the remainder of this process, or where there are questions which would benefit from further engagement. We have also sought to provide constructive perspectives on where there are broader lessons to draw from the current reset process with a view to improving engagement in future processes.

2. Consumer and community engagement

Networks are rightly expected to ensure their regulatory proposals reflect and are shaped by consumer preferences, and to demonstrate how they promote the long-term interests of their consumers. It is notable that this reset process has seen a step-change in the commitment to consumer engagement and the quality of that engagement by all businesses. Ausgrid, Endeavour, and Essential Energy have all significantly improved the overall quality of their consumer and stakeholder engagement relative to previous regulatory periods. This progress should be commended and taken as a clear signal of what is possible in a relatively short period of time.

This progress is particularly noteworthy given the serious and prolonged disruption to the early stages of engagement which resulted from the COVID-19 pandemic, and then a rolling series of extreme weather events impacting all of the networks at some stage. All of the networks invested significant time and resources in planning their engagement strategies with the intent to commence very early, only to have those plans seriously impacted. The commitment to adapt, be flexible and continue to deliver a comprehensive program of meaningful engagement under these circumstances should not be taken for granted. It should be commended and regarded as a demonstration that robust consumer and stakeholder engagement can (and must) be an integral part of business decision-making regardless of the circumstances.

The significant strides made by all businesses to date in this reset process should not, however, be taken as an endpoint. Good engagement culture and practice must continue to evolve and develop. Businesses need to be committed to learn lessons from their experiences this time, identifying and honestly addressing issues and weaknesses, and building on strengths. Given that this reset process has also seen all of the businesses take a different approach to meet the

requirements of the AERs Better Resets Handbook, there is a great opportunity to evaluate relative strengths and weaknesses, common issues, and areas where further regulatory reform and guidance may be needed.

At this point in the process, we have provided general, high-level comment on each business' engagement, as well as some more specific comments in relation to issues raised in the Issues Papers. We intend to provide a more detailed commentary on the business's respective engagement programs and their adherence to Better Resets Handbook guidelines in a future report given these processes are still ongoing and final outcomes are yet to be confirmed.

Our intent in identifying any specific issues at this point is to provide a timely indication of where we consider further work may be of value in this current reset process. We have also made some early observations where we consider future processes should address specific issues identified during this process.

2.1 Ausgrid

PIAC consider that Ausgrid has demonstrated the greatest progress in its approach and commitment to robust consumer and stakeholder engagement since the last reset process. Ausgrid has, to date, undertaken a comprehensive and extremely well-resourced and robust consumer and stakeholder engagement program. In relation to PIACs previous assessment of engagement and key aspects of the AERs Better Resets Handbook, PIAC particularly note:

- **Ausgrid commenced their engagement early, according to a comprehensive plan to engage meaningfully with consumer and community stakeholders and consumers themselves, through a number of different platforms.** This ensured Ausgrid's engagement could be regarded as meeting appropriate standards of timeliness, representativeness, and accessibility.
- **A co-design approach with the consumer stakeholder committee (Reset Customer Panel – RCP) helped shape Ausgrid's engagement program.** The involvement of the RCP ensured that there was a strong stakeholder influence over the planning of the engagement program, shaping the content, the form and the interpretation of engagement throughout. This has potentially led to some issues later in the program where roles and responsibilities could have been more clearly delineated, but these should be considered as lessons for the structure of future engagement rather than issues with material impact on this process.
- **Engagement was the most consistently deliberative in structure.** The Voice of Community (VOC) Ausgrid implemented broadly took a 'citizens jury' approach to deliberative engagement, an approach which invested significant time and resources to provide consumers with the foundation and the scope to build genuine preferences and express them meaningfully to Ausgrid.

There was scope to provide narrower framing, focus, and deliberative 'guardrails' earlier in the process of engagement with consumers. This may have provided more meaningful direction to Ausgrid much earlier in the program and enabled greater apparent continuity between the early expression of consumer priorities, the generation of consumer preferences, and the confirmation of supported responses.

It will be important to assess this program as a whole to see where future processes can make qualitative improvements and ensure consumers are providing the best direction to Ausgrid regarding important trade-offs. PIAC also consider it important to assess the program to consider where there are lessons for how a robust deliberative engagement program can be more efficient, achieving high quality results without assuming that more resources are required.

- **Strong commitment to ongoing engagement and the re-testing of issues and decisions.** Ausgrid have used the length of their engagement program to adapt, and ensure that difficult issues are re-examined, and that areas where circumstances may have impacted decisions are re-examined. PIAC particularly note Ausgrid's ongoing work to re-examine support for the Customer Service Incentive Scheme, the response to affordability concerns, and overall comfort with the regulatory proposal itself. Where processes need to start early, this commitment to re-test is crucial to ensuring robust outcomes.
- **Commitment to draw on and retain the exact words and sentiments expressed by consumers through its VOC process.** This enables the AER to have strong confidence the sentiments are genuinely consumers own. However, while this produces results with a high degree of 'validity' in isolation, PIAC considers it may render results which are a less meaningful expression of consumer preferences as a whole.

Ausgrid has adhered to the Better Resests Handbook as a set of rules rather than as a set of guiding principles, apparently deciding that anything which wasn't a direct expression of consumer preferences on an end output would not be looked at favorably by the AER. This is not unreasonable, but PIAC consider a more principles-based approach would yield equally valid but more meaningful results. Having scope to frame discussions at a principles level, provide guidance to narrow consumer discussions and present more principle/issue-based trade-offs would, in PIACs view, lead to more meaningful consumer preferences. Ausgrid's assessment of their engagement program as a whole should examine this as an area for further improvement in subsequent processes.

