Draft Decision

Essential Energy
Electricity Distribution
Determination 2024 to 2029
(1 July 2024 to 30 June 2029)

Overview

September 2023

AUSTRALIAN
ENERGY
REGULATOR

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Invitation for submissions

Essential Energy has the opportunity to submit a revised proposal in response to this draft decision by **30 November 2023.**

Interested stakeholders are invited to make a submission on both our draft decision and Essential Energy's revised proposal (once submitted) by **19 January 2024.**

Submissions should be sent to: AERresets2024-29@aer.gov.au

Alternatively, submissions can be sent to:

Arek Gulbenkoglu
General Manager
Australian Energy Regulator
GPO Box 1313
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Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

1. Clearly identify the information that is the subject of the confidential claim.
2. Provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submission will be published on our website.

Pre-determination conference

Consumer engagement is a valuable input to our determination. We encourage all interested stakeholders to join us, and the New South Wales (NSW) distribution businesses (Ausgrid, Endeavour Energy and Essential Energy) at an online public forum on Monday, **9 October 2023**. Details of how to register for this forum are available on our website and through Eventbrite (external link).

List of attachments

This attachment forms part of the Australian Energy Regulator's (AER's) draft decision on the distribution determination that will apply to Essential Energy for the 2024–29 period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

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Attachment 12 – Customer Service Incentive Scheme

Attachment 13 – Classification of services

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Attachment 19 – Tariff structure statement

Attachment 20 – Metering services

Executive summary

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work is guided by the National Electricity Objective (NEO) as one of the National Energy Objectives.

A regulated network business must periodically apply to us to determine the maximum allowed revenue it can recover from consumers for using its network. On 31 January 2023 we received a revenue proposal from NSW electricity distribution network service provider Essential Energy (Essential), for the period 1 July 2024 to 30 June 2029 (2024–29 period). This is our draft decision on that proposal.

Ensuring consumers pay no more than necessary for safe and reliable energy while supporting the energy transition

Our draft decision comes at a challenging time for energy consumers and the sector more broadly. It seeks to balance affordability with necessary expenditure required to support the energy transition.

Consumers are facing cost-of-living pressures and affordability is a key issue. In SEC Newgate's Mood of the Nation report June 2023[1], the number one issue among the Australian public is reducing cost increases for household bills and 84% of Australians are extremely or quite concerned about electricity bills. Energy Consumers Australia (ECA) similarly noted in a June 2023 energy consumer sentiment survey[2] that Australian consumers are increasingly worried about the affordability of rising energy costs, with more than 50% concerned about being able to pay electricity bills.

Cost of living pressures are high in NSW. The NSW Council of Social Service (NCOSS) said in its August 2023 cost of living in NSW report that most households on low incomes are exceeding their budgets, with almost half of low-income households being unable to afford essentials[3]. Low-income households ranked utilities as the area of expenditure put most under pressure in the past 12 months due to rising living costs[4]. Our analysis shows that Essential's distribution network charges make up around 35% of its residential customers' electricity bills.

At the same time, the energy sector is undergoing a significant decarbonisation and electrification transition requiring expenditure to enable additional utility-scale and distributed renewables and storage connections. The latest sentiment survey by ECA revealed that 27%

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1 SEC Newgate Australia, *SEC Newgate Mood of the Nation*, June 2023.

2 Energy Consumers Australia, *Energy Consumer Sentiment Survey*, June 2023.

3 NCOSS, *Barely Hanging On: The Cost-of-Living Crisis in NSW*, August 2023.

4 NCOSS, *Barely Hanging On: The Cost-of-Living Crisis in NSW,* August 2023.

of households think Australia should transition to a 100% renewable energy market by 2030, while a further 16% of households think this should happen by 2040.

Many households are actively investing in consumer energy resources (CER) such as solar, batteries and electric vehicles (EVs). While these investments will provide benefits to individual households and the overall energy system, their integration into the existing energy network will require increased expenditure by network businesses.

On 31 August 2023, the Australian Energy Market Operator (AEMO) released its annual Electricity Statement of Opportunities (ESOO).[5] The report highlights that the 'Australian National Electricity Market (NEM) is on the edge of one of the largest transformations since the market was formed over 20 years ago.' The ESOO outlines the immediate need for investment to meet the imminent and growing demand on. [6] The sentiments of the report are timely for our draft decision and assessment of how to move towards the future.

Tariff reform and greater flexibility of networks is required to support the energy transition, particularly around CER. Appropriately structured tariffs can enable growth in the value of and number of people with CER, while creating investment signals that limit the level of network investment required and resulting price increases for consumers. For example, export tariffs are now being proposed to deal with two-way flows on networks and contingent tariff adjustments are being proposed to deal with uncertainty about the rate of change in uptake of CER. Businesses will also need to explore better controlled load tariffs to deal with increasing EV numbers.

These changes are occurring at the same time as networks are needing to invest additional expenditure in order to address important emerging issues such as network cybersecurity, climate resilience and digitalisation.

In making this draft decision, we have sought to balance the need for efficient and prudent investments in these new and emerging areas that support the energy transition, while at the same time ensuring consumers facing cost-of-living pressures pay no more than necessary for electricity services that meets their current and future needs. We recognise and support the need for innovative approaches to help drive an affordable energy transition.

Our assessment of Essential's proposal

Essential's proposal states that delivering customer value means balancing risks, costs and service levels.[7] Essential engaged extensively and heard from its stakeholders that they 'want and need a safe, reliable and affordable network – one that is both resilient and flexible enough to accommodate new and emerging technologies.'[8]

This draft decision allows Essential to recover an estimated $6,191.1 million ($ nominal, smoothed) from its customers over the 2024–29 period. Our draft decision is a 3.0%

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5 AEMO, *Electricity Statement of Opportunities*, August 2023.

6 AEMO, *Electricity Statement of Opportunities*, August 2023.

7 Essential Energy, *2024–29 Regulatory proposal*, Jan23, p. 7.

8 Essential Energy, *2024–29 Regulatory proposal*, Jan23, p. 5.

reduction from Essential's proposal. Our draft decision accepts much of Essential's proposal, including its total capital and operating expenditure forecasts (capex and opex). The reduction in overall revenue in this draft decision compared to the Essential proposal is mainly driven by the revenue adjustment required under the Efficiency Benefit Sharing Scheme (EBSS) and a lower regulatory depreciation amount, driven primarily by the higher expected inflation rate in our draft decision. These reductions are partly offset by a higher Capital Expenditure Sharing Scheme (CESS) adjustment and a higher return on capital, driven primarily by a higher rate of return than at the time of Essential's proposal. For illustrative purposes only, we estimate that this draft decision will result in an average increase of $39 per annum in the average electricity bill, as it is today, for Essential residential customers over the 2024–29 period.

In December 2021, we released the Better Resets Handbook (the Handbook) for the purpose of encouraging networks to better engage and have customers preferences drive the development of regulatory proposals.[9] This draft decision marks the mid-point in our assessment of Essential's proposal, and also the first time businesses have gone through the Handbook's early signal pathway. As outlined in our Issues Paper, we supported pre-lodgement engagement discussions with Essential, and its consumers. We provided targeted feedback during this process to enable Essential to prepare a proposal that meets the expectations outlined in the Handbook in key topic areas such as consumer engagement, capex, opex, depreciation and tariff structure statements. [10] Our Issues Paper highlighted elements of Essential's proposal that had met our expectations through the early signal pathway assessment. However, it also identified areas for targeted review which included new and emerging expenditure areas, but also some capex areas where there was a lack of supporting information, and Essential's approach to estimating opex in the final year of the current period.[11]

Since the release of the Issues Paper, we have engaged extensively with Essential on its capex proposal to better understand the drivers of its proposal and to close gaps in its supporting information. The scope of our targeted review for capex subsequently narrowed as a consequence of Essential providing all requested information and data in a timely manner.

Our draft decision accepts much of Essential's proposal, including its total capex and opex forecasts. In assessing its expenditure proposal, we found that Essential satisfied almost all expenditure expectations of the Handbook at the Issues Paper stage. This meant that we could be confident that the majority of its expenditure forecast was likely to be prudent and efficient. We undertook a targeted review of new and emerging expenditure areas, relating to CER integration, resilience-related expenditure, and cybersecurity ICT. We also undertook a targeted review of connections capex and augex because of the step up in the forecast period relative to current period spend. In relation to opex, we have accepted Essential's approach to estimating opex in the final year of the current period as more likely to produce a

9 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 1.

10 AER, *Issues paper – Essential Energy – 2024–29 distribution revenue proposal*, March 2023.

11 AER, *Issues paper – Essential Energy – 2024–29 distribution revenue proposal*, March 2023.

realistic estimate of actual opex than our standard approach. However, we have also applied an adjustment to ensure consistency in the opex forecasts used to calculate EBSS carryovers, and maintain the integrity of incentives under the scheme. This has resulted in higher EBSS carryover penalties for Essential in the 2024–29 period.

Having regard to all the information before us, we consider that Essential's total expenditure forecasts reasonably reflect prudent and efficient expenditure in the 2024–29 period. For some expenditure such as CER, non-recurrent ICT, cybersecurity ICT and climate resilience, we assessed the forecast investment to be not sufficiently justified, or not consistent with prudent and efficient decision-making. However, we found these category level adjustments to be relatively immaterial in the context of overall expenditure, such that our alternative expenditure forecasts at the total capex and opex level are not materially different from Essential's forecasts.

As discussed above, uncertainty, evolving threats around cybersecurity, climate risk and the transitioning energy market have been central considerations for all businesses in developing their current proposals. Similar to other businesses, Essential proposed investments in the new and emerging areas of CER integration, climate resilience, and cybersecurity. We recognise the need for investments in these important areas. We acknowledge the significant work Essential has undertaken to understand these challenging areas of expenditure and the considerable and genuine efforts to engage with customers to understand their preferences. As noted above, our draft decision on these matters notes some areas where we are not satisfied that the proposal reflects the prudent and efficient costs of meeting customer and community needs. We have set out areas of improvement in our draft decision for Essential to consider in future processes. In doing so, we have also been mindful that these decisions consider new areas of expenditure, where our assessment approaches are evolving.

Our draft decision on Essential's tariff structure statement recognises the strong progress achieved on tariff reform while managing customer impacts. We consider that a handful of relatively minor changes to the tariff structure statement are required to achieve compliance with the NER pricing principles. In particular, we require Essential to consult further on the appropriate rebate for its HV grid-scale battery tariff. We also encourage Essential to consider minor improvements in its revised tariff structure statement, including worked examples of the application of its export reward tariff, and supporting information on its proposed contingent tariff adjustment and changes to its residential and small business tariff assignment policy. We also consider that Essential should consider further tariff options to help manage potential network impacts from uncontrolled EV charging.

We are also encouraged by Essential's ongoing engagement with its key stakeholders on its public lighting proposal, as it continues to refine its positions in the lead-up to submitting its revised proposal. We are hopeful this continued engagement will deliver a revised public lighting proposal that reflects consumer preferences as well as meets our expectations in line with our Handbook.

In making our draft decision on metering we took into consideration the outcomes of the Australian Energy Market Commission's (AEMC's) metering review. Amongst other changes, we set price caps to encourage distributors to recover costs from all low-voltage customers who have ever had a legacy meter. The aim of this change is to ensure that potentially vulnerable customers are protected from rising costs. It also ensures a more equitable contribution to the roll out of smart meters by all customers, since all customers benefit from the transition. Because of this change we are open to the reclassification of legacy metering services from alternative control services (ACS) to standard control services (SCS) in the final proposals (and all future regulatory proposals) to better socialise these costs and recognise the network benefits of this transition.

In this Overview and the accompanying attachments, we have set out the assessment approaches applied and enquiries made as part of our review, with the benefit of which we have been able to arrive at this draft decision.

