



AusNet Electricity Services Pty Ltd

Electricity Distribution Price Review 2022-26

Part I & II

Submitted: 31 January 2020

missionzero



About AusNet Services

AusNet Services owns and operates key regulated electricity transmission and electricity and gas distribution assets located in Victoria, Australia. These assets include:

- A 6,685 kilometre electricity transmission network that services all electricity consumers across Victoria;
- An electricity distribution network delivering electricity to approximately 737,000 customer connection points in an area of more than 80,000 square kilometres of eastern Victoria; and
- A gas distribution network delivering gas to approximately 710,000 customer supply points in an area of more than 60,000 square kilometres in central and western Victoria.

AusNet Services' vision is to create energising futures by delivering value to our customers, communities and partners.

For more information visit: www.ausnetservices.com.au

Our AusNet Services Values are the foundation
for how we achieve our objectives



Contact

This document is the responsibility of the Regulated Energy Services division of AusNet Services. Please contact the indicated owner of the document below with any inquiries.

Charlotte Eddy
Manager Economic Regulation
AusNet Services
Level 31, 2 Southbank Boulevard
Melbourne Victoria 3006
Tel: (03) 9695 6000

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Glossary

Abbreviation	Full Name
AARR	Aggregate annual revenue requirement
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AMS	Asset Management System
ASIC	Australian Securities and Investments Commission
BAU	Business-as-usual
CBD	Central Business District
CAM	Cost Allocation Methodology
capex	Capital Expenditure
CCP	Consumer Challenge Panel
CESS	Capital Efficiency Sharing Scheme
CGS	Commonwealth Government Security
DGM	Dividend Growth Model
DNSP	Distribution Network Service Provider
EAM	Enterprise Asset and Works Management
EBSS	Efficiency Benefit Sharing Scheme
EGWWS	Electricity, Gas, Water and Waste Services
EPA	Environment Protection Authority
ERP	Enterprise Resource Planning Platform
ESC	Essential Services Commission
ESMS	Electricity Safety Management Scheme
ESV	Energy Safe Victoria
EUAA	Energy Users Association of Australia
FMECA	Failure Mode Effect Criticality Analysis

Abbreviation	Full Name
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GIS	Gas Insulated Switchgear
GST	Goods and Services Tax
IAP2	International Association of Public Participation
ICT	Information and Communication Technology
IT	Information Technology
KPIs	Key Performance Indicators
LMA	Linking Melbourne Authority
MAR	Maximum Allowed Revenue
MTFP	Multilateral Total Factor Productivity
MVA	Mega Volt Amps
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
NGO	Non-Government Organisation
NIST-CSFCI	National Institute of Standards and Technology Cyber Security Framework for Critical Infrastructure
NPV	Net Present Value
NSP	Network Service Provider
OH&S	Occupational Health and Safety
Opex	Operating and Maintenance Expenditure
PCRs	Protection & Control Requirements
PPIs	Partial Performance Indicators
PTRM	Post Tax Revenue Model
PV	Present Value

Abbreviation	Full Name
RAB	Regulatory Asset Base
RCM	Reliability Centred Maintenance
repex	Replacement expenditure
RIN	Regulatory Information Notice
RPP	Revenue and Pricing Principles
SAIP	Smart Aerial Image Processing
SAUR	Shared Asset Unregulated Revenues
SCADA	Supervisory Control and Data Acquisition
STPIS	Service Target Performance Incentive Scheme
VCR	Value of Customer Reliability
WPI	Wage Price Index

Highlights

Bills cut by \$110 per customer

Under our proposal our customers will receive an average \$110 cut (in real terms) to their electricity distribution network bill at the start of the regulatory period. In addition, residential and small business customers would pay \$30 less on average for their annual metering bill. Business hours remote disconnection and reconnection fees will also be abolished saving customers \$750,000 each year. Service levels have not been compromised to achieve this cut.

Customers involved directly in our plans

AusNet Services has engaged more extensively and closely with customers than ever before to develop our plans. Elements of our plans have been agreed with an independent Customer Forum as part of a ground-breaking trial. The Customer Forum has negotiated on around 40% of the forecast revenue for standard control distribution services and all revenue for metering services. The AER will consider these agreements as part of its review of our proposal.

Customer service benefits are being delivered

AusNet Services has agreed a number of initiatives with the Customer Forum to improve service delivery including: more frequent and accurate communication during outages; giving large customers and Councils a dedicated point of contact in our organisation; making it easier for customers to get compensation if we have accidentally damaged their equipment and continuing to improve the support our call centre provides to customers. We have also proposed stronger incentives to improve customer satisfaction.

Investment in safety improvements will continue

AusNet Services has obligations to minimise the risk electricity assets present to both the public and its employees. This proposal includes expenditure for the ongoing installation of technology to reduce the risk of powerline-related bushfires. The technology, known as Rapid Earth Fault Current Limiter or REFCL, is being installed in selected high bushfire risk areas.

We are supporting the energy system transition

Our customers are part of the major energy system transition that is underway. Customers are adopting a range of new technologies that are changing how they use our network, especially rooftop solar. Around 20% of our customers currently have solar and this is forecast to increase by approximately 60% to 225,500 customers by 2026. More wind farms and other generators are also connecting to our network. This means the electricity transport service that we provide has changed from a one-way to a two-way service.

We will need to invest to manage and support these new electricity sources for the benefit of all customers (both those with solar and those without). To do this we are proposing modest network expenditure and innovation expenditure. Customers and their advocates that we have spoken to support the proposed expenditure to allow solar exports onto our network and modest innovation investment to prepare for, and assist, this change.

A proposal that balances conflicting pressures

AusNet Services' proposal offers sustainable price outcomes for customers while improving their experience, delivering safe and reliable services and ensuring long-term stable cashflows to fund the business. AusNet Services has sought to moderate prices by cutting costs, absorbing step changes in operating expenditure, continuing to invest in demand management and taking a conservative approach to investing in network augmentation to support solar.

Executive summary

This proposal is about our customers, what they need and want now and in the future. It is about where we need to improve and how we intend to deliver those improvements. Our customers rely on us to provide an affordable, safe and reliable electricity supply.

We say this with confidence because AusNet Services has developed its plans with our customers in a way that is ground-breaking for our industry. In an Australian first, we have appointed a Customer Forum specifically to represent our customer base and negotiate on their behalf as this proposal was developed. As part of this process we have spoken with an unprecedented number of our customers. This has included over 4,700 conversations with individual customers and advocates. The Customer Forum has also spoken directly to many more.

The messages from our customers have been clear. They say:

- Many of us are struggling just to pay the bill – affordability is our number one concern;
- Proactively communicate important information – particularly during outages, when we want to connect or when we need a claim or complaint resolved;
- Reliability and safety is our baseline expectation – don't compromise on this; and
- We are changing the way we want to generate, share and use electricity – AusNet Services needs to support us including to export our solar electricity.

This proposal sets out in detail how AusNet Services has responded to our customers' preferences in our plans for the electricity distribution network for the regulatory period commencing on 1 July 2021 and ending on 30 June 2026 and the revenue that will be required to deliver those plans.

The Customer Forum: putting customers at the heart of developing our plans

We have worked intensively with the Customer Forum all the way through the process of developing our proposal. The Customer Forum members were chosen in an independent and rigorous process for their diverse and complementary skills and experience, their ability to credibly represent the perspectives of our customers, their understanding of consumer issues and their analytical ability. The Customer Forum Chair is a former Consumer Affairs Minister for Victoria, with other members bringing skills in vulnerable customer support, customer research, finance and community leadership.

The Customer Forum has negotiated directly with our business to develop key parts of our plans. The Customer Forum has negotiated on:

- Around 40% of the forecast revenue for standard control distribution services, including the majority of operating expenditure (opex) case and 7% of capital expenditure (capex) case; and
- All revenue for metering services.

We are the first Australian utility to work with a Customer Forum and this successful trial has been oversighted by the Australian Energy Regulator (AER), Energy Networks Australia (ENA) and Energy Consumers Australia (ECA). As we set out below, this process has had a material and beneficial impact on our plans and how we will deliver services to our customers going forward.

To allow customers and their advocates an opportunity to have a say, we also released a draft proposal almost a year in advance of submitting our plans to the AER. We actively engaged on these plans through a series of 'deep dive' workshops and targeted surveys in response to questions raised.

How our proposal responds to customer views and the significant benefits customers will receive as a result are outlined below.

Customer Forum



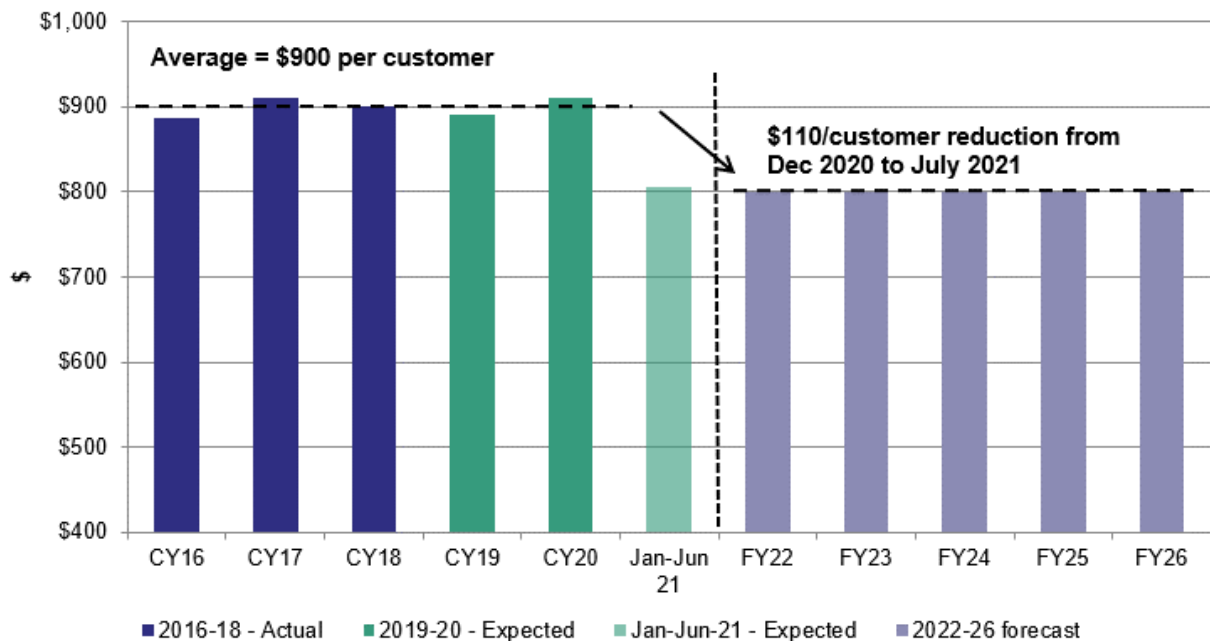
Standing (left to right): Greg Camm (Forum member), Tom Hallam (General Manager Regulation, AusNet Services), Deirdre Rose (Principal Economist, AusNet Services), Helen Bartley (Forum member), Charlotte Eddy (Manager Economic Regulation, AusNet Services).

Seated (left to right): Tony Robinson (Forum Chair), Dianne Rule (Forum member), John Mumford (Forum member).

How we are delivering improved affordability for customers

Our customers are concerned about the affordability of electricity. Responding to this, electricity distribution charges are forecast to fall significantly. At the start of the new regulatory period, revenue per customer will fall by \$110 or 12% from 2020 (calendar year) to 2022 (financial year), and then will only increase by inflation. This reflects proposed revenue which is \$64 million or 2% less than the revenue we expect to earn in the five years from 2016 to 2020.

Revenue per customer (\$, Real \$Jun 2021)



Source: AusNet Services. Note: Jan to June 2021 is presented on an annualised basis.

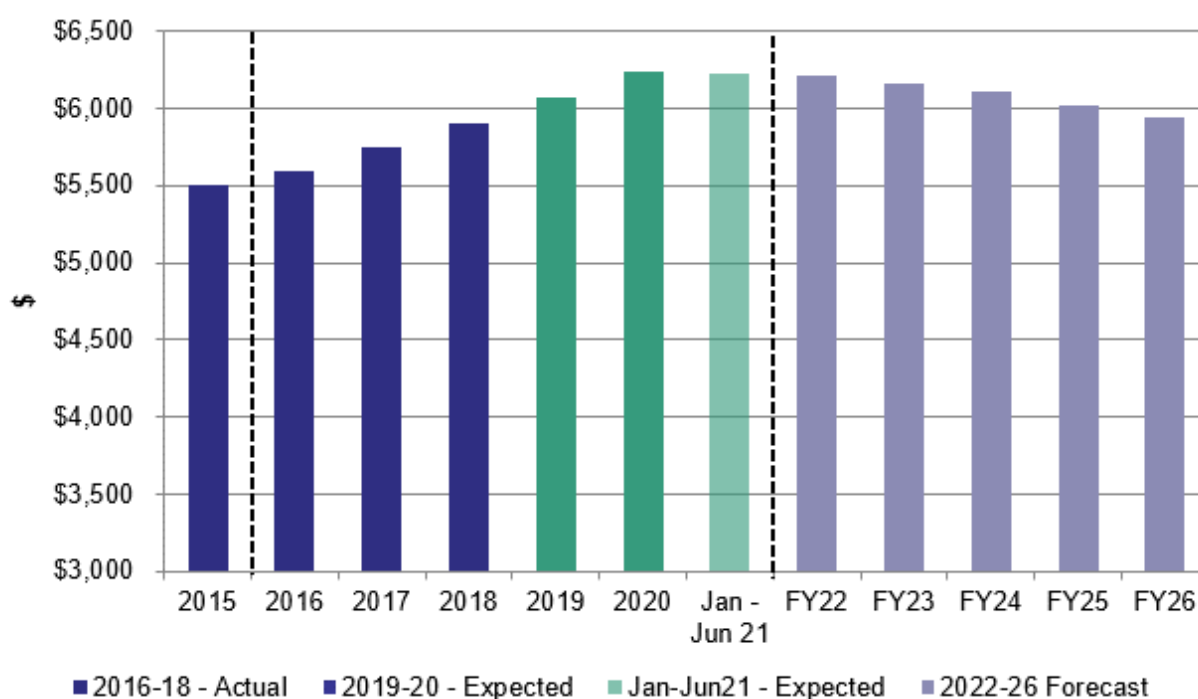
The revenue reduction is in part due to lower interest rates and a range of decisions made by the AER (including the 2018 Rate of Return Instrument, the regulatory tax review, and the 0.5% opex productivity adjustment for electricity distributors). These changes combined with lower bond rates has reduced forecast revenue for 2022-26 by around \$420 million. However, the revenue reduction also reflects the substantial cost savings made by our business and agreements with the Customer Forum to moderate or absorb costs. We estimate total forecast expenditures for 2022-26 are around \$490 million below what our regulatory allowances would have been if we had not made efficiency improvements in the current period.

In addition, residential and small business customers will pay \$30 less (\$2021) on average for their annual metering bill and AusNet Services has abolished business hours remote disconnection and reconnection fees. This is one less irritant at a stressful time when our customers are moving house or business location and one of the many benefits now being delivered by smart meters.

A typical small business customer can expect to save \$62 on their annual bill, while a typical large commercial or industrial customer could expect to save anywhere between \$1,120 to \$8,889. This is complemented by a new initiative working with retailers to ensure our largest business customers are automatically placed on the cheapest network tariff appropriate to their usage. This has already saved some customers close to \$14,500 off their annual bill. Finally, our critical peak tariff delivers substantial savings automatically to those business customers who can lower their demand on the electricity system at times of extreme demand.

The proposal results in a falling value of the Regulatory Asset Base (RAB) per customer, reducing the cost burden on future customers. This is due to lower capital expenditure and the accelerated depreciation of assets that are either no longer in service or have inappropriately long lives currently assigned.

RAB per customer (\$, Real \$Jun 2021)



Source: AusNet Services. Note: Jan to June 2021 is presented on an annualised basis.

These actions will help ensure that Victorians continue to enjoy the lowest electricity bills in Australia over the longer-term, while simultaneously helping manage cash flows for investors under a regulatory regime that provides for negative profits (NPAT) in the short-term.

Despite these revenue cuts, AusNet Services will continue to maintain safe and reliable services and meet all of our regulatory obligations. In addition to maintaining the quality of these core services we have agreed with the Customer Forum to:

- Improve customers' experience of our services;
- Invest prudently to unlock the benefits exports solar to all customers; and
- Undertake modest innovation to support the energy system transformation that our customers want.

Our business is also investing to meet our bushfire risk management obligations and to protect our customers and network from increasing cyber security threats.