- **The most consistently evident response to affordability concerns.** Ausgrid made great efforts to undertake bill impact modelling at a granular level, present disaggregated proposal costs (factors in Ausgrid's control and factors outside Ausgrid's control), update bill impacts over the course of the program and demonstrate a commitment to make changes to reduce costs (or present cost reduction options) throughout the program to date. While the local resilience program has thus far been less successful in maintaining this structural focus on affordability, there is scope to address this in the remainder of the program, with further lessons for future engagement. In the prevailing circumstances, ensuring affordability is consistently and robustly presented and addressed as a priority has been a strength of Ausgrid's approach and should become the default starting point for all future engagement processes.
- **A genuine commitment and investment of significant resources to develop a holistic approach to resilience.** Having identified resilience as a priority concern for consumers and an area in need of more developed understanding and consistent response, Ausgrid

undertook excellent work to develop a framework for identifying resilience related risks, quantifying those risks, and considering what should shape responses. This framework should form the basis of ongoing work in resilience. Ausgrid's determination to make consumer and community preferences integral to resilience responses should also be commended.

PIAC has observed that the hugely ambitious scope for its resilience response and the engagement program to develop it may have impacted the translation of the framework into the best results. The limited time available to complete an in-depth engagement program left little opportunity to evaluate and change course when things weren't necessarily working as intended. PIAC considers that an early decision to present decisions as a choice of interventions through a 'shopping trolley' analogy limited the ability for consumers to focus on providing Ausgrid with the most meaningful direction as to how climate-related risks should be addressed and resilience supported, and how trade-offs should be made to manage risk and uncertainty.

While the results are likely to be a valid expression of community support for specific interventions, there is more work to do to determine whether collectively these interventions represent the most meaningful expressions of consumer preferences for managing climate-related risk and uncertainty. PIAC will look to present more detailed observations and draw more substantive lessons from Ausgrid's resilience engagement at its conclusion.

2.2 Endeavour

Endeavour made great strides in the scope and quality of its engagement, a step-change which should broadly give the AER confidence that consumer preferences have meaningfully shaped Endeavour's proposal. Endeavour invested significant resources to develop a robust structure for engaging with stakeholders through its Regulatory Reference Group (RRG), and utilizing that group to design, shape and interpret its direct engagement with the community. In relation to PIACs previous assessment of engagement and key aspects of the AERs Better Resets Handbook, PIAC particularly note:

- **Endeavour commenced their engagement early, according to a comprehensive plan to engage meaningfully with consumer and community stakeholders and consumers themselves, through a number of different platforms.** This ensured Endeavour's engagement could be regarded as meeting appropriate standards of timeliness, representativeness, and accessibility.
- **Endeavour committed to a primarily online format for its direct engagement with consumers.** Where the other networks commenced online and pivoted to an in person or hybrid format, Endeavour elected to maintain a consistent approach which intended to deliver the equivalent of a deliberative process through an online hub and direct online video meetings. While this decision may have contributed to a laudable rate of retention of participants throughout the program, and helped facilitate consistent engagement that may not have been possible in-person, PIAC does consider there to be qualitative differences between what can be achieved in person and online.

Endeavour has drawn several lessons from its online engagement which could further

promote full participation during in-person sessions. We encourage them to implement these learnings into future engagement programs to take advantage of the respective strengths of both in-person and online engagement. At the conclusion of this program Endeavour should consider where in-person sessions can complement and enable further improvement in the outcomes of engagement.

- **A commendable commitment to transparency with stakeholders.** Endeavour consistently shared comprehensive material with stakeholders providing valuable insight to interrogate the business and help shape decisions. However, the volume of material provided, the timeframes allowed to absorb it and the expectations on stakeholders to respond may not have been sustainable or best enabled meaningful input. Endeavour made commendable efforts to address this issue throughout the process and along with the other networks should evaluate their programs to identify where processes can be improved and where a more targeted approach to stakeholder engagement could help enable further improvements.
- **Need to balance consistency with adaptability to ensure consumers have the best opportunity to express meaningful preferences.** While there was a genuine commitment to seek and respond meaningfully to stakeholder feedback throughout Endeavour's program, PIAC observed that Endeavour was less willing to make dynamic adjustments to their engagement program (i.e. from one engagement session to another). Endeavour took the approach, similar to Ausgrid's approach in its resilience program, that consistency should be maintained particularly between sessions in the same 'phase'. For example, this made it difficult to adjust questions being put to consumers to better reflect the input being sought and ensure that meaningful preferences could be expressed. While this is valid reasoning, PIAC considers that changes should be made at the earliest possible opportunity, with any impact of that change to be noted and considered regardless of when it occurs.

In our view consistency and statistically 'pure' results are less important than ensuring every engagement opportunity is as meaningful as possible and contributes to the development of the most meaningful consumer preferences. In this context a consistent series of engagement may have much less value than one which was adapted 'mid-stream' to address identified issues. PIAC notes several occasions in Essential's program where dynamic change amidst the final phase contributed to stronger outcomes that better reflected consumer interests and preferences.

- **The use of deep-dive sessions with stakeholders and consumers was welcome and helped improve the overall effectiveness of the engagement program for Endeavour.** These sessions provided greater opportunity to consider more complex issues and enabled a qualitative improvement in the meaningful feedback it helped elicit, particularly feedback that reflected 'community' or socially focused views rather than those of individuals.

There is significant scope to build on and improve sessions of this nature to ensure that topics are not siloed, but able to examine areas of overlapping relevance (such as CER integration and tariffs or resilience and innovation). For all networks, identifying areas of discussion which would benefit from extended, deep-dive consideration, and ensuring those sessions are in-person and supported with appropriate content and structure, will be key to continuing to develop and improve engagement approaches.

- **Some specific instances where there was a resistance to alter content or approaches may have had a material impact on outcomes and lead to a need to re-test assumptions.** For instance, the ambiguous use of the term ‘customers’ in several contexts (i.e. developers and retailers being referred to as ‘customers’ in discussions which also used the term customers to refer to households) led to confusion in consideration of cost-recovery methods and may have impacted the outcomes. This issue of ambiguity in content was most apparent in tariff discussions. All networks should examine their content and ensure that future engagement puts in place processes which actively seek to test and address content and language issues to ensure the most effective and clearest framing for consumers contributes to further improvement in engagement outcomes.