Consumers at the centre of proposals

The Handbook outlines principles for considering consumer engagement in network revenue determinations with the objective stating:

> Networks that engage in genuine engagement with consumers are likely to result in better quality proposals being submitted to the AER. Proposals that reflect consumer preferences, and meet our expectations, are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.[12]

The Handbook provides guidance on our expectations for how a network business can engage with consumers and importantly, our expectations (consistent with the NER framework) in topic areas such as capex, opex, regulatory depreciation and tariff structure statements, which tend to have the most significant impact on consumers.[13]

Consumer engagement is an important facet of our assessment; however, we are still required to ensure we are satisfied that the proposed forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs. We are looking to see how consumer values and preferences are shaping engagement. When assessing a proposal, we should be able to see how a business has linked customer preferences to the expenditure proposed. Where consumer views on an issue are diverse, a business needs to set out those views and how they have balanced the divergence of preferences. Diversity of views will always be common between stakeholders and a business should seek to find mutually acceptable solutions where there are divergent consumer views.[14]

Our role in understanding consumer engagement is not to validate or invalidate the engagement undertaken by a business. All network businesses are distinct, and the engagement undertaken should be self-reflective of the purposes and needs identified for that business. We recognise that consumer engagement is dynamic, involving continuous improvements to business practices.

We also acknowledge the different roles stakeholders will play in developing a business's engagement process and that this is an evolving space. The nature of how a network engages with their consumers may include examples such as: an advisory panel, or a

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12 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 3.

13 The expectations being for electricity distribution businesses only. AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p.4.

14 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 16.

representative peoples panel. How a business undertakes this engagement is not prescribed in the Handbook, but it asks that engagement is undertaken sincerely with consumers to understand and reflect their preferences in proposals.[15] The AER's Consumer Challenge Panel may also have a role in a business' engagement, for example in specific circumstances of a pre-lodgement engagement process or the observation of a specific, unique piece of engagement.

Essential has undertaken a comprehensive and significant engagement approach with its customers in developing its 2024–29 proposal.[16] Essential's engagement was designed to step up from its 2019–24 approach[17], and was guided by its vision of 'empowering communities to share and use energy for a better tomorrow'.[18] It states it is confident that through its co-designed process the investments proposed not only meet business and regulatory requirements, but also reflect customer priorities.[19] Essential's program has demonstrated a significant willingness to engage and listen to its customers. Essential's consumer engagement has been a material factor in our decision to accept most of Essential's proposal.

Under the early signal pathway, the Consumer Challenge Panel, sub-panel 26 (CCP26) played a key role in Essential's pre-lodgement phase in assessing the quality and robustness of its consumer engagement process and outcomes.[20] The CCP26, in its advice to the AER, have said that it 'considers that Essential's consumer engagement has largely met the expectations set out in the Handbook.'[21]

We all continue to learn and develop throughout the process of applying the Handbook, and we will look to reflect with the businesses on how engagement is providing the greatest value in understanding the long-term interests of consumers.

The amended NEO and the current regulatory determination resets

A new emissions objective has been added to the existing economic efficiency framework in all three energy objectives, including the NEO. The long-term interests of consumers will extend to the achievement of Commonwealth, State and Territory targets for reducing Australia's greenhouse gas emissions, or that are likely to contribute to reducing Australia's greenhouse gas emissions. This is based on the *National Energy Laws Amendment (Emissions Reduction Objectives) Act,* which passed the South Australian Parliament in September 2023. The Act states that the amended NEO applies to the revenue determinations for Ausgrid, Endeavour Energy, Essential, Evoenergy, TasNetworks Distribution, TasNetworks Transmission and Power and Water Corporation (NT), for the 2024–29 period.

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15 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 12.

16 AER, *Issues paper – Essential Energy – 2024–29 distribution revenue proposal*, March 2023, p. 9.

17 Essential Energy, *2024–29 Regulatory Proposal*, Jan23, p. 26.

18 Essential Energy*, 4.01 Stakeholder engagement framework*, 2021, p. 1.

19 Essential Energy, *2024–29 Regulatory Proposal*, Jan23, p. 23.

20 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p.9.

21 CCP26, *Advice to the AER - Submission – 2024–29 Electricity Determination - Essential*, May 2023, p. 4.

We published final guidance on the amended national energy objectives in September 2023. This guidance included how we will operationalise the amended NEO and applies only to the affected network service providers for the 2024–29 regulatory determinations.

We think inclusion of emissions reduction in the NEO is a significant reform in how energy systems are governed and will be invaluable to progressing the energy transition. As the independent regulator, the NEO guides our work to promote the long-term interests of consumers with respect to achieving emission reduction targets, alongside our existing considerations including price, quality, safety and reliability of energy supply.

We recognise that the transition to net zero and emissions reduction has been a feature of Essential's engagement with consumers to date and is already a key driver in its proposal. We have considered this consumer feedback in our assessment of Essential's proposal.

If Essential's revised proposal includes material new expenditure items because of the amended NEO, we would expect it to demonstrate that the expenditure aligns with consumer preferences and the criteria for prudent and efficient expenditure, consistent with the Handbook. We will continue to work with the affected network service providers as they prepare and consult on their revised regulatory proposals.

Contents

1 Our draft decision

Our draft decision would, if implemented, allow Essential to recover a total revenue of $6,191.1 million ($ nominal, smoothed) from its consumers from 1 July 2024 to 30 June 2029.

In the sections below we briefly outline what is driving Essential's revenue, and the key differences between our draft decision revenue and the $6,380.5 million in Essential's proposal.

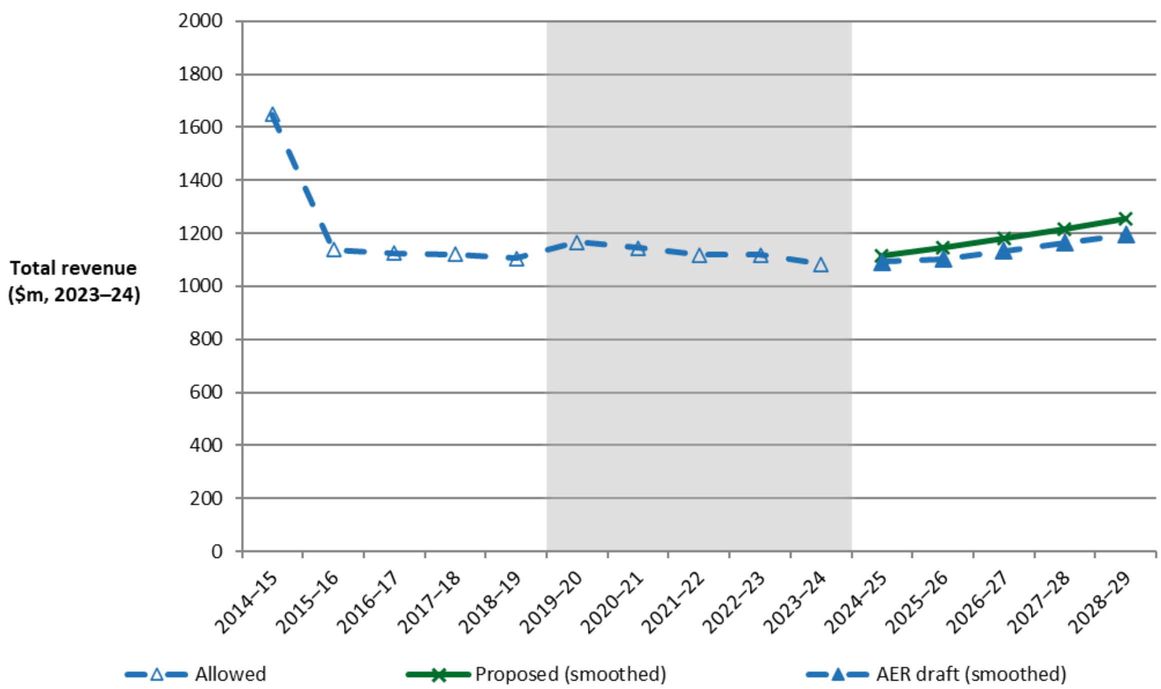
1.1 What is driving revenue?

Revenue is driven by changes in real costs and inflation. We assess costs (such as capex opex) in real terms.

Over time, inflation impacts the spending power of money. To compare revenue from one period to the next on a like-for-like basis, in this section we use 'real' values based on a common year (2023–24) that have been adjusted for the impact of inflation instead of the nominal values above.

In real terms, this draft decision would allow Essential to recover $5,687.3 million ($2023–24, smoothed) from consumers over the 2024–29 period. This is 1.0% higher than our decision for the current (2019–24) period. Changes in Essential's revenue over time are shown in Figure 1.

Figure 1 Changes in regulated revenue over time ($ million, 2023–24)



Source: AER analysis.

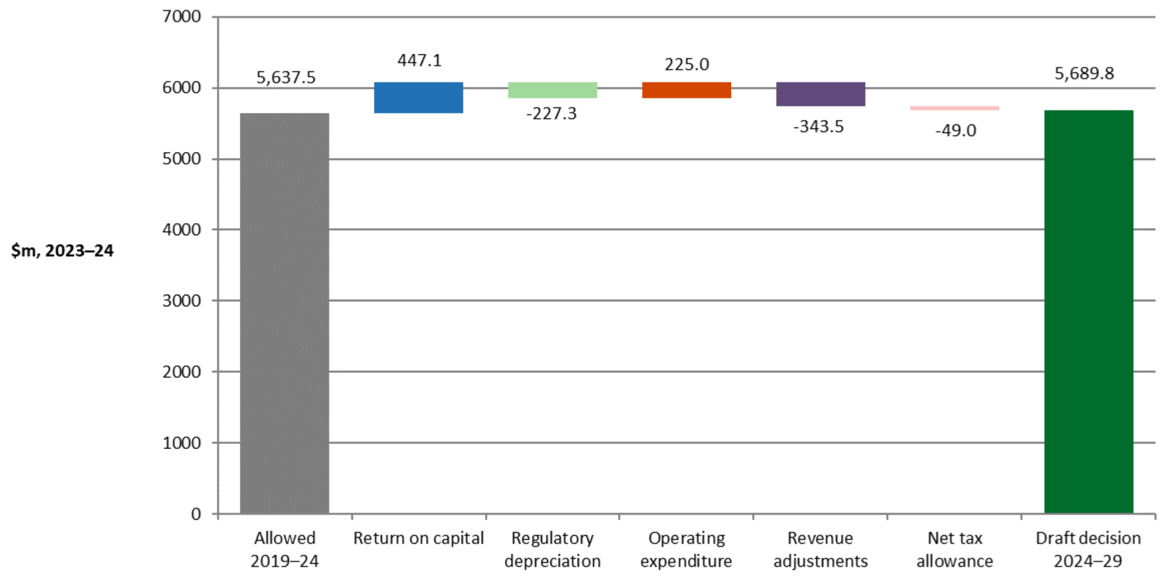
In real terms, this draft decision would allow Essential to recover a total building block revenue of $5,689.8 million ($2023–24, unsmoothed) over the 2014–29 period. Figure 2 highlights the key drivers of the change between the revenue approved for Essential for the 2019–24 period and in this draft decision for the 2024–29 period. It shows that our draft decision provides for reductions in the building blocks for:

- return of capital (regulatory depreciation), which is $227.3 million (29.5%) lower than the 2019–24 period, driven primarily by a higher indexation of the regulatory asset base (RAB)
- revenue adjustments, which are $343.5 million lower than the 2019–24 period, mainly due to the large negative EBSS outcome applied in this draft decision
- net tax allowance, which is $49.0 million (55.8%) lower than the 2019–24 period, primarily due to the exclusion of gifted assets from the calculation of the estimated cost of corporate income tax in the 2024–29 period. It also due to a lower regulatory depreciation (which lowers income) and a higher tax depreciation (which increases tax deductions) determined in this draft decision compared to the 2019–24 period.

Figure 2 also shows that our draft decision provides for increases in the building blocks for:

- return on capital, which is based on the opening regulatory asset base (RAB), capex and rate of return. This is $447.1 million (17.0%) higher than the 2019–24 period, driven by an increase in the RAB and a higher rate of return being applied in the 2024–29 period in accordance with the 2022 Rate of Return Instrument
- opex, which is $225.0 million (10.7%) higher than the opex forecast we approved in the 2019–24 period, driven primarily by higher actual opex in the base year, step changes and output growth.

