

Metering expenditure



Negotiating position for the Customer Forum

1. Negotiation scope

The metering expenditure proposal is in scope of the proposed expenditure negotiations between AusNet Services and the Customer Forum. The metering expenditure relates to the regulated metering services provided to residential and commercial customers (using <160MWh per annum) via advanced metering infrastructure (AMI) or smart meters. The metering expenditure proposal it is outside the scope of negotiation that will be oversighted by the Australian Energy Regulator (AER).

AusNet Services is seeking the Forum's view on the reasonableness of metering charges and whether they represent value for customers, having regard to the benefits offered by AMI.

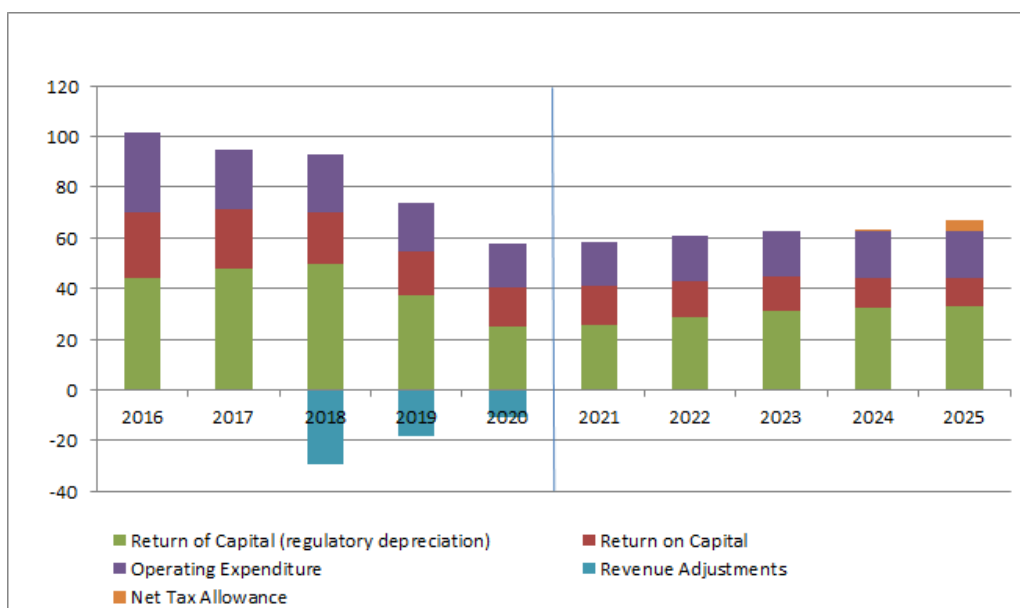
2. Expenditure proposal

In real dollar terms, AusNet Services is proposing an average metering charge of \$77 per customer over the 2021-25 period, down from an average charge of \$95 per customer in the 2016 to 2020 period.

We consider the expenditure case put forward to be largely business-as-usual (BAU), consistent with other distributors' charges. The only instances of investment beyond BAU are driven by external drivers, such as the need to transition to 4G when the 3G network is due to be switched off.

Total forecast revenue, split into the building block elements for the current regulatory period (2016-20) and the 2021-25 regulatory period is shown in Figure 1. Revenue over the 2021-25 period will be around \$18 per customer less (or \$50 million less) than in 2016-20.

Figure 1: Total revenue and building blocks real \$2020



Note: The revenue adjustments in 2018-20 are due the return to customers of over-recovered revenue from the 2010-15 period.