How we are delivering better experiences and services for customers



AusNet Services has agreed a range of initiatives to improve customer experience outcomes and we are not waiting for our next regulatory period to commence. Action is already well underway and is delivering for our customers. This has included implementing an improved online solar connection application tool and dedicated staff to support large customers and communities. We are also committing to continue to improve outcomes for customers with actions between now and the end of the forthcoming regulatory period (in June 2026). To hold ourselves accountable, we will track progress on these commitments through an annual public report.

Aside from modest investments in new information systems to improve our communications with customers, AusNet Services is not seeking more funding from customers to deliver these improved outcomes. We will do this by reprioritising existing budgets.

Backing our commitment, we are also proposing a new customer satisfaction incentive scheme aimed at performance on four key customer interactions – communication and management around planned and unplanned outages, connections and complaints.

Further detail in customer experience improvements being delivered to customers is provided below.

How we propose to improve customer experience

<p>RESIDENTIAL CUSTOMERS</p> 	<ul style="list-style-type: none"> > Improving communication and management of planned and unplanned outages > Making new connections to our network easier > Continuous improvement of management of life support customers including communication and priority restoration during outages > Making claims easier if we have inadvertently damaged customer equipment > Collaborating with communities to improve the experience of our most vulnerable customers
<p>BUSINESS CUSTOMERS</p> 	<ul style="list-style-type: none"> > Ensuring customers are on the cheapest network tariff for their usage > Resourcing of new customer relationship managers to support our business customers and their specific network needs > Making claims easier if we have inadvertently damaged customer equipment > Improving communication and management of planned and unplanned outages > Dedicated staff to support larger electricity generators wanting to connect to our network (such as wind farms)
<p>SOLAR CUSTOMERS</p> 	<ul style="list-style-type: none"> > Investment to allow more solar exports onto our network where economic > Ongoing innovation and collaboration across the industry to unlock the solar resource > On line pre-approval solar tool (up to 30kW) – 95% approved > Solar alert so customers know when system not working – over 10,000 alerts > Dedicated staff to support local communities going solar > Ongoing programs to improve solar connection processes

How we propose to improve customer experience (cont.)

ALL CUSTOMERS



- > Business hours remote disconnection and reconnection fees abolished saving customers \$750,000 each year
- > Incentives to improve customer satisfaction are embedded in the performance measures for senior managers and teams across the organisation – the satisfaction measures relate to unplanned outages, planned outages, new connections and complaints
- > A new incentive scheme in the regulatory arrangements to improve customer satisfaction
- > Annual reporting on our performance against promised customer improvement outcomes
- > Greater customer research and engagement to better understand the key issues being faced by our customers and how best to fix them

How we are supporting the energy sector transition and unlocking solar exports for the benefit of all customers

In the past, customers only purchased or 'imported' electricity from large scale generators that were remote from their homes, offices, factories and businesses. Now, a growing number of customers are also using solar panels to generate their own electricity, with surplus amounts of generation being 'exported' into the network. If managed well, these exports benefit all customers through lower pollution, less carbon emissions and lower electricity market prices as the exported solar displaces higher marginal cost electricity generators (such as coal and gas).

Over 140,000 of our customers already have solar installations and we forecast that this number is forecast to be around 225,500 by 2026, or around a 60% increase. Also, with the size of solar systems getting larger, the solar energy produced is forecast to double in size. By 2030 it is expected close to half our customer base will have some combination of solar panels, batteries or electric vehicles.

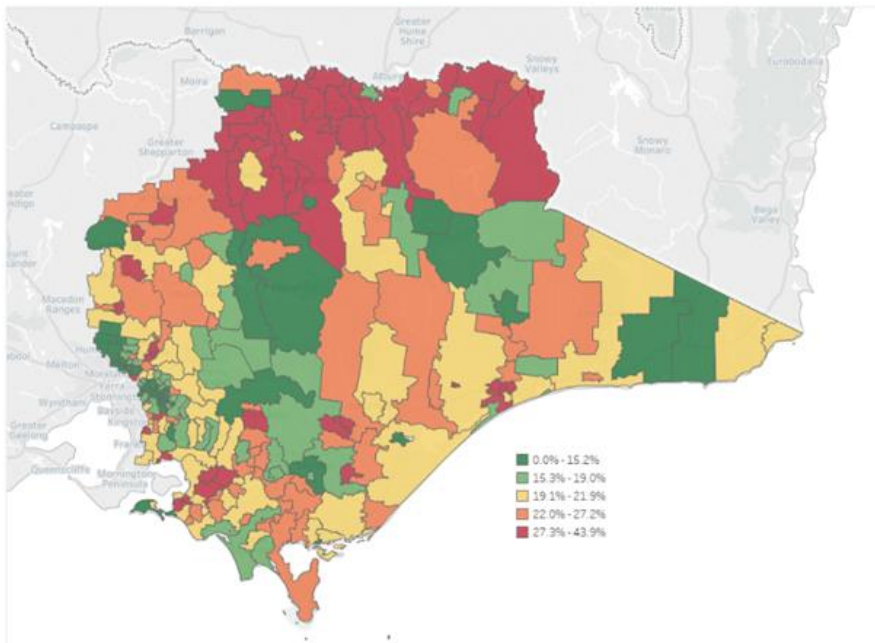
The map below shows that the level of solar penetration varies across our network. However, there are areas of our network with solar penetration greater than 27% (the red areas on the map), which is as high as areas in South Australia and Queensland.

This transformation of the energy system is changing the way our network operates and the nature of the services we must provide, because electricity now flows from customers back into the network, as well as flowing to customers from the network. Solar generation, batteries, smart appliances, energy management systems and electric vehicles are putting the customer at the centre of the electricity supply industry. Our network must adapt to meet our customers' changing needs and enable customers to export electricity to their neighbours.

This increase in the size and quantity of solar is creating voltage management challenges on our network. Voltage rises, if not managed, can damage customers' appliances (for solar and non-solar customers). High voltage can also cause solar systems to shut off. One way of managing this problem is to prevent customers from connecting solar to the network or exporting their solar energy onto the network. Neither of these solutions are acceptable to customers. Our proposals incorporate a way to allow more solar in a network at an acceptable cost.

Customer research and engagement consistently indicates that customers want our business to invest to support the changing ways in which they wish to use our network, particularly to support solar exports. Our proposal seeks to do this in a prudent way, making smart use of technology and modest network upgrades, that do not impose high costs and forecasts both solar and non-solar customers will benefit through a reduction in the wholesale market price.

Residential solar penetration in our network by postcode



Note: The chart groups the penetration level into five equal parts (or quintiles).
Source: AusNet Services.

Supported by our customers and agreed with the Customer Forum, we are proposing to invest \$43 million (\$2021) to allow more solar exports onto our network and maintain the quality of supply to all our customers. This will fund voltage compliance expenditure, augmentation to allow additional exports where economic and dynamic management capability. The average bill impact is \$0.60 per annum per residential customer and \$5.83 per annum per business customer.

This expenditure will deliver a range of benefits for customers:

- Voltage compliance: addresses the adverse voltage impacts that would otherwise be experienced by 228,000 customers;
- More customers will be able to install rooftop solar and export uninterrupted: the proposal is expected to support the exports of an additional 70,000 solar customers;
- Lower wholesale electricity prices: Unlocking low cost solar generation will displace coal and gas generators and reduce wholesale costs for all customers; and
- Cleaner environment: Greater utilisation of the population of rooftop solar will reduce greenhouse gas emissions.

AusNet Services has also proposed a modest program of innovation expenditure of \$7.5 million (\$2021) to be oversighted by customer representatives which also focuses on energy transformation and better supporting the integration of rooftop solar and other forms of distributed energy resources (DER)¹. The innovation projects will be additional to, and are not dependent on, the DER capex spend. The innovation expenditure level and proposed governance and knowledge sharing arrangements have been agreed with the Customer Forum.

The innovation expenditure will be squarely focussed on maximising the benefits of the energy transition. It would add to the limited funding of projects under the Demand Management

¹ As described by the Energy Security Board, DER are “resources located on the distribution system that generate, manage demand, or manage the network”. This can include rooftop solar, battery storage, electric vehicles and vehicle to grid services, solar hot water, other generators, smart appliances such as air conditioners or pool pumps, energy efficiency, heat pumps, energy management systems such as microgrid controller and standalone power systems (SAPS). Source: ESB DER Integration Workplan, October 2019.

Incentive Allowance, for which AusNet Services' projects have won prestigious industry awards². The proposed expenditure will allow research and development to be undertaken into technologies where benefits to customers are expected to be longer term or to require further exploration.

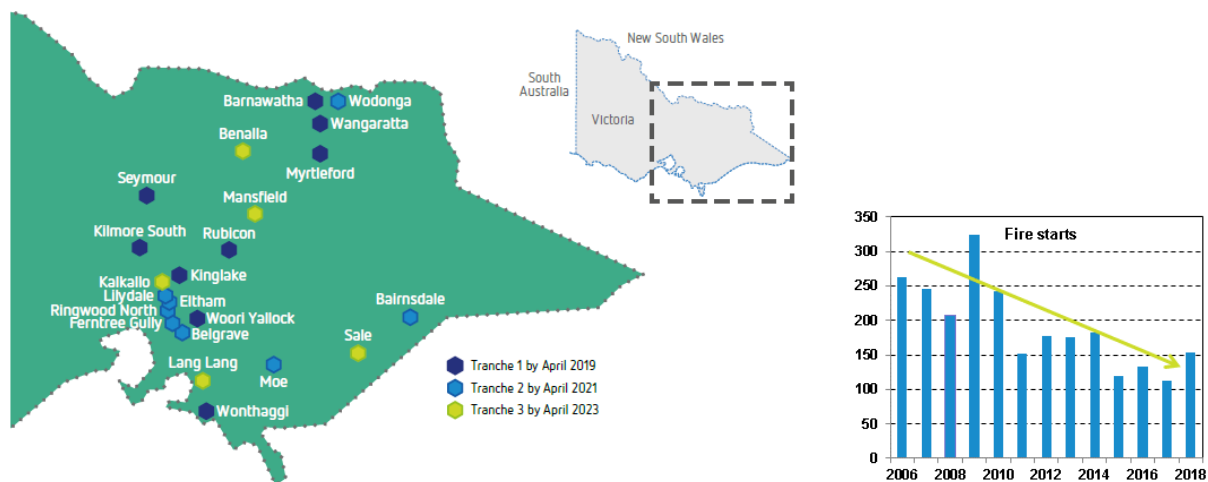
DER integration is complex and will evolve over time as more mature market arrangements develop for DER. DER network and market integration will ultimately involve a suite of solutions and technologies to provide efficient solutions for customers. The innovation program will contribute to finding and testing possible solutions.

How we are delivering improved safety for customers

In partnership with the Victorian Government, AusNet Services is currently installing new technology to reduce the risk of powerline-related bushfires. The technology, known as Rapid Earth Fault Current Limiter or REFCL, is being installed in selected high bushfire risk areas. The Victorian Government's Powerline Bushfire Safety Taskforce expects REFCLs could further cut powerline-related fires in Victoria substantially.

Currently nine of the 22 REFCLs to be installed by 2023 are operating and successfully reducing bushfire risk for customers. We will finish installing this technology by early 2023.

Installation of REFCLs across our network and reduction in fire start since 2006



Source: AusNet Services.

This program and other past investment in the safety of our network are having material benefits for our customers.

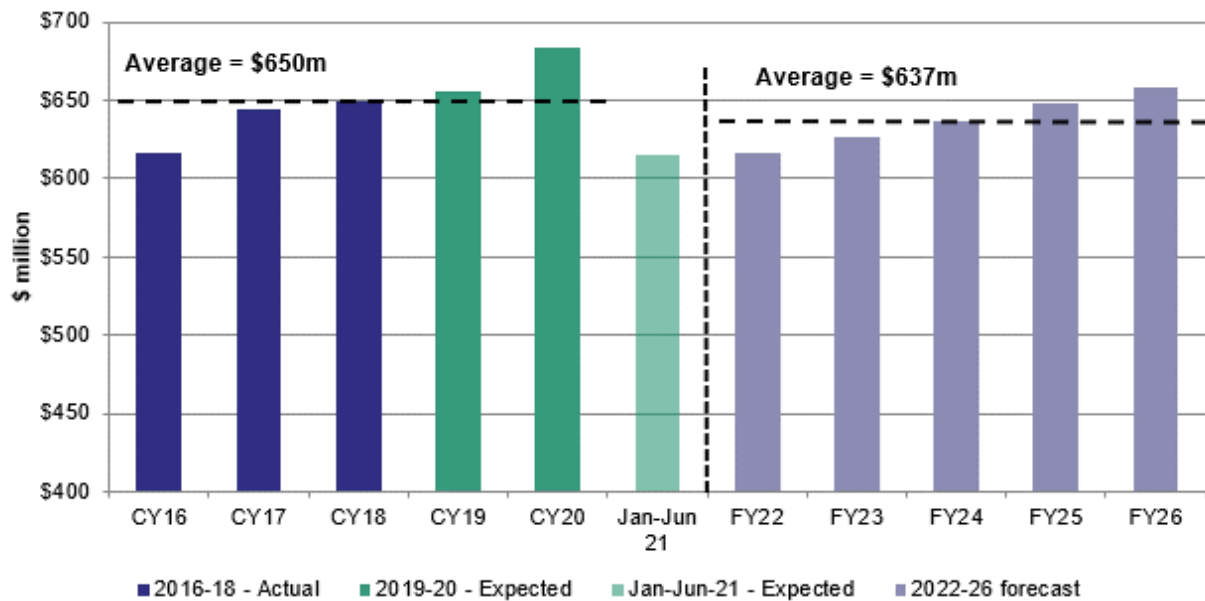
Details of the 2021-22 to 2025-26 revenue proposal

As noted above, AusNet Services' plans deliver improved services for reduced revenue in the 2021-22 to 2025-26 regulatory period.

The figure below shows our forecast of required real revenue over the current and forthcoming period (as well as the six month extension to our current regulatory period (from January to June 2021). Required revenue is forecast to be \$3,186 million (\$2021) for the 2022-26 period which is \$64 million or 2% lower than actual expected revenue in the five years 2016 to 2020.

² Including the 2019 Innovation Award from the Clean Energy Council for our Networks Renewed Project. The same award was won for the Mooroolbark Mini Grid trial in 2017.

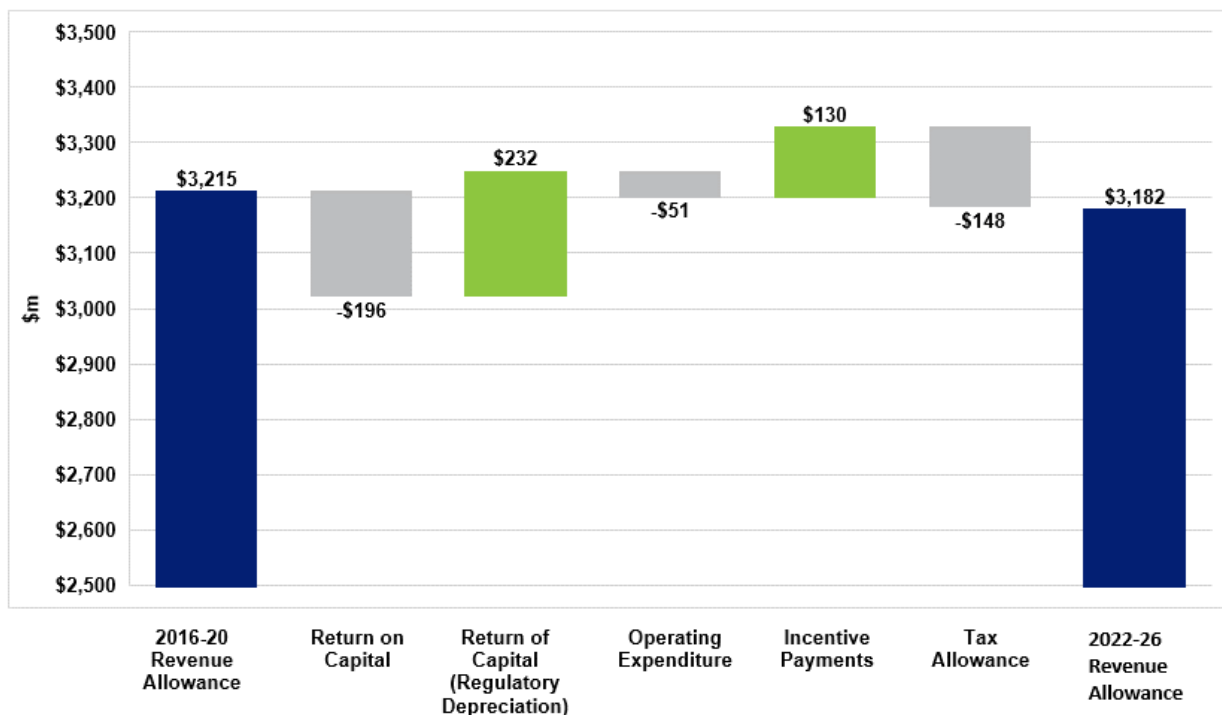
Total revenue requirement (\$m, Real \$Jun 2021)



Source: AusNet Services. Note: Jan to June 2021 is presented on an annualised basis,

The figure below shows the proposed changes in the cost elements compared to our current period revenue allowance.