Figure 2 Changes in total revenue 2019–24 to 2024–29 ($ million, 2023–24, unsmoothed)

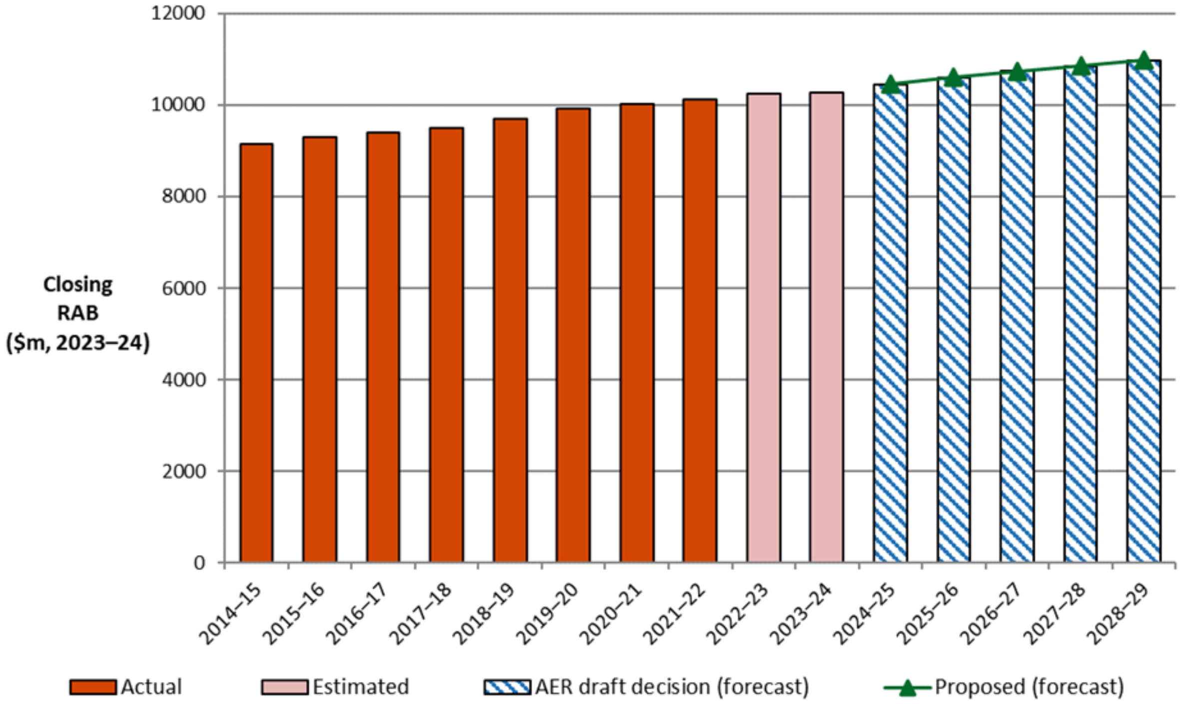


Source: AER analysis.

Note: This comparison is based on converting 2019–24 forecast opex for inflation to 2023–24 dollar terms using lagged CPI.

Figure 3 shows the value of Essential's RAB over time. The RAB grew by 6.1% over the 2019–24 period. Our draft decision results in a forecast RAB increase of $712.1 million (6.9%) over the 2024–29 period. The growth in RAB over 2024–29 is primarily driven by higher forecast capex than the 2019–24 period.

Figure 3 Essential's RAB value over time ($ million, 2023–24)



Source: AER analysis.

1.2 Key differences between our draft decision and Essential's proposal

Our draft decision accepts much of Essential's proposal, including its total capex and opex forecasts. The main difference between our draft decision and Essential's proposal is the revenue adjustment required under the EBSS.

Movements in some market variables such as updates for inflation have also led to revenue outcomes that are lower in our draft decision than in Essential's proposal. Our draft decision includes a lower regulatory depreciation amount which is driven primarily by a higher expected inflation rate adopted in our draft decision than at the time of Essential's proposal. This lower regulatory depreciation amount in turn leads to a decrease to the estimated cost of corporate income tax amount.

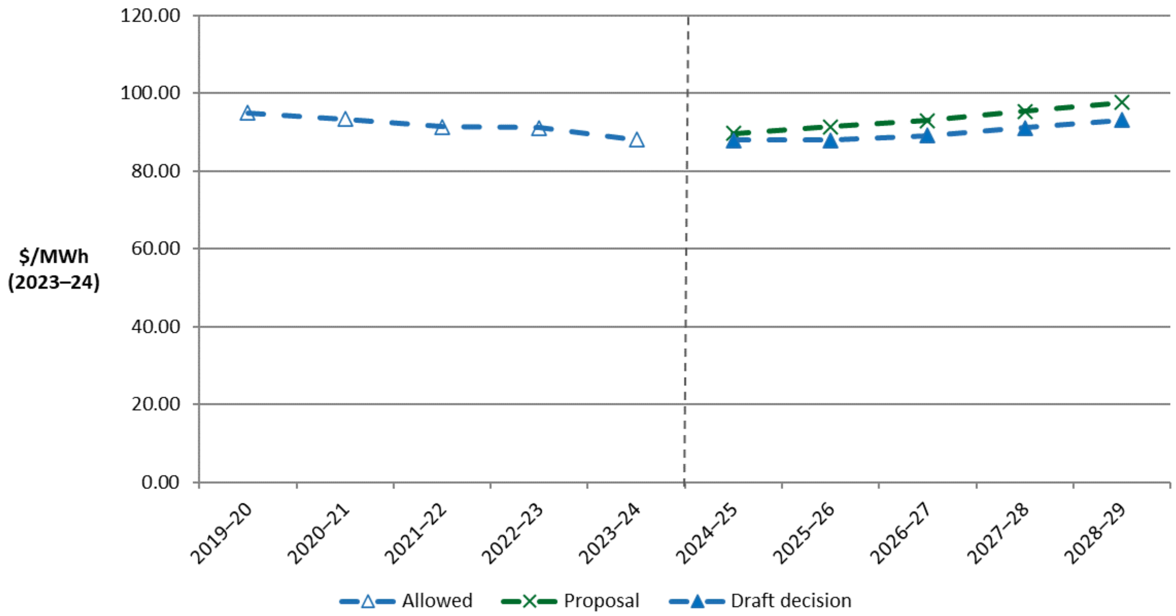
This reduction is partly offset by a higher return on capital, driven primarily by a higher rate of return than the rate which applied at the time of Essential's proposal.

1.3 Expected impact of our draft decision on electricity bills

Essential recovers its regulated revenue through distribution charges, set annually by reference to the tariff structure statement and pricing formulae approved by us as part of this decision.

For illustrative purposes only, we estimate the modelled impact of this draft decision would be a total increase to average distribution charges of around 6.3% in real terms by 2028–29 compared to 2023–24 levels, or an average increase of 1.2% per annum. This estimate is subject to ongoing revenue adjustments and changes in consumer energy consumption. Figure 4 compares this indicative price path for the 2024–29 period to the 2019–24 period.

Figure 4 Change in indicative charges for 2019–24 to 2024–29 ($2023–24, $/MWh)



Source: AER analysis.

Potential bill impact

Essential's distribution network charges make up around 35% of its residential customers' electricity bills and 33% of its small business customers' electricity bills. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, transmission network charges, environmental schemes and the costs and margins applied by electricity retailers in determining the prices they will charge consumers for supply—also contribute to the prices ultimately paid by consumers.[22] These sit outside the decision we are making here but will also continue to change throughout the period.

This is a draft decision, and final decision outcomes are likely to change. In nominal terms, which include the impact of expected inflation, the impact of this draft decision would be an increase to the distribution component of customers' energy bills. For illustrative purposes only, the modelled impact of our draft decision on the average annual electricity bill for a residential customer in Essential's network area, as it is today, would be an increase of $196 (7.7%) by 2028–29, or an average of $39 per annum. For small business customers, the impact would be an increase of $420 (7.3%), or an average of $84 per annum.

Our decision on Essential's proposal will set the revenue allowance that forms the major component of its network charges for the next 5 years. It provides a baseline or starting point for that period.

Over the 2024–29 period there are several additional mechanisms under the NER that may operate to increase or decrease those charges. These may include cost pass through events defined in the NER. They may also include the additional cost pass through events proposed by Essential and approved in this draft decision. The triggers we have set out for these projects and events in this decision will, if met, allow Essential to apply for additional revenue for these projects throughout the period, at which point proposed costs will be subject to further consultation and assessment.

1.4 Essential's consumer engagement

Essential is a natural monopoly supplying an essential service. As already outlined in the executive summary, the 2024–29 determinations are the first cohort of decisions to be made since we published the Handbook. We believe that genuine, high quality consumer engagement by Essential is important to ensuring that its proposal is driven by consumer preferences, supports delivery of services that meet the needs of its consumers, and does so at a price that is affordable and efficient.

1.4.1 Early signal pathway

As discussed in the executive summary, Essential was selected to participate in the Handbook's early signal pathway. Under the Handbook, the early signal pathway:

> …offers an alternative process for networks to engage with us, allowing them to get earlier formal feedback on aspects of their regulatory proposal – such as at the Issues Paper stage, in exchange for certain commitments.[23]

Essential's engagement journey had begun prior to its selection, when it began its extensive engagement program to co-design with customers a proposal that reflected their priorities for

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22 AEMC, *Data Portal, Trends in NSW supply chain components 2023/24.*

23 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 5.

the 2024–29 period.[24] Essential states that it has been engaging closely with its customers and stakeholders since its 2014–19 remittal decision. It undertook industry leading engagement for its 2019–24 proposal engagement program, small customer tariff trials design project and its 2019–20 bushfire and critical infrastructure cost pass through.[25] Our 2019–24 final decision for Essential noted that Essential's initial and revised proposals had been well received by stakeholders.[26] The then Consumer Challenge Panel, sub-panel 10 (CCP10) had noted that Essential had been '...proactive in addressing consumer concerns and they responded more holistically to consumer and stakeholder input' for its 2019–24 proposal.[27] The CCP10 also noted that Essential had:

> …effectively integrated consumer and stakeholder input into all aspects of its regulatory proposal and has effectively applied input that they have sought and heard.[28]

Essential is one of the first business following the early signal pathway and these draft decisions are the culmination of early signal pathway process. Through the early signal pathway process, we have engaged extensively with Essential in receiving early access to data and information relevant to the expectations set out in the Handbook. We have also provided feedback, with the CCP26, through a formal check-in in October 2022, as well as signalling at the Issues Paper areas where we planned to undertake further assessment as part of our targeted review.[29] As part of the Handbook process, Essential also appointed an independent engagement consultant (Comacon) to assess whether its consumer engagement was on track. This report was submitted as part of the proposal submission.[30]

Since submitting its proposal, Essential has noted its intention to continue its engagement journey.[31] Essential states that it will develop and refine plans in conjunction with its Stakeholder Collaboration Collective (SCC) and Pricing Collaboration Collective (PCC) so that it ensures it is engaging on necessary topics, in the right manner, with the relevant stakeholders and customers.[32]

1.4.2 Essential's engagement on its proposal

Essential acknowledged that the previous engagement work undertaken meant they were not starting from scratch in developing its 2024–29 engagement program. It already had a

24 Essential Energy, *2024–29 Regulatory Proposal*, Jan23, p. 9.

25 Essential Energy, *4.02 How engagement informed our proposal*, Jan23, p. 3.

26 AER, *Overview, Final decision – Essential Energy distribution determination 2019–24*, p. 19.

27 AER, *Overview, Final decision – Essential Energy distribution determination 2019–24*, p. 20.

28 AER, *Overview, Final decision – Essential Energy distribution determination 2019–24*, p. 20.

29 AER, *Issues paper – Essential Energy – 2024–29 distribution revenue proposal*, March 2023.

30 Essential Energy, *4.15 Independent Consumer Report – Comacon*, Dec22.

31 Essential Energy, *Submission – 2024–29 Electricity Determination - Essential Energy*, May 2023, p.1.

32 Essential Energy, *Submission – 2024–29 Electricity Determination - Essential Energy*, May 2023, p.1.

good understanding of some aspects, including its customers' priorities.[33] Essential's program, which it states 'was led from the top, aimed to 'raise the bar' of its engagement as assessed under the International Association for Public Participation (IAP2) framework'.[34] In relation to its commitment to deliver services that meet the need of its customers, it states that:

> … this Proposal has been co-designed with customers, and reflects the priorities which have been developed through an extensive engagement program that started at the end of 2019.[35]

Essential's independent report from Comacon, submitted with its proposal, made an assessment on Essential's objective of its engagement to 'raise the bar' in relation to the IAP2 framework. It states:

> When assessed against these criteria, the overall evidence, suggests a considerable shift towards the collaborate level of engagement across all areas of the criteria. While not all aspects of the engagement process could be considered collaborative (deliberative) under the IAP2 Spectrum, on balanced assessment, we consider the engagement to have had the right level of deliberative components when considering the limitations of the regulatory framework and the required outcomes.[36]

Our Issues Paper for Essential outlined nature, breadth and depth, and impact of Essential's consumer engagement.[37] This included the input it sought from its primary collaborator, the SCC. In commenting on the formation and purpose of the SCC, Essential said:

> This group has guided our thinking, informed decisions, assisted in the development of engagement materials, directed us to form any dedicated sub-groups and identified when independent experts should present information to participants.[38]

Essential engaged its consumers and stakeholders through a variety of channels and tools, which included, but not limited to: engagement forums, groups and in-depth discussions with consumers across its network. Essential also launched a Virtual Room, which was used to share background reading, information and surveys with customers.[39] The CCP26 observed

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[33] Essential Energy, *4.02 How engagement informed our proposal*, Jan23, p. 3.