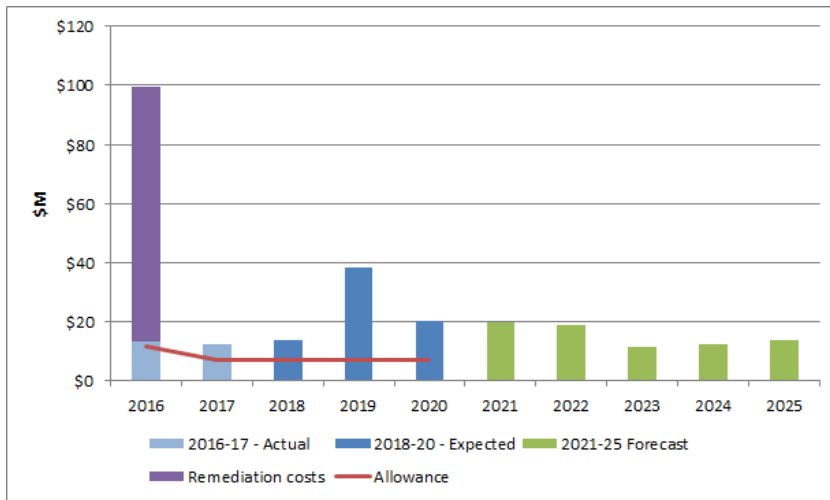


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The reduced revenue is a result of the smart meter service reaching a more mature stage and operating at more efficient, business-as-usual cost levels. Capital expenditure (shown in Figure 2) is forecast to be \$22 million or 22% less than in the 2016-20 period and operating expenditure (shown in Figure 3) is forecast to be \$20 million or 19% less than allowed in the 2016-20 period.

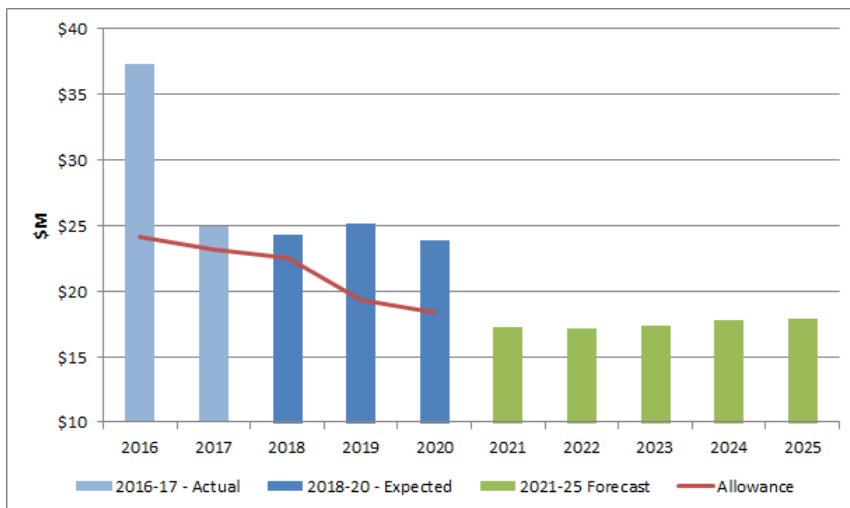
The metering business incurs a higher level of capex in the early years of the 2021-25 period as a result of the requirement to transition the meter communication systems from 3G to 4G (in line with the expected timetable controlled by Telstra). Opex costs steps down due to a more meaningful sharing of systems costs between the metering and distribution business as both business are key users of the metering and communication systems.

Figure 2: Capital expenditure real \$2020



- The remediation costs shown in purple are not being recovered from customers – as reflected in our allowance for the 2016-20 period.
- The increase in 2019 is the result of an accounting rule change which results in the capitalisation of leasing costs and due metering costs associated with the Global Settlements rule change. As a result of the rule change meters will need to be installed at previously unmetered premises.
- The Global Settlements rule change also results in higher capex in 2020.
- First 2 years of the forecast period also has costs associated with the transition from 3G to 4G.

Figure 3: Operating expenditure real \$2020



- Actual opex is high in 2016 as AusNet Service experienced delays in its transition from manual to remote reading of meters.
- Step down in opex costs from 2020 to 2021 is due to the efficient allocation of system costs between the metering and distribution businesses.

