Draft Decision

Ausgrid Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Overview

September 2023

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

AER reference: AER212493

Amendment record

Version	Date	Pages
1.0	28 September 2023	50

Invitation for submissions

Ausgrid 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 Ausgrid's revised proposal (once submitted) by Friday, **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
Canberra ACT 2601

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, 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 Ausgrid for the 2024–29 period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

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 as one of the National Energy Objectives (NEO).

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 Ausgrid, 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]. Utilities were the highest ranked area of low-income household expenditure put under pressure in the past 12 months due to rising living costs[4]. Our analysis shows that Ausgrid's distribution network charges make up around 21.7% 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% 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.

---

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.

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 'Australia NEM (National Electricity Market) is on the edge of one of the largest transformations since the market was formed over 20 years ago.'[6] The ESOO flags that the 'scale of opportunity to meet an imminent and growing need for firm capacity, new forms of energy production and significant consumer energy investments is unparalleled in Australia's energy history.[7] 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 such as EVs. 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 introduced 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 new and emerging areas that support the energy transition, while 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 draft decision on Ausgrid's proposal

Ausgrid's proposal has been shaped by its engagement. Stakeholders have told Ausgrid that they want it to do more than just continue to deliver safe, reliable, and affordable energy. While continuing to meet these core expectations, Ausgrid has heard that it is also expected to support the transition to a cleaner, more sustainable energy system and to help stakeholders realise their own net zero ambitions and manage their own energy costs.[8]

This context has been central to our considerations in making our draft decision.

This draft decision allows Ausgrid's to recover an estimated $9,619.6 million[9] ($nominal, smoothed) from its customers over the 2024–29 period. Our draft decision is a 1.5%

---

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

6 AEMO, *Electricity Statement of Opportunities*, August 2023, p. 3.

7 AEMO, *Electricity Statement of Opportunities*, August 2023, p. 3.

8 Ausgrid, *2024–29 regulatory proposal – Overview*, 31 Jan 2023, p. 10.

9 Includes distribution and transmission revenues.

reduction from Ausgrid's proposal. The reduction in overall revenue in this draft decision compared to Ausgrid's proposal is driven by reductions in capital and operating expenditure (capex and opex) and lower revenue adjustments (primarily driven by a lower capital expenditure sharing scheme (CESS) reward). These reductions are offset by lower inflation forecast (increasing regulatory depreciation) and higher return on capital. For illustrative purposes, we estimate that the total revenue from this draft decision would result in an average increase of $11 per annum to the average electricity bill for Ausgrid residential customers over the by 2024–29 period.

Ausgrid has provided a good quality proposal, which it has developed through a robust engagement process. Ausgrid has also engaged constructively with us through information requests to allow us to better understand the drivers of its proposal and to close gaps in its supporting information. While we have accepted many aspects of Ausgrid's proposal, our review has identified some areas, such as components of forecast capex, opex and tariff structure statements, where we think Ausgrid's proposal does not meet the requirements under the NER.

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, Ausgrid has 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 Ausgrid has undertaken to understand these challenging areas of expenditure and the considerable and genuine efforts to engage with customers to understand their preferences. Our draft decision on these matters, for both capex and opex, notes a number of areas where we are not yet satisfied that the proposal reflects the prudent and efficient costs of meeting customer and community needs.

The guidance provided in our draft decision will provide an opportunity for Ausgrid to consider what further information and analysis may be required to support prudent and efficient investment as part of its revised proposal. In doing so, we have also been mindful that these decisions consider new areas of expenditure such as CER integration, climate resilience and cybersecurity, where our assessment approaches are evolving.

Our draft decision does not accept Ausgrid's proposed capex forecast of $3,296.6 million. Our draft decision forecast capex is 17% below Ausgrid's proposal. While we observed a significant improvement in Ausgrid's recurrent (business-as-usual) expenditure, we had concerns with Ausgrid's proposed capex for non-recurrent information and communication technologies (ICT), innovation, and the new and emerging capex areas common to the 2024–29 businesses. In July 2023, Ausgrid submitted a revised proposal for resilience. We appreciate that this later proposal enabled significant further work, including consumer engagement. However, making its submission at this stage of the process means that Ausgrid has not had the opportunity to respond to the information and analysis gaps we have identified. We welcome further information from Ausgrid to support its climate resilience proposal.

Our draft decision does not accept Ausgrid's proposed opex forecast. Our draft decision on forecast opex is 6.9% lower that Ausgrid's proposal. Our decision acknowledges the work that Ausgrid has undertaken in reducing its annual opex. It is therefore important these efficiencies are shared with consumers through its total opex for the 2024–29 period. Our draft decision does this through reductions to Ausgrid's proposed base year adjustments (4.2%) and step changes (1.8%).

Our draft decision on Ausgrid's tariff structure statement recognises the strong progress achieved on tariff reform while managing customer impacts. However, we are not approving Ausgrid's proposed tariff structure statement because not all elements comply with the NER pricing principles. In particular, we require Ausgrid to consult further on its embedded network tariffs because we want to hear a broader range of stakeholder views. We also encourage Ausgrid to consider minor improvements to its tariff structure statement, including worked examples of the application of its export reward tariff and supporting information on its proposed contingent tariff adjustment and medium business assignment policy. Additionally, we consider that Ausgrid should consider further tariff options to help manage potential network impacts from uncontrolled EV charging.

We commend Ausgrid on its engagement approach to deliver outcomes valued by its stakeholders, and the significant step-up taken in relation to engagement with councils on issues such as public lighting. Ausgrid openly and genuinely engaged on matters raised by stakeholders responding to its initial public proposal in order to seek resolution on them for our draft decision.

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 except those who have never 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 detailed attachments, we have set out the assessment approaches applied, and enquiries made as part of our review, which have enabled us to arrive at this draft decision.

This draft decision is the mid-point in our assessment of Ausgrid's proposal. Ausgrid now has the opportunity to respond in a revised proposal that incorporates the substance of the changes required by, and addresses matters raised in, this draft decision.

Consumers at the centre of proposals

In December 2021, we released the Better Resets Handbook (the Handbook) for the purpose of encouraging networks to better engage with customers and have their preferences drive the development of regulatory proposals.[10] The principles for considering consumer engagement in network revenue determinations is set out in the Handbook, 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

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

> largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.[11]

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.[12]

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 it has 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.[13]

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 reflect 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 its consumers may include examples such as an advisory panel, or a 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.[14] 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.

Ausgrid has undertaken significant engagement with its customers in developing its 2024–29 proposal. We have seen a substantial step-up in engagement and a move towards developing a customer-centric culture. A key driver of Ausgrid's engagement program has been its Reset Customer Panel (RCP), which has provided constructive challenge to the business to ensure its proposal is delivering value for its customers. The RCP has been committed to challenging Ausgrid in its engagement and helping guide and shape the regulatory proposal. However, the RCP has noted the balance between its role in challenging the business, and our role and function in assessing prudency and efficiency. For example, in relation to capex, the RCP's independent report stated:

---

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

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

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

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

> We believe that Ausgrid has met the expectations of the Handbook in relation to its proposed capex. However, we recommend that a number of the programs (resilience, CER Integration, ICT and fleet) require detailed review by the AER to assess their prudency and efficiency.[15]

Ausgrid's engagement program has been the most closely observed by CCP26 since the introduction of the Handbook.[16] It is clear that Ausgrid has aspired to be a leader in the area of community engagement, for example through its Voice of Community Panel (VoC) and resilience engagement program.

Ausgrid's consumer engagement has been a material factor in our decision to accept most of the expenditure proposed in the regulatory proposal. Where we have not yet accepted expenditure in the regulatory proposal it is not a reflection on the consumer engagement but a judgement on each of the factors we are required to consider under NER.

We all continue to learn and develop throughout the process of applying the Handbook, and we will look to reflect with 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 Energy, Evoenergy, TasNetworks Distribution, TasNetworks Transmission and Power and Water Corporation (NT), for the 2024–29 period.

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 Ausgrid'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 Ausgrid's proposal.