Changes in the revenue building blocks (\$m, Real \$Jun 2021)



Source: AusNet Services.

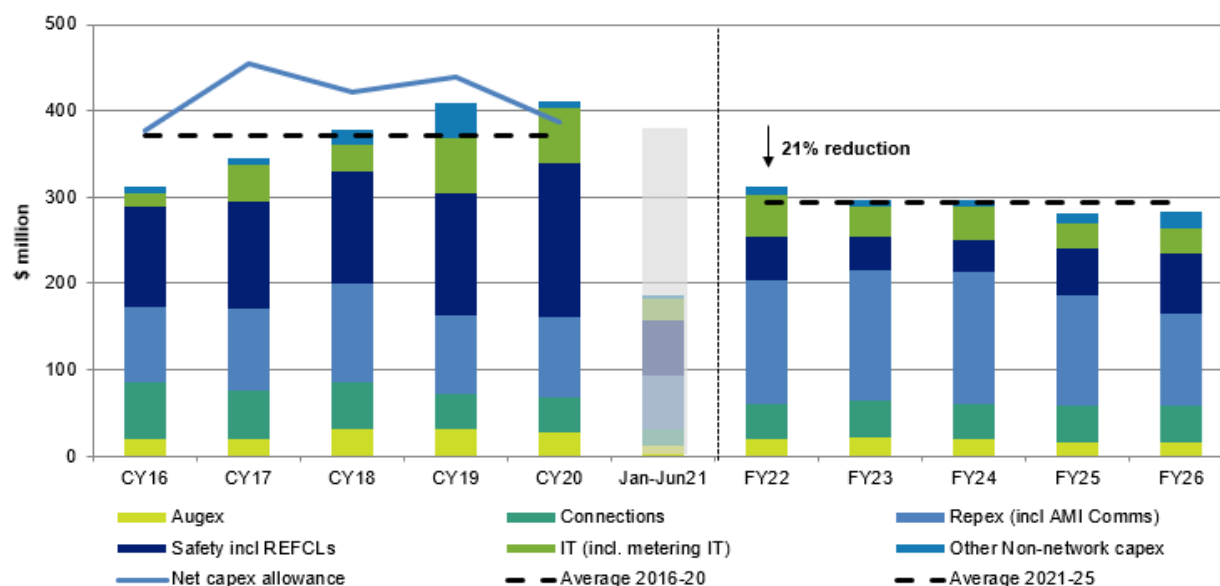
The reduction in the return on capital and the tax allowance reflect the changes made by our regulator and lower interest rates. As mentioned earlier, the regulatory depreciation reflects that we are fully depreciating assets which are either no longer in service or have inappropriately long lives assigned to them. The incentive payments are rewards that our business expects to earn under the regulatory framework for being more efficient in the current 2016-20 regulatory period.

As explained further below, we are proposing lower net capex than in the current regulatory period. In agreement with the Customer Forum, we are also proposing a lower opex allowance that reflects a doubling of the AER's 0.5% productivity adjustment to over 1%.

Capital expenditure

We are proposing total net capex (i.e. capex excluding customer contributions) of \$1,478 million (\$2021) over the 2021-22 to 2025-26 regulatory period. This is 21% lower than our expected net capex over the 2016-20 regulatory period.

Net capex requirement (\$m, Real \$Jun 2021)



Source: AusNet Services. Note: Jan to June 2021 is presented on an annualised basis.

The scope of the Customer Forum's negotiation on capex covered asset replacement expenditure (repex) and network augmentation (augex) major projects and Distributed Energy Resource (DER) augex, accounting for around 7% of total net capex.

Our 2022-26 regulatory proposal builds on the outcomes we are achieving in the current regulatory period, where we are outperforming the AER's expenditure targets while maintaining reliability for customers and delivering programs to improve community safety by reducing bushfire risk.

Targeting safe and reliable energy provision to our customers is the basis of our 2022-26 regulatory proposal. We are achieving this by maintaining our ageing network and appropriately managing asset failure risk. This is forecast to require \$543 million (\$2021), which is 14% higher than the expected repex in the current regulatory period of \$476 million (\$2021).³

Recognising that affordability is the primary concern for most of our customers, we have agreed with the Customer Forum to delay some of our major repex projects. We have done this only where the increase in reliability risk is small. Our approach has resulted in significant savings for customers – a significant (27%) fall from our preliminary forecasts discussed with the Customer Forum and a 3% fall from our Draft Regulatory Proposal published in February 2019. We are therefore now proposing major project repex of \$75.7 million (\$2021).

Our augmentation capex (augex) proposal – capital needed to expand network capacity, including that associated with DER – is forecast to be \$92 million (\$2021). This is over a third lower (39%)

³ This information is presented on a basis that allows like-for-like comparison following some changes in cost categorisation.

than the augex we expect to incur in the current regulatory period and is largely driven by more limited peak demand growth in our network.

Included in our augex proposal is the following expenditure agreed with the Customer Forum:

- \$8 million (\$2021) for a major augmentation project to expand the capacity of the Clyde North zone substation; and
- DER augex of \$43 million (\$2021).

The Information and Communications Technology (ICT) proposal of \$165 million (excluding advance metering ICT used by the distribution business) is 12% lower than the ICT capex expected in the current regulatory period.⁴ The ICT investment will provide the capability to manage and operate our network assets more efficiently and will help us deliver outcomes that our customers and the Customer Forum have told us they value in customer service improvements and supporting solar exports.

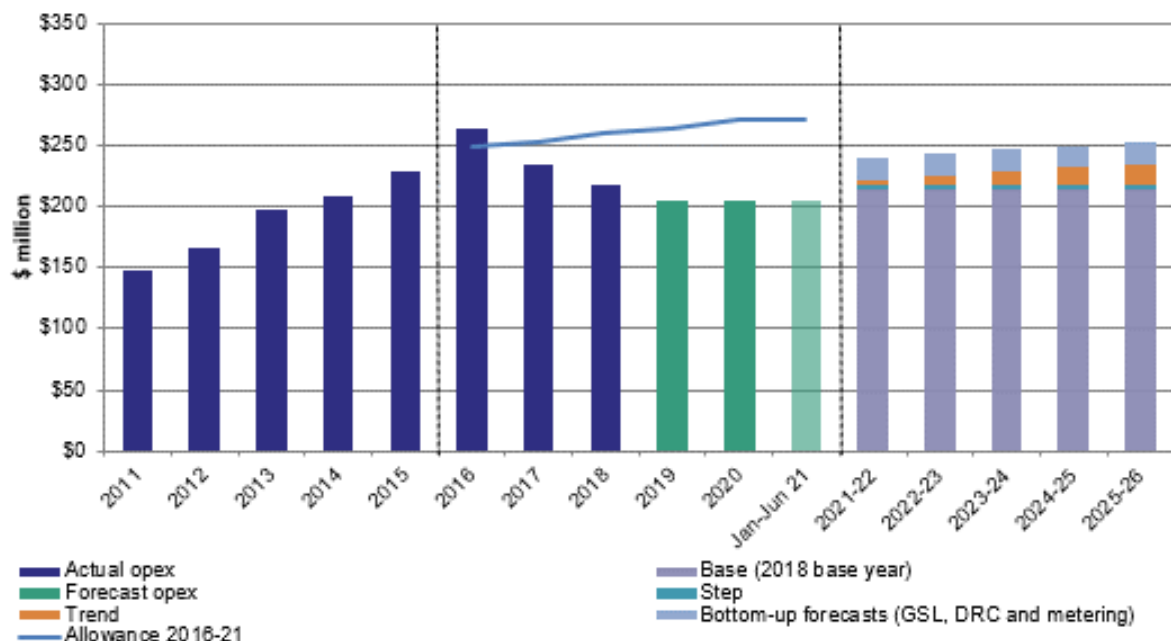
Finally, the capex expenditure forecast includes completing the delivery of the REFCL bushfire safety program.

Operating expenditure

AusNet Services has listened to customers and worked with our Customer Forum to develop an operating expenditure proposal that balances our obligation to provide safe and reliable electricity supply with the affordability concerns of customers.

The efforts to reduce costs, and the collaboration with our customers, results in a forecast of total opex of \$1,222 million (\$2021) over the 2022-26 (FY) regulatory period.⁵ This is 5% lower than our opex allowance in the current (2016-20) regulatory period (shown in the blue line).

Total operating expenditure requirement (\$m, Jun 2021)



Source: AusNet Services. Note: Jan to June 2021 is presented on an annualised basis

⁴ The AMI ICT capex is forecast to be \$16 million (\$2021) over the 2022-26 period.

⁵ This forecast opex does not include debt raising costs, consistent with the basis we negotiated with the Customer Forum.

We have brought our operating cost base down

Over the last three years, AusNet Services has undertaken a ground-up cost efficiency program which is delivering lasting cost savings for customers. A combination of smarter work practices, new workforce contracts and a continual focus on cost management has delivered these savings. This is allowing us to control costs, even while our customer base and obligations are growing.

We have agreed with the Customer Forum to offer double the ongoing cost savings being sought by the AER.

Specifically, we have agreed to substantially outperform the AER's productivity setting of 0.5% per annum in the forthcoming regulatory period. AusNet Services has agreed to self-fund the cost of some new business obligations and operational needs over the 2022-26 regulatory period amounting to \$21 million and implying a productivity improvement of 1%. The self-funded costs include:

- The forthcoming increase in the superannuation guarantee (from 1 July 2021). This is forecast to save customers \$6.5 million over the 2022-26 regulatory period;
- Increases in our bushfire insurance. This is forecast to save customers \$7 million over the 2022-26 regulatory period;
- A demand management solution at Cranbourne Terminal Station. This is forecast to save customers \$1.5 million;
- Compliance with new *Environmental Protection Act* obligations. This is forecast to save customers \$1 million; and
- The majority of necessary costs of transitioning to cloud-based IT systems. This is forecast to save customers over \$5 million.

Nonetheless, substantial new obligations, our growing customer base and more sophisticated use of data mean that some increases in our future opex are required

The substantial new obligations that are being imposed on our business by governments and regulators in the next regulatory period relate to market settlement, cyber security and bushfire safety. Meeting these obligations (at an efficient cost) will add \$14 million to our opex proposal. As well, our increasingly sophisticated use of our smart meter fleet is allowing us to run the network more efficiently, but to reflect this usage we have allocated a greater amount of the costs to distribution services, which has added \$30 million to opex, but will reduce metering costs (and hence metering charges to customers) by the same amount.

Even with new obligations and growth, our overall opex forecast is 5% below the approved allowance in our current five-year regulatory period.

The Customer Forum has agreed the forecast represents value for money

The Customer Forum considers that in the context of the proposed reduction of revenue per customer of \$110 per annum,⁶ taken together with other expenditure savings, the opex proposal appears to represent overall value for money.

Conclusion

AusNet Services believes its regulatory proposal best serves the long-term interests of its customers. The proposal balances delivering on the immediate needs of the network, its customers and the community with a longer term vision for the network in the context of a transitioning energy system.

⁶ This reduction of \$110 per annum is achieved across the entire regulatory proposal.

The process we have been through to put our customers at the heart of our proposal is evident in the final outcome. We have agreed initiatives with the Customer Forum to improve customer experience outcomes and to address customers' affordability concerns. As a result of our new regulatory approach involving the early publication of a draft proposal and the negotiation with the Customer Forum, significant elements of this Regulatory Proposal have already been subject to much greater scrutiny than would ordinarily be the case. In our view, the process has ensured that our expenditure and service plans comply with the Rules requirements and can be approved by the AER.

The Customer Forum has agreed that the overall Proposal represents a value for money proposition that balances the interests of customers and investors. It nonetheless recognises that out of scope matters and many technical issues rightly remain subject to the scrutiny of the AER. AusNet Services has committed to honouring the outcomes of the negotiations with the Customer Forum, including the headline price cuts, throughout this 15-month review process.

1 Introduction

This regulatory submission sets out AusNet Services' proposal for its electricity distribution network for the next regulatory control period, which commences 1 July 2021 and runs through until 30 June 2026.

1.1 Structure of this Regulatory Proposal

Under the National Electricity Law (NEL) and the National Electricity Rules (the Rules), the AER is responsible for the economic regulation of electricity distribution services. In accordance with the Rules, the AER conducts a periodic review to determine our revenue requirements and other matters relating to the provision of regulated electricity distribution services.

For the previous electricity distribution price review, AusNet Services' revenue was determined for the five calendar years from 1 January 2016 to 31 December 2020. The Victorian Government is proposing to extend the current regulatory period by a further six months to 30 June 2021.

Accordingly, this document is our Regulatory Proposal for the period commencing on 1 July 2021 and ending on 30 June 2026 (the 2022-26 regulatory period). The proposal is accompanied and supported by:

- An overview paper, which provides a plain-language summary and explanation of our Regulatory Proposal;
- A tariff structure statement and an explanatory paper, which describe our proposed tariff structures and the rationale for our approach;
- Completed templates and supporting information as required by the Rules and the AER's Regulatory Information Notices (RIN); and
- Appendices, supporting documents and models, which are cross-referenced in this document. These include:
 - a document that sets out proposed revenues for the extension to the current regulatory period from 1 January 2021 to 30 June 2021 (Appendix 1A); and
 - A document setting out related party arrangements (Appendix 1B).

This regulatory proposal is structured in four parts:

- Part I explains our ground-breaking approach to customer engagement involving negotiation with a Customer Forum. It also explains how this Regulatory Proposal takes account of the views of our customers including the feedback we received on our Draft Regulatory Proposal published in February 2019;
- Part II outlines the significant agreements reached with the Customer Forum on initiatives to improve customer experience;
- Part III focuses on Standard Control Services, which are the distribution network services that our customers require each day. This part of the proposal contains: an overview of our operating environment and network characteristics; demand and customer number forecasts; our expenditure plans; our approach to innovation; and our revenue requirements. We also set out the impact of our Regulatory Proposal on customers' annual bills; and
- Part IV explains our Alternative Control Services proposals, which are more customer specific services and include metering, public lighting and ancillary network services such as connection services.

1.2 Presentation of cost information

The actual and forecast expenditure in this proposal reflects our cost allocation methodology, as approved by the AER, and is consistent with:

- AusNet Services' capitalisation policy, which remains unchanged from the current regulatory period; and
- The application of the AER's incentive schemes that encourage cost and service efficiencies over time.

In terms of the financial data presented in this submission, it should be noted that:

- All monetary values presented exclude GST;
- Unless stated otherwise, monetary values are presented in June 2021 dollars (shown as \$2021);
- Where data is presented in nominal terms, an inflation forecast of 2.45 per cent per annum has been applied; and
- Numbers in tables may not add up due to rounding.

In accordance with the Rules, we also confirm that our expenditure forecasts do not contain any costs arising from transactions with related parties.

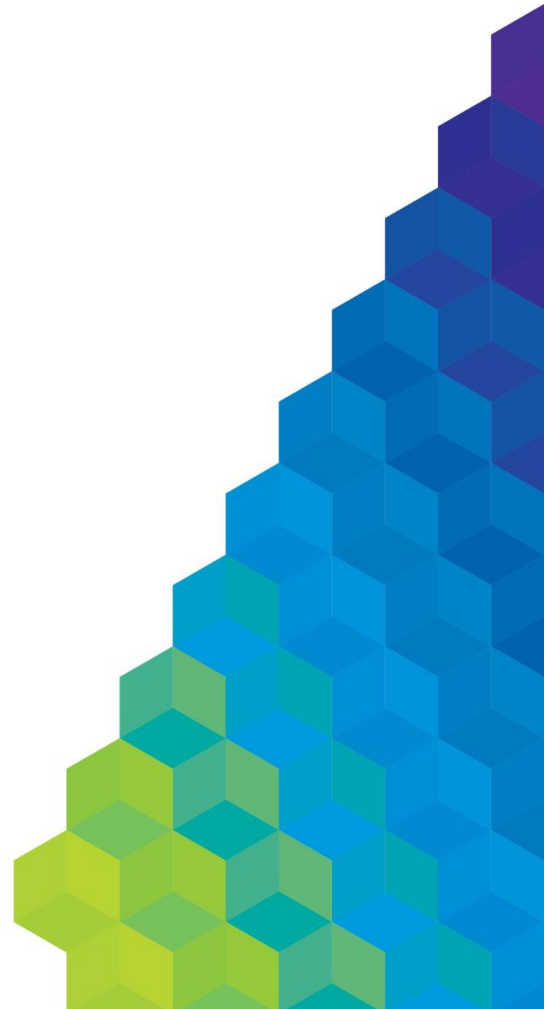
1.3 Supporting documentation

AusNet Services' regulatory proposal has been prepared with reference to the following documents:

- Appendix 1A – Cost Allocation Methodology;
- Appendix 1B – Service Classification Proposal;
- Appendix 1C - Extension period revenues (1 January 2021 - 30 June 2021); and
- Appendix 1D - Related Party Arrangements.