2.3 Essential

Essential started this process from the highest base, having previously been the standout performer in relation to the quality of its engagement. Essential is notable for having the most mature and consistent commitment to engagement of the NSW network businesses, a commitment which permeates throughout the organization. Starting from the highest base was a significant challenge for Essential, particularly considering the intervention of COVID-19 and natural disasters, and the issues they face in engaging across one of the largest network areas in the country. Despite these challenges the engagement undertaken by Essential was well structured and broadly capable of demonstrating that Essential’s proposal is meaningfully shaped by consumer preferences.

However, Essential did struggle to make significant progress in evolving its approach and making significant qualitative improvements to how engagement shaped its proposal. This is not a reflection of intent or commitment, but an indication of the challenge all network businesses (and indeed the market bodies themselves) face in continuing to evolve and improve the quality and depth of engagement. In relation to PIACs previous assessment of engagement and key aspects of the AERs Better Resets Handbook, PIAC particularly note:

- **Essential commenced their engagement early, according to a comprehensive plan to engage meaningfully with consumer and community stakeholders and consumers themselves, through a number of different platforms.** This ensured Essential's engagement could be regarded as meeting appropriate standards of timeliness, representativeness, and accessibility.
- **There were some issues with the consistency and quality of engagement with Essentials stakeholder group.** It should be noted that while some of this may have been a result of the structure adopted by Essential, much of the issues Essential experienced were due to factors out of Essential’s control. For instance, there is a fundamentally limited pool of appropriate stakeholders capable of committing the time and resources to meaningfully participate to the level required by network businesses. Essential was attempting to draw on the same limited group of stakeholders as other networks, with some additions, but struggled to get the same degree of commitment and consistent response from stakeholders that other networks had.

Relative to the other networks Essential had less breadth and depth of stakeholder expertise available to them, though more generalist and special interest representation. The result was that despite Essential's genuine attempt to seek detailed input from stakeholders, it was often limited to a few stakeholders and, in many cases, limited to PIAC ourselves. The issues Essential faced in this area should be examined by all networks (and the AER) as part of a larger consideration of the most sustainable and meaningful way to structure stakeholder engagement. PIAC also considers it necessary that a wider conversation be had to consider how stakeholder capacity can be built to ensure there is a sufficiently broad and deep pool of informed and resourced stakeholders to draw from.

- **The most consistent and genuine commitment to be collaborative and responsive to feedback.** Notwithstanding the issues identified above, Essential was the most dynamically responsive to stakeholder input. Throughout all stages of the engagement program Essential demonstrated time-and-again a flexibility to take feedback and adapt content immediately. On many occasions this approach led to changes which had an immediate and material impact on the quality of engagement and the outcomes derived. Essential should be commended for this approach and all networks should ensure that future engagement programs adopt it as a crucial part of ongoing improvements to engagement.
- **Essential's intent was to undertake a deliberative engagement process with consumers and sincere efforts were made throughout the process to improve the deliberative nature of sessions with consumers.** This was evident in their effort to focus sessions on a narrower range of topics and reframe topics to enable greater engagement. However, a structure which relied on snap-polling and relatively undirected and unstructured table conversations without consistent opportunities for the presentation of alternative perspectives and guidance to draw attention to the underlying principles and trade-offs limited the deliberative quality of its engagement program.

PIAC does not consider this invalidates the engagement but should be taken as a key focus area for Essential in considering future engagement structures. Relatively simple qualitative changes that need not involve any significant increase in resource commitment from Essential could lead to further material improvements in the quality of Essential's engagement. Many of the issues Essential faced will also be relevant for the other networks as each considers how to further evolve their engagement culture and process.

- **Need to shift engagement from desired inputs to outcomes, guiding principles, and trade-offs.** Related to the issue of the structure of engagement, while the individual results indicating consumer support for specific responses is valid, there are questions as to whether the focus of Essential's engagement solicited the most meaningful feedback from consumers by focusing on interventions rather than outcomes and the principles and preferences which should shape how those outcomes are achieved.

In this respect Essential is similar to the other networks in needing to examine the engagement approach and structure and consider how future approaches to engagement can build on progress to date and continue to make qualitative improvements to engagement. To Essential's credit (as noted earlier) they were the most receptive to input and open to mid-course corrections to address these issues as they arose in this engagement process. For

instance, feedback on issues with the discussion of export pricing, flexible connection agreements, and curtailment resulted in changes and a focus on the different concepts of fairness inherent in different responses. This led to more robust discussions amongst consumers and had a material positive impact on the quality of result on this question in subsequent sessions.

- **The consumer engagement program was targeted, with the intent of focusing deeper engagement on areas consumers preferences were able to have the most meaningful impact on Essentials decisions.** After early stages confirming areas of consumer priority the program deliberately narrowed to address areas where Essential had active decisions to make impacting outcomes within those priority areas.

There may be questions as to whether the correct balance was struck between the range of issues engaged on and the depth of engagement on those issues. It is possible that a more outcomes and principles-based approach to the areas of consumer priority could have enabled a narrower and deeper examination of those areas, providing more opportunity for consumers to build more informed preferences. This should be an area of focus for Essential's consideration of future engagement and opportunities for continued improvement.

PIAC note that Essential initiated a 'Peoples Panel' commencing in June 2023 as a result of lessons it learned during its engagement process and the results it saw from deeper engagement. This is a great initiative and should be used as a vehicle to address some of the areas we have identified. We understand other networks are developing similar mechanisms to improve and deepen their ongoing engagement.

3. Capex

3.1 Consumer energy resources

Discussions on consumer energy resource (CER) integration featured prominently in the engagement programs of all three NSW DNSPs. Ausgrid, Endeavour, and Essential Energy invested significant time, effort, and resources to engage sincerely with consumers on CER integration. We understand all three DNSPs are developing plans for ongoing engagement beyond the remit of the regulatory reset and encourage them to continue working with representatives and advocates to draw out key principles to inform decisions on CER integration and support consumers to make meaningful trade-offs on the direction of CER expenditure.

Engagement efforts focused on the trade-offs between proactive and reactive asset intervention based on the balancing of asset risk, cost of intervention, and benefit to consumers. While presentations on balancing individual and community preferences on matters such as export services and connections were generally well conducted, there was often insufficient exploration of the principles that should underpin these trade-offs and the broader context influencing these decisions. This was most apparent in the absence of discussions on the interaction of CER integration and tariff choices. This resulted in some potentially contradictory outcomes as these were treated as discrete rather than interrelated topics. By adopting a siloed approach DNSPs missed the opportunity to explore how consumers sought to reconcile incongruous positions such as their preference for unfettered export access with the view that consumers with CER should not impose additional costs on those without CER.