If Ausgrid's revised proposal includes material new expenditure because of the amended NEO, we would expect it to demonstrate that the expenditure aligns with consumer

---

15 Ausgrid's Reset Customer Panel, *Att. 3.5 - Independent report on Ausgrid's 2024–29 revenue proposal,* 31 Jan 2023, p. 80

16 CCP26, *Advice to the AER – 2024–29 Electricity Determination – Ausgrid,* updated June 2023.

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 allow Ausgrid to recover a total revenue of $9,619.6 million ($ nominal, smoothed) from its consumers from 1 July 2024 to 30 June 2029. Our draft decision provides for the combined revenue of Ausgrid's distribution and dual function (transmission) assets.[17]

In the sections below we briefly outline what is driving Ausgrid's revenue, and the key differences between our draft decision revenue compared to the $9,764.2 million ($nominal, smoothed) in Ausgrid's proposal.[18]

1.1 What is driving revenue?

Revenue is driven by changes in real costs and inflation. We assess costs (such as capital and operating expenditures) 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.

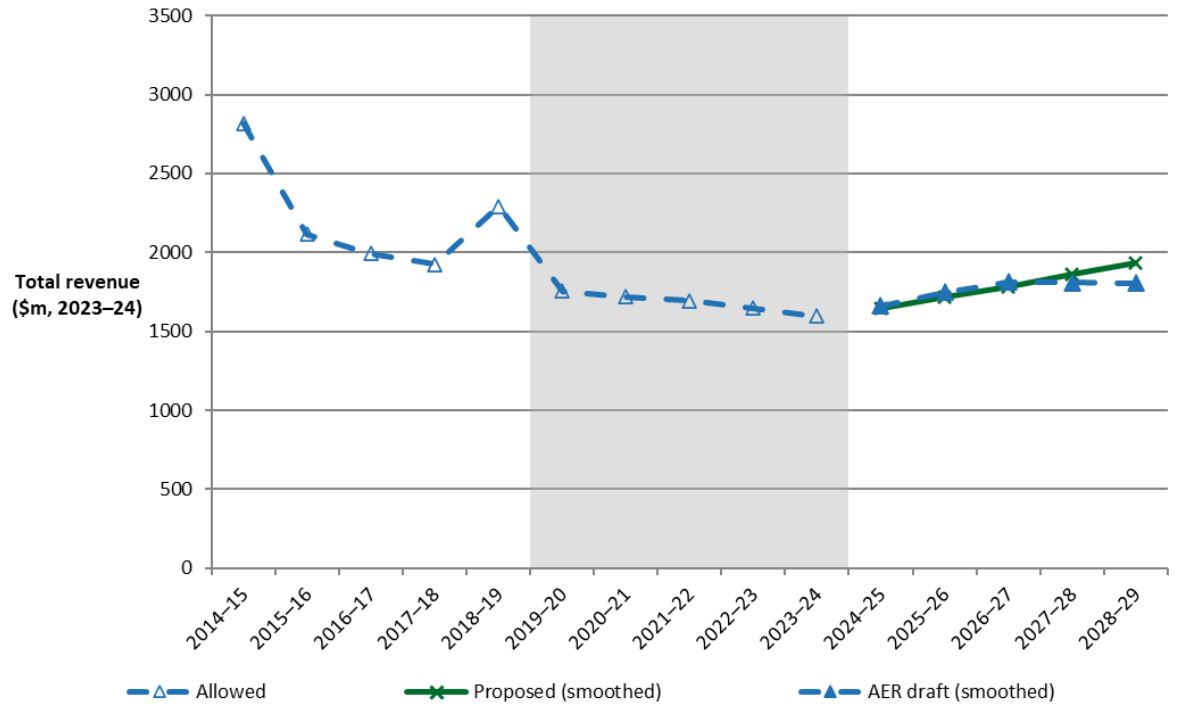
In real terms, this draft decision would allow Ausgrid to recover $8,838.4 million ($2023–24, smoothed) from consumers over the 2024–29 period. This is 5.1% higher than our decision for the current (2019–24) period. Changes in Ausgrid's revenue over time are shown in Figure 1.

---

17 The costs attributed to the dual function assets are recovered through Transgrid, as the coordinating transmission network service provider for New South Wales and the ACT.

18 The amounts presented in this overview combine both the distribution and transmission networks numbers. A breakdown of the distribution and transmission numbers can be found in the attachments to this draft decision.

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



Source: AER analysis.

In real terms, this draft decision would allow Ausgrid to recover a total building block revenue of $8,821.0 million ($2023–24, unsmoothed) over the 2024–29 period. Figure 2 highlights the key drivers of the change between the revenue approved for Ausgrid 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:

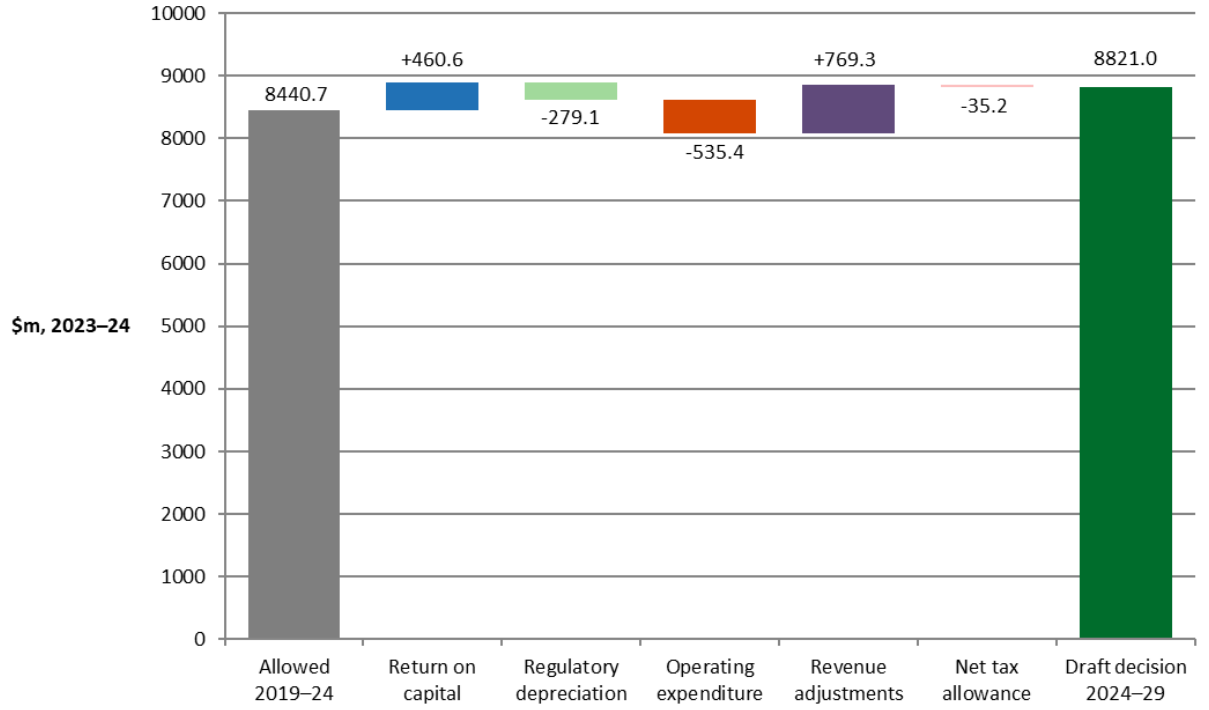
- return of capital (regulatory depreciation), which is $279.1 million (32.1%) lower than the 2019–24 period, driven primarily by a higher indexation of the RAB
- opex, which is $535.4 million (19.2%) lower than the 2019–24 period, driven primarily by lower revealed opex in the base year, and our draft decision reductions to proposed base year adjustments and step changes
- net tax allowance, which is $35.2 million (23.7%) 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.

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 $460.6 million (9.4%) 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
- revenue adjustments, which are $769.3 million higher than the 2019–24 period, due to the expiry of a one-off large negative revenue adjustment for the 2014–19 remittal decision included in the 2019–24 determination for Ausgrid's dual function assets. It is

also driven by a material efficiency benefit sharing scheme (EBSS) reward applied in the 2024–29 period.