Further supporting material, which is specific to individual aspects of the proposal, are listed in the relevant sections of the proposal document.

Part I – Customer Engagement, Findings and Feedback



Key Points

The key points in Part I are:

- To build a truly customer-focused, modern energy business, we have:
 - Committed considerable additional resources to undertake more engagement and research that has broadened and deepened our understanding of customers' needs and expectations;
 - Challenged our business to reflect identified customer needs and expectations in our future strategies and plans in negotiation with a Customer Forum. This has given customers more powerful representation and input to our plans; and
 - Issued a Draft Proposal to get direct feedback before finalising our plans and consulted on the Draft Proposal in a series of 'deep dive' workshops.
- AusNet Services' engagement approach and negotiation with the Customer Forum is innovative and an Australian first. We are confident that this process has delivered better outcomes for our customers.
- Sharing our draft plans with stakeholders and the AER so early in the process and listening to their feedback in developing this formal submission means that the AER will be reviewing a submission that has already had the benefit of extensive customer input and scrutiny.
- This has resulted in a Regulatory Proposal which is tailored to delivering improved outcomes for our customers in accordance with their preferences.

Part I structure

Part I is structured as follows:

- Chapter 2 explains the role and objectives of the Customer Forum and the scope of the negotiations that have taken place with the Customer Forum during the development of this Regulatory Proposal.
- Chapter 3 sets out our extensive customer research and engagement process undertaken to gain insights into our customers' views and expectations.
- Chapter 4 summarises what we have heard from customers on their views and expectations and how we are responding in this proposal, as agreed with the Customer Forum. This chapter concludes Part I by explaining why we are confident that this Regulatory Proposal satisfies the Rules requirements and should be approved by the AER.

2 Customer Forum

2.1 Customer Forum trial

In an Australian first, AusNet Services has undertaken a trial to negotiate elements of our proposal with an independent Customer Forum. We established the Customer Forum in March 2018 and have worked with the Forum intensively since then. The Forum is led by a former Consumer Affairs Minister for Victoria, The Hon. Tony Robinson.

The trial is testing the New Reg model developed by the Australian Energy Regulator (AER), Energy Consumers Australia (ECA), and Energy Networks Australia (ENA) to better incorporate consumer preferences into regulatory decisions. AusNet Services is pleased to be the first Australian utility trialling the NewReg process.

The most significant departure from traditional practice is that the Customer Forum negotiates aspects of the regulatory proposal in advance of lodgement with the AER. The Customer Forum researches consumer preferences and has direct engagement with consumers and brings this perspective to the negotiation process. This ensures the proposal is built directly on customer feedback and preferences.

The trial has required an unprecedented level of transparency in the development of our plans to enable the Customer Forum to have meaningful input on our approach as well as the proposed outcomes. It also means that in practice many aspects of this proposal have already received significant customer scrutiny.

The Customer Forum consists of a Chairperson and four members. The Customer Forum members were chosen in an independent and rigorous process, including through consultation with Energy Consumers Australia and the AER. The members were selected for their diverse and complementary skills and experience; their ability to credibly represent the perspectives of customers; their understanding of consumer issues; and their analytical ability.

The independence and legitimacy of the Customer Forum members was of primary importance in the selection process. Members were required to be fully independent of AusNet Services and capable of credibly representing the perspective of the breadth of AusNet Services' customers.

Members of the Customer Forum could not:

- Be currently employed or engaged by AusNet Services or the Australian Energy Regulator;
- Have criminal convictions;
- Have been disqualified from acting as a director; or
- Have undertaken activities deemed to have had major adverse consequences for consumers.

The skills sets sought as part of the recruitment process are shown below.

Capabilities	Specific skills/qualifications
Numeracy (and ability to explain to others) Credibility to represent the customer perspective (including vulnerable customers) Negotiation Communication Analytical skills Flexibility and willingness to develop new skills Chairing skills (for Chairperson)	Economics Law (commercial/consumer) Engineering Consumer rights advocacy Market research Communications Agriculture/business

The Customer Forum members are:

Tony Robinson (Chair): Experienced consumer advocate and former Victorian Minister for Consumer Affairs.

Helen Bartley: Experienced market and social researcher with specific experience in customer engagement processes for utilities.

John Mumford: Experienced consumer advocate and financial counsellor. John and his family run a small beef cattle and hazelnut farm in South Gippsland and is a customer of AusNet Services.

Greg Camm: Experienced financial sector executive and former Director of Yarra Valley Water, which pioneered the Citizens Jury process in the water sector.

Dianne Rule: Broad experience across education, publishing, politics and community projects.



Left to right: Dianne Rule (Forum member), Greg Camm (Forum member), Tom Hallam (General Manager Regulation, AusNet Services), Tony Robinson (Forum Chair), Helen Bartley (Forum member), John Mumford (Forum member).

The Customer Forum is empowered to negotiate and agree elements of our Regulatory Proposal. To assist the Customer Forum, there is scope for the Forum to initiate its own research.

The Customer Forum process has been open for scrutiny with relevant information published on [our website](#) including the information presented to the Forum and an overview of the Forum's customer and stakeholder engagement activities. Many stakeholders have had the opportunity to observe and engage with the Customer Forum including the AER, the Victorian Department of

Environment, Land, Water and Planning (DELWP), the AER's Consumer Challenge Panel, AusNet Services' Customer Consultative Committee, and a variety of customer advocates.

2.2 Role and objectives of the Customer Forum

In June 2018, the Customer Forum, AusNet Services and the AER finalised the Memorandum of Understanding, which set out the respective roles and expectations of the parties, and formalised the Customer Forum's governance arrangements.⁷

The Memorandum of Understanding set out the scope of negotiations between the Customer Forum and AusNet Services and how this must work within the National Electricity Law and Rules. It also established the following objectives for the Customer Forum:

- To understand and represent to AusNet Services the perspectives and preferences of AusNet Services' customers;
- To understand AusNet Services' business, including the company's revenue requirements;
- To identify elements of the Regulatory Proposal which the Customer Forum agrees or does not agree are in the long-term interest of AusNet Services' customers;
- To negotiate with AusNet Services with a view to securing, as far as possible, a Regulatory Proposal in the long-term interest of AusNet Services' customers;
- To provide input into AusNet Services' customer research program;
- To assist in preparing the engagement reports; and
- To understand and operate within the constraints of the regulatory framework established by the National Electricity Law, the National Electricity Rules and the applicable regulatory instruments developed by the AER.

With these objectives in mind, the Customer Forum has analysed our plans and challenged our thinking in several important areas. In negotiating with us, the Customer Forum has also taken into account the findings from available customer research and its own direct engagement with our business and customers. In particular, the Customer Forum obtained its own additional evidence by⁸:

- Requesting additional information, including complaints data from AusNet Services, the AER and other agencies, such as the Essential Services Commission and the Energy and Water Ombudsman Victoria, to clarify policy and regulatory matters.
- Undertaking independent field visits throughout AusNet Services' region to directly gather evidence of issues affecting customers, and interviewing customers and their representatives such as Members of Parliament and local council officers. The Customer Forum developed case studies from some of these visits.
- Initiating and contributing to the design and targeting of additional market research following identification of key knowledge gaps, particularly in relation to business customers.
- Holding a series of meetings with customer advocates and stakeholders.

⁷ A revised MOU was published in August 2019 to extend the length of the trial period given the six month delay to the submission of the Victorian electricity distributors' regulatory proposal. The six month delay was due to the Victorian Government change to the regulatory periods.

⁸ Customer Forum, Interim Engagement Report, 6 February 2019, page 10.

- Observing focus groups run in five locations within AusNet Services' region and all the 'deep dive' workshops on aspects of our Draft Regulatory Proposal.

This additional evidence assisted the Customer Forum in evaluating information provided by AusNet Services and others.

2.3 AER role in the Customer Forum trial

As well as having a role in establishing and overseeing the Customer Forum trial, the AER provided the Forum with the technical and economic support it required to be an effective counterparty to AusNet Services during the negotiation process.

The role of AER staff in assisting the Forum includes:

- Providing information and advice to the Forum, such as by:
 - Identifying and raising issues with the Forum and AusNet Services in Forum meetings; and
 - Responding to questions from the Forum.
- Agreeing which issues are within the scope of negotiations between the Forum and AusNet Services and advising on the boundaries of the negotiation.

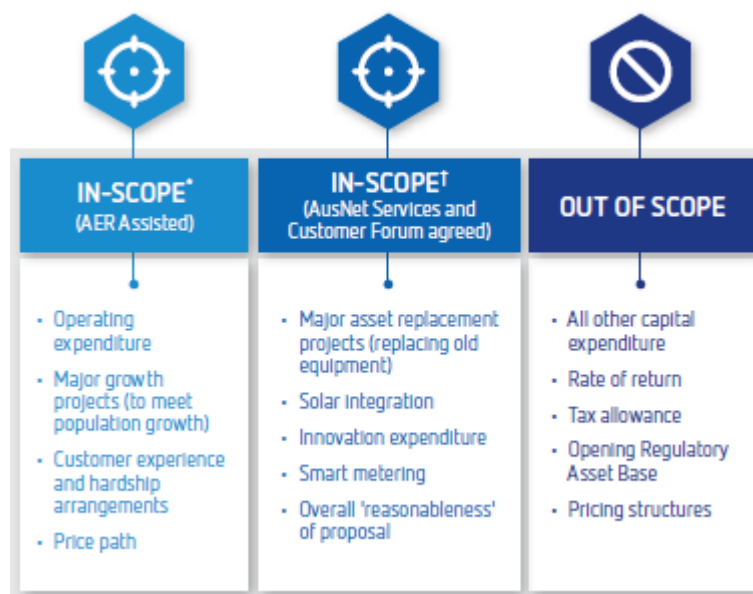
It is important to note that the AER is not a party to the negotiations. The negotiation process is between AusNet Services and the Customer Forum.

The AER has not 'pre-approved' any matters in this proposal, prior to its formal submission to the AER.

2.4 Scope of negotiations

AusNet Services, the Customer Forum and the AER agreed on which parts of our proposed distribution network business plans would be subject to negotiation. We recognised that not every aspect of our plans can be negotiated. Some aspects of our plans are set by regulatory bodies and cannot be changed, such as what we must do to reduce the risk of bushfires. The figure below shows the scope of negotiation with the Customer Forum.

Figure 2-1: Scope of customer forum negotiations



Note: *AER assisting Customer Forum by providing information and independent advice.

†Not in scope of the AER's assistance to the Customer Forum.

The agreed scope of negotiations, as shown above, covers areas where the Customer Forum can add most value by drawing on customers' perspectives, where there are choices to be made about whether to offer a service, what level of service to provide and how much to spend. For example, it has been particularly useful to obtain the Customer Forum's views on the challenges associated with the growth in solar generation and customer expectations as to how we should respond.

There are two groups of 'in-scope' topics. The first group of AER-assisted topics are those for which the AER has provided formal support to the Customer Forum as identified above. The second group of topics are in-scope for the purposes of negotiation between AusNet Services and the Customer Forum, but have not been formally supported by the AER. Nevertheless, the AER has taken the opportunity to provide the Customer Forum with comments and guidance on these issues.

After our first round of negotiations with the Customer Forum, the Victorian Government advised its intention to change the current calendar year regulatory periods to a financial year basis. As AusNet Services had already negotiated aspects of our proposal in the six months January to June 2021 with the Customer Forum, we have retained this period within the scope of our negotiations with the Customer Forum, particularly in relation to customer experience initiatives.

The Customer Forum has also negotiated changes in relation to improving our customers' service experience, such as improving the accuracy and timeliness of information customers receive when there are outages. In Parts II and III of this Regulatory Proposal we provide more detail on the outcomes negotiated by the Customer Forum.

The Customer Forum has negotiated on:

- Around 40% of the forecast revenue for standard control distribution services, including most elements of the operating expenditure (opex) case and 7% of the capital expenditure (capex) case; and
- All revenue for metering services.

2.5 Key outcomes of the first round of negotiations with the Customer Forum

The first round negotiations with the Customer Forum culminated in the publication of our Draft Regulatory Proposal and the Customer Forum's Interim Engagement Report in February 2019⁹.

The Interim Engagement Report reflected the substantial progress made on negotiations by that time. In particular, a range of initiatives to improve customer experiences had been agreed, including a scheme to strengthen incentives to improve customer satisfaction with our services.

Some elements of the in-scope negotiations had not been undertaken at that time. For example, AusNet Services had not progressed its solar integration proposal sufficiently for this to be negotiated.

The Interim Engagement Report also noted that in the view of the Customer Forum, AusNet Services was still developing a mature understanding of how our delivery of electricity, particularly to some business and rural customers, directly impacts outcomes experienced by those customers. We accept this observation and, as explained in this proposal, we are committed to improving our customers' service experience.

The Customer Forum's positions on each area of negotiation after the first round of negotiation are summarised below.

⁹ The Customer Forum's Interim Engagement Report is available on our website here: <https://www.ausnetservices.com.au/Misc-Pages/Links/About-Us/Charges-and-revenues/Electricity-distribution-network/Customer-Forum>. The Draft Proposal is available on our website here: https://www.ausnetservices.com.au/Misc-Pages/Links/About-Us/Charges-and-revenues/Electricity-distribution-network/EDPR-2021_25.

Table 2.1: Outcomes of first round of negotiations

Topic	First round negotiation position (Feb 2019)
Opex	The Customer Forum considered that the opex proposal presented in the Draft Proposal could represent value for money for customers if it were adjusted to include a 1.5% productivity reduction to the trend parameter.
Major growth projects	The Customer Forum supported the proposed installation of new transformers at both Clyde North and Doreen zone substations, subject to an independent review of deferral options including peak load mitigation options.
Customer experience	A number of customer experience initiatives were agreed, including to develop a Customer Satisfaction Incentive Scheme.
Price path	The agreed price path maximised the price reduction in 2021, with prices only increasing by inflation for the remainder of the five year regulatory period.
Major asset replacement	The Customer Forum expected at this time to conclude that the major asset replacement project expenditure would represent value for money, following AusNet Services providing more clarity on its ranking process and better articulation of the specific customer benefits of each investment at the zone substation level.
Solar (DER) integration	There was no formal negotiation at this time as AusNet Services was still developing its proposal and assessing the likely impacts of the Victorian Solar Homes policy.
Innovation expenditure	At this stage the Customer Forum concluded that the \$7.5million would provide a sufficient resource to undertake innovation work over the five year regulatory period. The Customer Forum asked that AusNet Services further refine its proposed innovation projects so that they would be capable of meeting the following six principles outlined by the Customer Forum: (1) Benefit customers; (2) Driven by customer needs and expectations; (3) Readily understandable; (4) Represents strategic innovation; (5) All results published and shared; (6) Evidence of collaboration.
Smart metering	The Customer Forum considered that AusNet Services' metering proposal presented in the Draft Regulatory proposal represented value for money and would be enhanced through improved communication of metering benefits to customers. Actions to deliver further benefits and services to customers from smart meters were also agreed with the Customer Forum.
Overall reasonableness of proposal	The Customer Forum were not in a position to come to a final view on the overall reasonableness of the proposal at that time as the full proposal was not yet finalised.

2.6 Key outcomes of the final round of negotiations with the Customer Forum

As outlined in Chapter 3, extensive consultation was undertaken on the Draft Proposal and the Customer Forum's Interim Engagement Report to seek feedback from customers and other stakeholders. Where there were gaps in understanding customer needs and expectations, further customer research was undertaken, initiated by AusNet Services and the Customer Forum.

AusNet Services refined the regulatory proposal to incorporate firmer cost estimates, to respond to the guidance provided by the Customer Forum in their Interim Engagement Report and to incorporate customer and other stakeholder feedback. The proposal was also adjusted to account for the change to the regulatory periods.

The updated elements of the proposal in scope of the Customer Forum's negotiation were re-negotiated in late 2019. The following final agreements were reached with the Customer Forum. While the final agreements are summarised here, the Customer Forum's Engagement Report should be referred to for a full understanding of their evidence and reasoning.