Ausgrid

Facilitating a net zero future by enabling customer-owned renewable generation and storage has been a strong priority for Ausgrid as part of this reset. Ausgrid has worked constructively with stakeholders to develop a plan to support an additional 590,000 customer energy assets (rooftop solar systems, batteries, EVs and controllable hot water loads) to be connected to the grid by 2029 and lay a platform for a further 2.3 million such connections beyond then.

This proposal reflected the community's strongly expressed priority for greater focus on enabling consumer benefit from renewables. The specific approach proposed by Ausgrid was endorsed by consumers over the course of the engagement program. However, PIAC does question whether the structure of the engagement demonstrated sufficient continuity between the preference expressed by the community and the response presented by Ausgrid, which was then submitted to the community to approve.

The 'citizens jury' style engagement approach embraced by Ausgrid was relatively undirected in much of its earlier phases and resulted in consumers identifying and supporting actions that were often well outside Ausgrid's regulated remit which in some cases called into question whether Ausgrid was sufficiently focusing engagement on the most meaningful areas of consumer influence. This meant investment options proposed by Ausgrid (and supported by consumers) were not so much derived from consumer priorities, but an attempt to match Ausgrid priorities to areas of broadly expressed consumer preference on CER integration. This does not invalidate the results but does indicate where future processes can be improved to more comprehensively build proposals which are consistently shaped by consumer preferences.

In addition to the investment proposed by Ausgrid, consumers recommended Ausgrid develop partnerships with other institutions, agencies, and critical infrastructure providers to further accelerate the deployment of CER. Consumers further supported Ausgrid focusing on improved access to CER (or its benefits) for consumers experiencing vulnerability or disadvantage.

Ausgrid's ICT investment is intended to set the foundation for future localised pricing reform and Distribution System Operator (DSO) capability in the 2029-34 period. This foundation is intended to enable the introduction of more cost reflective network tariffs, dynamic connection agreements, and access to near real-time meter data, all of which are critical to ensuring that consumers realise the full value of CER. PIAC supports this intent and agrees that it reflects the strong preference from Ausgrid's consumers for Ausgrid to invest in more dynamic, flexible and 'future-focused' network solutions.

However, given the implementation of this ICT upgrade is expected towards the end of the 2024-29 regulatory period, we are concerned that Ausgrid's current two-way pricing proposal is insufficiently justified and does not fully assess alternative export-related planning and investment options. In other words, it is not clear that Ausgrid has identified an existing material problem related to network congestion caused by rooftop solar exports. PIAC has further concerns that, even were a material problem to be demonstrated, the proposed price signal is insufficient to reflect the related costs or substantially contribute to addressing the issue.

We note that issues associated with two-way pricing are not unique to Ausgrid and expand on these concerns in more detail in section 4.1.

Ausgrid's has engaged extensively on its proposed investment in community batteries, reflecting a strong interest expressed by the community from the outset of the engagement process. Consumers support Ausgrid exploring the role of community batteries in helping to integrate renewables and share their benefit more widely and fairly in the community. The community has supported the proposal and recommended Ausgrid continue to advocate for regulatory change to enable them to roll out community batteries both for community and network needs. However, it is not clear that sufficient work has been done by Ausgrid to clearly demonstrate that the purpose the community sees in community batteries will be delivered through Ausgrid's proposal. We have observed that consistent confusion still exists amongst consumers about the potential benefits, design constraints, and costs of implementing community batteries, and the need to clearly prioritise a particular benefit for any particular battery.

It has not been made clear to the community that, even where existing regulatory hurdles can be surmounted, network batteries cannot deliver all the assumed benefits that have been raised throughout the engagement process. We commend Ausgrid for its commitment to ongoing consumer engagement on these matters and its willingness to refine its approach to the roll out of community batteries through input from its Network Innovation Advisory Committee (NIAC). Further engagement will need to go into greater depth on the functions network batteries can deliver and the priorities the community wants to pursue where trade-offs need to be made.

Endeavour

Endeavour's CER integration enablement program was developed with the aim of ensuring consumers are able to make energy choices and share in the costs and benefits of doing so in a fair and equitable manner. Endeavour's community engagement strongly supported 'modernising' the network in preparation for a rapid or accelerated energy transition and accommodating future consumer expectations as technology and markets evolve.

While we consider Endeavour's consumer engagement on CER in line with expectations set out in the AER's Better Reset Handbook, there are opportunities to further refine how questions and trade-offs around facilitating exports and access to the grid are presented to ensure more meaningful consumer consideration. For example, while we agree with Endeavour's assessment that,

The majority of our Customer Panel, in principle, considered that anyone who wants to install solar should be able to connect and export to the grid at any time. Similar views were held about EVs accessing the grid.

These discussions could have been improved by providing additional context around the equity trade-offs across different consumer classes (for instance those with and without CER) and their interaction with parallel reforms such as the move to more cost-reflective network tariffs. Evolving the engagement in this manner helps to draw out the inherent trade-offs between maximising individual consumer benefit and optimising equity in community benefits enabled by renewables and an efficient system (all of which are expressed consumer priorities).

Endeavour, like other networks, received apparently contradictory indications from consumers, which supported accommodating higher levels of CER integration, while also expressing concern that those without CER do not pay more as a result. The evolution of consumer engagement will

involve understanding how to better support consumers to consider these issues of principle and trade-off more consistently and meaningfully.

Endeavour has proposed to develop an innovation fund, similar to those employed by other networks, in response to consumer demands to support a low-carbon future and implement smarter ways of serving communities. We commend Endeavour for working constructively with stakeholders to develop a robust governance framework and consumer reference group to oversee this fund.