[34] Essential Energy, *4.02 How engagement informed our proposal*, Jan23, p. 3.

[35] Essential Energy, *2024–29 Regulatory Proposal*, Jan23, p. 9.

[36] Essential Energy, *4.15 Independent Consumer Report – Comacon*, Dec22, 43.

[37] AER, *Issues paper – Essential Energy – 2024–29 distribution revenue proposal*, March 2023, pp.9 -12.

[38] Essential Energy, *2024–29 Regulatory Proposal*, Jan23, p. 25.

[39] Essential Energy, *4.02 How engagement informed our proposal*, Jan23, p. 41.

that access to the SCC and PCC meeting materials was readily available and material for community forums was tested by separate consumer panels prior to roll-out.[40]

1.4.3 What we've heard from stakeholders

In our Issues Paper, we asked stakeholders to consider whether Essential's consumer engagement had met the expectations set out in the Handbook in delivering a consumer-centric proposal.[41] We received a number of submissions on Essential's proposal as outlined at Section 8 of this decision. A significant number of the submissions raised issues in relation to Essential's tariff structure statements (embedded network tariffs, controlled load, solar exports, flexible exports), DER, public lighting and EVs.[42] We also received 455 form-based submissions from individuals commenting on the NSW businesses' solar export changes.[43]

As indicated in the executive summary, the CCP26's found that Essential's consumer engagement had largely met the expectations in the Handbook.[44] It further outlines:

> Essential has conducted a comprehensive, well planned, well executed engagement program over a period of some 18 months to date. We have observed no lessening of the commitment, dedication and enthusiasm shown by Essential staff over that time. It is clear that Essential strive for continuous improvement in engagement, and set themselves a target to improve on their 2019–24 engagement program. They have been well-supported by their community engagement partners Woolcott Research & Engagement. The engagement that we have observed, with community groups, with advisory groups such as the SCC and the PCC, and with consumer representatives has been open and sincere, with Essential genuinely willing to listen to customers and take new ideas on board.[45]

In making an assessment against elements of the Handbook, the CCP26 notes the breadth of Essential's engagement program was commendable as it sought to engage across its large geographical network. It also engaged with specific stakeholders for the first time such as new energy tech providers and indigenous customers.[46] The CCP26 does raise concerns that the depth of Essential's engagement has not been as impressive, noting the same

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[40] CCP26, *Advice to the AER - Submission – 2024–29 Electricity Determination - Essential*, May 2023, p.8

[41] AER, *Issues paper – Essential Energy – 2024–29 distribution revenue proposal*, March 2023, p. 12.

[42] See the relevant submissions available on the AER website.

[43] A sample of these form-based submissions is available on the AER website.

[44] CCP26, *Advice to the AER - Submission - 2024–29 Electricity Determination - Essential*, May 2023, p. 8.

[45] CCP26, *Advice to the AER - Submission - 2024–29 Electricity Determination - Essential*, May 2023, p. 8.

[46] CCP26, *Advice to the AER - Submission - 2024–29 Electricity Determination - Essential*, May 2023, p. 9.

detailed level of critical challenge to building block elements was not observed for Essential as it was for other network businesses.[47]

In relation to the role of the SCC, the CCP26 said its observations confirmed the strength of the SCC to meet the role as outlined by Essential. However, the CCP26 noticed that SCC meetings 'dwindled noticeably over the period which is impacting on the capacity of this group to provide the ongoing advice and support that Essential is seeking.'[48]

The Public Interest Advocacy Centre (PIAC) noted similar comments to the CCP26 in its submission. It observed that Essential started from the highest base, and has the most mature and consistent engagement of the NSW network businesses.[49] PIAC suggests that starting from a higher base posed a significant challenge for Essential, particularly considering a number of issues such as: the intervention COVID-19, natural disasters, and engaging across one of the largest network areas in the country.[50] Despite the challenges PIAC observed that:

> …the engagement undertaken by Essential was well structured and broadly capable of demonstrating that Essential's proposal is meaningfully shaped by consumer preferences.[51]

In understanding consumer preferences, Cotton Australia, who is actively engaged in the proposed tariff discussions that Essential has had with its Customer Advisory Group, as well as also participating in both the PCC and SCC discussions, has said:

> Learnings from being part of the early responders and then longer term community recovery work has indeed informed the communication and discussion materials prepared for the resilience discussions with stakeholders and focus groups conducted while Essential was preparing its proposal. In particular, the possible technical solutions and costs were canvassed such as strategic deployment of Stand Alone Power Systems or composite poles and other infrastructure modifications as well as their speed of roll out.[52]

Comacon's independent consumer engagement report noted that the SCC felt Essential developed a regulatory proposal that accurately reflects consumer preferences and outcomes.[53] Noting the Comacon report was undertaken prior to Essential submitting its proposal, the CCP26 has since provided advice that notes that while it agrees that the consumer preferences have been largely reflected in Essential proposal, it considered 'that

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47 CCP26, *Advice to the AER - Submission - 2024–29 Electricity Determination - Essential*, May 2023, p. 9.

48 CCP26, *Advice to the AER - Submission - 2024–29 Electricity Determination - Essential*, May 2023, p. 9.

49 PIAC, *Submission – 2024–29 Electricity Determination – NSW*, June 2023, p. 6.

50 PIAC, *Submission - 2024–29 Electricity Determination – NSW*, June 2023, p. 6.

51 PIAC, *Submission - 2024–29 Electricity Determination – NSW*, June 2023, p. 6.

52 Cotton Australia, *Submission - 2024–29 Electricity Determination – NSW*, May 2023, p. 2.

53 Essential Energy, *4.15 Independent Consumer Report – Comacon*, Dec22, p. 14.

there are too many building block areas that have not been subject to engagement in depth to support acceptance of Essential's proposal at the draft determination stage.'[54]

We have identified in our draft decision an issue for further consultation relating to Essential's public lighting proposal. We received a number of submissions from the Southern Lights NSW Group, being a consortium made up of councils across Essential's network including: the Central NSW Joint Organisation, Riverina Eastern Regional Organisation of Councils, Riverina and Murray Joint Organisation, Dubbo City Council and Broken Hill City Council.[55] Central to their concerns, the Southern Lights NSW submission states:

> … that we have very low confidence that Essential Energy's 2024–29 public lighting pricing proposal is appropriate or justified, or that the service is being appropriately managed.[56]

The submission from Southern Lights raises issues with Essential's pre-lodgement engagement process in developing its initial proposal. Initial consultation had occurred on a proposed 50-60% step-change in pricing which was strongly rejected by councils.[57]

We have been in consultation with Essential on the issues raised by stakeholders in relation to its public lighting proposal. Essential has said it is undertaking further engagement with relevant stakeholders and we welcome this approach in preparation for our final decision.

Essential's submission identified it is continuing its engagement work, including:

> … regular SCC and PCC touch points, ongoing engagement with councils and their representatives in relation to public lighting, as well as targeted stakeholder sessions and a further round of customer forums. We also intend to consult specifically on changes to tariffs with our low-voltage large business customers.[58]

Essential also notes that its engagement continues to evolve, and outlines that following the success of its deep-dive pricing sessions, it is establishing a new People's Panel.[59]

We acknowledge the continued and ongoing work of Essential to learn and understand the preferences of its customers. We also commend the significant work that Essential has undertaken in working with us on the early signal pathway. We believe it has been an important learning process, for which we will continue to refine and grow to ensure the long-term interest of consumers.

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54 CCP26, *Advice to the AER - Submission - 2024–29 Electricity Determination - Essential*, May 2023, p. 8.

55 Central NSW Joint Organisations, *Southern Lights – 2024–29 Electricity Determination*, May 2023, p.1.

56 Central NSW Joint Organisations, *Southern Lights - 2024–29 Electricity Determination*, May 2023, p.1.

57 Central NSW Joint Organisations, *Southern Lights - 2024–29 Electricity Determination*, May 2023, p.2.

58 Essential Energy, *Submission - 2024–29 Electricity Determination - Essential Energy*, May 2023, p.1.

59 Essential Energy, *Submission - 2024–29 Electricity Determination - Essential Energy*, May 2023, p.1.

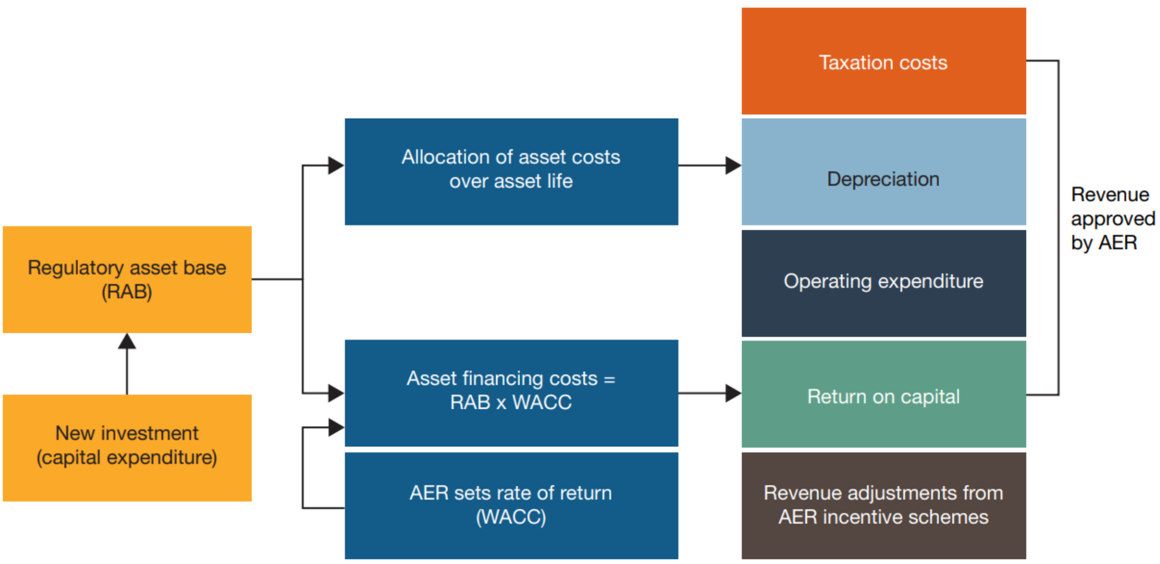
2 Key components of our draft decision on revenue

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a 5-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed and drive lower cost benchmarks in subsequent regulatory periods. By only allowing efficient costs in our approved revenues, we promote delivery of the NEO and ensure consumers pay no more than necessary for the safe and reliable delivery of electricity.