Table 2.2: Outcomes of final round of negotiations

Topic	Final Customer Forum position (January 2020)
Opex	With the reduction in revenue per customer of \$110 at the start of the regulatory period which is maintained in real terms, taken together with other expenditure savings, the opex proposal appears to represent overall value for money.
Major growth projects	The Customer Forum support the single major growth project required at Clyde North. The Customer Forum believes this investment represents value for money for customers.
Customer experience	<p>These agreed customer experience improvement measures will deliver improved customer service, for no additional cost to customers. The Customer Forum believes the range of measures agreed to by AusNet Services adequately recognises customer needs and expectations. Further, customers expect AusNet Services will continue to meet these improvements. Consequently, at the Customer Forum's request, AusNet Services has agreed to produce an annual Customer Interaction and Monitoring Report (CIMR) to hold itself to account. The first CIMR will be published by the end of March 2020.</p> <p>The Customer Forum expects customers will receive better value for money from an enhanced incentive scheme (the Customer Satisfaction Incentive Scheme) that provides greater incentive on AusNet Services to continually improve customer service.</p>
Major asset replacement	The final negotiation position achieves lower cost than originally proposed and improved reliability at the locations served by the relevant zone substations and maintains reliability across the network. The Customer Forum believes this final proposal represents value for money for customers.
DER	The Customer Forum supports the principle that most consumers should be free to connect a reasonable level of solar energy to the network, without economic constraints. Customer research indicates customers believe it is reasonable that augmentation costs to support solar connections should be shared among customers. With this in mind, and

Topic	Final Customer Forum position (January 2020)
	the agreements above, the Customer Forum supports AusNet Services' proposed investment as value for money for customers.
Innovation expenditure	Many of the benefits of this type of investment are difficult to quantify and as such are not well catered for in the regulatory framework. Nevertheless, the Customer Forum believes a modest amount of expenditure for innovation projects is beneficial to customers as it is capable of producing significant tangible benefits for customers in the future. The Customer Forum supports the governance arrangements to establish an Innovation Advisory Committee.
Smart metering	The Customer Forum believes the additional customer benefits secured through the final negotiation with AusNet Services represent value for money. Costs have fallen further; a current charge is set to be abolished by the end of 2021; and the benefits of smart meters will be better articulated to customers.
Price path	The agreed price path reduces prices to the greatest extent possible at the start of the period, then staying flat in real terms.
Overall reasonableness of proposal	In recognition of the \$110 minimum average price reduction per customer and other customer benefits listed above, the Customer Forum concludes the revenue proposal represents value for money for customers.

2.7 Positive outcomes of the Customer Forum process

AusNet Services had clear objectives for the process:

- To drive cultural change;
- A proposal that reflected what our customers wanted;
- Engage in an open and transparent process to develop our proposal; and
- A successful negotiation of key parts of the proposal.

AusNet Services considers that the process has delivered on these objectives.

The Customer Forum has helped drive the desired cultural change

Driving and embedding true cultural change in a complex and conservative organisation like AusNet Services is challenging. We have found the deep and long term interaction with the Customer Forum has been an effective vehicle to drive that change – not just for our electricity distribution business, but across all AusNet Services' businesses. In particular, the persistent pursuit of the customer interest by the Forum members, the evidence and useful contacts they have fed back into the business has made our weaknesses more transparent and added an urgency to improvements that are needed now. AusNet Services has found this challenging but ultimately empowering from the CEO all the way down to the call centre operator. We are proud of our response and the long list of achievements and actions under way is documented in Part II of this Proposal.

The Proposal reflects customer needs and expectations

The in depth customer engagement undertaken in support of the Customer Forum process has been unprecedented for our business in its scope and depth. The Forum members have been integral to ensuring this engagement has been focussed on the true issues facing our customers. One of the key differences with previous engagement has been the deep iterative processes with community contacts that the Forum process has facilitated. A great example has been dealing with the community at Healesville which was adversely affected by a high voltage injection event (HVI) exacerbated by a less than customer centric response. Feedback from this event acted as a catalyst for major improvements to our HVI response and claims processes and it has been gratifying to reengage with members of that community to run them through how their feedback has benefited other communities subject to similar events. Working with the Customer Forum (and our customers) has ensured an exhaustive list of customer experience and service improvements have been delivered and will continue to be improved throughout the next regulatory period. This is also documented in detail in Part II of the Proposal.

With their mandate to represent the whole customer base, the Forum has also demonstrated that they can tackle the unenviable but unavoidable task of reconciling different preferences for a service that in many respects cannot be tailored to individual customers. This challenge can often be avoided by stakeholders that represent just one customer segment.

An open and transparent process

The Customer Forum process has provided an unprecedented look into AusNet Service's process for preparing a pricing proposal for the AER, how we deliver services and our expenditure drivers. Every stage of the education, customer research and engagement and negotiation with the Customer Forum has been made publically available for comment to all stakeholders and subject to AER oversight.

Finally, a detailed Draft Proposal was made available for comment a year before finalising our Regulatory Proposal. Deep dives were held on key aspects of our proposal of concern to customers over the following six months.

We are confident that while all stakeholders may not agree with every aspect of this proposal there will be no surprises or confusion over why we reached the positions put forward.

A successful negotiation

Finally, outcomes have been successfully negotiated on most key issues. Where there are qualifications, these have been explained and where the Forum conclusion is reliant on the AER review of more technical matters (such as for cyber security), this has also been made clear.

Through this process we have also demonstrated that complex issues such as the scope and timing of major capex programs with requisite trade-offs between short and long term costs and cost and reliability can be successfully negotiated with customer representatives if the network and regulator are prepared to support the process with effective education and transparency.

We are proud that these achievements have been recognised by the AER's Customer Challenge Panel appointed to review customer engagement of the Victorian Distribution networks:

The Customer Forum has probably spent more time considering the regulatory proposal than any previous consumer focused group in Australia: 40 meeting days including 14 negotiation days and 82 separate presentations is reflective of this.

AusNet Services Customer Forum is the 'most briefed' consumer-representing group ever to engage with an Australian network business regulatory proposal. They appear to be working well as a team, have clear principles and process guidelines to work to and have an excellent 'sense' of where to focus their efforts

By actively seeking a consumer perspective and consumer benefit in all aspects of the development of the AusNet Services regulatory proposal, the Customer Forum has found that they have possibly contributed more to AusNet Services and consumers at large by

actively working through informal process and networks than they have by their formal engagement in negotiating a regulatory proposal.

Allowing time without a specific agenda item or briefing has been a crucial part of the Forum's process to date.

We are impressed by the impact which the Customer Forum has already had in realigning AusNet Services business towards a more customer-centric mode of operation

Further details of how the Customer Forum's input has influenced our proposed expenditure plans and service outcomes is provided throughout the remainder of this Regulatory Proposal.

We look forward to other stakeholders expressing their views on the outcomes of this process through the formal AER review process.

3 Understanding our customers' views

3.1 Key points

The key points in this Chapter are:

- AusNet Services is committed to building a truly customer-focused, modern energy business.
- To support this objective and to support the development of our regulatory proposal, AusNet Services has undertaken a range of different forms of engagement and research to broaden and deepen our understanding of customers' needs and preferences.
- After the formation of the Customer Forum in March 2018, the Forum had a role in guiding AusNet Services' customer research.
- The Customer Forum also initiated its own, independent customer research and undertook its own extensive engagement with customers, customer representatives, Local Councils and a range of other stakeholders.

3.2 Customer research and engagement activities

In the context of this Regulatory Proposal, the objectives of our customer engagement are to:

- Understand what our customers value;
- Identify customers' current and future expectations and priorities regarding our service in an environment of energy transformation; and
- Determine customers' views on how we can change or balance our priorities and expenditures to deliver value.

Our engagement approach is to move beyond simply 'informing' and 'consulting' with customers and stakeholders to more meaningful collaboration and negotiation. Through authentic engagement, our goal is to ensure that this Regulatory Proposal has been genuinely shaped by customer and stakeholder insights and expectations. With these objectives in mind, our customer engagement approach consists of the following activities:

- Diverse customer research, initiative by both AusNet Services and by the Customer Forum;
- Early publication of a Draft Regulatory Proposal for comment;
- Proactive engagement on the Draft Regulatory Proposal, including by holding five Deep Dive workshops with customer advocates and other key stakeholders;
- Working with the Customer Forum and our Customer Consultative Committee to reflect customers' needs and expectations in the way that we deliver our electricity distribution services; and
- Strong engagement as part of our service delivery and improvement processes. This now includes involving customers in the design and testing of customer-facing processes such as solar connections.

The key customer research and engagement activities that have contributed to our understanding of customer needs and preferences as part of the preparation of this proposal are summarised below. This includes AusNet Services' key engagement and independent studies and engagement by the Customer Forum.

3.2.1 Customer research initiated by AusNet Services

AusNet Services has undertaken a series of exploratory research efforts. The research is aimed at developing an in-depth understanding of key customer and stakeholder needs and future expectations regarding our services to inform the development of our expenditure proposals.

Specifically, we developed a purpose-built research design that consists of a range of studies using a mix of research methodologies. As outlined in this chapter, we have embarked on a range of engagement and research efforts as part of our business-as-usual activities. This exploratory research leverages many of these already established activities.

Much of the research was also designed with the Customer Forum in mind. While many of the research efforts were undertaken prior to the formation of the Customer Forum, a key focus was to elicit insights that would assist in building the Forum's understanding of our customers and stakeholders.

Table 3.1: EDPR-related customer research initiated by AusNet Services

Research activity	Sample and description
<p>Large customer and advocate views (AusNet Services) January–February 2018</p>	<p>Local Councils (n = 18), Large Businesses (n = 12), Small to Medium Business (n = 3), Customer Advocates (n = 14), Community Energy Groups (n = 2) AusNet Services held in-depth individual stakeholder discussions to explore priorities and concerns.</p>
<p>Residential customer experience (RMIT) January - April 2018</p>	<p>20 households across three categories:</p> <ul style="list-style-type: none"> • Early adopters: those using or preparing to install electricity generation technologies combined with battery storage in their home; • Energy vulnerable' households: those experiencing (or at evident risk of) hardship, deprivation of the wellbeing aspect associated with energy; and • Other households: those that were not early adopters and did not indicate energy vulnerability associated with energy. <p>The research followed an ethnographic methodology to investigate residential customers' experiences and concerns, their understanding of peak demand issues and demand management initiatives, and their engagement with new energy technologies.</p>
<p>Attitude and Perception Survey (Quantum Market Research) May 2018</p>	<p>Residential (n = 900), businesses (n = 120) Large scale online survey to understand current uptake and future demand for services including solar power, battery storage, EVs, power outages and going 'off grid'.</p>
<p>Deeper Attitude and Perception Survey (NewGate Research) June 2018</p>	<p>Residential (n = 68), SME (n = 8) The study involved a broadly representative mix of customers with a diverse spectrum of demographic and sociodemographic traits, with primary segmentation by levels of financial vulnerability. The program comprised of 10 focus groups at five locations across AusNet Services' electricity distribution network (Lilydale, Benalla, Bright, Philip Island and Sale). The purpose of the groups was to deepen our understanding of</p>

Research activity	Sample and description
	customers' awareness, perceptions, knowledge and preferences across a range of electricity related issues.
Community Perceptions Toward Solar and Innovation Propositions (JWS Research) September 2019	Residential (n = 27), SME (n = 15) The consultation process on the Draft Proposal highlighted the need for further information on our customers' preferences and expectations relating to our solar integration and innovation expenditure proposals. This research involved face-to-face and online group discussions with AusNet Services customers from metropolitan and regional locations across Victoria. The two face-to-face focus groups were located in Berwick and included an older (55+ years) and younger group (25 -54 years). One on-line group consisted of residential customers and the other of small to medium business customers from across our network. Six to eight participants took part in each face-to-face group discussion, and 15 to 17 people participated in each of the online group discussions.

3.2.2 Customer research initiated independently by the Customer Forum

The Customer Forum has independently initiated the following customer research studies.

Table 3.2: Customer research initiated by the Customer Forum

Research activity	Sample and description
Business Customer Survey July 2018	300 small to medium businesses The telephone survey was developed to better understand the issues and challenges facing businesses and their strategies to address their issues, forms of energy used by the business, information sources and needs, affordability and perceived value of electricity and overall satisfaction with AusNet Services.
Major Projects Customer Survey March 2019	Survey of residential (n = 394), business (n = 88) and farm owning (n = 38) customers in targeted areas that require zone substation upgrades. To explore customers' perceptions of their electricity reliability and potential solutions. To establish preferences regarding the timing of the replacement of zone substations from connected customers.
Clyde North and Doreen Customer Survey April 2019	Targeting residential customers in Clyde North (n = 150) and Doreen (n = 150) To explore customers' perceptions of their electricity reliability and potential solutions.
Healesville - Bundoora Customer Survey July 2019	Survey of residential customers in Healesville (n = 20) and Bundoora (n = 22) who were impacted by a High Voltage Injection event. The survey compared the service levels experienced by each community as part of AusNet Services' management of the events.

Research activity	Sample and description
Who Should Pay Survey September 2019	Survey of residential (n = 200) and small to medium business customers (n = 100) to establish customer attitudes to constraining solar exports, demand management and overall perceptions of AusNet Services.

3.2.3 Business as usual engagement

In addition to these dedicated customer research activities, AusNet Services interrogates the data that we receive in the normal course of providing our electricity distribution services in order to gain valuable customer insights, including:

- Data and feedback from our call centre interactions with customers;
- Smart meter data;
- Day-to-day interactions our customers have with AusNet Services staff;
- Connection data and feedback, including for new customer connections and solar connections;
- Data from our social media platforms; and
- Insights from our regular meetings with customer advocates and other stakeholders.

AusNet Services has also significantly increased the level and extent of our customer engagement as part of our business-as-usual activities. This includes, but is not limited to, direct engagement with customers as part of the following projects:

- **Distributed Energy Resources (DER) Customer Journey**

This project focused on improving the connections experience for customers to increase customer satisfaction and reduce internal inefficiencies, preparing AusNet Services for a DER future. To be successful, it was important that various customers and stakeholders were engaged at all stages of the project (exploration, design and implementation).

- **Solar and Battery Installers**

AusNet Services has been surveying a number of solar and battery installers that operate across the network on an ongoing basis to track our Net Promoter Score (i.e., installer propensity to refer AusNet Services to a friend or colleague). Tracking this feedback data enables the business to benchmark our service performance against other best practice industries.

- **Customer Satisfaction Measure**

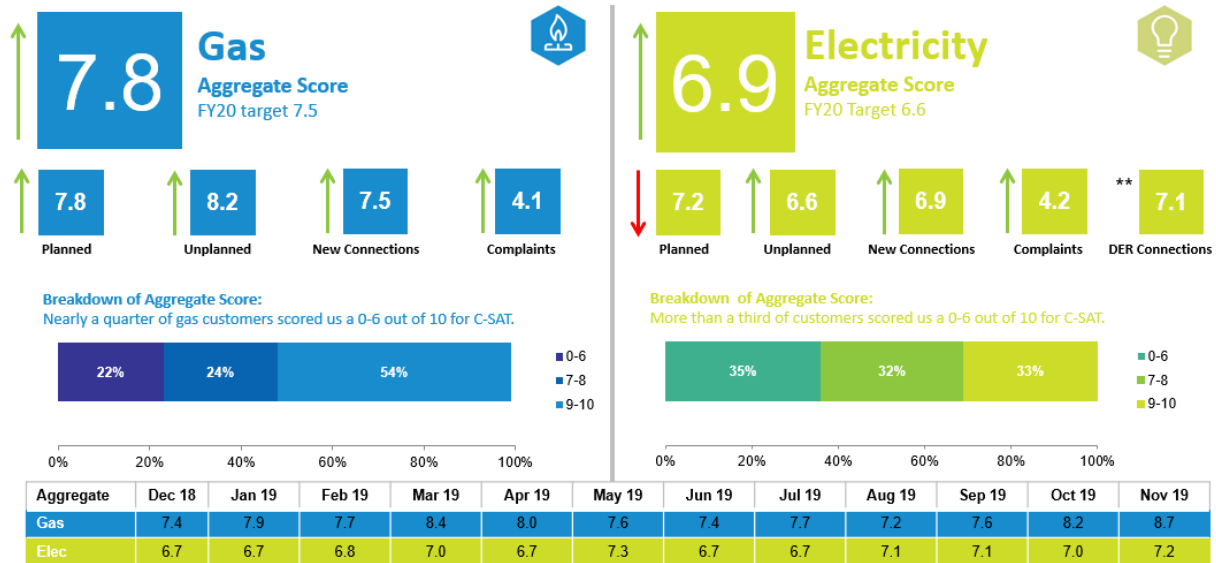
During 2018, AusNet Services implemented an externally verifiable customer satisfaction measure, structured around the main 'pain points' for customers, to understand their views and to improve their experience. Sampling both residential and small to medium business customers, this measure allows us to focus on areas that drive customer satisfaction as identified by customers.