While we can see the merit in investigating and trialling emerging technologies and network solutions, we question the extent to which activities falling under the broad umbrella of 'innovation' are already funded through regulatory allowances or other incentive mechanisms. Our concern with discrete innovation funding is not just limited to Endeavour's proposal and is grounded in an understanding that innovation should be seen as a response or 'tool' rather than an output, that is desirable in its own right.

Innovative responses to problems or issues tend to result from a need to overcome resource or circumstantial constraints, rather than the provision of extra resources earmarked for 'innovation'. It is critical that innovation programs are transparent about how proposed funding is to be used, what issues are being investigated, what purpose innovation needs to serve (for instance, to derive benefits for non-solar customers from network batteries), and how consumers are intended to benefit from said innovation.

Essential

Throughout Essential's engagement program consumers expressed support for investment to develop the network's capacity to host renewables and to manage increased exports to the grid in a way that maximised benefits to the community. This also included supporting explicitly tested measures such as investments supporting a high level of real-time network monitoring and a significant increase in the use of dynamic network assets to target potential problem areas.

Essential used their engagement forums to better understand expectations around power quality, export service levels, and consumer appetite for investment in CER. Some of the earlier phases struggled to meaningfully explore certain concepts, such as power quality, in an online format. Later phases focused more narrowly on specific measures to address said issues, such as investments to better manage power quality, and test consumer support. We acknowledge the AER's concern that during these discussions,

it [was] unclear how informed stakeholders were in making their preferences and whether they had sufficient time and opportunity to engage with the material.

In our observation, these limitations had more to do with the structure of the engagement forums than with the quality of the material presented. Essential was responsive to feedback throughout every stage of engagement and made constant adjustments when members of its Stakeholder Collaboration Collective raised these concerns. In certain cases, such adjustments had a material, positive impact on the ability of participants to express more meaningful preferences. This approach is to be congratulated and demonstrates the value of effective interplay between stakeholders and network businesses to deliver more effective consumer engagement.

We consider Essential's approach to CER integration a valid expression of consumer preferences. However, more focus could have been given to identifying the principles underpinning consumer preferences to determine how Essential should address the identified priorities, and why. Such discussions can provide greater insight into the rationale for these decisions than simple determinations on whether the community supports the quantum of expenditure on particular responses.

This would have helped provide a more meaningful direction for decisions and a common reference point for the community. Focusing on the principles that underpin consumer preferences ensures that decisions faithfully and consistently reflect community priorities and views of fairness. Such an approach would also have allowed more effective and consistent integration of consumer and community preferences across Essential's proposal, such as in tariffs and pricing.

In some cases, the format of engagement limited Essential's ability to facilitate a genuinely deliberative process as polling questions gave participants limited time to respond or weigh individual preferences against those of the broader community. As with the other network's engagement programs on CER, Essential's discussions on tariffs were complicated by a lack of clarity around the roles and responsibilities of retailers and networks as well as the different purposes of retail and network tariffs.

We recognise Essential's organisational-wide commitment to genuine and sincere engagement and its efforts to ensure that the community and its needs and preferences were at the centre of their decision-making process. As such many of the issues raised here (and elsewhere) are opportunities for Essential to build on a very strong culture of engagement and continue to develop and evolve the impact of that engagement in subsequent reset processes.

3.2 Resilience

Resilience is a consideration which has rapidly gained prominence in energy discussions. Stakeholders, regulators, and networks are still evolving their understanding of what it refers to, how it should be considered, and what is the best way to integrate evidence-based inputs with consumer and community perspectives and preferences. Resilience in the context of energy network services is a multifaceted concept that encompasses various aspects, such as the ability to withstand disruptions, recover quickly, adapt to changing conditions, and how all this interacts with other essential supports for wider community resilience.

Resilience is not a singular, easily quantifiable factor that can, or should, be isolated as a discrete category of expenditure. As such, PIAC is concerned that attempts to elicit consumer preferences on resilience as a discrete consideration and driver or category of investment, in isolation from interrelated investments in reliability, safety, and security, results in an inefficient allocation of resources, and an incomplete understanding of system risks, uncertainties, and vulnerabilities, and trade-offs of consumer preferences.

While we share the AER's view that networks have an important role to play in understanding the needs and preferences of consumers in responding to the localised impacts of climate change, the concept of 'network resilience' remains poorly understood and insufficiently defined. Our

observations suggest that consumers often misinterpret resilience either as an extension of reliability, or as an entirely new consideration for network businesses and as a panacea for climate risk.

Effective engagement with the community on resilience requires context-setting and a significant investment of time and resources to build community understandings of the relative risks impacting local resilience, and the limitations of proposed responses to mitigate or manage said risks. The most meaningful community preferences relating to resilience should relate to how the community wants network businesses to make decisions to manage increasing climate risks and uncertainties, rather than seeking community support for specific 'resilience related' investments.

Ausgrid

Of the three NSW DNSPs, Ausgrid has invested the greatest amount of time and resources to examine consumer preferences on resilience and proposed the most ambitious and in-depth engagement program to develop bespoke approaches to community and network resilience.

Given engagement is currently ongoing through both Ausgrid's voice of community panel and three LGA streams in Lake Macquarie, Port Stephens, and the Central Coast, we propose to flag some initial observations in this submission. We plan to provide more detailed commentary and assessment of Ausgrid's resilience engagement once the program has concluded and their business case is published.

Ausgrid has made clear to consumers that its aim is to develop an approach to resilience investment in 2024-29 that is scalable and repeatable in future regulatory periods. This is a reasonable and laudable aim. However, this intent means Ausgrid's initial approach warrants particular scrutiny to ensure strengths are captured, and that any issues are identified and addressed as soon as possible to ensure Ausgrid develop a sound foundation on which they (and other DNSPs who follow) can:

- adapt resilience strategies as climate modelling and future risks become clearer;
- test the intent, design, and scope of investments effectively with the community(s);
- explore all possible solutions including non-network and community-based solutions;
- engage on the balance of proactive/reactive approaches to managing climate risk and uncertainties;
- engage on the principles used to inform where and at whom resilience solutions are targeted;
- engage on the community's preference for how to balance localised costs with socialised cost recovery; and
- test consumer willingness to pay for general network and localised improvements

We commend Ausgrid for working in collaboration with stakeholders to develop a resilience framework, which provides a consistent means of understanding how climate risks impact the network and how consideration of resilience can be consistently explored to guide network decisions. We also commend Ausgrid's commitment to understanding and meeting consumer expectations around network and community resilience.