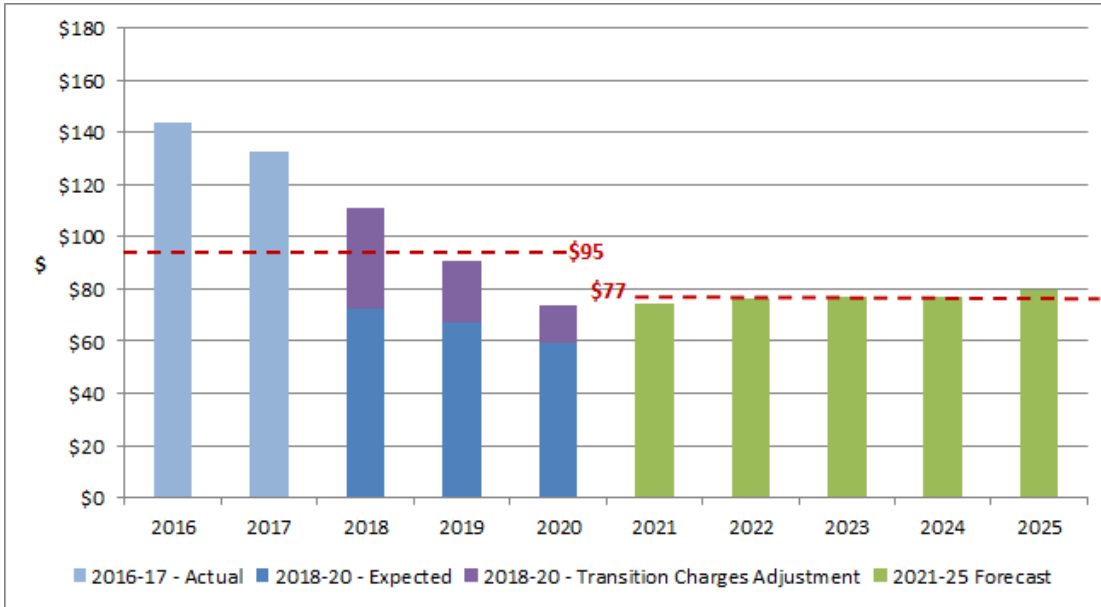


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3. Customer bill impact

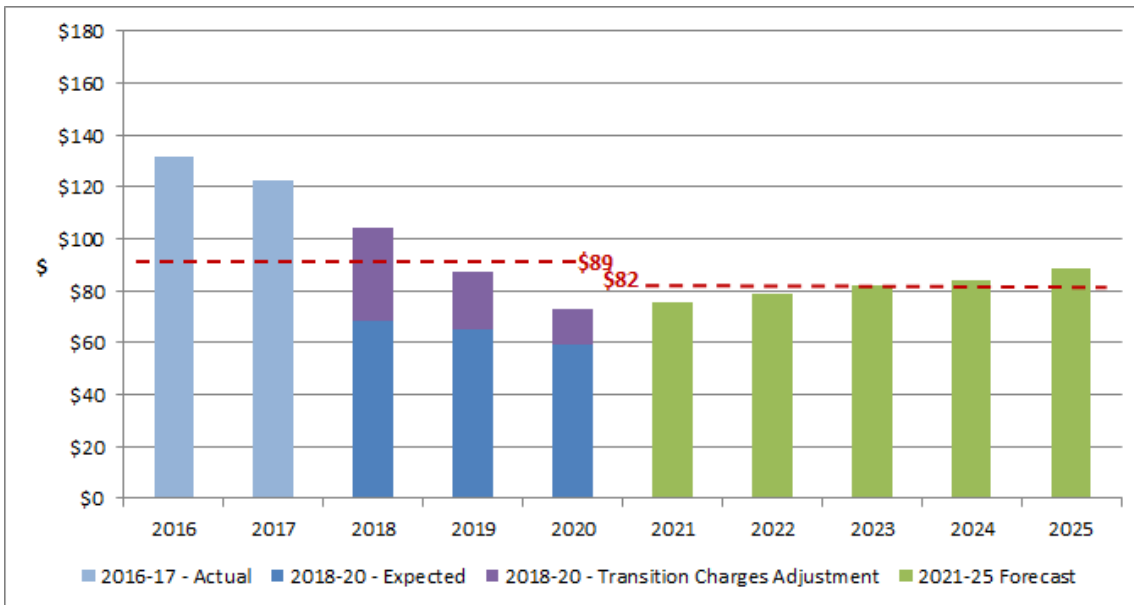
Average revenue per customer, shown in Figure 4, is expected to fall from \$95 per customer (excluding the transition charge adjustment) to \$77 per customer or a 19% reduction (in real \$2020).

Figure 4: Revenue per customer real \$2020



Shown in nominal terms in Figure 5, or dollars of the day, the average revenue per customer is \$82 over the 2021-25 period, compared to \$89 per customer in the 2016-20 period.