The sample size for electricity customers is around 1,800 customers per annum.

Figure 3-1: Customer Satisfaction Survey results

Monthly C-SAT Update

Please find the rolling 12-month average C-SAT scores for the December 2018 – November 2019 period below.



* Arrows indicate change in performance direction from the baseline scores.
 ** We commenced measurement on DER connections in January 2019.

- Network Resilience Campaign – “Let’s be Power Prepared for Summer”**

As part of AusNet Services’ summer preparedness activities for 2018/19, we undertook for the first time, a broad advertising campaign through major print, digital and radio channels. The focus of this campaign was to communicate more widely in the community the work we were doing to improve reliability and help inform customers on how they could best prepare for summer.

- Residential Demand Management – GoodGrid Program**

GoodGrid is a program that seeks to educate and engage residential and small business customers to manage their energy use during peak demand periods. During 2018/19 summer period, the program financially incentivised customers to reduce their electricity consumption during peak events on the network.

Our business-as-usual customer engagement will help us shape the services we provide during the 2022-26 period. The process of staying in touch with our customers is on-going and embedded in our business.

3.2.4 Engagement on our Draft Regulatory Proposal

As already noted, this stage of the engagement involved the publication of a customer-friendly Draft Regulatory Proposal and a program of active engagement.

AusNet Service publicly released a Draft Regulatory Proposal for consultation with all our stakeholders in February 2019. The Draft Proposal contained our preliminary plans and agreements reached with the Customer Forum in our first round of negotiations. This included significant commitments to improve customer experience.

We undertook extensive engagement on specific elements of our Draft Proposal. Specifically, we ran a series of deep dive workshops with a range of stakeholders. Deep dive workshops are designed to rapidly immerse a group into a specific set of topics and seek their detailed feedback.

Table 3.3: Deep Dive workshops

No.	Date	Topics
1.	Mon, 11 Feb 2019	Overview of proposal; Customer experience; Operating expenditure; Innovation
2.	Wed, 27 Feb 2019	Public Lighting
3.	Tues, 12 Mar 2019	Repex overview; Major repex projects; Pole and conductor replacement programs
4.	Thurs, 23 May 2019	Innovation; Distributed Energy Resources
5.	Thurs, 30 May 2019	ICT

The feedback which we received helped us to fine-tune this Regulatory Proposal and assisted the Customer Forum in its negotiations. Details of the feedback received is provided in Chapter 4 below.

3.3 Customer Consultative Committee and Consumer Challenge Panel

AusNet Services established a Customer Consultative Committee (CCC) in 2016 in recognition of the need to build closer ties to customers as part of responding to the rapid change in our industry. This is a permanent body that brings a consumer perspective to our business. The CCC meets four times a year and engages with all of AusNet Services' businesses, not just our electricity distribution network.

The CCC has also helped us to develop the plans for the electricity distribution business that are reflected in this proposal. We consulted with the CCC on key decisions relating to the Customer Forum. The CCC has communicated and engaged with the Customer Forum throughout the process. Further information on the CCC is available on [our website](#).

In addition to AusNet Services' CCC, the AER appoints a Consumer Challenge Panel (CCP) to challenge our expenditure proposal and plans. The CCP advises the AER on whether it considers network businesses' proposals are in the long term interests of consumers. The CCP has met with the Customer Forum to provide guidance based on its previous experience in energy regulation. Further information on the CCP is available on the [AER website](#).

On various occasions, the Customer Forum met with other representatives of the AER, the CCP and the CCC to gather additional information to assist in its negotiations.

3.4 Supporting documentation

The key customer research and engagement reports initiated by AusNet Services and the Customer Forum are provided as supporting documents to the proposal. They are:

- Appendix 3A - Large Customer and Advocate Views (AusNet Services);
- Appendix 3B - Residential Customer Experience (RMIT);
- Appendix 3C - Attitude and Perception Survey (Quantum);
- Appendix 3D - Deeper Attitude and Perception Survey (NewGate Research);

- Appendix 3E - Community Perception Towards Solar and Innovation Propositions (JWS Research);
- Appendix 3F - Business Customer Survey;
- Appendix 3G - Major Projects Customer Survey;
- Appendix 3H - Clyde North and Doreen Customer Survey;
- Appendix 3I - Healesville-Bundoora Customer Survey;
- Appendix 3J - Who Should Pay Survey;
- Appendix 3K - Deep Dive 1 - Proposal overview - Summary Report;
- Appendix 3L - Deep Dive 2 - Public Lighting - Summary Report;
- Appendix 3M - Deep Dive 3 - Repex - Summary Report;
- Appendix 3N - Deep Dive 4 - Innovation and DER - Summary Report; and
- Appendix 3O - Deep Dive 5 - ICT - Summary Report.

4 Customer and stakeholder views

Key messages from our customers and other stakeholders and how they have been included in our 2022-26 proposal is outlined in this chapter.

4.1 Feedback on key issues

What our customers value most from us

Affordability: This is always a key concern of our customer and relates to concern for their total bill, as well as the electricity distribution part of their bill. This is the issue that is at the top of customers' minds. The majority of our customers surveyed consider that bills are increasing and that affordability, particularly for vulnerable customers, is a strong concern. This was highlighted in the ECA submission to our Draft Proposal, who noted affordability continues to be the primary concern for consumers.

Reliability: Customers generally expressed satisfaction with the level of reliability, and understanding about occasional outages. However, there is a desire for better communication when outages do occur. Also, both residential and business customers are concerned by future pressures on our ability to maintain reliability including population growth and the performance of the network over summer.

Views of business customers: Business customers have very strong concerns about affordability and in most cases place a higher value on reliable electricity supplies than residential customers.

Customer views on aspects of proposal in scope of negotiation with the Customer Forum

Customer experience: Customer satisfaction surveys and complaints data identified key "pain points" for electricity distribution customers as our solar connection processes, new electricity connection processes and outage management processes. Customers are also seeking improvements to how AusNet Services manages so-called High Voltage Injection events (which are infrequent events where a fault in our network can damage customers' electrical equipment) and the claims processes that arise from these events. Across the board there is also a desire for improvements in our communications with customers: in terms of convenience, timeliness and accuracy.

Support for solar exports: Customers did not always understand that solar exports onto the network can cause voltage problems for our distribution network. Our customers expect to be able to export excess solar onto the network and the majority would be very unhappy if this were restricted. There was support for sensible investment to allow solar exports so this valuable energy is not wasted and can reduce cost pressures for all customers, through expected reductions in wholesale market prices. Customers sought a clear understanding of the likely degree of constraints on solar, with and without investment. There was support for sharing of the costs of allowing solar exports, including with government.

Innovating to transform the network: Customers understand the energy system transformation. They support modest innovation to prepare for, and assist, this change – as long as tangible benefits for customers are delivered. There is greatest support for innovation activities that deliver benefits across the customer base and that benefit the wider community. The need to prepare for mass market electric vehicle uptake is seen as a longer term issue.

Network expansion plans: Customers were concerned by consideration of delaying projects to reduce costs in the short term where this may potentially have reliability impacts. While the survey research done has its limitations, there appears to be a strong customer preference for

maintaining reliability and ensuring that there is no undermining of this core service provided by our electricity network.

4.2 Feedback on Draft Proposal

We received strong feedback from a diverse range of customer advocates and stakeholders. AusNet Services also held “deep dive” workshops to explore our plans in greater detail with key advocates and stakeholders.

Key feedback included:

- A desire for AusNet Service to do better in terms of achieving efficiency gains that could lower operating costs and hence further reduce customer bills
- There was strong support for the initiatives to improve customer experience and to retain strong incentives for this into the future
- Generally there was support for plans to invest to allow solar exports where the costs of this are outweighed by the benefits that all customers receive, but remaining concerns about imposing these costs on vulnerable customers
- On the proposed modest innovation expenditure, there was concern to ensure that we are collaborating and hence not unnecessarily repeating similar innovation work by other business. Also there was a concern to ensure that benefits for customers were clear and that there would be strong governance involving customer and sharing of all learnings across the industry.

Further detail is summarised in the table below.

Table 4-1: Feedback from the Deep Dive Sessions

Topic	Key feedback received
Opex	<p>There was general indifference between choice of 2018 and 2019 as the base year.</p> <p>Questions were raised regarding our proposed step changes; including whether the REFCL costs were already included in the base year.</p> <p>Participants considered a productivity adjustment of ‘not less than 1%’ should be reflected in the proposal.</p>
Customer experience	<p>Many (but not all) participants supported the proposed customer satisfaction incentive scheme and using customers reported satisfaction as the basis of the scheme.</p> <p>In terms of the customer experience improvement initiatives, suggested initiatives identified included provision of better information/communication during heatwaves, improving communication with non-English speakers and ensuring that “pain point” work programs aligns with priority customer needs rather than what we can fix.</p>

Topic	Key feedback received
Innovation	<p>Concern were expressed that:</p> <ul style="list-style-type: none"> - networks do not collaborate and share knowledge resulting in higher costs and duplicated effort across the industry - existing incentive regimes already provide incentives and funding for innovation – there is uncertainty about customer willingness to pay for innovation that provides longer-term benefits - particularly in the current high cost environment - customers should be involved in the development and oversight of innovation programs and strong government in line with the recent Ausgrid approach. - wide support for innovation for network transformation, but not innovation funding for customer experience improvement initiatives - still significant scepticism about funding individual business innovation, would like a more centralised industry-wide approach <p>ECA suggested a number of “hurdles” must be met to approve innovation funding e.g. true innovation, new knowledge, not covered by an existing incentive scheme.</p>
Major projects	<p>Ensure there is sound case for each project and supported by failure rates Be cautious about local willingness to pay studies that support our preferred position rather than deferrals – as locals feel the reliability impact but costs are smeared across all customers Further evidence sought that deferrals would actually translate to reduced reliability</p>
Solar integration	<p>There was strong support for AusNet Services’ three-phased approach to managing solar exports: (1) optimise the network as much as possible, (2) strategically deploy intelligent technology for DER, (3) only augment where economic.</p> <p>The participants were complimentary of methodology and data rich approach to determining economic augmentation – but participants were interested in further information on key assumptions e.g. amount of export per GW of solar, key sensitivities.</p>
ICT	<p>AusNet Services need to better explain our proposal in terms of outcomes/benefits for customers Concern at the relatively high recurrent cost of ICT i.e. for maintaining systems and capabilities</p>

AusNet Services also received formal submissions on the Draft Proposal from the AER, the Consumer Challenge Panel, the EUAA, ECA, SACOSS. These are summarised below and are published in full on our [website](#).

Table 4-2: Submissions on Draft Proposal

Topic	Key feedback received
AER	Identified need for further evidence, clarification and supporting information on elements of opex including REFCL, cloud-based IT and cyber security. On the innovation proposal, the AER raised the need for clearly defined projects, evidence of customer support & demonstration that innovation not already funded by existing incentive schemes.
CCP	Seeking further information on opex step changes needed; possibility of an opex productivity adjustment above 0.5% per annum; concerns about the deliverability of the augex and major asset replacement programs; strong support for the customer experience improvement initiatives and the Customer Satisfaction Incentive Scheme; support for effective, targeted innovation by network businesses, where this can deliver meaningful benefits to customers but advocated for stronger governance and information sharing;
EUAA	Seeking cost and price reductions beyond those being delivered by changes to the regulatory framework; support the customer experience actions, particularly the appointment of the Retailer & Large Customer Liaison role.
ECA	Affordability continues to be the primary concern for consumers; Establish a clear baseline definition on current customer services to ensure that customers don't pay twice for improved customer service through expenditure allowances and incentive payments; Seeking further information to allow a meaningful assessment of capex underspending, step changes to opex, the Customer Satisfaction Incentive Scheme (CSIS) and metering costs and benefits; Concern whether all of the innovation projects proposal represent "true" innovation; Provide greater transparency on the allocation of metering ICT costs to standard control; Notes that a number of the AER's decisions are yet to be included in the proposal including the productivity adjustment and the tax decision.
SACOSS	Notes the extensive engagement process prior to lodgement Concerned that there is too much focus on individual customer's reliability and little consideration given to questions around reasonableness, appropriateness and non-network and deferral options; More information needed on survey work regarding willingness to pay for the augex major project and there does not appear to be any assessment of willingness to pay outside of the proposed zones There is a need for need for strong scrutiny by the AER of the augex elements in the Regulatory Proposal.

We recognise that there will be elements of our proposal that have materially changed since the time our Draft Proposal was published. For example, interest rates and debt costs have continued to fall and we have fully depreciated assets which are either no longer in service, or have inappropriately long lives assigned to them. Collectively, these changes have allowed us to increase the price cuts since the Draft Proposal and benefit future customers by stabilising prices in the longer term, when interest rates inevitably rise. For our investors, these actions manage cashflows at a time when the regulatory regime is delivering negative profits in the short term.

Up-to-date revenues, including out of scope components of revenue, have been published on our webpage throughout the New Reg trial and we will continue to consider stakeholder views on this aspect of our proposal throughout the remainder of the review process.

4.3 Summary of customer research studies

This section provides a summary of key insights from the customer research initiated by AusNet Services. The summary of insights from the research initiated by the Customer Forum is provide in the Customer Forum's Engagement Report.

Full customer research reports (those initiated by AusNet Services and the Customer Forum) are provided in Appendices 3A to 3J.

Research	Key findings
<p>Large customer and advocate views (AusNet Services) January–February 2018</p>	<p>The objective of this research was to engage with a diverse range of stakeholders operating in AusNet Services electricity distribution network to develop a rich understanding of their electricity related issues. It was also to understand how they currently engage with AusNet Services and identify opportunities for improvement.</p> <p>Key messages from the research were as follows:</p> <ul style="list-style-type: none"> • <i>Affordability</i>: Electricity affordability as a result of recent and significant prices increases was voiced as a major concern for all stakeholders – and that this should be considered in developing our proposal; • <i>Reliability</i>: <ul style="list-style-type: none"> ○ Large businesses stressed the problems and costs that outages, including momentary outages, can impose; ○ Improved communication was sought when outages occur; • <i>Energy Efficiency</i>: Many businesses and Council were taking steps to improve energy efficiency; • <i>Rooftop solar</i>: <ul style="list-style-type: none"> ○ There was stronger interest but still caution by many small to medium businesses; ○ Advocates and Councils noted strong interest and investment in rooftop solar by household customers, with the size of systems being installed increasing; ○ Councils and community groups highlighted the need for improved solar connection processes and some supported a smart distribution network that can accommodate all of the renewable technology that might come onto the network in the near future

Research	Key findings
<p>RMIT Households – energy vulnerable households, early (technology) adopters, other</p> <p>April 2018</p>	<p>The interviews engaged householders in the following topics or themes: main electricity-related concerns (as identified by household); energy use, tariffs and bills (including any financial challenges); reliability of supply; peak demand and demand management; new energy technologies and distributed generation experiences, and wants, and needs regarding engagement from the electricity sector.</p> <p><i>Electricity costs a priority concern:</i> Nearly all households were concerned about electricity price rises and current costs. Concerns about being able to afford energy bills meant that some households may be using less heating and/or cooling than would be most beneficial to their health.</p> <p><i>Smart meters and data:</i> Most households thought smart meters were for the benefit of electricity companies. Most did not think they could or would find their smart meter data useful.</p> <p><i>Transitioning to renewable energy:</i> If they didn't already have rooftop solar, most households wanted to install it. Most households were not aware of the electricity infrastructure implications of distributed generation. Once explained, there was strong support for modernising the electricity grid to accommodate household generation of electricity – including customers that didn't expect to install solar. Modernising the grid was seen as an essential energy sector responsibility, and often a national priority.</p> <p><i>Satisfaction with reliability:</i> The customers interviewed were satisfied with the current reliability of their electricity supply (some noted improved reliability in their area in recent years).</p>

Research	Key findings
<p>Attitude and Perception Survey (Quantum)</p> <p>May 2018</p>	<p>Objectives were to understand uptake and demand for services among residential and small to medium business customers for: solar power; battery storage; electric vehicles; issues around continuation of supply; going off-grid.</p> <p><i>Pricing:</i> Around two-thirds of residential and business customer consider that their electricity bill have increased over the previous two years, and more than a quarter consider they have increased a lot.</p> <p><i>Power outages:</i> Most residential customers (63%) consider that one outage a year is acceptable. Around half of the business customers consider this would be acceptable.</p> <p><i>Solar power:</i> Most households with solar panels would be very unhappy if they were restricted in the time of day (79%) or amount of energy (85%) they could sell back to the grid. Close to 60% of household and business customers without solar were interested in installing solar panels.</p> <p><i>Battery storage:</i> Close to 10% of residential customers with solar panel had a battery. Around half of the residential and business customers with solar panels were interested in getting battery storage.</p> <p><i>Electric vehicles (EVs):</i> Only 1% and 4% of business customers owned an EV. Around 27% of households and 35% of businesses were interested in getting an EV. However, there was concern regarding availability of charging stations.</p> <p><i>Future service needs:</i> Less than 10% of household or business customers would consider going off-grid in the future.</p>