While consumers have so far expressed support for Ausgrid's proposed resilience investment, we have some concerns around the structure of engagement with consumers. How resilience was presented (particularly in relation to reliability) and how preferences were elicited from consumers

leave questions on the extent to which this feedback was the most meaningful expression of community priorities for how Ausgrid should address resilience-related decisions on managing climate risks.

We view the preferences consumers expressed on the content of LGA-specific resilience packages as valid expressions of support for specific responses. We do however question whether focussing engagement on ranking specific technical interventions is meaningful in answering more fundamental questions of community preferences for how Ausgrid should manage climate risks and related costs. There are risks that this approach results in a series of discrete measures which are well supported by the community, but which do not holistically and effectively address the risks identified by Ausgrid, and do not represent the most effective implementation of the community's preferences on how Ausgrid should manage those risks over time.

Ausgrid did provide accessible, clear, and transparent material to LGA participants outlining the differences in effectiveness, targeting, and cost of different resilience-related responses. However, even with this information, it was often difficult for participants to make any meaningful comparison between a wide-range of network-based, communications, and community support solutions because of the complexity and sheer number of options to evaluate. As such, consumers tended to support the solutions which they understood best or which Ausgrid indicated were 'most effective' (this was particularly the case with network-based responses such as covered conductors and undergrounding).

Consumers accordingly struggled to provide a consistent rationale for how they arrived at their decisions. Approaching this process by looking at the key outcomes consumers valued and the principles underpinning them would provide a more consistent basis for Ausgrid to understand what consumers value and why. This would provide a more meaningful ongoing foundation for decision-making and assist with developing meaningful trade-offs across consumer priorities.

Ausgrid has genuinely listened and often sought to integrate stakeholder suggestions to overcome these issues. However, the ambitious scope of the program and abridged timeframes have often limited their ability to integrate stakeholder input and explore alternative methods of garnering insights from consumers (such as those we have outlined above).

The engagement program to date presents Ausgrid, the AER, stakeholders, and the community with valuable lessons about what works and where more development of approach and evolution in the culture of engagement is needed to get the best outcomes for consumers. We think Ausgrid has the opportunity beyond its current reset to stimulate discussion amongst distributors and other stakeholders about future resilience engagement design and we encourage them to continue working closely with stakeholders to make refinements and address some of the issues with their current engagement program.

Endeavour

Endeavour has taken a highly targeted and relatively restrained approach to resilience, which is based largely on the recent experiences of the Blue Mountains and South Coast bushfires, the repeated flooding of the Nepean and Hawkesbury Rivers and the Major Event Days which are excluded from reliability reporting.

Like other DNSPs, Endeavour presented the distinction between resilience and reliability in terms of major weather events. While this shorthand definition broadly aligns with the AER's Network resilience guidance note, consumers were not immediately clear on how the line between 'major' and 'non-major' events was drawn. Therefore, in attempting to separate resilience from reliability, Endeavour faced the same risk that materialised in other resilience engagement programs. Namely, that consumers would interpret existing reliability measures as doing nothing for resilience and concluding that the network's baseline level of resilience is zero.

Conversely, there is also a risk that reliability outcomes are taken as a proxy for the level of resilience meaning that the discussion of resilience issues in some areas (such as those 'worst served') would have been better characterised as a discussion about consistency of reliability outcomes across the network. This is an important, but very different, area of consumer preference about how trade-offs should be made.

Endeavour has sought to address this issue through highlighting its existing programs to address bushfire risk and most weather-related network impacts. Consumers accordingly expressed support for targeted solutions for the most impacted areas which Endeavour has proposed to deliver through a combination of network hardening and providing back-up power to critical infrastructure and community hubs.

The Endeavour Energy Resilience Strategy provides a useful framework to guide future engagement efforts and embed consumer voices in decision-making regarding resilience investment. As part of this approach, we encourage Endeavour to engage with consumers on defining its role and responsibility in delivering resilience outcomes and to identify opportunities for collaboration and partnerships with other resilience actors.

As with the other networks, there is scope for Endeavour to do more work to understand how the community wants it to make decisions relating to the management of climate risks and make trade-offs between increased costs to reduce risk versus lower costs and/or increased capacity to respond to risks when they occur.

Essential

Essential sought consumer views to inform its approach to network resilience throughout each phase of its engagement program. This involved questions around what risks Essential should consider in assessing and prioritising projects, how it should balance community and network resilience, and where its focus should be when looking at ways to improve resilience.

Consumers generally supported individual proposals for investment in composite poles, limited undergrounding in high-risk areas, and stand-alone power systems and microgrids. However, the manner in which these options were presented did not always provide consumers with meaningful trade-offs and adequate context to understand how discrete responses related to wider questions of managing climate risk and uncertainty.

For example, on several occasions consumers were asked to select their preferred level of investment in various resilience solutions by presenting them against the expected outcomes for each level of investment. In our observation, consumers interpreted such questions as a matter of what they considered 'value for money' which contributed to the sense that if a small amount of investment is good, then a large amount must be better. While Essential sought to inform

consumers of the merits and limitations of each solution, this approach did not provide sufficient scope for a wider examination of the fundamental risk and uncertainty questions.

While this process creates valid results regarding consumer's willingness to pay for levels of investment in each discrete response (composite poles, undergrounding, SAPS & microgrids), there are questions as to whether the resulting collection of responses represent the most effective means of achieving consumers preferred resilience outcomes in a way that best accords with their preferences for the management of climate-related risk and uncertainty. Ongoing consumer engagement and subsequent regulatory reset processes should look to further evolve engagement processes to address this.

We commend Essential for their open and constructive response to stakeholder concerns. Essential took onboard the feedback and amended the presentation of these options by discussing not only what proposed resilience investments would do, but what they would *not* do. That is, they presented more information relevant to the risk management impact of decisions. This made a material difference in how consumers conceptualised trade-offs and demonstrated a commitment to consulting in good faith and acting transparently. This presents a clear example of where Essential (and other networks) can continue to improve their approach to engagement on the complex topic of resilience.