Essential's proposed revenue reflects its forecast of the efficient cost of providing distribution network services over the 2024–29 period. Its revenue proposal, and our assessment of it under the Law and Rules, are based on a 'building block' approach which looks at five cost components (see Figure 5):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes, such as the EBSS and CESS
- estimated cost of corporate income tax.

Figure 5 The building block model to forecast network revenue



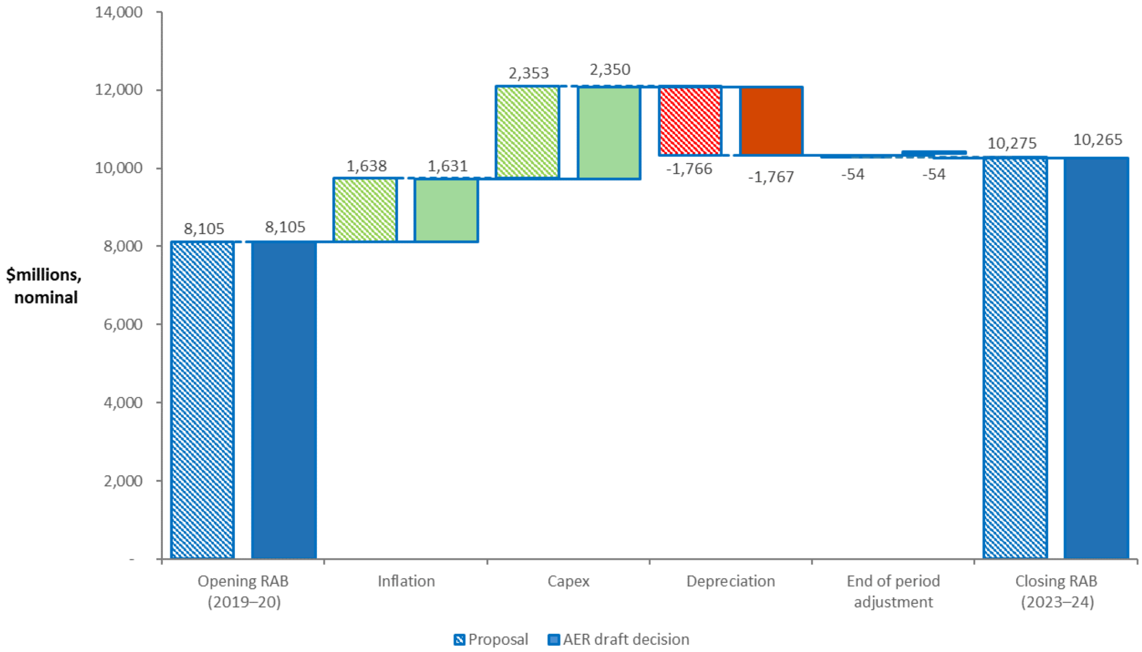
Source: AER.

2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set revenue for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward year by year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. The value of the RAB is used to determine the return on capital and regulatory depreciation building blocks. It substantially impacts Essential's revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and regulatory depreciation components of the revenue determination.

For this draft decision, we have determined an opening RAB value of $10,265.2 million ($ nominal) as at 1 July 2024. This value is $10.3 million (0.1%) lower than Essential's proposed opening RAB value of $10,275.5 million. This reduction is largely due to the updates we made to the consumer price index (CPI) inputs for 2022–23 and 2023–24 in the roll forward model (RFM) to reflect more up-to-date values. Figure 6 shows the key drivers of the change in Essential's RAB over the 2019–24 period compared to its proposal.

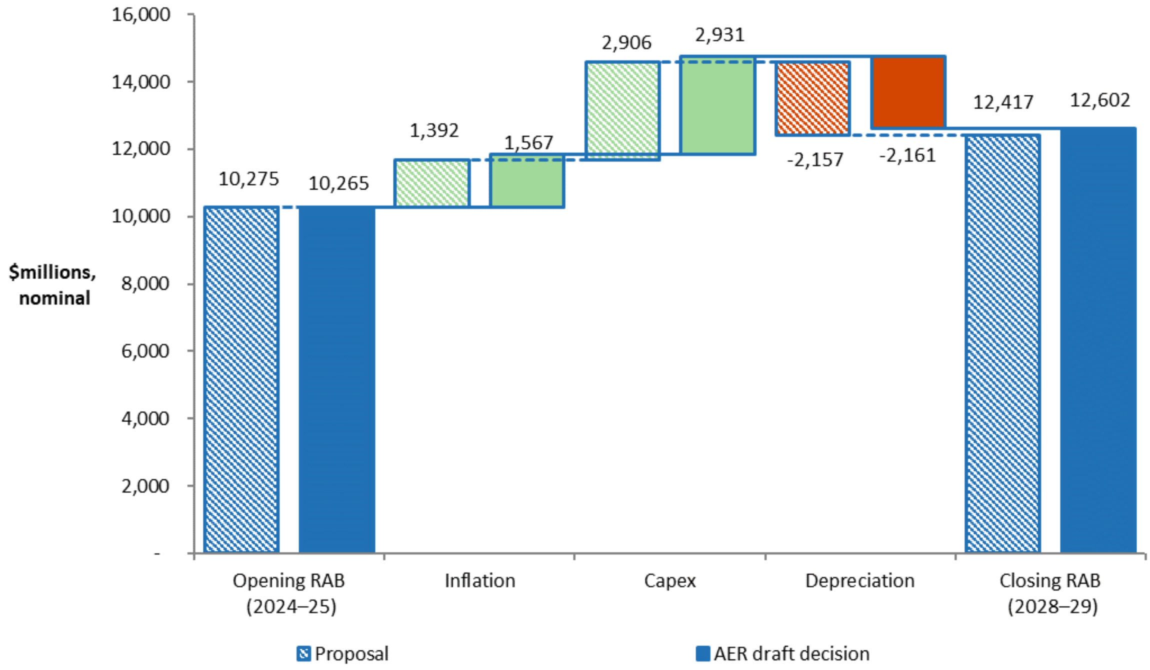
Figure 6 Key drivers of changes in the RAB over the 2019–24 period – proposal compared with AER's draft decision ($ million, nominal)



Source: AER analysis.
Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

Figure 7 likewise shows the key drivers of the change in Essential's forecast RAB over the 2024–29 period compared to its proposal. Our draft decision projects an increase of $2,337.3 million (22.8%) to the RAB by the end of the 2024–29 period compared to the $2,141.1 million (20.8%) increase in Essential's proposal. We have determined a projected closing RAB of $12,602.5 million ($ nominal) as at 30 June 2029, which is $185.9 million (1.5%) higher than Essential's proposed $12,416.6 million. This higher value is mainly due to our draft decision on the expected inflation rate. It also reflects our draft decisions on the opening RAB as at 1 July 2024, forecast depreciation and forecast capex (discussed in the sections below).

Figure 7 Key drivers of changes in the RAB over the 2024–29 period – proposal compared with AER's draft decision ($ million, nominal)



Source: AER analysis.
Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

2.2 Rate of return and value of imputation credits

The return each business is to receive on its capital base (the 'return on capital') is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the capital base. We estimate the rate of return by combining the returns of two sources of funds for investment – equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and gives a return on equity to investors.

Essential's proposal applied our 2022 draft Rate of Return Instrument to estimate the rate of return.[60] This draft decision applies the new 2022 Rate of Return Instrument:[61]

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[60] AER, *Rate of return Instrument*, December 2018. See https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-guideline-2018/final-decision.

[61] The 2022 Rate of Return Instrument was amended in August 2023. See https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision.

- Our draft decision applies a rate of return of 5.83% for the first year of the regulatory period, compared to the placeholder rate of return of 5.65% used in Essential's proposal. This difference is due to updates to the return on debt, the risk-free rate, and the market risk premium in the 2022 Instrument.
- Our draft decision applies a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument,[62] compared to 0.585 in the 2018 Instrument.[63]

Our estimate of expected inflation for the purposes of this draft decision is 2.80% per annum. It is an estimate of the average annual rate of inflation expected over a 5-year period based on the approach adopted in our 2020 Inflation Review[64] and the forecast from the Reserve Bank of Australia's August 2023 Statement on Monetary Policy.[65] This is higher than the estimate used in Essential energy's proposal (2.50%), which was taken from an earlier Statement on Monetary Policy.

Figure 8 isolates the impact of expected inflation from other parts of our draft decision, to illustrate its impact on the return on capital and regulatory depreciation building blocks and the total revenue allowance. Other elements held constant, higher expected inflation increases the return on capital but decreases regulatory depreciation.

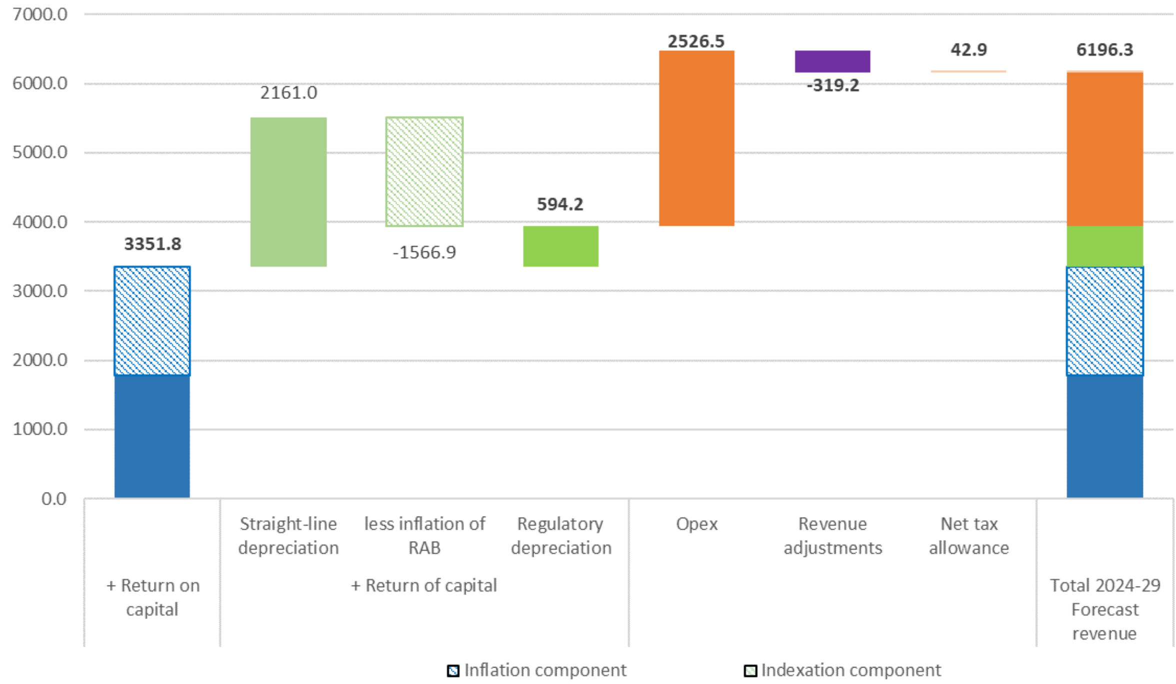
62 AER, *Rate of return Instrument, Explanatory Statement*, February 2023, pp. 240–250.

63 AER, *Rate of return Instrument, Explanatory Statement*, December 2018, pp. 307–382.

64 AER, *Final position – Regulatory treatment of inflation*, December 2020.

65 RBA, *Statement on Monetary Policy*, August 2023, Table 1: Forecast Table. See https://www.rba.gov.au/publications/smp/2023/aug/forecasts.html

Figure 8 Inflation components in final decision revenue building blocks ($ million, nominal)



Source: AER analysis.