Research	Key findings
<p>Deeper Attitude and Perception Survey (NewGate)</p> <p>August 2018</p>	<p><i>Valued services:</i> the most highly valued services were reliable continuous supply, safety and customer service, which were seen as central to AusNet Services' social licence to operate. 90% of customers had experienced an outage in the previous year – many customers were tolerant of this, but 22% were concerned. Business customer had a higher willingness to pay for reliable supply.</p> <p>Customers prioritised receiving timely and accurate information about outages and implementing safety measures to prevent accidents and bushfires. This was followed in importance by connecting new and solar customers.</p> <p><i>Solar connections:</i> Participants were not aware that increasing solar exports could create issues for the network or potential cost of connection. Solar was seen as the way of the future and that a solution was needed to avoid limits on solar connections. The majority of participants supported sharing costs among all customers, 54% supported an option to upgrade the network (at a cost of \$10 annually for all customers) and 40% supported a smart control solution (at a cost of \$5 annually).</p> <p><i>Demand response:</i> Participants raised barriers to their ability to engage in demand response. For voluntary demand response programs, the majority favoured manual over automated demand response, as they valued autonomy.</p> <p><i>Data:</i> Participants were unaware of the benefits of smart meters. They were potentially interested in more data on energy usage.</p>

Research	Key findings
<p>Community Perceptions Toward Solar and Innovation Propositions (JWS Research)</p> <p>September 2019</p>	<p><i>Reliability:</i> Generally satisfied with the reliability of their electricity supply. It is assumed that infrastructure will need to be updated to accommodate increasing population and associated demand.</p> <p><i>Renewables:</i> Assumed that future electricity supply will move away from coal to renewables including rooftop solar and battery storage.</p> <p><i>Limitation of the grid:</i> Not aware that the grid cannot store power and was not built for two-way flows. Concerned about renewable energy being “wasted” if there are constraints on solar exports.</p> <p><i>Support for increasing solar export capacity:</i> There was higher support for expenditure levels (and associated capacity expansion) in line with the DER augmentation level included in this proposal or to build out constraints, particularly among younger customers.</p> <p><i>Innovation projects:</i> Support for \$7.5 million expenditure to support energy transformation, stand alone power systems and to prepare for EVs – though preparing for EVs was of least interest. Customers were seeking information about the expected benefits or outcomes and a timeline to keep the distributor accountable.</p>

4.4 How we are responding to customer views

The regulatory proposal responds to customer views as follows.

- **Affordability:** AusNet Services has absorbed a number of opex step changes to reduce bills and effectively doubled the AER’s annual productivity adjustment of 0.5% to 1%. AusNet Services is reprioritising resources to meet the majority of customer experience improvement costs rather than increasing costs. One exception is modest investment of \$2.6 million for cloud-based IT systems delivering improved customer service capability (a Customer Relationship Management (CRM) IT system and Outage Management system);
- **Customer experience:** We are making substantial improvements to customer service delivery in the areas where customers have identified concerns. This includes in relation to communication, management of outages, solar and new network connections, claims and so on. We are also providing greater support and accessibility for business customers. AusNet Services is undertaking active cultural change to:
 - Better understand customers and put customers at the heart of our decision making; and
 - Identify customer pain points and have customer-led design of solutions;
- **DER:** Supporting customer expectations that we support solar exports to deliver benefits for all customers, but balancing this with the need to manage costs (by using dynamic management and only augmenting the network where cost effective);
- **Reliability and safety:** Customers do not want this to be compromised. Our proposal will maintain customer’s expected standards of reliability and safety. However, the Customer Forum has ensured that non-network solutions for the Clyde North augmentation project were fully explored. On the repex major projects, the Customer Forum encouraged us to make prudent adjustments to the program without compromising reliability outcomes;

- **Innovation:** We have tailored our innovation proposal to areas of greatest concern to customers including the energy sector transition. Where there was weaker support (e.g. for electric vehicles preparation), this has been removed from the innovation program. Our proposal also has strong governance arrangements responding to customer concerns, and involving the other Victorian DBs to encourage greater collaboration and information sharing.
- **Metering:** Significant cost efficiencies are delivering affordable services. In agreement with the Customer Forum, there is continuing effort and initiatives to leverage the customer benefits of smart meters, including better using the meters to improve outage management and solar integration.

Further information on our expenditure plans and the services we propose to deliver are provided in Part II of this Regulatory Proposal.

Part II – Improving customer experience

missionzero



5 Improving customer experience

Key Points

The key points in this Chapter are:

- One of the most important outcomes of the negotiation with the Customer Forum has been to understand the improvements that customers are seeking to how they experience our services and to agree clear actions with the Customer Forum to improve customer experience.
- There are three key elements to the agreement with the Customer Forum:
 - A Customer Satisfaction Incentive Scheme: this will provide AusNet Services with incentives to improve customer satisfaction outcomes in relation to planned and unplanned outages, new connections and complaints. Customer satisfaction levels above the agreed target will result in a financial reward and satisfaction levels below the target will result in a financial penalty.
 - Customer experience improvement initiatives that will be implemented immediately.
 - Customer experience improvement initiatives that will be implemented over the next regulatory period.
- In addition, AusNet Services has agreed that our progress against these initiatives will be monitored and reported on annually via a public Customer Interactions and Monitoring Report.
- AusNet Services is not seeking additional funding for these initiatives, other than funding for a new Customer Relationship Management (CRM) IT system. Funds for this cloud-based system are sought in our opex proposal.

Part II Structure

The remainder of this Part II is structured as follows:

- Chapter 5.1 describes the agreed Customer Satisfaction Incentive Scheme;
- Chapter 5.2 outlines the customer experience initiatives that have been agreed for immediate action; and
- Chapter 5.3 provides the customer experience initiatives that will be implemented over a longer time frame to the end of the next regulatory period (i.e. by June 2026).

5.1 Customer Satisfaction Incentive Scheme (CSIS)

AusNet Services and the Customer Forum have finalised negotiations on a CSIS.

The CSIS has been developed to provide more holistic incentives to improve customer experience. Under current incentives schemes, there is only a telephone answering incentive (contained in the Service Target Performance Incentive Scheme). This does not adequately address the broad needs and preferences of our customers. In their Interim Engagement report, it was noted by the Customer Forum that, if approved by the AER, this scheme will further respond

to customers' needs and expectations by providing a strong incentive for us to raise of level of customer service.

The Customer Forum considers the agreed CSIS to be a significant improvement on the existing incentive arrangements. Nonetheless, both AusNet Services and the Customer Forum acknowledge that there is scope to improve this scheme over time. In addition, the CSIS is only one element of AusNet Services' commitment to improving customer experience.

The agreed CSIS will reference a monthly telephone survey of AusNet Services' residential and business customers' satisfaction. The survey captures customer satisfaction with: Unplanned outages; planned outages; new Connections (Basic and Standard); and complaints.

We propose to use the average of historical performance as the targets under the CSIS. This annual performance measure will be compared against performance targets. Customer satisfaction levels above the target will result in a financial reward and satisfaction levels below the target will result in a financial penalty. The size of the reward or penalty varies with the degree of improvement or decline in satisfaction as the incentive rate scales the size of the reward for the level of improvement or decline in performance.

Under the agreed CSIS, 0.5% revenue (or \$3m) will be at risk in total in the 2021-22 to 2025-26 period. This matches the revenue at risk under the existing telephone answering parameter in the Service Target Performance Incentive Scheme (STPIS) and ensures that customers are not exposed to overall greater revenue at risk than under the existing scheme.

Chapter 16 of this proposal provides information on the detailed agreed design of the proposed CSIS.

We note that the AER's consultation on the introduction of a CSIS more broadly in the National Electricity Market has received strong support from customers and other network businesses.

5.2 Agreed customer experience initiatives for immediate action

Nine customer experience improvement initiatives have been agreed with the Customer Forum. These initiatives were included in our Draft Proposal and have been developed and refined based on feedback from advocates and the Customer Forum.

Initiative 1: Establishing a clearer accountability for customer

Actions by AusNet Services:

Appointment of dedicated management and staff with responsibility for supporting customers and improving customer experience outcomes. An important part of providing this support is greater interaction between customers and our staff (including senior managers) and greater accessibility for customers to people and advice within our organisation.

In actions to date, AusNet Services has made a number of staffing appointments and created an internal customer experience working group that coordinates the improvement of customer experience across the multiple service arms of the business.

The staffing appointments made include:

- A General Manager, Customer Experience, with a team of eight dedicated staff supporting business, large generation, solar communities, councils and other customers.
- The Customer Community Relations team (face to face customer contact) and Customer Service Team (call centre interactions) were consolidated under a Manager Customer Service in 2018 and have had their duties narrowed as of September 2019 to ensure that

they are wholly focused on improving customer outcomes. In addition, four additional customer facing community-based staff are currently being appointed to the customer service team.

How will our performance be measured:

- Number of meetings between AusNet Services staff and customers/ customer representatives.
- Bi-monthly customer service working group meetings.
- Ongoing resourcing of the customer experience teams.

Initiative 2: Aligning our incentives with customer outcomes

Actions by AusNet Services:

Description

Subject to Board Approval and development of appropriate metrics, link employee performance and bonus outcomes with customer satisfaction outcomes.

Update

In the period since we agreed to this action, a number of activities have taken place:

- FY20 Corporate target for Customer Satisfaction (C-SAT) established. Performance on this is communicated across the business on a monthly basis (see Appendix 3 for the latest communication).
- All Regulated Business Divisions and teams have embedded C-SAT into their KPI goals (which determine remuneration and bonus) including: Regulated Energy Services (incl. Customer Experience, Electricity and Gas Distribution), Delivery (incl. Customer Services), and Network Engineering (incl. Network Intelligence and Analysis).
- C-SAT targets have been embedded into third party, gas and electricity, delivery partner contacts to monitor performance.

Feedback on this initiative

No formal feedback was provided on this initiative.

Ongoing metrics

To measure our performance on this action the following metrics have been proposed:

Customer Forum suggested:

- **C-SAT**

AusNet Services proposed:

- Customer Satisfaction (or the drivers of satisfaction) cascaded across the Regulated business.

3. Building our understanding of customers' needs and expectations

Description

Commence an ongoing research program, including annual surveys and targeted research, to ensure we have continuous insight into our customers' needs and expectations, and ensure the insights derived in the research are used by the business to deliver ongoing customer experience improvements. In designing the research program, ensure there is a balanced research focus that will improve our understanding of the differing needs of urban and rural customers, and residential and business customers.

A prudent customer research plan that is issues based, actionable and is designed to drive a culture of internal improvement is being developed. The plan will clearly state the purpose and target customer group will be developed and the outcomes and impact of the research will be reported each year.

Update

In the period since we agreed to this action, a number of activities have taken place:

- We have embedded a research role into the Customer Experience team. The primary function of the person in this role is to design and lead research across the business. The person in this role is also responsible for the democratisation of research across the organisation, ensuring that everyone understands the needs and wants of customers and how to embed these into decision making.
- Amendments to the C-SAT program have been made to ensure our performance across all key customer touchpoints (incl. DER new connections) is being measured and the sample size is reflective of actual volumes.
- Ongoing user testing has been embedded into the delivery of our customer experience improvement work programs. This includes testing key concepts with customers before build and then testing prototypes to ensure solutions are fit for purpose.
- Research Partnerships with Consumer Policy Research Centre (CPRC) and Monash University finalised and work commenced to build our knowledge on how to better support vulnerable customers and emerging digital lifestyle trends, respectively. .
- Budget secured and planning of ongoing research program underway which will include details on the impact of the research.
- Exploring options to model a program on the CAREing initiative¹⁰ (further discussion with Customer Forum will be sought).

Feedback on this initiative

No formal feedback was provided on this initiative.

Ongoing metric

To measure our performance on this action the following metrics have been proposed:

Customer Forum suggested:

- Evidence of well-developed customer research, outcomes and the impact of the research.

AusNet Services proposed:

¹⁰ <https://www.unitingkildonan.org.au/programs-and-services/financial-support/caring/>.

- A yearly customer research plan, stating objectives, how it is going to be used and outcomes/impacts. The first plan to be published in September 2019.

4. Fixing customer pain points and improving customer experience

Description

Work with customers to identify and implement operational and communication changes that address customer 'pain points' associated with solar connections, new connections and outages and result in tangible improvements to customer experience. Ensure these improvements are communicated clearly to our customers.

Remedial work will be undertaken on emerging customer 'pain points'.

Update

Since late-2018, the Customer Experience work programs being undertaken within AusNet Services have focused on a number of "journeys" to produce tangible customer experience improvements. It is important to note that feedback from customers via formal (C-SAT) and informal (meetings) channels is driving the prioritisation of these projects. Each of these is outlined below.

(a) DER Improvements

- Delivered an online pre-approval calculator to automate applications up to 30kW – 95% approvals through this tool.
- Updated website content for customers interested in DER – installers, customers, communities, generators.
- Digitised forms for connections up to 1.5MW.
- Identified owner for systems >1.5MW and hired dedicated engineer to manage.
- Hire community DER liaison to manage community energy projects.
- Re-designed manual process for applications with installers and design engineers.

(b) Gas new connections - key initiatives included:

- Communications with builders. We introduced a large scale trial to message builders before attending sites. The aim of this effort was to reduce the time it takes for customers to connect.
- We have enhanced our suite of communications to ensure messaging is clear and customer focussed.
- We established a Distribution Business working group to align and develop joint standards across Victoria.
- We reconfigured and automated our connections status report to provide to Retailers, giving them more accurate information and visibility of status.

(c) Distributed Energy Resources Register (compliance) – changes included:

- When connecting solar and batteries, installers must seek pre-approval from AusNet Services, but are then responsible for installing the technology. The installers are not required to confirm the exact technology or capacity installed. AEMO is seeking to establish accurate records on all installations. Therefore, we are building this additional step into the current process.

- (d) Implementation of Self Service capability and a Customer Relationship Management (CRM) system:
- We are developing a strategy for customer self-service to create a co-ordinated experience across our gas and electricity network businesses.
 - We are developing a roadmap of use cases to continue to build on the CRM and which will ultimately enable us to create a single view of customer (i.e., all the customer information in one system).
 - The delivery of the CRM is scheduled for mid- 2021 to align with the IT planning to support this functionality. Please refer to Section 3.2.1 for more information on this.

Feedback on this initiative

We ran a series of deep-dive workshops with customer advocates and stakeholders to explore their perceptions of our Draft Proposal. In the first deep-dive participants provided feedback on our customer experience initiatives, specifically it was advised that the 'pain point' work programs should align with priority customer needs, not what can be easily fixed within the business.

Ongoing metric

To measure our performance on this action the following metrics have been proposed:

Customer Forum suggested:

- AusNet Services response to identified to pain points.
- Evidence that the implementation of the program of works has improve the life/experience of customers.
- Time based measures (i.e., time to connect, time to restore power).

5. Collaborating with the community

Description

Work closely with customer representatives to:

- Identify and prioritise ways we can improve customer experience, including through better use of smart meter data.
- Improve our understanding of vulnerable customer needs.
- Help equip community service organisations to assist vulnerable customers.
- Offer an annual grant through a contestable process to welfare organisations to conduct vulnerable customer energy usage research to better meet the needs to vulnerable customers.

Update

In the period since we agreed to this action, we have been working closely with the Consumer Policy Research Centre to:

- Publish a report identifying suburbs within our distributions areas that are experiencing disadvantage.

- Develop a report outlining the information needs of community workers and their clients, based on interview, survey and co-design research.
- Identify target areas for an outreach program and designing the type of information that needs to be delivered through such program.

Feedback on this initiative

Our Customer Consultative Committee member representing St Vincent de Paul suggested that we should use GSLs for community projects (e.g. local vegetation management). He also suggested that a 'kits for schools' program could be great way to drive energy related changes in behaviour in households (e.g., similar to education packs produced by Yarra Valley Water).

Ongoing metric

To measure our performance on this action the following metrics have been proposed:

Customer Forum suggested:

- Publication of results of vulnerable customer energy usage research and integration of this research into our customer strategy.
- Evidence of working with service providers to relieve hardship.

AusNet Services proposed:

- Evaluation of the usefulness of outreach program by participants and community workers.