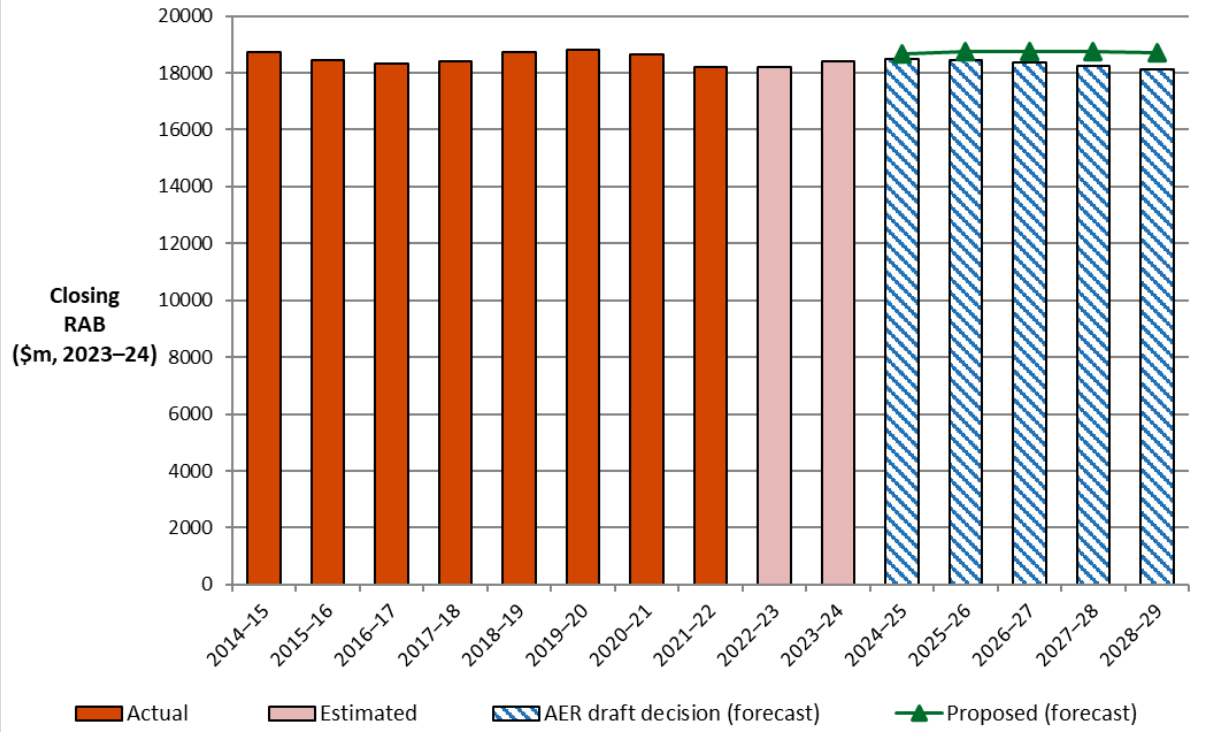
Figure 2 Changes in total revenue between 2019–24 period and 2024–29 period – distribution and transmission ($ million, 2023–24, unsmoothed)



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 Ausgrid's combined RAB over time. After a RAB reduction of 1.6% in real terms over the 2019–24 period, our draft decision results in a further forecast reduction of the RAB by $313.2 million ($2023–24) or 1.7% over the 2024–29 period. This reduction is mainly driven by higher forecast depreciation over the 2024–29 period.

Figure 3 Ausgrid's RAB value over time – distribution and transmission ($ million, 2023–24)



Source: AER analysis.

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

Our draft decision made significant reductions to core components of Ausgrid's proposal which have led to a lower revenue outcome. For the 2024–29 period, the main areas of difference between our draft decision and Ausgrid's proposal relate to our:

- lower capex forecasts, primarily driven by review of Ausgrid's increasing, new or evolving areas of capex, these being: non-recurrent ICT, innovation expenditure, resilience, cyber security, and CER.
- lower opex forecasts, primarily driven by the exclusion of some of Ausgrid's proposed base year adjustments and step changes, and a lower alternative estimate of efficient costs for others in our forecast of total opex
- lower revenue adjustments, primarily driven by a lower CESS reward in our draft decision compared to Ausgrid's proposal.

The reduction we made to Ausgrid's total revenue is partially offset by updates we made in our draft decision to reflect movements in some market variables, such as expected inflation and rate of return, which led to higher revenue outcomes for certain building blocks in our draft decision than in Ausgrid's proposal. These include:

- higher return on capital, driven primarily by our higher rate of return[19] which more than offsets the reductions we made to capex
- higher regulatory depreciation amount, driven primarily by the lower expected inflation rate in our draft decision than at the time of Ausgrid's proposal
- higher estimated cost of corporate income tax amount, driven by lower tax depreciation in our draft decision resulting from our capex reductions. The lower tax depreciation increases the cost of corporate income tax as it is a component of tax expense.

1.3 Expected impact of our draft decision on electricity bills

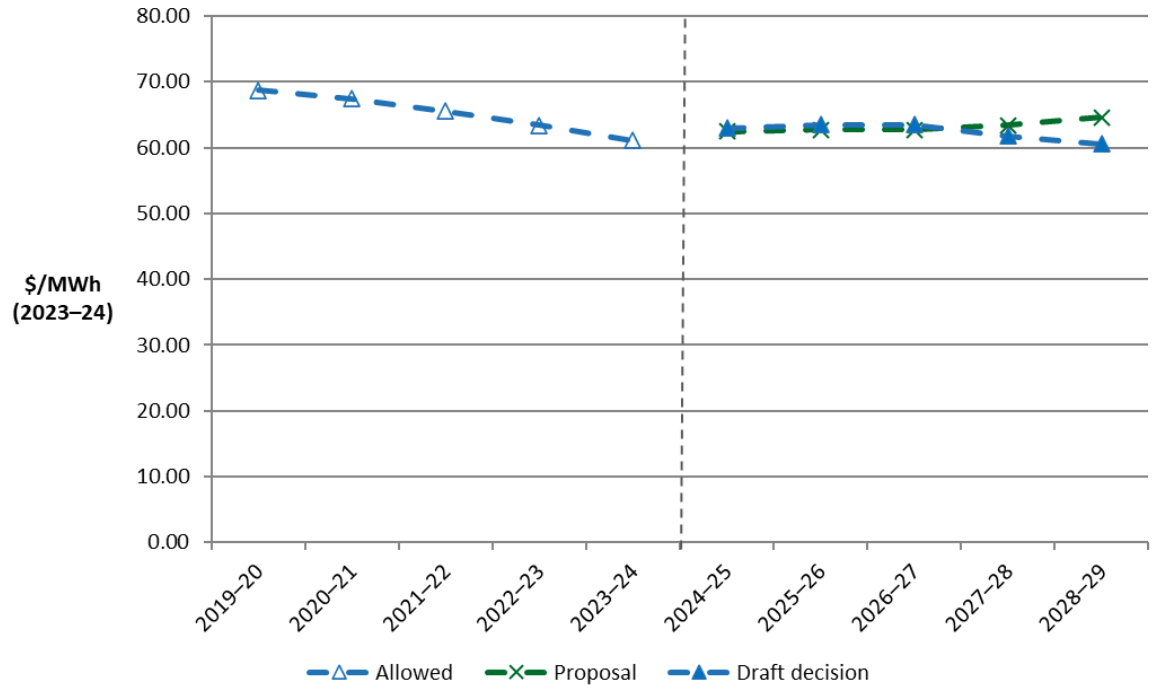
Ausgrid recovers its distribution regulated revenue through distribution charges, set annually by reference to the tariff structure statement and pricing formulae approved by us as part of this decision. Ausgrid's transmission (dual function assets) regulated revenues are recovered through transmission charges, as we have decided to continue applying transmission pricing to these assets.[20]

For illustrative purposes only, we estimate the modelled impact of this draft decision would be a total reduction to average network charges (distribution and transmission) of around 1.3% in real terms by 2028–29 compared to 2023–24 levels, or an average reduction of 0.3% 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.

19 Average rate of return over the 2024–29 period.

20 AER, *Framework and approach: Ausgrid, Endeavour Energy and Essential Energy (New South Wales), Regulatory control period commencing 1 July 2024*, July 2022, p. 54.

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



Source: AER analysis.