2.3 Regulatory depreciation (return of capital)

Depreciation is a method used in our decision to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as 'return of capital'). When determining total revenue, we include an amount for the depreciation of the projected RAB. The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

Our draft decision determines a regulatory depreciation amount of $594.2 million ($ nominal) for the 2024–29 period. This is a reduction of $170.8 million (22.3%) from Essential's proposal of $765.0 million.

This reduction is primarily due to our draft decision on the expected inflation rate for the 2024–29 period. The higher expected inflation rate applied in the draft decision increases the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. Forecasts of expected inflation and components that make up the projected RAB will be updated again in Essential's revised proposal and our final decision.

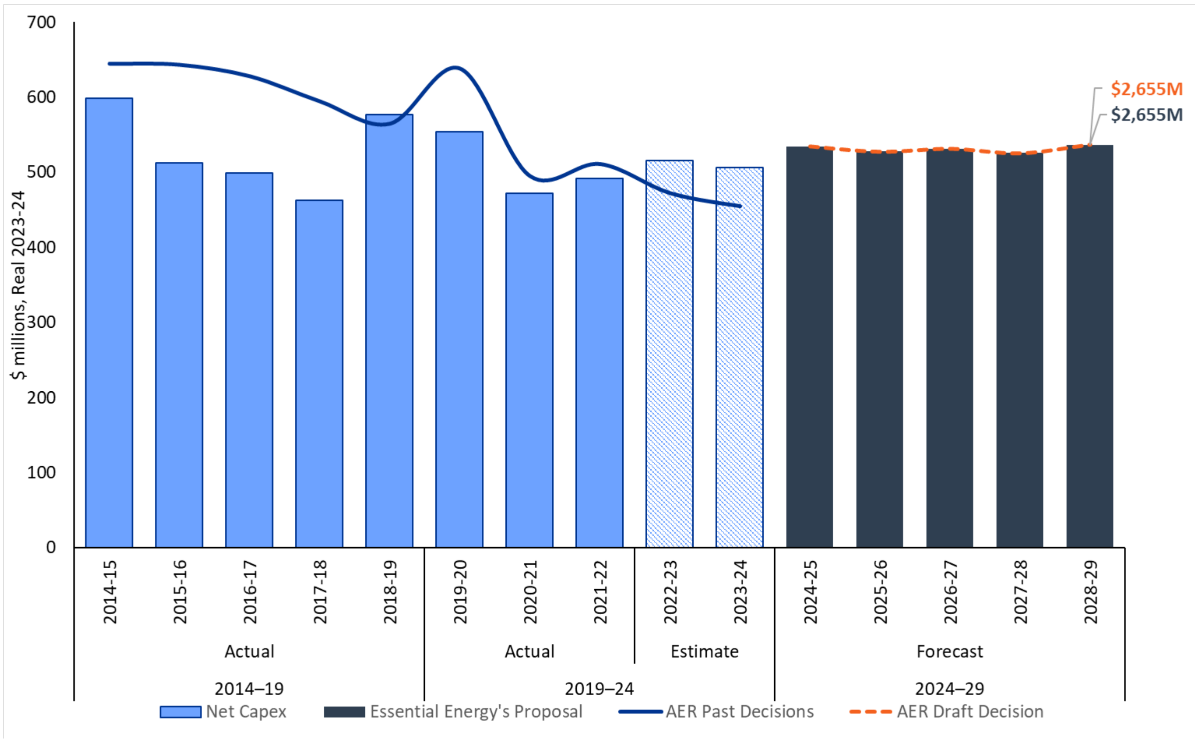
2.4 Capital expenditure

Capital expenditure—the capital costs and expenditure incurred to provide network services— mostly relates to assets with long lives, the costs of which are recovered over several regulatory control periods. Capex is added to Essential's RAB, which is used to determine the return on capital and return of capital (regulatory depreciation) building block allowances. All else being equal, higher forecast capex will lead to a higher projected RAB value and higher return on capital and regulatory depreciation allowances.

Our draft decision is to accept Essential's forecast capex of $2,655.4 million ($2023–24) for the 2024–29 period. Having regard to all the information before us, we have assessed Essential's total capex forecast to be within the bounds of a prudent and efficient forecast.

Figure 9 depicts Essential's historical capex trend, its proposed forecast for the 2024–29 period, and our draft decision. Essential's forecast is 3.6% higher compared to current period actual and estimated spend.

Figure 9 Essential Energy historical and forecast capex ($2023–24, million)



Source: AER analysis. Capex is net of asset disposals and capital contributions.

In considering the scope of our review of capex we had regard to how Essential has performed against the Handbook expectations for capex and its assessment on the early signal pathway. This gave the benefit of an early signal at the Issues Paper stage regarding the degree of the targeted review and where we would focus our review.

At the Issues Paper stage, we found that Essential had partially satisfied the capex expectations. While it had satisfied most of the top-down testing of its proposal, we were not provided sufficient information leading up to the Issues Paper to assess prudency and efficiency of its key projects and programs. There were also difficulties in reconciling and verifying Essential's numbers and data in its proposal and models. For these reasons, we noted in the Issues Paper that we would undertake a targeted review on several elements of Essential's capex proposal - representing about 50% of Essential's total capex forecast.

Since the release of our Issues Paper, we have engaged extensively with Essential to better understand and unpack its capex proposal. Essential has been very cooperative, providing all requested information and data on time. Further, material in support of its forecast has been comprehensive and, on the whole, robust. We, therefore, revised our targeted review from 50% to 31% of Essential's total capex forecast.

Our targeted review involved assessing:

- Connections capex, because of the forecasted material step up relative to the current period.
- Augex, because it is a step up from current period spend and also includes some resilience expenditure.
- The new and emerging expenditure areas relevant to a number of current regulatory proposals; these being, CER integration and resilience-related capex and cybersecurity ICT.

For all other categories not subject to targeted review, we undertook a broad high-level review of the main business cases driving the forecast to determine whether there are any material or systematic issues that might lead to over-forecasting.

For some expenditure such as CER, non-recurrent ICT, cybersecurity and climate resilience, we assessed the forecasted investment to not be consistent with prudent and efficient decision-making. But we also found that our alternative forecast at the total capex level to not be materially different from Essential's total forecast. We have set out areas of improvement in our draft decision for Essential to consider in future processes.

We note the following findings on the new and emerging areas of capex:

- Climate resilience capex ($204.8 million) – Essential provided some of the evidence set out in our guidance note on network resilience to support the prudency and efficiency of its climate resilience investment. In particular, it has provided sufficient options analysis to support the prudency and efficiency of its investments, as well as proposing appropriate STPIS adjustments stemming from reliability benefits. We also found that Essential's proposed resilience investments to be reasonable as these are a continuation of its current business-as-usual programs to address reliability of its network. While Essential was not able to demonstrate a causal link of the network impact from an expected increase in bushfire and flood events, we acknowledge that these reliability-related investments will also result in a more resilient network that can better withstand the impact from the increasing risk of climate change. We also consider that Essential has engaged well with its customers about its resilience proposal. We appreciate the challenges to engage with consumers on the network impacts from climate change and acknowledge Essential's efforts to better understand its customer's preferences for resilience-related expenditure. We have remaining concerns with the efficiency of Essential Energy's Stand-alone Power Systems (SAPS) costs. Therefore, our acceptance of Essential Energy's total capex forecast for the 2024–29 period is provisional on Essential Energy providing sufficient justification to support the efficient cost of its SAPS proposal.
- ICT cybersecurity – we note our consultant EMCa's advice that Essential's cybersecurity program objectives and targets are appropriate, as is its risk-prioritisation approach. EMCa also advises that Essential's options analysis is sound. In coming to our position on Essential's ICT cybersecurity proposal, we were cognisant of the importance of cybersecurity investment to support a reliable and secure electricity network, and we have had regard to the compliance obligations in legislation and licence conditions.
- CER integration ($86.6 million) – We consider that Essential has demonstrated there is a need for investment. However, our analysis and EMCa's review found issues with its

modelling, including overstatement of a number of key variables in its analysis. We have noted areas of improvement for Essential to consider in future processes.

We discuss our decision further in Attachment 5.

2.5 Operating expenditure

Operating expenditure is the operating, maintenance and other non-capital expenses incurred in the provision of distribution network services.

Our draft decision is to accept Essential's proposed opex forecast of $2,323.8 million ($2023–24), including debt raising costs, for the 2024–29 period. Our alternative estimate of $2,284.8 million ($2023–24) is not materially different ($39.0 million, $2023–24, or 1.7% lower) from Essential's total opex forecast proposal. Therefore, we are satisfied that Essential's total opex forecast reasonably reflects the opex criteria.[66]

Our draft decision, which is the same as Essential's proposed total opex forecast, is:

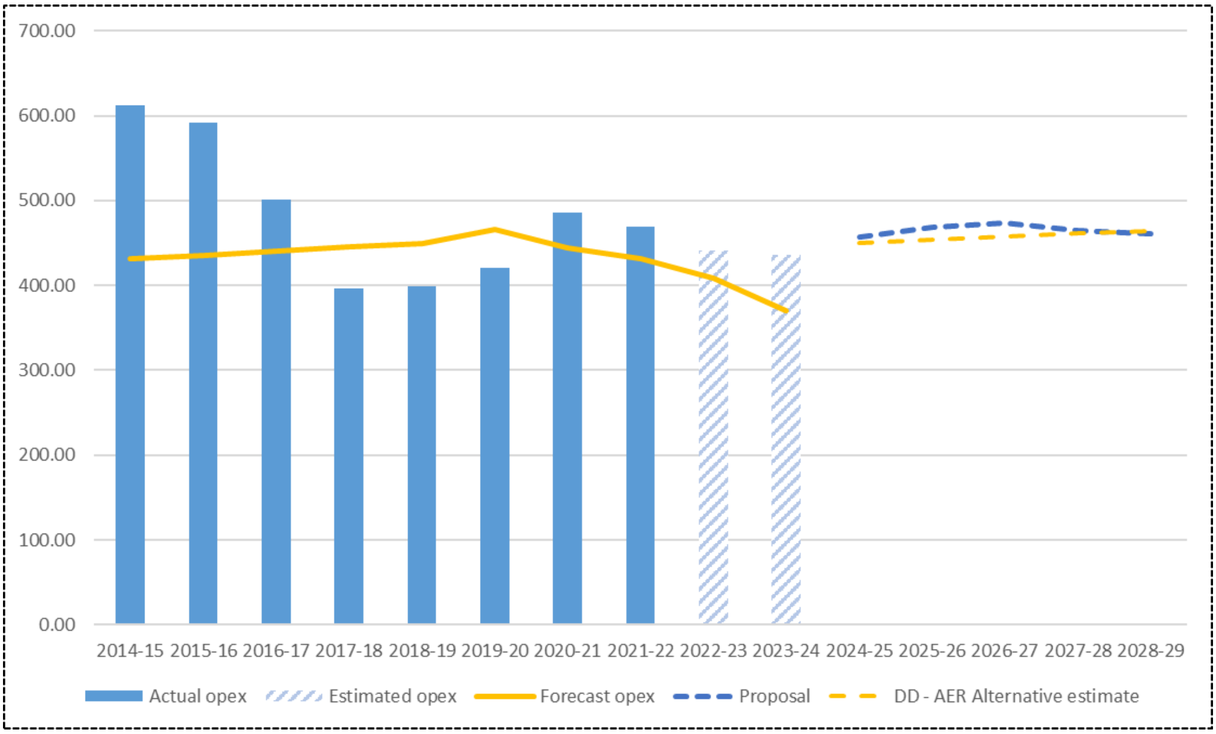
- $53.3 million or 2.3% higher than Essential's actual (and estimated) opex in the 2019–24 period
- $201.8 million or 9.5% higher than the opex forecast we approved in our final decision for the 2019–24 period.[67]

In Figure 10 we compare our alternative estimate of opex to Essential's proposal for the next regulatory control period. We also show the forecasts we approved for the last two regulatory control periods and Essential's actual and estimated opex over these periods.

[66] The opex criteria are set out in cl. 6.5.6(c) of the NER.