Figure 5: Revenue per customer nominal \$

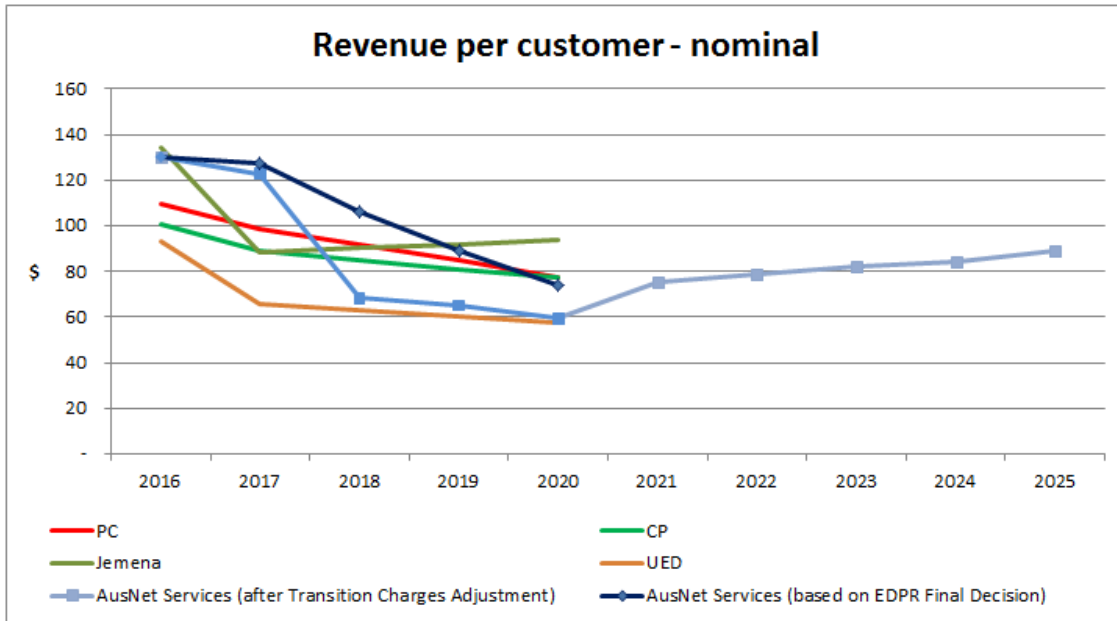


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When compared to the other Victorian distribution business (see Figure 6), AusNet Services' metering revenue per customer is just below the median point among the Victorian businesses, at \$74 in 2020. Jemena has the highest revenue per customer in 2020 at \$94 and United Energy the lowest at \$58.

Figure 6: Revenue per customer nominal \$ - AusNet and other Victorian Distributors



Source: AusNet Services and AER 2016-20 EDPR Final Decision.