Potential bill impact

Ausgrid's network charges (distribution and transmission) make up around 21.7% of its residential customers' electricity bills and 22.6% of its small business customers' electricity bills. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, core 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.[21] These sit outside the decision we are making here and 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 network component of customers' energy bills.[22] For illustrative purposes only, the modelled impact of our draft decision on the average annual electricity bill for a residential customer in Ausgrid's network area, as it is today, would be an increase of $53 (2.9%) by 2028–29, or an average of $11 per annum. For small business customers, the impact would be an increase of $144 (2.9%), or an average of $29 per annum.

---

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

22 This includes the combined impact of Ausgrid's distribution and transmission (dual function asset) component.

Our decision on Ausgrid'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 additional cost pass through events proposed by Ausgrid and approved in this draft decision. The triggers we have set out for these events in this decision will, if met, allow Ausgrid to apply for additional revenue throughout the period, at which point proposed costs will be subject to further consultation and assessment.

1.4 Ausgrid's consumer engagement

Ausgrid 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 publishing the Handbook. We believe that genuine, high quality consumer engagement by Ausgrid is essential 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.

Ausgrid's 2024–29 proposal has been shaped by extensive consultation with its customers and stakeholders over its 18-month engagement program. It is evident that Ausgrid has undertaken a substantial step-up in engagement and responded to feedback received to continue to shift towards developing a customer-centric culture within the business following observations noted in our draft and final decision for 2019–24.

In developing its 2024–29 proposal, Ausgrid has stated that:

> Over the past three years, we have made significant improvements in our business-as-usual (BAU) engagement with our customers, including by establishing our Voice of Community (VoC) Program.[23]

It also states that it continues to build on the past improvements and has aimed to be ambitious in designing its consumer engagement program.[24]

1.4.1 Ausgrid's engagement on its proposal

Our Issues Paper for Ausgrid outlined its extensive consultation undertaken regarding the nature, breadth and depth, and impact of its consumer engagement.[25] This included a high-level summary of how Ausgrid developed a framework to ensure engagement was both deep and broad, and used appropriate methods and channels to overcome barriers to engagement. It did this by co-designing a customer advocate engagement model which included a number of stakeholders, such as its:

---

23 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, p. 21.

24 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, p. 21.

25 AER, *Issues Paper - Ausgrid – 2024–29 Distribution revenue proposal*, March 2023, pp. 6-9.

- RCP, independent from Ausgrid, who represented the long-term perspectives of customers and challenged Ausgrid on key issues for this reset[26]
- Customer Consultative Committee, 'being its peak stakeholder engagement committee which provides broad customer advocate input to Ausgrid's business planning, customer and business strategy development and implementation'[27]
- Pricing Working Group which 'enabled Ausgrid and customer advocates to collaborate on tariff strategies and reforms that promote customer choice and reduce the long-term cost of electricity for customer'[28]
- Network Innovation Advisory Committee (NIAC), which reviewed business cases for planned innovation projects and has been overseeing a $42 million capital funding envelope for approved innovation programs for the 2019–24 period[29]
- VoC Program, launched in 2019 to enable Ausgrid to engage with its communities. This occurred across 25 different channels, services and market segments.[30]

Supported by bd infrastructure, Ausgrid's engagement focused on principles and objectives developed in partnership with its customer advocates. he objectives for the consumer engagement were to:

- *Build trust and confidence:* Ausgrid's ambition is for customers to have trust in the engagement process and understand the rationale behind decisions, even if all positions are not agreed to. Above all, the business strives to ensure customers have confidence that it has genuinely listened and that investment decisions are in the long-term interests of customers.
- *Reach diverse audiences:* Ausgrid aimed to achieve a breadth and depth of views and allow customers to meaningfully contribute, hearing from all types of customers across the spectrum of experiences and using a variety of channels to ensure all customers had appropriate access to engagement. Through this, it seeks to gain an improved understanding of customers' preferences and have these shape the Draft Plan and Regulatory Proposal.
- *Drive cultural change:* Ausgrid aimed to build organisational capability to deliver quality engagement and customer outcomes and understand customer needs and aspirations. They achieved this through extensive staff and senior leadership participation in both the preparation and delivery of engagement.
- *Be industry leading:* Ausgrid aimed to deliver an engagement program that builds on successful industry practices and of which staff could be proud. They utilised the AER's Better Resets Handbook, the AER's note on Resilience and the Consumer Challenge Panel (CCP) 17's evaluation of engagement, as well as extensive conversations with

---

26 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, pp. 21, 30.

27 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, p. 30.

28 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, p. 30.

29 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, p. 30.

30 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, p. 22.

other DNSPs and even international utilities to understand what best practice engagement could be.[31]

The principles to support these objectives were:

- Accountable – Do what we say we will do and encourage customers and stakeholders to hold us to account.
- Inclusive – Provide information for customers and stakeholders that considers their perspective, is convenient and timely.
- Collaborative – Partner in the design of alternative options and the preferred outcome when possible.
- Dynamic – Be progressive, open to new ideas and prepared to change based on feedback from customers and stakeholders.
- Transparent – be as open as possible on the role of stakeholders and customers in the decision making process.[32]

A core part of Ausgrid's process has been its engagement approach with its RCP. Its work was guided by agreeing on four broad workstreams covering issues related to value for money, network investment, sustainability and the future grid, and customer experience.[33] The RCP collaborated with Ausgrid to select, shape, and refine potential options that would be presented to customers throughout the engagement process. Ausgrid advised that this collaboration was 'intended to reduce the risk of biasing particular customers and to ensure our engagement was sincere and transparent.'[34]

Ausgrid has also sought to engage directly with its customers through its VoC Program. Over several sessions, Ausgrid's customers learnt and engaged with experts, sought independent advice, and spent 60 hours deliberating face-to-face as a group.[35] Ausgrid believes that listening and responding to what it has heard through its VoC has helped it to become a better business and deliver better outcomes for its communities.[36]

Since submitting its proposal Ausgrid outlined that, in the light of the changing economic environment, it has continued to engage with customers to test and develop on the themes from its proposal.[37] It refreshed its VoC panel memberships and held two sessions with the new panel, with a further four sessions scheduled ahead of submitting its revised proposal.[38]

---

31 Ausgrid, *Att. 3.1 – Engagement overview,* 31 Jan 2023, p. 8.

32 Ausgrid, *Att. 3.4. – Engagement framework – 29 July 2022*, 31 Jan 2023, p. 10.

33 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, p. 32.

34 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, p. 32.

35 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, p. 32.

36 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, p. 21.

37 Ausgrid, *Submission – 2024–29 Electricity Determination – Ausgrid*, May 2023, p. 1.

38 Ausgrid, *Submission – 2024–29 Electricity Determination – Ausgrid*, May 2023, p. 1.

1.4.2 What we've heard from stakeholders

In our Issues Paper, we asked stakeholders to consider whether Ausgrid's consumer engagement had met the expectations set out in the Handbook in delivering a consumer-centric proposal. We received a number of submissions on Ausgrid's proposal as outlined at Section 7 of this decision. A significant number of the submissions were discussing issues relating to Ausgrid's proposed tariff structure to apply to embedded network consumers. Other submissions also covered, but were not limited to, commentary on Ausgrid's tariffs on public EV charging sites, standardised export tariffs, solar export tariffs, adjustments to the efficient opex base, capex underspend and resulting CESS benefit payment, incentives schemes, and CER. We also received 455 form-based submissions from individuals commenting on the NSW businesses' solar export changes.

Origin Energy's submission, written for all three NSW distributors, acknowledged:

> …the customer engagement process undertaken by the electricity networks to inform their proposals and the ongoing effort to incorporate the long-term interest of customers in their forward planning.[39]

Ausgrid has continued to test its proposal following submission in January 2023 with its customers. The RCP's independent response to our Issues Paper said it can verify that Ausgrid had provided its VoC participants 'every opportunity to further comment on its Proposal in a manner that is consistent with the AER's questions…in the Issues Paper and with the AER's expectations for genuine engagement'.[40] It highlighted that VoC participants were provided a summary of their preferences previously expressed in relation to innovation, CER, customer service, Customer Service Incentive Scheme (CSIS) and bill impacts. They were asked to consider whether the themes continued to resonate with them, if anything was missing and if the proposal addressed their preferences.[41] The RCP also stated that, with the exception of the CSIS, Ausgrid's proposal continued to be supported by the VoC.[42] That said, in August 2023 Ausgrid secured VoC support on its CSIS.[43]

Specifically on the question of Ausgrid's engagement, CCP26 observed Ausgrid have undertaken a very large and ambitious engagement program and is confident that Ausgrid's engagement program reached a wide variety of customers and engaged deeply to understand their viewpoints.[44] CCP26 did provide reflections on how Ausgrid managed the opportunities and risks associated with a large program, particularly when facing periods of rapid change.[45] One of the potential risks suggested by CCP26 was the selective use of insights to support expenditure and initiatives.[46]: CCP26 stated that Ausgrid had a number of

---

39 Origin Energy, *Submission – 2024–29 Electricity Determination - NSW and ACT,* May 2023, p. 2.

40 Ausgrid's RCP, VoC, NIAC*, Combined response – 2024 29 Electricity Determination*, May 2023, p. 2. For further details on the outcomes of the engagement the RCP have included the VoC 2023 Report.