[67] The $201.8 million difference is calculated using our opex allowance for the five year 2019–24 period converted to real 2023–24 dollars using unlagged inflation. The difference of $225.0 million ($2023–24) stated in section 1.1 has been calculated using lagged inflation.

Figure 10 Comparison of past and forecast opex ($2023–24, million)



Source: Essential Energy, *Economic benchmarking – Regulatory Information Notice response* 2009–22; AER, *Final decision PTRM* 2009–14; AER, *Final decision 2014–19 PTRM*; AER, *Final decision 2019–24 PTRM and Opex model*; Essential Energy, *2024–29 Regulatory proposal - Essential Energy - 9.03.07 Standard Control Operating Expenditure Model - Public*, January 2023; AER analysis.

Note: This is annual reported and forecast opex including debt raising cost but excluding movements in provisions.

As part of the early signal pathway process, Essential provided us with early access to data and information relevant to our expectations for opex as set out in the Handbook. In turn, we provided feedback through check-ins prior to Essential submitting its regulatory proposal indicating where the Handbook expectations were likely to be met, or where adjustments were needed to meet these expectations.

Essential largely applied our standard base-trend-step forecasting methodology to forecast opex for the 2024–29 period, but did not adopt our approach to estimate final year opex in the current period. We have accepted Essential's proposal in this regard. However, we have applied an adjustment to ensure consistency between forecast opex and the EBSS so there is fair sharing of efficiency gains and losses between Essential and consumers, consistent with the intent of the EBSS and NER requirements. This has implications for Essential's EBSS carryover amounts, as discussed further in Attachment 8.

While there is not a material difference between our alternative estimate of total opex and Essential's proposal, we have arrived at our alternative estimate in a different way to Essential. The key difference between Essential's opex proposal and our alternative estimate is due to step changes. We undertook a targeted review of Essential's proposed step changes, and have included a lower total forecast amount ($18.5 million) compared to Essential's proposal ($57.3 million). We have not accepted the cloud computing and insurance step changes. We have also included a lower estimate for the DER/Data Enablement step change. We discuss our decision further in Attachment 6.

2.6 Corporate income tax

Our determination of the total revenue requirement includes the estimated cost of corporate income tax for 2024–29 period. Under the post-tax framework, this amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM).

Our draft decision determines an estimated cost of corporate income tax amount of $42.9 million ($ nominal) for Essential over the 2024–29 period. This is a reduction of $11.8 million (21.6%) from Essential's proposal of $54.8 million. This reduction is primarily due to our draft decision on a lower regulatory depreciation amount, which in turn decreased the estimated taxable income for Essential and therefore the cost of corporate income tax.

2.7 Revenue adjustments

Our calculation of Essential's total revenue includes adjustments under the EBSS and CESS that applied in its determination for the current period. These mechanisms provide a continuous incentive for Essential to pursue efficiency improvements in opex and capex, and a fair sharing of these between Essential and its users.

Our draft decision includes:

- A revenue adjustment of $15.64 million ($2023–24) for the CESS. This is from the application of the CESS in the 2019–24 period and the corresponding CESS carryover true-up for 2018–19. Our draft decision is $23.66 million more than Essential's proposed decrement of $8.02 million, due to including a true-up carryover amount and updating capex to reflect latest available information.
- EBSS carryover amounts totalling negative $316.3 million ($2023–24) from the application of the EBSS in the 2019–24 period. This is a $198.5 million ($2023–24) decrease compared to Essential's proposal of negative $117.8 million ($2023–24). Essential did not use our standard model for forecasting its opex.

  The key driver of this difference is that we have included a non-recurrent efficiency adjustment to ensure consistent application of the EBSS rewards and penalties. We have done this as Essential did not use our standard approach for forecasting opex in the final year of the current period. This ensures consistency between forecast opex and the EBSS so there is fair sharing of efficiency gains and losses between the distributor and consumers, consistent with the intent of the EBSS and NER requirements. The reasons for our decision are discussed further in Attachment 8.
- An allowance of $5.50 million ($2023–24) for the Demand Management Innovation Allowance Mechanism (DMIAM). In each year of the 2024–29 period, Essential will submit demand management projects for approval under the DMIAM. Any part of the $5.50 million that is not spent on an approved project will be returned to consumers in the subsequent regulatory control period.

The combined effect of these revenue adjustments is a negative $295.1 million ($2023–24) revenue adjustment building block in this draft decision compared to a negative $120.2 million in Essential's proposal.

3 Incentive schemes

Incentive schemes are a component of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of the network. Our draft decision on the application of these schemes and allowances is consistent with the position taken in our Framework and Approach paper and is set out in Attachments 8-12 of this draft decision.

Our draft decision is that the following incentive schemes will continue to apply to Essential in the 2024–29 period:

- Efficiency benefit sharing scheme (EBSS). This provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between networks and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.
- Capital expenditure sharing scheme (CESS). This incentivises efficient capex throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods.
- The Service target performance incentive scheme (STPIS) balances a business's incentive to reduce expenditure with the need to maintain or improve service quality. It achieves this by providing financial incentives to businesses to maintain and improve service performance and not by simply reducing costs at the expense of service quality. Once improvements are made, the benchmark performance targets will be tightened in future years. The parameters that will apply to each component of the STPIS have been published as part of this draft decision.
- Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance Mechanism (DMIAM). The DMIS provides network service providers with financial incentives for undertaking efficient demand management activities. The DMIAM funds research and development in demand management projects that have the potential to reduce long term network costs.

Since our last determination for Essential we have introduced two new incentive schemes:

- A Customer Service Incentive Scheme (CSIS), which is designed to encourage electricity distributors to engage with their customers, identify (through consumer engagement) the customer services their customers want improved, and then set targets to improve those services based on their customers’ preferences and support.

  Our draft decision is that a CSIS will apply because Essential Energy has met the incentive design of the scheme.
- An Export Services Incentive Scheme (ESIS), which allows distributors to propose bespoke incentives related to export services based on their network circumstances, customer preferences and evidence-based performance data. The scheme is a product of our consultation with stakeholders on incentivising and measuring export service performance, which considered appropriate incentive arrangements for export services to balance existing incentive schemes related to consumption services, as well as the

introduction of network performance reporting on export service performance metrics. Our draft decision is that an ESIS will not apply. The ESIS was first published in June 2023, and was not available at the time of Essential's proposal.

4 Tariff structure statement

Essential's 2024–29 proposal includes its third tariff structure statement. Its current tariff structure statement applies to 30 June 2024.

The requirement on distributors to prepare a tariff structure statement stemmed from significant reforms in 2014 to the rules governing distribution network pricing. The purpose of the reforms is to empower customers to make informed choices by:

- providing better price signals—tariffs that reflect what it costs to use electricity at different times so that customers can make informed decisions to better manage their bills
- transitioning to greater cost reflectivity—requiring distributors to explicitly consider the impacts of tariff changes on customers, and engaging with customers, customer representatives and retailers in developing network tariff proposals over time
- managing future expectations—providing guidance for retailers, customers and suppliers of services such as local generation, batteries and demand management by setting out the distributor's tariff approaches for the 5-year regulatory control period.

It is important to note that a distributor charges retailers for the network services they provide to the retailer's customers (end-customers). There is no obligation on retailers or energy service providers to pass the network tariff structure through to their end-customers. The structure of retail offers is determined by retailers responding to consumer preferences and competitive pressures, while also deciding how best to manage the network price signals. A retailer may choose to pass on the network price signals exactly or repackage them into their retail offers (including in insurance style flat rate retail offers).

Network tariff reform aims to help distributors charge retailers in a manner which more closely reflects the cost of providing electricity network capacity to their end customers and can support the energy transition currently underway. Where price signals are passed through and if customers are well placed to respond to these price signals, appropriately structured tariffs can enable growth in the value and number of people with CER. At the same time, this response to price signals can reduce network constraints and limit the level of network investment required, resulting in lower prices for all consumers.

The tariff structure statement must set out a number of matters. These include tariff classes, proposed tariffs and the structures and charging parameters, the strategy for introduction of export tariffs, and the approach to setting tariff levels in each year of the regulatory control period.[68] The policies and procedures it will use to assign customers to tariffs or reassign customers from one tariff to another must also be outlined.

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[68] NER, cl. 6.18.1A(a).

In this determination we decide the structure of tariffs that will form the basis of annual pricing proposals throughout the 2024–29 period.[69] We are also required to decide the policies and procedures for assigning or re-assigning customers to tariff classes.[70] While an indicative pricing schedule must accompany the tariff structure statement, [71] the tariff levels for each tariff for each year of the 2024–29 period are not set as part of this determination.

Tariff levels for the regulatory year commencing 1 July 2024 will be subject to a separate approval process in May 2024, after we have made our final revenue determination in April 2024. Tariffs for the four years from 1 July 2025 will also be approved on an annual basis.[72]

We commend Essential for submitting a high-quality tariff structure statement which balances a broad range of stakeholder views and provides a forward-looking path to transition customers to cost-reflective tariffs. We have given weight to the considerable stakeholder engagement Essential undertook in the development of its tariff structure statement, as well as the submissions we have received. We also provided Essential with feedback on the direction of its tariff structure statement while it was in development through the early signal pathway.

Essential's proposed tariff structure statement makes a step change in progressing tariff reform. It removes the ability of customers with smart meters to opt-out of cost-reflective tariffs, while effectively managing the impacts to customers from transitioning to more cost reflective tariffs. Essential also proposed new cost-reflective tariffs to address emerging constraints on its network, facilitating the growth of CER while minimising network investment. These include proposing an export reward tariff, grid-scale battery tariffs, and new sun soaker time-of-use tariff.

We encourage Essential to consider minor improvements in its revised tariff structure statement, including providing worked examples of how its export reward tariff applies in practice and supporting information on its proposed contingent tariff adjustment. We also encourage Essential to include supporting information on the proposed further change to its assignment policy that it communicated to AER staff after submission of the proposed tariff structure statement - to assign residential and small business customers with new and replacement smart meters in 2024 to the new sun-soaker tariff, with zero export charges until 30 June 2025. Further, given the current and anticipated uptake of electric vehicles (EVs) in NSW and associated EV charging load, we think that Essential should consider further tariff options to help manage potential network impacts from uncontrolled EV charging.

We further consider that a handful of relatively minor changes are required to achieve compliance with the NER pricing principles. We require Essential to:

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69 NER, cl. 6.12.1(14A).

70 NER, cl. 6.12.1(17).

71 NER, cl. 6.8.2(d1).

72 This will occur pursuant to obligations in cl. 6.18.2 and cl. 6.18.8 of the NER.

- consult on and include the appropriate rebate amount for grid-scale batteries connected to the HV network in its revised tariff structure statement
- expand on its approach to setting individually calculated tariffs and the charging parameters that apply to individually calculated tariffs.

In Attachment 19 we describe in further detail these changes that we consider necessary for us to approve Essential's tariff structure statement proposal.

5 Metering

Smart meters are foundational to a more connected, modern, and efficient energy system and one mechanism to ensure that future technologies, services, and innovations are supported. The AEMC has been considering the transitioning of legacy meters and in December 2020, initiated a review of the regulatory framework for metering services.

In our final Framework and Approach Paper for the NSW distributors[73] and Issues Paper for Essential,[74] we signalled that the outcomes of the AEMC's review may require different classification and price/revenue control settings in our draft or final decisions.

5.1 The AEMC's final decision

The AEMC's draft report noted that smart meters provide whole-of-system benefits, which should be realised as soon as possible.[75] The AEMC's final decision was released on 30 August 2023,[76] and confirms that it will target a 100% replacement of distribution network-owned accumulation meters with smart meters offered by other parties by 30 June 2030.[77]

We consider the AEMC's final decision constitutes a material change in circumstances for Essential, which justifies departure from the classification of legacy meter services in the F&A[78]. However, due to the proximity of the release of our draft decision, we have not had the opportunity to fully incorporate the findings into this decision. In preparation for the AEMC's decision, we have been working with the affected distribution businesses. We aim to identify a proposed approach that ensures customers are not inequitably impacted from rising costs, prior to realising the benefits the smart meters provide.