Essential's engagement on network resilience could be further improved by working with stakeholders and consumers to develop a socio-economic overlay to complement the climate modelling it has commissioned to ensure that its resilience decision-making promotes fairness and equity. This will be particularly relevant in relation to detailed decisions regarding how the proposed spending on resilience-related interventions should be targeted.

3.3 Cybersecurity

All three networks have signalled their intent to increase efforts to protect against potential cyberattack risks over the next regulatory period. Cyberattacks are becoming more frequent and sophisticated with major data breaches at Optus and Medibank Private attracting significant public attention. As critical infrastructure providers, network businesses are acutely aware of these risks and the potential social, economic, health and even geopolitical consequences that such attacks pose.

Engagement on cybersecurity revealed that consumers broadly regard cybersecurity as an important priority and support implementing industry best practice safeguards. Some differences exist across networks in terms of the security profile of the Australian Energy Sector Cyber Security Framework they are targeting and how they propose to balance upgrades between informational and operational technology. We understand that the Federal Government's Security of Critical Infrastructure legislation is likely to lead to more specific obligations on electricity networks.

Given cybersecurity requirements are likely to be mandated, we consider the level of influence consumers can exert on this issue relatively low and question whether it should be a priority area for consumer engagement. It may be that, like 'safety', cybersecurity should be regarded as an area where levels are set by requirements and businesses must simply demonstrate that related expenditure is efficient and reasonable.

While we question the extent to which consumers can have meaningful preferences on cybersecurity under the existing framework, the growing importance of cybersecurity warrants further discussion on how increased risk should be shared between networks and customers. As such, we encourage networks to continue monitoring for cyber risks and working transparently with stakeholders to ensure that costs for managing these risks are efficient and allocated equitably.

4. Opex

4.1 Acquiring smart meter data

All three networks are proposing uplifts in expenditure to acquire smart meter data to improve low voltage network visibility and deliver their CER integration programs. We understand that greater access to smart meter data is also necessary to enhance safety and fault detection, meet consumer needs for control of energy costs, provide accurate billing, and improve outage management and restoration. In this context we support the networks proposals to acquire the data they require to implement decisions which their consumers have indicated are a priority.

However, networks being required to invest significant budgets to acquire (relatively limited) meter data should be regarded as a failure of the regulatory framework and evidence that metering is not currently able to fulfil its crucial role in supporting the flexible, efficient operation of the energy system in the long-term interests of consumers. The data required to operate a safer, more flexible, and efficient renewable energy networks should be provided consistently, and in a timely manner, to electricity networks at no additional cost.

Provision of this data should be regarded as a fundamental aspect of the provision of metering services. We are bewildered that under the existing metering framework, data relating to a consumer's energy use, which they already pay for through charges levied by their retailer, is permitted to be resold to networks at monopoly prices and at further expense to the consumer. This is neither efficient, in the interests of consumers, nor in line with community expectations.

We are extremely concerned that networks are expected to enter into commercial contracts with metering coordinators and pay for access to this data, with no regulatory support for price setting. Transparency on metering and metering service costs is required to ensure consumers do not pay inefficiently or multiple times for the required functions their smart meters were always intended to provide.

5. Tariff Structure Statement

Consumer engagement on the transition to more cost reflective network tariffs has proven particularly challenging and stands to benefit most from further AER guidance and, likely, longer-term reform at a retail and network regulatory level.

Discussions on cost reflective tariffs frequently suffered from poor or non-existent delineation of the roles and responsibilities of retailers and networks and a failure to draw attention to the

different purposes that retail and network tariffs serve. We outline the key distinctions and discuss ways to convey the role of network tariffs more productively in other submissions¹.

There is also a broader question as to whether networks should be engaging with consumers on network tariffs at all. Our observations of engagement on tariffs demonstrate that, even with the best intent to engage in good faith shown by the networks, questions on network tariffs are confused and subject to potentially insurmountable (and unnecessary) complications that undermine clear expression of consumer preference. PIAC notes that all networks have undertaken engagement on tariffs that has resulted in apparently contradictory messages from consumers such as supporting moves to progress to more cost reflective network tariffs while asserting consumer choice to 'opt-out' of those same tariffs.

Consumers continue to assume that network tariff structures and assignment policies will be preserved and passed through at a retail level, even though this is neither required nor necessarily desirable, as network tariffs are only one input to retail prices. This assumption is not unfounded as DNSPs are the only entity consulting with consumers and despite going to great efforts to explain why tariff structure matters and what more cost reflective network tariffs are designed to enable, they are unable to address key consumer questions and concerns.

DNSPs cannot provide consumers with any assurance as to how retailers will repackage more cost reflective price signals and what choices (if any) will be available to consumers at a retail level. Put differently, consumers are primarily concerned that mandating more cost reflective network tariffs will remove their choice of flat tariffs at a retail level. The contradictory messaging from consumers on the implementation of more cost reflective network tariffs suggests they interpret these questions as an ultimatum on their bills rather than the signals which are passed through to retailers.

This dynamic is unlikely to change until networks can clearly assert the role and purposes of network tariffs in supporting outcomes consumers prefer such as more efficient and flexible network usage and fairer integration of and benefit from renewables. This will also require providing consumers with certainty of access to meaningful choice in retail tariffs, that is, the ability to choose not to be exposed to more cost reflective retail tariffs. Until this time, it is likely that network engagement on tariffs will be marred by confusion and contradictory messages. Consumers have clear and consistent preferences on retail tariffs and will continue to express these preferences when asked for their views on network tariffs.

With this context, PIAC does broadly consider that all networks engaged in good faith on their tariff proposals and made meaningful efforts to navigate the complexities we have outlined. In most cases PIAC's observations regarding issues with engagement on tariffs do not reflect insufficient or poor-quality engagement by the networks, but the inherent difficulty of engaging on network tariffs under the current regulatory framework.