41 Ausgrid's RCP, VoC, NIAC*, Combined response – 2024 29 Electricity Determination*, May 2023, p. 2.

42 Ausgrid's RCP, VoC, NIAC*, Combined response – 2024 29 Electricity Determination*, May 2023, p. 2.

43 Ausgrid's RCP, *RCP proposed position revised CSIS* , 10 August 2023.

44 CCP26, *Advice to the AER – 2024–29 Electricity Determination – Ausgrid, updated June 2023*, p. 9.

45 CCP26, *Advice to the AER – 2024–29 Electricity Determination – Ausgrid, updated June 2023*, p. 9.

46 CCP26, *Advice to the AER – 2024–29 Electricity Determination – Ausgrid, updated June 2023*, p. 9.

strategies in place to mitigate this risk, including involving the RCP throughout the 'engagement program who were able to bring their views on key insights from different engagement channels to their reflections.'[47] Broader insights were funnelled through the larger engagement process and fed into the deliberative process to enable a more comprehensive view from the VoC.[48]

The RCP's independent submission said:

> …it has been impressed by Ausgrid's willingness to continue seeking the views of its customers on its Proposal as the external environment in which the proposal is being developed, changes.[49]

The Public Interest Advocacy Centre (PIAC) also observed that Ausgrid had demonstrated the greatest progress in in consumer engagement and had undertaken a comprehensive, well-resourced, and robust engagement program.[50] PIAC observed that Ausgrid was committed to draw on the exact words and sentiments expressed by consumers through its VoC process. It said that this can ensure the AER has a strong confidence the comments are consumers' own.

PIAC also noted how Ausgrid:

- commenced their engagement early
- adopted a co-design approach with the RCP
- where consistently deliberative in their approach
- had a strong commitment to consumer language and sentiments
- most consistently responded to affordability concerns and
- demonstrated a genuine commitment and investment to developing a holistic approach to resilience.[51]

Whilst PIAC observed that some of these aspects had limitations for effective consumer engagement, and more work was required understand if the collective interventions represented meaningful consumer preferences, it observed that 'the results are likely to be a valid expression of community support for specific interventions'.[52]

We agree with the sentiment raised by PIAC that while this approach (drawing on the exact words and sentiments) produces a high degree of validity in isolation, it may become less useful as a meaningful expression of consumer preference as a whole.[53] We also agree with

---

47 CCP26, *Advice to the AER – 2024–29 Electricity Determination – Ausgrid, updated June 2023*, p. 9.

48 CCP26, *Advice to the AER – 2024–29 Electricity Determination – Ausgrid, updated June 2023*, p. 9.

49 Ausgrid's RCP, VoC, NIAC*, Combined response – 2024 29 Electricity Determination*, May 2023, p 1.

50 PIAC *Submission – 2024–29 Electricity Determination – Ausgrid*, June 2023, p.2.

51 PIAC *Submission – 2024–29 Electricity Determination – Ausgrid*, June 2023, pp.2-3.

52 PIAC *Submission – 2024–29 Electricity Determination – Ausgrid*, June 2023, p.3.

53 PIAC *Submission – 2024–29 Electricity Determination – Ausgrid*, June 2023, p.3.

the sentiment expressed by PIAC that the Handbook provides a set of principles guiding consumer engagement, and should not be used as rules to be complied with.[54]

The CCP26 said the greatest strength of Ausgrid's engagement program has been its RCP, stating:

> The RCP has played a strong hand in pushing Ausgrid to ensure that every aspect of the Regulatory Proposal is delivering value for customers. The engagement between Ausgrid and the RCP has been rich, innovative and future-focused. Ausgrid treated the RCP as a genuine partner in developing its proposal.[55]

The CCP26 provided reflections on improvement opportunities based on its observation of the RCP's role in Ausgrid's customer engagement program. It noted that towards the end of the pre-lodgement engagement program, RCP members took on roles of explaining, and justifying, the draft Regulatory Proposal to the VoC and Townhall participants. By taking ownership of the draft proposal in this way, CCP26 felt the RCP risked undermining its objectivity and ability to act as an effective counterparty to Ausgrid. [56]

The effort to inform its proposal and incorporate feedback was also acknowledged in the submission from the Southern Sydney Regional Organisation of Councils (SSROC). The SSROC said its consultation with Ausgrid had been transparent in its pre-lodgement engagement, with Ausgrid offering them access to its analysis and its price modelling (in relation to its public lighting proposal). It said that: 'This degree of transparency and responsiveness is to be commended and is unlike many previous reviews that SSROC has been involved with.'[57]

We want to commend Ausgrid for the substantial improvement in its engagement with its local councils, especially in relation to issues of public lighting. The SSROC submission noted that while it did not necessarily agree with every assumption included in the model, overall, it could accept that the outcome had been a fair and reasonable proposal.[58] Stating 'that SSROC has never previously felt able to be in a position to broadly support an Ausgrid pricing proposal.'[59]

---

54 PIAC *Submission – 2024–29 Electricity Determination – Ausgrid*, June 2023, p.3:

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

55 CCP26, *Advice to the AER – 2024–29 Electricity Determination – Ausgrid, updated June 2023*, p. 3.

56 CCP26, *Advice to the AER – 2024–29 Electricity Determination – Ausgrid, updated June 2023*, p. 6.

57 SSROC, *Submission – 2024–29 Electricity Determination – Ausgrid*, May 2023, pp.1-2.

58 SSROC, *Submission – 2024–29 Electricity Determination – Ausgrid*, May 2023, p. 2. See the SSROC's submission for the details of why it overall accepted the proposal.

59 SSROC, *Submission – 2024–29 Electricity Determination – Ausgrid*, May 2023, p. 2.

Following the submission of its proposal, Ausgrid continues to engage with its customers and stakeholders to consider options to improve energy resilience. It notes in the *Climate resilience business case* that it has co-designed, with the RCP, a pilot program focused on three local government areas community that ensures a prudent, and measured approach.[60] The RCP independent report accompanying Ausgrid's business case stated that its goal was to ensure that 'Ausgrid has remained focussed on delivering engagement and engagement outcomes that meet all the requirements of the regulatory and consumer guidance.'[61] CCP26 has also provided advice on the engagement undertaken for developing Ausgrid's Resilience Business case.[62] In relation to the engagement program, CCP26 stated:

> Many aspects of Ausgrid's engagement activities have been exemplary. This includes Ausgrid's genuine desire to listen to its customers and empower them, its continuing constructive relationship with its RCP, the granular and local focus of its engagement and its transparent and accountable approach to engagement. The deliberative model adopted by Ausgrid has also enabled constructive and rich community insights to emerge, particularly where the material was easily accessible and relatable.[63]

The CCP26 also outlined aspects of the engagement program that raised concerns, which are in its advice.[64] At a high-level, these included: concerns in the over-representation of participants with lived experiences of extreme weather events and the impact that could have on outcomes; the lack of the right, and sufficient, information to participants about the proposed resilience solutions; the late introduction of the concept of paying twice for resilience investment to participants; and the appearance that other resilience factors were not involved in the development of the proposed resilience expenditure.[65]

The RCP has said in respect of Ausgrid's resilience engagement that 'it expects the AER will carefully review all of the local community resilience solutions as this is the first time that these types of investments are being proposed by a network.'[66] However, the RCP said its support for (Ausgrid's resilience proposal) is:

> …based on the deep local engagement that Ausgrid has done with the local communities to understand unmet needs and individual discussions with the Councils to ensure that the solutions would integrate with and complement existing community support services. In the absence of this local, bespoke engagement and the accountability and evaluation of the pilot discussed in part 4 of this report, we would not have supported these largely opex based community resilience solutions.[67]

---

60 Ausgrid, *Climate Resilience Business Case*, August 2023, p.3.

61 Ausgrid's RCP, *RCP report on Ausgrid's 2024–29 resilience business case*, 14 July 2023, p. 21.

62 CCP26, *Addendum – Ausgrid's Climate Resilience Business Case*, August 2023.

63 CCP26, *Addendum – Ausgrid's Climate Resilience Business Case*, August 2023, p. 2.

64 CCP26, *Addendum – Ausgrid's Climate Resilience Business Case*, August 2023, p. 2.

65 CCP26, *Addendum – Ausgrid's Climate Resilience Business Case*, August 2023, p. 2.

66 Ausgrid's RCP, *RCP report on Ausgrid's 2024–29 resilience business case*, 14 July 2023, p. 5.

67 Ausgrid's RCP, *RCP report on Ausgrid's 2024–29 resilience business case*, 14 July 2023, p. 5.

We acknowledge the continued work of Ausgrid to reflect customer preferences in its proposal. As this engagement was undertaken following our Issues Paper consultation process, and given the challenges in forecasting resilience expenditure, we encourage interested stakeholders to provide submissions on any aspect of our draft decision or Ausgrid's revised proposal in relation to resilience expenditure.

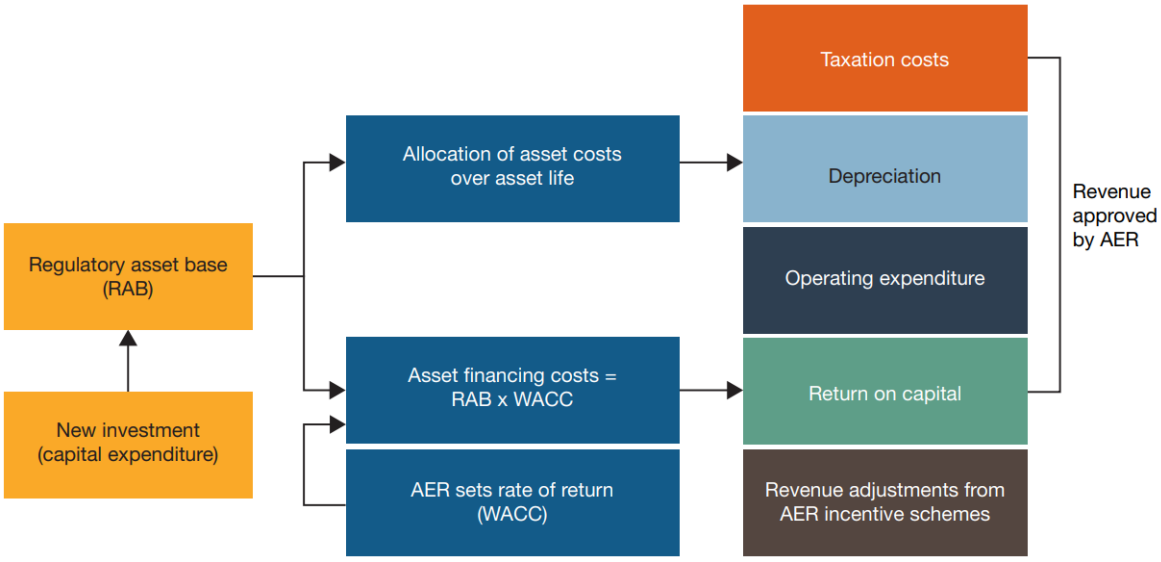
2 Key components of our draft decision on revenue

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a five-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 drives 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.

Ausgrid'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 NEL and NER, 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



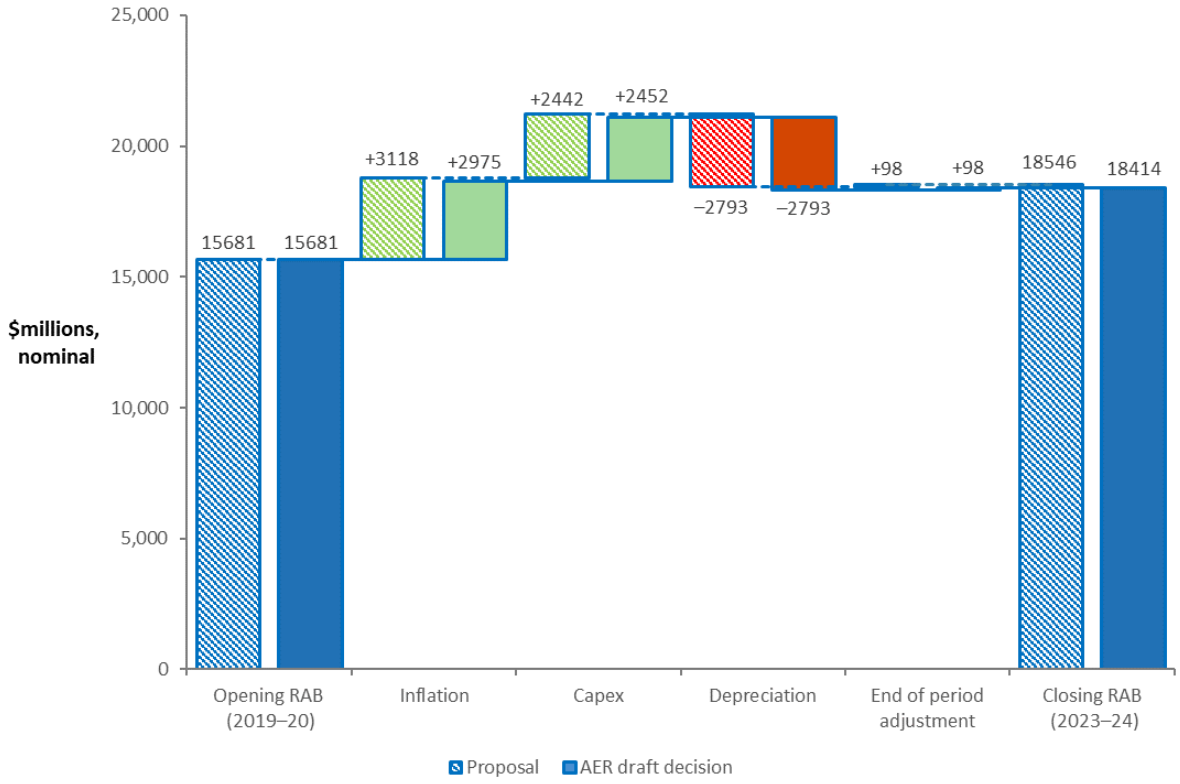
Source: AER.

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 depreciation building blocks. It substantially impacts Ausgrid's revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and depreciation components of the revenue determination.

For this draft decision, we have determined a combined opening RAB value of $18,413.7 million ($ nominal) as at 1 July 2024. This value is $132.2 million (0.7%) lower than Ausgrid's proposed opening RAB of $18,545.9 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 Ausgrid'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 – distribution and transmission ($ million, nominal)