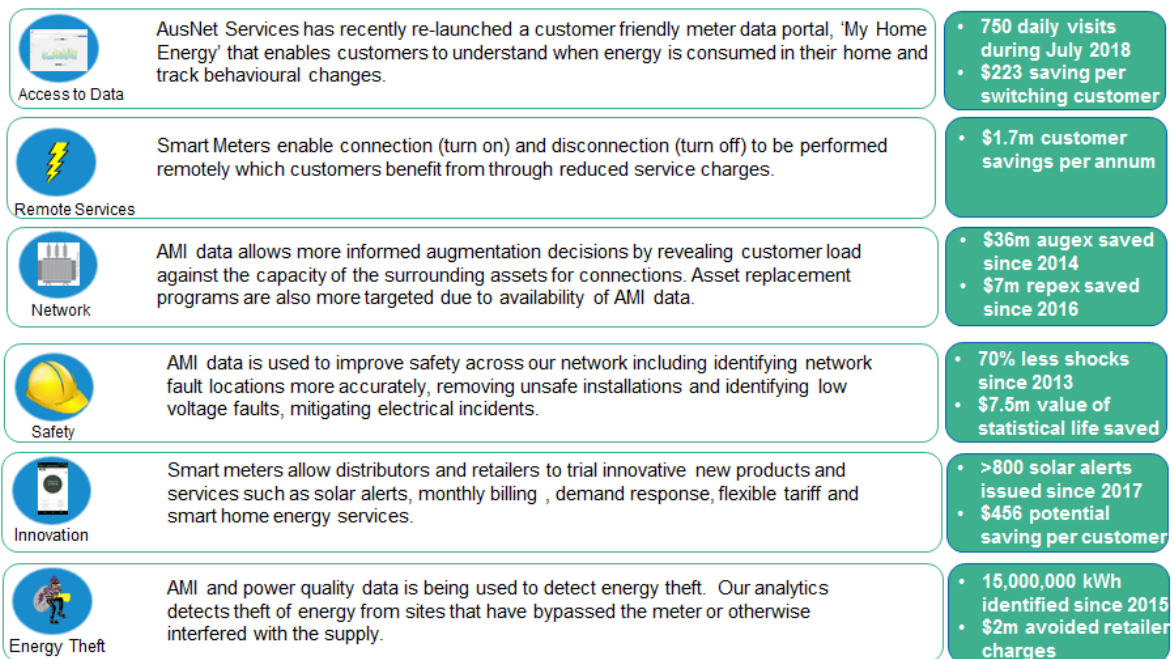
4. Benefits to customers

The smart metering systems have been a significant investment by the Victorian distribution business under the Victorian Government's compulsory meter roll-out, which was largely completed by 2014. This investment is delivering significant benefits to our customers.

In addition to providing half hourly billing data, the AMI systems are delivering significant additional benefits as shown in Figure 7. The benefits range from lower distribution network and service costs to customers to significantly improved safety outcomes for customers.

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Figure 7: Smart meter benefits



Looking forward, the smart metering systems are a fundamental tool that will deliver increasing benefits for our business and for customers as they will underpin the delivery of:

- improvements in customer experience (including to support the initiatives that may be developed by AusNet Services and the Customer Forum) such as management and communication of planned and unplanned outages;
- the innovation programs being delivered now and planned for 2021-25, including trialling approaches that unlock the benefits of DER for customers and the energy system as a whole;
- operationalised approaches for more dynamic management of the network in the future that will save network costs and allow customers to maximise their returns from investments in distributed energy technologies including solar PV and batteries; and
- pricing reforms, including more cost reflective pricing.

5. Relevant customer research findings

The key customer research we have in relation to smart metering indicates that there is little awareness of the benefits being delivered by smart meters. However, the research shows that these benefits are valued (even if there is little understanding of the role played by smart meters), particularly where the systems are used to provide improved customer services (such as information and alerts) and to lower network costs passed on to customers. The key customer research outcomes are summarised below.

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Small to Medium Businesses (AusNet Services' Survey)	Households (RMIT Survey)
<ul style="list-style-type: none"> • Large businesses would value more information at times of unplanned outages. • Customer Advocates would also like to see us providing the same level of information and service to residential customers. • The issue of electricity affordability as a result of recent and significant prices increases was voiced as a major, if not the most salient, concern for all stakeholders. 	<ul style="list-style-type: none"> • Few households perceived smart meters to be helping them. • Nearly all households were concerned about electricity price rises and current costs. • Data was mostly of interest to customers with, or planning, solar PV and storage installations.
Residential and SME (Quantum Survey)	Residential and SME (New Gate Research)
<ul style="list-style-type: none"> • Around 1 in 10 residential & small to medium business customers were not aware if they had a smart meter – and few were aware of smart meter benefits that could save them money. • small to medium business customers were more likely to be using the benefits offered by smart meters. Early adopters significantly more likely to be using direct load control and smart appliances. Solar customers more likely to be using the customer portal. • In terms of information from AusNet Services, notification of outages was of most interest & when usage was outside normal patterns / solar panels not working. • Few customers felt electricity is very affordable. 	<ul style="list-style-type: none"> • Most participants were unaware of the benefits of smart meters. • Valued benefits included provision of consumption data via the MyHomeEnergy Portal and reduction in electric shocks. • Strong interest in alerts when exceeding usual usage. • Safety measures to prevent accidents for staff and the community the 2nd most highly valued service (after reliable supply). • Keeping customer informed about supply disruptions highly valued.