6. Making the organisation easier to deal with

Description

Ensure that our customer contact centre team are selected, trained and monitored to ensure that they provide empathetic service to all customers, and proactively identify and assist hardship customers.

Empathy training will be provided at employee induction, annually thereafter and reinforced as needs arise.

Update

Since we agreed to this action, a number of initiatives have been implemented:

- Ongoing empathy training for call centre employees has been implemented.
- A call centre satisfaction performance monitoring (mystery shopping) program has been launched with an independent agency, Customer Service Benchmarking Australia. The program monitors and assesses the performance of call centre staff on key customer service metrics.

Feedback on this initiative

No formal feedback was provided on this initiative.

Ongoing metric

To measure our performance on this action the following metrics have been proposed:

Customer Forum suggested:

- Frequency of training provided to staff.

- Reporting of customer satisfaction with customer service provided by the call centre.
- Increased first call resolutions

7. Taking care of our most vulnerable customers

Description

AusNet Services to implement changes to:

- Improve restoration times for life support customers, using smart meter data.
- Provide better communication to life support customers in advance of planned outage (e.g., SMS, social media and community messaging channels).
- Proactively engage with customer representatives regarding the best approach to advocating for the needs of life support customers, including the potential establishment of a peak advocacy body.
- For the purposes of this commitment we will establish life support customer restoration time benchmarks.

Update

As outlined above, we have partnered with the Consumer Policy Research Centre to identify the key social workers engaging with vulnerable customers on our distribution network. We will then co-develop energy resources to provide social workers to help them in better assisting vulnerable customers.

Feedback on this initiative

Our] Customer Consultative Committee member representing St Vincent de Paul suggested that in order to support vulnerable and disadvantaged customers, we need to adopt an agency approach – this means a focus on how to empower customers to optimise their own agency (i.e. support customers' ability to independently making their own choices).

In the first deep-dive, focusing on customer experience, it was noted that all Distribution Businesses could provide better information/communication during heatwaves and to use technology to minimise outages such as voltage management – AusNet Services is seen historically as a poorer performer however recent improvements have been recognised.¹¹

Ongoing metric

To measure our performance on this action the following metrics have been proposed:

Customer Forum suggested:

- Report on meetings undertaken.
- Annual check on life support customer reconnections compared to benchmark.

¹¹ In their Post (28 & 29 January 2018) Event Review, DELWP, reported that 'two DNSPs (one of which was AusNet Services) had "proactively communicated with customers in advance of outages that occurred on Sunday 28 January. Prior notification can be important for customer for planning ahead to avoid using appliances necessarily, or to make alternative

8. Making our claims process easier for all customers

Description

AusNet Services to implement changes to the claims process for property damage from High Voltage Injection (HVI) incidents:

- Significantly reduce claim assessment timeframes and customer discomfort by partnering with contractors that can assist customers on-site with emergency repairs and provide a report to support their compensation claim.
- Provide a voucher for financially vulnerable customers to allow them to purchase a temporary replacement appliance (e.g. a small heater).
- Be available for 24/7 phone assistance to help customers complete their claim form.
- Provide more flexible and timely compensation amounts by paying the higher of market value or second-hand item, rounding up to the nearest \$100 and transferring funds via EFT instead of cheque.
- Develop a best practice guide to HVI customer response including benchmarks; and involve customers in developing the guide.

Update

Since we agreed to this action, a number of process improvements and internal policy changes have been implemented:

- Electricians employed by AusNet Services attend HVI events to provide immediate assistance (vouchers provided if needed).
- Customer Operations Resolution team members attend impacted areas to provide information and assist customers with their claims.
- Regular communication between the Contact centre Shift Supervisor and Resolution Team members on site to allow vulnerable/elderly customers to be prioritised.
- Once the claim has been assigned, a direct contact number and email address are provided to customers.
- An SMS is sent to all customers who remain off supply at the end of an event requesting them to contact us.
- AusNet Services is also aiming to integrate claims as an important part of the Self-Service strategy.
- Planning to meet with TasNetworks to learn about their claims process which has been praised by the sector.
- Planning a co-collaboration approach with affected Healesville and Bundoora customers in the journey program to ensure that any changes to the claims process are customer-centric.

Feedback on this initiative

No formal feedback was provided on this initiative, however, vulnerable customer advocates have been very positive in informal discussions.

Ongoing metric

To measure our performance on this action AusNet Services proposes the following metric:

- Ongoing monitoring and evaluation of customers' HVI experience via an external party to ensure independence.

9. Holding ourselves to account**Description**

We have agreed to publish an annual Customer Interactions and Monitoring Report. This report will track the progress of customer experience actions, present results under the Customer Satisfaction Incentive Scheme, progress in how we manage HVI events and include other measures that are important to our customers. The report will be externally reviewed to ensure independence.

Update

Since we agreed to this action, a number of initiatives have commenced:

- We have begun reporting on the on-going customer activities being undertaken across the AusNet Services including by the Customer Strategy, Customer Experience and Customer Service Delivery teams.
- Consult with Customer Forum on the design of the report.

Feedback on this initiative

No formal feedback was provided on this initiative.

Ongoing metric

The key metric for this action will be the yearly publication of the Customer Interactions and Monitoring Report and feedback gathered.

5.3 Post 2020 proposed customer experience initiatives

We have developed a program of work designed to improve the experience that customers have with us beyond 2020. The timing and sequence of initiative proposed for electricity distribution has been designed with the broader, gas distribution and transmission, initiatives in mind. This program will be funded out of the proposed incentive scheme and baseline operating expenditure.

This program of works has been grouped into four discrete categories:

1. customer journey work;
2. project work;
3. reporting; and
4. ongoing efforts.

Figure 5-1: Post 2020 customer experience improvement initiatives

	Journey Work	Project Work	Reporting	Ongoing Efforts	
2019	DER connections (Q3 – Q4)	Planned outage communication (Q3 – Q4)	CRM and self- service strategy (Q3 – Q4)		
2020	Claims and complaints (Q1 – Q2)	Scoping delivery of CRM (Q1 – Q2)	Customer Interactions and Monitoring Report published in Q1 each year	Customer Research	
	Planned outages (Q1 – Q3)				
	New connections (Q2 – Q4)				
2021	Unplanned outages (Q4 – Q2 '22)	Website refresh and improvement (Q1 – Q4)			Driving customer culture within AusNet Services
		Delivery of CRM (Q3 – Q2)			Collaborating with our Community
2022	DER connection (Q3 – Q1 '23)	Customer segmentation (Q1 – Q2)			Taking care of our most vulnerable customers
		Service delivery personalisation (ongoing to '25)			Industry and cross-sector engagement
2023	New connections (Q2 – Q1 '24)				
	Claims and complaints (Q2 – Q3)				
2024	Planned outages (Q1 – Q3)				
2025	Unplanned outages (Q1 – Q3)				

Each category and their proposed efforts are described in detail below.

3.1. Customer journey initiatives

We currently track performance across four key interactions (or journeys) that we have with our electricity customers:

- planned and unplanned outages;
- new connections; and
- complaints.

These interactions were selected as the focus for our journey work as they are the services that our customers have told us that they value the most. On this basis, they are also the key interactions that we track through our C-SAT program. We aim to improve the services that our customers value, not simply the ones that are more easily within our control.

For the post 2020 period to the end of the 2025 calendar year, we have designed a program of work that focuses on continual improvements across each of these journeys. Specifically, we have planned for a rolling program, whereby each interaction is addressed in turn, and will go through multiple iterations over time. This ensures that we do not simply review a process once, and then never again. In between these focussed journey pieces of work, the team is monitoring and tweaking the processes to ensure continuously improving customer outcomes.

As outlined in the figure above, by the middle of 2022 we will have completed the first iteration of improvements across each of the journeys. The focus of this first iteration is to design the best experience we can, understanding that we will deliver compliance and get the basics right first. We will also work across the supply chain, including retailers, to better understand the full processes undertaken by customers where possible. The second iteration that will occur between 2022 and 2025 will include investments in new processes and systems that will seek to provide significant improvements to each of these journeys beyond simply delivering the minimum expected by customers. The success of these efforts will be tracked through C-SAT and be consistent with best practice approaches. We believe that the business will be at a level of customer maturity to successfully achieve this. Each of these journey initiatives are summarised in Table 2 and described in detail below.

The Customer Forum has stressed the importance of considering the unique needs of various customer segments (i.e., life support customers vs. small to medium businesses vs. residential customers) across each of the proposed journeys. We agree with the Customer Forum and have already considered this in our current journey processes. For example, we explored the needs of small to medium businesses during the DER journey and built the pre-approval tool with large enough capacity to take their requests. On planned outages, our early exploration suggests that businesses in general will be a real focus given their sensitivities to outages. We plan to continue our focus on different customer segments throughout the program.

1. Distributed Energy Resources (DER) new connections

Description

This initiative focuses on addressing customer pain points and improving the customer experience for the process of connecting solar and batteries to our network. We also intend to focus on electric vehicles in the 2022 iteration of the journey, given the anticipated customer interest and investment in this technology and relevance to potential electricity tariffs.

Based on learnings from the first iteration, efforts in this journey will largely focus on self-serve capability, process automation and improved communication to customers.

Timing

Iteration 1: June 2019

Iteration 2: 2022-23

Ongoing metrics

We have proposed the following metrics to track performance on this initiative:

- C-SAT DER new connections score
- Customer effort score on DER new connections
- Time to connect

How smart meter data will support this initiative

- AMI data is used to provide an accurate assessment of the maximum amount a customer can export.
- AMI data enables our 'Solar Alert' tool which notifies customers via SMS when their solar systems stop exporting. To date, we have issued over 800 alerts to residential customer using AMI systems since 2017.

2. Complaints and claims

Description

The business implemented some critical and quick changes to the complaints and claims process following the HVI incident in Healesville in 2018. However, through additional research and senior management visits to affected customers, we understand that there are still opportunities for improvement to our complaints and claims processes. It is important to note that this journey work will cover all complaints and claims, not just HVI events.

This is a chance to conduct a complete review and understand if we are 'putting customers back in position they were before the incident'. Based on current feedback, efforts might focus on improved visibility of the claims process, more engagement with customers and better communication. We intend to include Bundoora and Healesville customers in this process.

Timing

Iteration 1: 2020

Iteration 2: 2023

Ongoing metrics

We have proposed the following metrics to track performance on this initiative:

- C-SAT complaints score
- Total number of complaints
- Total number of ombudsman complaints
- Total number of claims and average time to resolve those claims

How smart meter data will support this initiative

- Our call centre staff are now able to view the real-time status of a customer's meter (and hence electricity supply) thus providing more timely and accurate information.

3. New connections

Description

Connecting electricity to our customers' homes and businesses is a key service provided by AusNet Services. Feedback to date suggests that this process can be highly frustrating. As such, the process will go through its first iteration of discovery and experience improvements in early 2020 (prior to the new regulatory period) and again in 2023.

Timing

Iteration 1: 2020

Iteration 2: 2023

Ongoing metrics

We have proposed the following metrics to track performance on this initiative:

- C-SAT new connections score
- Customer effort score on new connections
- Connection timeframes reported to ESC's Service Improvement Governance Committee
 - Connection of metered premises within 10 business days
 - Allocation of NMI (target 2 business days on average)
 - Builders' supply poles establishment timeframe within 10 business days
 - Design approval cycle time (target 15 business days)
 - Network auditor's site audit reports received within 10 business days

4. Planned outages

Description

We conduct a large number of planned outages each year for general maintenance and safety reasons. Customers have told us that they would like improved communication and consultation with us prior to, during and after an outage has occurred (among other things). The planned outage process is scheduled for customer experience improvements in 2021.

This will have a strong focus on the experience for life support and vulnerable customers.

Timing

Iteration 1: 2021

Iteration 2: 2024

Ongoing metrics

We have proposed the following metrics to track performance on this initiative:

- C-SAT planned outages score
- Customer effort score on planned outages
- Maintain better than 99.9% accuracy for planned outage notification
- Percent (reduction) in planned outage cancellations and overruns

How smart meter data will support this initiative

- Our AMI data has enabled us to more accurately map our network to ensure that customers are correctly notified about planned outages.
- Our AMI network will provide increased visibility of customers impacted by planned outages through real-time meter (and hence supply) status to ensure every customer has supply restored.

5. Unplanned outages

Description

This initiative will focus on identifying pain points and providing customer experience improvements during unplanned outage events. Our current understanding of how customers experience this process highlights the need for improved communication, consultation, provision of more accurate information and timeframe improvements (both in terms of getting them back on supply but also providing more accurate estimated time of restoration information).

This will have a strong focus on the experience for life support or vulnerable customers.

Timing

Iteration 1: 2021

Iteration 2: 2025

Ongoing metrics

We have proposed the following metrics to track performance on this initiative:

- C-SAT unplanned outages score
- Customer effort score on unplanned outages

How smart meter data will support this initiative

- Our AMI network will provide increased visibility of customers impacted by unplanned outages through real-time meter status to ensure every customer has supply restored.
- Our AMI network provides real-time alerts to our contact centre when life support customers are impacted by an unplanned outage.
- Our AMI data enable us to identify and fix faults before they become safety issues.

3.2 Project initiatives

As the Customer Experience Team progresses the journeys work program, a number of specific and often bespoke projects requiring attention have also been identified. The timing of these projects was decided on the basis that the project outcomes will be required for subsequent journey work (i.e., is a key input into the delivery of significant customer journey uplifts).

Largely, these projects focus on our systems and resources that need considerable improvement to provide the desired level of customer experience improvements being targeted across each journey. The benefits of these projects will also extend beyond the specific journeys.

3.2.1 Project initiative descriptions

Each project along with the unique business and customer benefits and how we intend to measure performance are outlined below.

1. Planned outage communication

Description

Prior to the detailed journey mapping of planned outages identified in the program of work, there is an immediate piece of work relating to communications that needs to be completed. This project will provide a baseline understanding of the current issues with non-notification of planned outages. This is particularly of concern for our life support customers.

Ongoing metrics

We have proposed the following metrics to track performance on this initiative:

- C-SAT planned outage score.
- Customer effort score on planned outages.

How smart meter data will support this initiative

- Our AMI data has enabled us to more accurately map our network to ensure that customers are correctly notified about planned outages.

2. Delivery of a Customer Relationship Management (CRM) tool**Description**

At its core, CRM relates to all of the activities, strategies and technologies that companies use to manage their interactions with their current and potential customers. To do this effectively, a CRM system is required. AusNet Services is proposing the introduction of a CRM so that we are better equipped to serve our customers in what is a time of regulatory and technology disruption.

Work on the development of a strategy outlining both the business and customer benefits of a CRM has commenced. The high level strategy will be completed by September 2019 and will then be socialised across the business for final endorsement and refinement with the Executive Leadership Team. It is envisioned the implementation of the CRM system will be after 2021 to align with the IT planning to support the delivery of this project.

Ongoing metrics

We have proposed the following metrics to track performance on this initiative:

- Employee satisfaction (E-SAT).
- C-SAT.
- Compliance.
- Efficiency and cost savings.

3. Website refresh and improvement**Description**

AusNet Services' corporate website went through a major platform refresh in 2017. However, we believe that the commencement of the new regulatory period presents a good opportunity to revise and refresh this critical customer platform. It is also envisioned that through our ongoing customer research and insights captured via the CRM we will have a stronger idea of customer preferences regarding the website.

Ongoing metrics

We have proposed to use a website usability score to track performance on this initiative.

How smart meter data will support this initiative

- Our meter data portal, My Home Energy, enables customers to understand when they are using energy and therefore how to manage their consumption which is accessible via our website.
- Our Portal is integrated with the Victorian Energy Compare website therefore enabling customer to more easily compare and select the best retail electricity product.

4. Customer segmentation

Description

The implementation of the CRM presents a meaningful opportunity to conduct segmentation across the customer base. A values/behavioural based segmentation analysis is required to understand our customers, how they value electricity and our services. High level customer segmentation has been undertaken as a starting point. We are also building our understanding of our customers' need and expectations via an ongoing research program.

The segmentation output will be operationalised within the call centre. The call centre staff would know at the outset of the conversation the identity of the customer, and any past interactions with us.

Ongoing metrics

Metrics to measure the effectiveness of segmentation are open for discussion with the Customer Forum and to some degree contingent on the delivery of the platform.

5. Service delivery personalisation

Description

By mid-2022 the business will have implemented a range of systems and processes that should enable us to begin personalising a customer's experience with us. This project will seek to identify and implement a range of initiatives that ensure a customer receives the service that they want from us. This will be the rollout of the Self Service strategy. Examples might include tailored communications on outage to include information that the customer has deemed important to them (which might differ from another customer).

Ongoing metrics

We have proposed the following metrics to track performance on this initiative:

- Number of initiatives implemented.
- C-SAT.