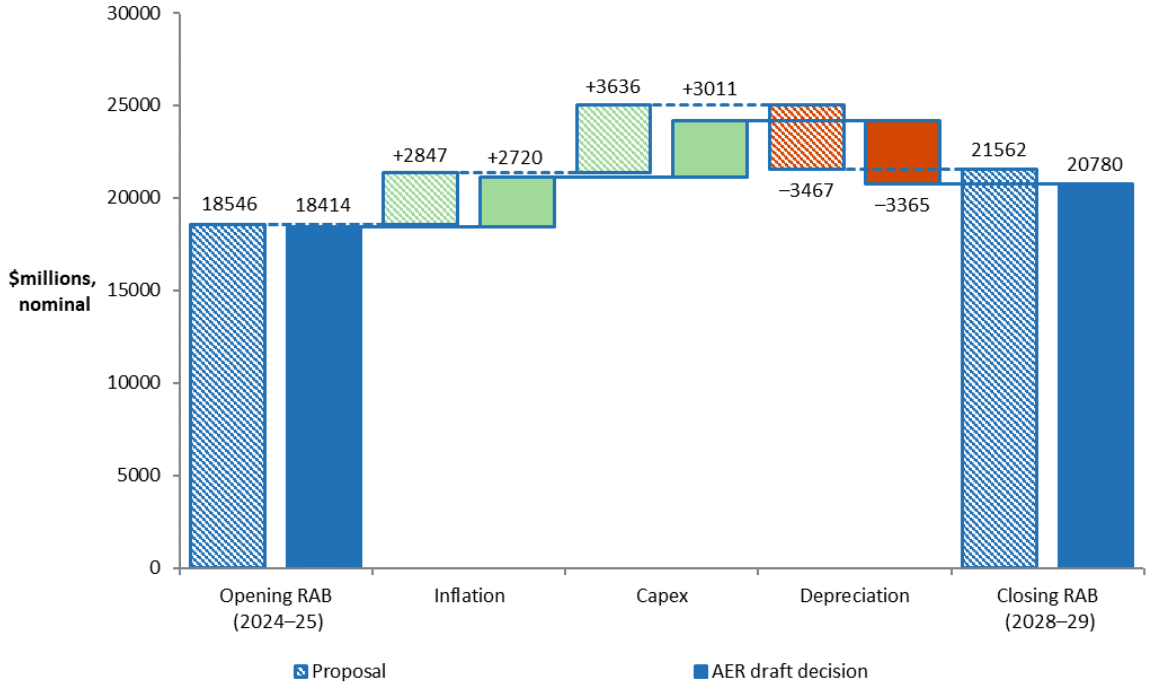


Source: AER analysis.
Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

Figure 7 likewise shows the key drivers of the change in Ausgrid's combined RAB over the 2024–29 period compared to its proposal. Our draft decision projects an increase of $2,366.6 million (12.9%) to the RAB by the end of the 2024–29 period compared to the

$3,015.9 million (16.3%) increase in Ausgrid's proposal. We have determined a projected closing RAB of $20,780.2 million ($ nominal) as at 30 June 2029, which is $781.6 million (3.6%) lower than Ausgrid's proposed $21,561.8 million. This lower value is mainly due to the reductions we made to Ausgrid's proposed forecast capex. It also reflects our draft decision on a lower opening capital base as at 1 July 2024, the expected inflation rate and forecast depreciation (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 – distribution and transmission ($ 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.

Ausgrid's proposal applied our 2018 Rate of Return Instrument to estimate the rate of return.[68] This draft decision applies the new 2022 Rate of Return Instrument:[69]

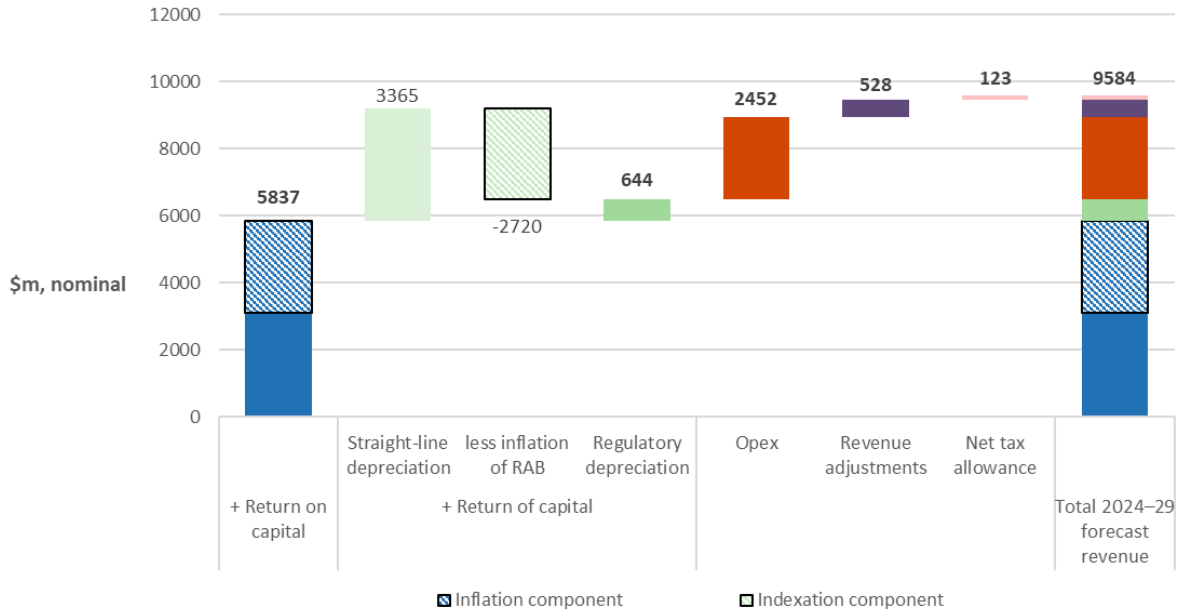
[68] AER, *Rate of return Instrument*, December 2018. See https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-guideline-2018/final-decision

- Our draft decision applies a rate of return of 5.85% for the first year of the regulatory period, compared to the placeholder rate of return of 5.72% used in Ausgrid'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,[70] compared to 0.585 in the 2018 Instrument.[71]

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 five-year period based on the approach adopted in our 2020 Inflation Review[72] and the forecast from the Reserve Bank of Australia's August 2023 Statement on Monetary Policy.[73] This is lower than the estimate used in Ausgrid's proposal (2.87%), 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, lower inflation reduces the return on capital but increases regulatory depreciation.

Figure 8 Inflation components in draft decision revenue building blocks – distribution and transmission ($ million, nominal)



Source: AER analysis.

---

69 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

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

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

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

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

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 combined regulatory depreciation amount of $644.3 million ($ nominal) for the 2024–29 period. This is an increase of $24.6 million (4.0%) from Ausgrid's proposal of $619.7 million.

This increase is primarily due to our draft decision on the expected inflation rate for the 2024–29 period, which affects the projected RAB over this period. The lower expected inflation rate applied in the draft decision reduces 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 Ausgrid'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 Ausgrid'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 not accept Ausgrid's forecast total capex of $3,296.6 million ($2023–24) for the 2024–29 period. Our alternative forecast is $2,736.1 million which is 17.0% lower than Ausgrid's forecast.

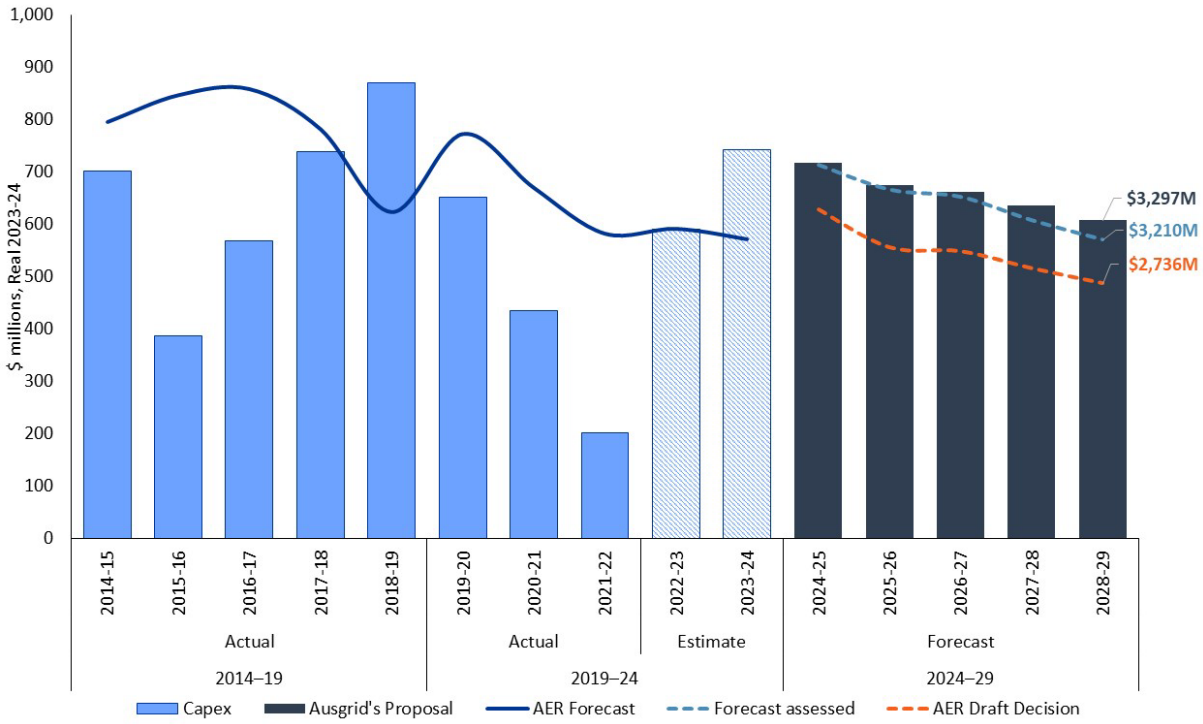
Overall, we found that the majority of Ausgrid's forecast of $3,296.6 million would be required to maintain the safety, reliability and security of electricity supply of its network. It provided sufficient information to support most of its recurrent expenditure forecasts other than its dedicated LV circuit reconfiguration program.