5.1 Two-way pricing

Two-way pricing is a new feature in this round of tariff structure statements and has been the subject of extensive consultation across all three networks. Since the publication of the *Access, pricing, and incentive arrangements for distributed energy resources* rule change, which removed

¹ See [Submission to AER Network tariffs for the distributed energy future](#).

the prohibition on distribution businesses from developing export pricing options, the AER has produced several guidelines to direct networks seeking to develop a business case for investing in greater export capacity.

On justifying two-way pricing, the AER's Export Tariff Guidelines state,

The AER will not approve two-way pricing proposals unless a distributor can, through the regulatory proposal (including the tariff structure statement) process, demonstrate its need...In proposing two-way pricing, distributors should have regard to:

- individual network circumstances to warrant the introduction of two-way pricing, including their network's intrinsic hosting capacity
- how their customers may be impacted if two-way pricing is not introduced
- evidence of current or estimates of future DER penetration on the network (including rooftop solar and electric vehicles) and how this impacts network costs
- feedback from stakeholders, including customers

In other words, export tariffs should be a response to a material problem related to network congestion caused by rooftop solar exports. They should be regarded as a last resort canvassed when cheaper and simpler measures – including transformer tap changes, better low voltage system visibility, flexible exports, and solar soak tariffs – have been implemented and exhausted.

Consumers have broadly expressed in principle support for export pricing insofar as it contributes to fairly and efficiently sharing solar export capacity and the costs of accommodating it, minimises the need for network augmentation, and improves the balance between individual and social benefit of solar exports. That said, export pricing remains a contentious issue and we encourage the AER to judiciously review justifications for its introduction to ensure they accord with the Export Tariff Guidelines.

We note that export pricing remains highly contentious as evidenced by the 400-plus submissions to the issues papers from NSW stakeholders². The below commentary focuses on Ausgrid given lower rooftop solar penetration across their network and the decision to set their basic export level based on volume rather than demand as in the case of the other NSW DNSPs. Ensuring two-way pricing is sufficiently justified remains a key issue for all three DNSPs and we encourage the AER to carefully examine the rationale for these proposals.

Ausgrid

We understand Ausgrid is proposing to set a basic export level on a volumetric basis. We do not consider this approach to be cost reflective or appropriately linked to the identified issues it is intended to respond to, such as voltage management and excess export during peak generation periods. Due to loads programmed to operate during solar generation, such as batteries, electric vehicles, and heat pumps, cumulative kWh measurements over a longer period are not a reliable proxy for kW demand.

To ensure export prices are best placed to address network congestion we recommend the use of demand-based charges.

² See [Submissions – NSW DNSP's proposed solar export charges](#).

5.2 Peak windows

Charging windows provide retailers with a signal indicating the times of day (and season) when network demand is typically highest. We understand networks have sought to respond to calls from retailers for simpler charging windows as part of this round of tariff structure statements.

While we acknowledge simple and consistent charging windows are appropriate at a retail level to build consumer understanding and enable consumer response, we do not consider it appropriate for networks to simplify their charging windows to accommodate retailers. This response is particularly problematic where it involves the extension of charging windows to a point that end consumer response may become impractical or impossible. We support the use of consistent network peak charging windows between seasons only where this is an accurate reflection of network peak demand, and where there is no material difference between seasons.

We are concerned by proposals to extend peak windows beyond 4 hours. Network tariff charging windows are likely to be reflected in retail tariff design and households face material barriers to responding to peaks of this length. Further it is unnecessary and unreasonable for network peak windows to attempt to capture all parts of the network peak. PIAC recommends that networks be required to demonstrate that charging window changes are responding to network-wide issues. Otherwise, proposals to expand the peak are likely to result in retail tariffs that significantly limit the capacity of households to manage their exposure to peak pricing in order to capture the peak period of relatively small portions of the networks.

Ausgrid and Essential propose to introduce a contingency to move their peak charging window should their network demand peak shift by 1 July 2027. We understand this proposal is predicated on the increasing penetration of electric vehicles, rather than existing issues with systemic peak demand.

We do not regard this as the fairest or most efficient response supportive of consumers interests. Instead, we encourage networks to optimise the charging of electric vehicles during off-peak times through tariff offerings and/or location-specific incentives. For example, time-of-use and demand tariff variants for households with more flexible resources could include,

- extra high peak charges and a peak window ending at least an hour later than the standard peak window to avoid peak-creep
- extra low off-peak charges overnight
- mandatory assignment for fast charging electric vehicle supply equipment (i.e. above 15A single phase)

We understand some networks are trialling such tariffs and look forward to further engagement on improving the design and uptake of these offerings.

6. Metering

We do not consider the current cost recovery approach for legacy metering appropriate. The current framework, which separates metering charges into capital and non-capital charges, will result in a material price increase for the households last to transition to advanced meters.

Socialising the costs of legacy metering is crucial to ensuring a fairer and more equitable transition to advanced metering. We consider reclassifying legacy metering as a standard control service preferable to simply removing the capital/non-capital split for cost recovery.

Service reclassification is more equitable and better supports a universal approach as it applies at a network level. Conversely, removing the capital/non-capital split relies on retailers socialising network metering charges (for legacy meters) and their own metering charges (for advanced meters) across their customer base, which they are not required to do.

Given retail approaches to metering costs are not consistent or transparent, PIAC considers any approach relying on retail responses to invite unnecessary risk of inefficient and inequitable cost recovery. Moving legacy meter charges into standard control services simplifies and standardises the presentation of distributors' metering expenditure proposals and provides greater transparency to stakeholders.

We do not support accelerating depreciation for the legacy metering asset base as this would lead to a material increase in network charges, particularly in Essential's network. Consumers have repeatedly raised concerns about affordability and the current cost of living crisis, and have strongly recommended network businesses limit and/or defer expenditure where possible throughout the reset process. As such, we do not consider the potential benefit of avoided regulatory and administrative burden outweighs the short-term cost increase to consumers.

7. Further engagement

PIAC would welcome the opportunity to discuss these matters further with the AER and other stakeholders. If you have any queries about this submission or would like more information about our advocacy and research work, please contact Douglas McCloskey, Program Director, Energy and Water at dmccloskey@piac.asn.au