5.2 Material change in circumstances

For Essential to achieve the AEMC's targets, it will be required to a develop legacy metering retirement plans (LMRPs) in consultation with retailers, metering parties, and other stakeholders. It is envisaged that a LMRP will schedule bulk meter replacements (replace legacy meters with smart meters) on a geographical basis to leverage economies of scale. Customers may have little choice as to when their meter will be replaced as the replacement cycle will be determined by the distributors and other providers.

Under the F&A regulatory settings, Essential's customers with meters replaced later in the LMRP implementation will be charged higher costs for metering services than customers

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73 AER, *Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy,* July 2023.

74 AER, *Issues Paper – Essential Energy – 2024–29 Distribution revenue proposal*, March 2023.

75 AEMC, *Review of the regulatory framework for metering services draft report*, 3 November 2022, pp. ii.

76 AEMC, *Final Report: Review of the regulatory framework for metering services*, August 2023.

77 AEMC *Final Report: Review of the regulatory framework for metering services,* August 2023.

78 We must not depart from the classification of distribution services determined in the F&A unless we consider that a material change in circumstances justifies the departure: cl. 6.12.3(b) of the NER

who had meters replaced earlier, even though there is no difference in the service they receive.

5.3 Proposed approach

Our proposed approach and guidance for legacy meter services is set out in Attachment 20 – Metering services. Due to the timing of the AEMC's final decision, we have retained the classification for metering services as ACS. However, our view is that a reclassification of legacy meter services to SCS is likely to be more appropriate. This approach will result in the benefit of socialising Essential's metering services costs during the smart meter transition and maintain compliance with the pricing principles in the NER[79].

We have engaged with all impacted distribution networks on this proposed approach. However, we have had limited opportunity to engage with other stakeholders to date on the proposed socialisation of costs and change in classification. When submitting its revised proposal, we encourage Essential to have regard to the AEMC's final decision of targeting 100% replacement by 2030, and anything else relevant. Our draft decision has also applied accelerated depreciation to wind up legacy meter asset bases within the 2024–29 period.

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79 Clause 6.18.5 of the NER.

6 Constituent decisions

Our draft decision on Essential Energy's distribution determination for the 2024–29 regulatory control period includes the following constituent components:

Constituent component
In accordance with clause 6.12.1(1) of the NER, the AER's draft decision is that the classification of services set out in Attachment 13 will apply to Essential Energy for the 2024–29 regulatory control period, for the reasons set out in that attachment.
In accordance with clause 6.12.1(2)(i) of the NER, the AER's draft decision is to not approve the annual revenue requirement set out in Essential Energy's building block proposal. Our draft decision on Essential Energy's annual revenue requirement for each year of the 2024–29 regulatory control period is set out in Attachment 1.
In accordance with clause 6.12.1(2)(ii) of the NER, the AER's draft decision is to approve Essential Energy's proposal that the regulatory control period will commence on 1 July 2024. Also in accordance with clause 6.12.1(2)(ii) of the NER, the AER's draft decision is to approve Essential Energy's proposal that the length of the regulatory control period will be five years from 1 July 2024 to 30 June 2029.
The AER did not receive a request for an asset exemption under clause 6.4B.1(a)(1) and therefore has not made a decision in accordance with clause 6.12.1(2A) of the NER.
In accordance with clause 6.12.1(3)(i) and acting in accordance with clause 6.5.7(c) of the NER, the AER's draft decision is to accept Essential Energy's proposed total forecast capital expenditure of $2,655.4 million ($2023–24). The reasons for our draft decision are set out in Attachment 5.
In accordance with clause 6.12.1(4)(i) and acting in accordance with clause 6.5.6(c) of the NER, the AER's draft decision is to accept Essential Energy's proposed total forecast operating expenditure, inclusive of debt raising costs and exclusive of DMIAM of $2,323.8 million ($2023–24). The reasons for our draft decision are set out in Attachment 6.
Essential Energy did not propose any contingent projects and therefore the AER has not made a decision under clause 6.12.1(4A) of the NER.
In accordance with clause 6.12.1(5) of the NER and the 2022 Rate of Return Instrument, the AER's draft decision is that the allowed rate of return for the 2024–25 regulatory year is 5.83% (nominal vanilla) for the reasons set out in Attachment 3. The rate of return for the remaining regulatory years of the 2024–29 period will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.
In accordance with clause 6.12.1(5A) of the NER and the 2022 Rate of Return Instrument, the AER's draft decision on the value of imputation credits as referred to in clause 6.5.3 is to adopt a value of 0.57. The reasons for our draft decision are set out in Attachment 3.
In accordance with clause 6.12.1(6) of the NER, the AER's draft decision on Essential Energy's regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is $10,265.2 million ($ nominal). The reasons for our draft decision are set out in Attachment 2.
In accordance with clause 6.12.1(7) of the NER, the AER's draft decision on Essential Energy's estimated cost of corporate income tax is $42.9 million ($ nominal) for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 7 and the amount for each regulatory year of the 2024–29 regulatory control period is set out in the table below.

Constituent component

($million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	5.5	11.6	19.8	31.7	31.3	99.9
Less: value of imputation credits	3.1	6.6	11.3	18.1	17.9	56.9
Net cost of corporate income tax	**2.4**	**5.0**	**8.5**	**13.6**	**13.5**	**42.9**

In accordance with clause 6.12.1(7) of the NER, the AER's draft decision on Essential Energy's estimated cost of corporate income tax is $42.9 million ($ nominal) for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 7.

In accordance with clause 6.12.1(8) of the NER, the AER's draft decision is to not approve the depreciation schedules submitted by Essential Energy. Our draft decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b). The regulatory depreciation amount approved in this draft decision is $594.2 million ($ nominal) for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 4.

In accordance with clause 6.12.1(9) of the NER the AER makes the following draft decisions on how any applicable efficiency benefit sharing scheme (EBSS), capital expenditure sharing scheme (CESS), export services incentive scheme (ESIS), service target performance incentive scheme (STPIS), demand management incentive scheme (DMIS), demand management innovation allowance mechanism (DMIAM) or small-scale incentive scheme (customer service incentive scheme) is to apply:

- We will apply version 2 of the EBSS to Essential Energy in the 2024–29 regulatory control period. Our reasons are set out in Attachment 8.
- We will apply the CESS as set out in the Capital Expenditure Incentives Guideline to Essential Energy in the 2024–29 regulatory control period. Our reasons are set out in Attachment 9.
- We will not apply the ESIS for the 2024–29 regulatory control period.
- We will apply our STPIS version 2 to Essential Energy for the 2024–29 regulatory control period. Our reasons are set out in Attachment 10.
- We will apply the DMIS and DMIAM to Essential Energy for the 2024–29 regulatory control period. Our reasons are set out in Attachment 11.
- We will apply the customer service incentive scheme (CSIS) to Essential Energy for the 2024–29 regulatory control period. Our reasons are set out in Attachment 12.

In accordance with clause 6.12.1(10) of the NER, the AER's draft decision is that all other appropriate amounts, values and inputs are as set out in this draft determination including attachments.

In accordance with clause 6.12.1(11) of the NER and our framework and approach paper, the AER's draft decision on the form of control mechanisms (including the X factor) for standard control services is a revenue cap. The revenue cap for Essential Energy for any given regulatory year is the total annual revenue calculated using the formula in Attachment 14, which includes any adjustment required to move the Distribution Use of Service (DUoS) unders and overs account to zero. The reasons for our draft decision are set out in Attachment 14.

In accordance with clause 6.12.1(12) of the NER and our framework and approach paper, the AER's draft decision on the form of the control mechanism for alternative control services is to apply price caps for all alternative control services. The reasons for our draft decision are set out in Attachment 14.

<table>
<tr><th>Constituent component</th></tr>
<tr><td>In accordance with clause 6.12.1(13) of the NER, to demonstrate compliance with its distribution determination, the AER's draft decision is that Essential Energy must maintain a DUoS unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.</td></tr>
<tr><td>In accordance with clause 6.12.1(14) of the NER the AER's draft decision is to apply the following nominated pass through events to Essential Energy for the 2024–29 regulatory control period in accordance with clause 6.5.10:
• Insurance coverage event
• Insurer’s credit risk event
• Terrorism event
• Natural disaster event
These events have the definitions set out in Attachment 15 of the draft decision. Our reasons for this constituent decision are also set out in that attachment.</td></tr>
<tr><td>In accordance with clause 6.12.1(14A) of the NER, the AER's draft decision is to not approve the tariff structure statement proposed by Essential Energy. The reasons for our draft decision are set out in Attachment 19.</td></tr>
<tr><td>In accordance with clause 6.12.1(15) of the NER, the AER's draft decision is that the negotiating framework as proposed by Essential Energy will apply for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 17.</td></tr>
<tr><td>In accordance with clause 6.12.1(16) of the NER, the AER's draft decision is to apply the negotiated distribution services criteria published in February 2023 to Essential Energy. The reasons for our draft decision are set out in Attachment 17.</td></tr>
<tr><td>In accordance with clause 6.12.1(17) of the NER, the AER's draft decision on the procedures for assigning retail customers to tariff classes for Essential Energy is set out in Attachment 19.</td></tr>
<tr><td>In accordance with clause 6.12.1(18) of the NER, the AER's draft decision is that the depreciation approach to be used to establish the RAB at the commencement of Essential Energy’s regulatory control period as at 1 July 2029 is to be based on forecast capex. The reasons for our draft decision are set out in Attachment 2.</td></tr>
<tr><td>In accordance with clause 6.12.1(19) of the NER, the AER's draft decision on how Essential is to report to the AER on its recovery of designated pricing proposal charges and account for the under and over recovery of designated pricing proposal charges is the unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.</td></tr>
<tr><td>In accordance with clause 6.12.1(20) of the NER, the AER's draft decision on how Essential is to report to the AER on its recovery of jurisdictional scheme amounts and account for the under and over recovery of jurisdictional scheme amounts is the unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.</td></tr>
<tr><td>In accordance with clause 6.12.1(21) of the NER, the AER's draft decision is to not approve the connection policy proposed by Essential Energy. Our draft decision is to amend Essential Energy’s proposed connection policy as set out, and for the reasons given, in Attachment 18.</td></tr>
</table>

7 List of submissions

We received 20 submissions in response to Essential Energy's revenue proposal, as well as 455 from individuals via 'formbuilder'. These are listed below[80].

Submissions from
Australian Air Quality Group
Bathurst Regional Council
Blayney Shire Council
Central NSW Regional Organisation of Councils (Centroc)
Consumer Challenge Panel, sub-panel 26
Cotton Australia
EnergyAustralia
Essential Energy
Evie Networks
Energy & Water Ombudsman NSW (EWON)
Hugh Saddington
New England Greens Armidale
NSW stakeholders – 455 from individuals via 'formbuilder' on the NSW distributors proposed solar export charges[81]
Origin Energy
Parkes Shire Council
Public Interest Advocacy Centre
Red Energy & Lumo Energy
Riverina and Murray Regional Organisation of Councils (RAMROC)
Solar Citizens
Southern Lights NSW
Weddin Shire Council

80 Submissions available on the AER website.

81 A sample of some of the submissions received are available on the AER website.

Shortened forms

Terms	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASP	Accredited Service Provider
capex	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 26
CESS	capital expenditure sharing scheme
CER	Consumer energy resources
CSIS	customer service incentive scheme
DER	Distributed Energy Resources
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service Provider
DUoS	Distribution Use of System Charges
EBSS	efficiency benefit sharing scheme
ECA	Energy Consumers Australia
ENA	Energy Networks Australia
ESB	Energy Security Board
F&A	framework and approach
GSL	guaranteed service level
ICT	information and communication technologies
LMRP	Legacy metering retirement plan
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objectives
NER	National Electricity Rules
opex	operating expenditure
PIAC	Public Interest Advocacy Centre
RAB	regulated asset base
repex	replacement expenditure
SAPS	stand-alone power systems
SCS	standard control service
Service classification guideline	Electricity distribution service classification guideline 2018
STPIS	service target performance incentive scheme
VCR	value of customer reliability