

Customer Forum Week 11: Innovation proposal

Deep Dive outcomes and next steps



18 February 2019

Key questions and observations from Deep Dive participants



- ▶ Whether networks including ours spend their demand management innovation allowance – and hence a broader innovation allowance
 - › AusNet Services has one of the best track records
- ▶ Concern that networks do not collaborate and share knowledge resulting in higher costs and duplicated effort across the industry
 - › There is significant collaboration and knowledge sharing, so we need explain this and provide evidence
- ▶ Whether existing incentive regimes already provide incentives for innovation - including the regimes for opex, capex, reliability, fire starts, new customer satisfaction incentive scheme
 - › Due to the timeframes of the schemes and the conclusions of the AER in establishing and reviewing the DMIA existing incentive schemes do not provide incentives for regulated networks to undertake strategic innovation
- ▶ Could be greater risk taken on by networks
 - › Models for risk sharing could be considered

Key questions and observations from Deep Dive participants



- ▶ Uncertainty about customer willingness to pay for innovation that provides longer-term benefits - particularly in the current environment
 - › Input on this is needed from across the spectrum of customers

- ▶ Design on innovation programs should be incremental and modular
 - › We are proposing a modest, incremental program

- ▶ Customers should be involved in the development and oversight of innovation programs e.g. recent Ausgrid approach
 - › This could be explored further

- ▶ **Concern that the benefits of innovation will vest in networks or with engaged customers, rather than with the majority of customers**
 - › AusNet Services' innovation program focuses on achieving better outcomes for all customers. Can provide case study examples.

Next steps

- ▶ Provide information and evidence sought by customers and the AER
 - › On the significant collaboration and information sharing by electricity distributors
 - › The benefits delivered by our recent innovation and how benefits are shared with customers
 - › The possible benefits (including timeframes) associated with our proposal

- ▶ Canvas broad-ranging customer views on willingness to pay for innovation
 - › Second dedicated innovation workshop/deep-dive
 - › Other engagement on the Draft Proposal

Next steps

- ▶ **Develop funding options under the regulatory regime**
 - › Options could include an allowance ('use it or lose it' funding) as per demand management
 - › Explicit separation from existing incentive regimes
 - › Could include requirements for co-funding from internal or external funding and/or collaboration

- ▶ **Develop enhanced governance and reporting arrangements involving customers**
 - › Formal input and oversight from customers and experts
 - › Comprehensive reporting arrangement
 - › Formalised information sharing

Next steps

- ▶ Bring this information and proposals for funding and governance arrangement to the Customer Forum as part of final negotiation on the regulatory proposal
 - › Timing will depend on completion of any additional engagement on willingness to pay

**Attachment: Ausgrid innovation
proposal**



Ausgrid's proposed innovation program to 2024



▶ **Innovation program:**

- › Network Innovation: \$42m
- › 11 initiatives focussed on new grid technologies

▶ **Governance:**

- › Network Innovation Advisory Committee (NIAC), which includes customer advocates and technical experts
- › The purpose of the NIAC is to place the customer at the centre of investment decisions as Ausgrid transform the network
- › The NIAC will be formally constituted at the commencement of their 2019-24 Regulatory period and will meet at least 3 times a year, more if required

▶ **Funding**

- › Any capex approved for Network Innovation and overseen by the NIAC will not be subject to the CESS
- › This will ensure that Ausgrid does not receive a CESS reward for any innovation funding not spent within the 2019-24 regulatory period