We are satisfied that our alternative forecast of total capex of $2,736.1 million is reasonable and sufficient for Ausgrid to maintain its network. This is because our alternative estimate accepts most of Ausgrid's forecast and is also in line with recurrent capex for the current period, where recurrent capex makes up the majority (80%) of total capex.

We have not yet accepted Ausgrid's forecast, reducing it by 17.0%. We found a lack of information in support of its forecast especially in the new and emerging areas of expenditure of CER, resilience and cybersecurity. We note that these new expenditures have been included in most DNSP regulatory proposals, with different reasons for the proposed amounts. To provide guidance for future processes, we have noted information gaps and areas of improvement. In Ausgrid's case, we encourage it to have regard to our findings in its revised proposal.

Figure 9 depicts Ausgrid's historical capex trend, its proposed forecast for the 2024–29 regulatory control period, and our draft decision. As can be seen from Figure 9, despite a step up in its expected spend in the last two years of the current period, Ausgrid is expecting a material underspend in the 2019–24 period. The main driver of the underspend is the non-system land asset disposals, where there is a large increase in actual asset disposals compared to the forecast asset disposals in the 2019–24 period. As capex is assessed on a net capex basis (gross capex minus asset disposals), Ausgrid's larger than expected asset disposals in the current period has a material impact on the net capex comparison.

Figure 9 Ausgrid's historical and forecast capex ($2023–24, million)



Source: AER analysis.
Note: Capex shown is net capex, which subtracts capital contributions and asset disposals from gross capex. Ausgrid made significant asset disposals in the 2019–24 period, particularly in 2021–22. "Forecast assessed" refers to the updated forecast following Ausgrid's revised resilience capex submitted in July 2023 and updated asset disposals for fleet and property.

Our top-down review informed the scope of our bottom-up review. At the top-down level, we observe the following about Ausgrid's forecast capex:

- Most of Ausgrid's forecast repex of $1,446 million is reasonable, including its modelled repex based on the outcomes of the repex model
- Ausgrid's recurrent capex forecast is not materially different from its current period.
- Compared to the previous review, Ausgrid has improved its forecast modelling and risk assessment for recurrent (business-as-usual) capex, and
- We have concerns with its Value Framework – a framework which sets out the assumptions, inputs, metrics and parameters it applies in investment cases to support its decision-making.

We note that Ausgrid performs well against the repex model with its forecast modelled repex being 36% lower than the repex model threshold. While its modelled repex is a material proportion (51%) of total repex, it is also noticeably less compared to other DNSPs. We note that our pre-lodgement engagement on repex modelling was constructive, with dialogue about preliminary outcomes of the repex model.

As noted in the Handbook expectations for capex, a comparison of the forecast with current period actuals is more meaningful for recurrent expenditure. We observe that Ausgrid's recurrent capex forecast is not materially different from its current period. In our review, we found that most of its recurrent capex was reasonable, other than capex for its dedicated LV circuit reconfiguration program within repex. We note that our alternative recurrent capex forecast is not materially different from Ausgrid's.

Further, for recurrent expenditure (business-as-usual capex), our review of Ausgrid's forecasting approach, risk assessment, needs analysis and other supporting information indicates that Ausgrid has improved the governance around its decision-making for recurrent capex projects, and has developed reasonable analytical tools to better understand the needs of its network. We commend Ausgrid's efforts to improve on its quantitative analysis used to support its investments.

However, we have some concerns with Ausgrid's Value Framework. This is a framework which sets out the assumptions, inputs, metrics and parameters it applies in investment cases to support its decision-making. While some elements of its framework are reasonable and consistent with good industry practice, we have concerns with some assumptions and inputs that would result in an overstatement of the risk to be mitigated. For example, Ausgrid includes 'shareholder value' as a relevant input and risk assumptions such as the disproportionality factor for safety, are overstated and inconsistent with our guidance on asset replacement.[74]

Given these concerns, we have focused our review on the prudency and efficiency of Ausgrid's non-recurrent ICT, innovation expenditure and the new and emerging capex areas common to the DNSPs (resilience, cybersecurity and CER). We also assessed Ausgrid's dedicated LV circuit reconfiguration program given the materiality of the program ($143.5 million) and the 160% step up relative to the current period.

Overall, our bottom-up review revealed a lack of information to support the prudency and efficiency of Ausgrid's forecast in a number of non-recurrent areas of capex and its dedicated LV circuit reconfiguration program. We make the following observations:

- Dedicated LV circuit reconfiguration program ($143.5 million) – Our draft decision includes $55.3 million, which is $88.2 million (or 61.5%) lower than Ausgrid's forecast. We found that Ausgrid did not provide sufficient evidence to support a 160% step up in expenditure for this program. We also note that it has overstated safety risks to be mitigated, which is inconsistent with our asset replacement guidance note;
- Resilience program ($170.6 million) – Our draft decision includes $25.7 million, which is $144.9 million (or 84.9%) lower than Ausgrid's revised forecast from July. We acknowledge Ausgrid's efforts to adhere to our guidance note on network resilience.

---

74 AER, *Industry practice application note for asset replacement planning*, January 2019.

However, at this stage, we consider Ausgrid has not provided sufficient evidence to support the prudency and efficiency of its forecast. We are cognisant that consumer engagement on the localised impacts from climate change played an important part in the development of Ausgrid's proposal. As a result of this engagement after the submission of its regulatory proposal, Ausgrid's proposal has been evolving with a revised proposal being submitted in mid-July. We appreciate that the later timing of its updated proposal means that Ausgrid has not had the opportunity to respond to the information and analysis gaps we have identified in time for this draft decision. We therefore see our alternative forecast as a placeholder value and encourage Ausgrid respond to our feedback;

- CER integration ($69.8 million) – Our draft decision includes $21.7 million, which is $48.1 million (or 68.9%) lower than Ausgrid's forecast. We consider that Ausgrid has overestimated the benefits associated with some of its programs and the proposed customer experience benefit is not credible. We also consider Ausgrid has overstated the curtailment and reliability benefits from its proposed augmentation expenditure.
- Cyber security capex ($83.0 million) – Our draft decision includes $37.5 million, which is $45.5 million (or 54.8%) lower than Ausgrid's forecast. We recognise the increasing and uncertain threat landscape as well as the criticality of Ausgrid's network. We consider Ausgrid has overstated its risk cost assessment and could take a more targeted approach to improving its cyber security maturity to more reasonably reflect prudent and efficient costs.
- Network Innovation Program ($49.5 million) – Our draft decision is to not accept Ausgrid's forecast. We support the need and objective of innovation, and we acknowledge this as part of enabling dynamic efficiency as part of the efficiency objectives in the NEO. In our previous review, we noted the type of information we expect businesses to provide to support innovation proposals, including how alternative funding arrangements are considered. This supporting information was not provided by Ausgrid, and we encourage it to include this evidence in its revised proposal and consider our further guidance in Attachment 5 - capex.

Our reasoning behind these positions is outlined in further detail 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 does not accept Ausgrid's proposed opex forecast of $2,420.5 million ($2023–24) for the 2024–29 period.[75] This is because we are not satisfied that it reasonably reflects the opex criteria.[76]

---

[75] Ausgrid, *Attachment 6.1: Proposed operating expenditure*. *Ausgrid's 2024–29 Regulatory Proposal*, 31 January 2023, p. 5.

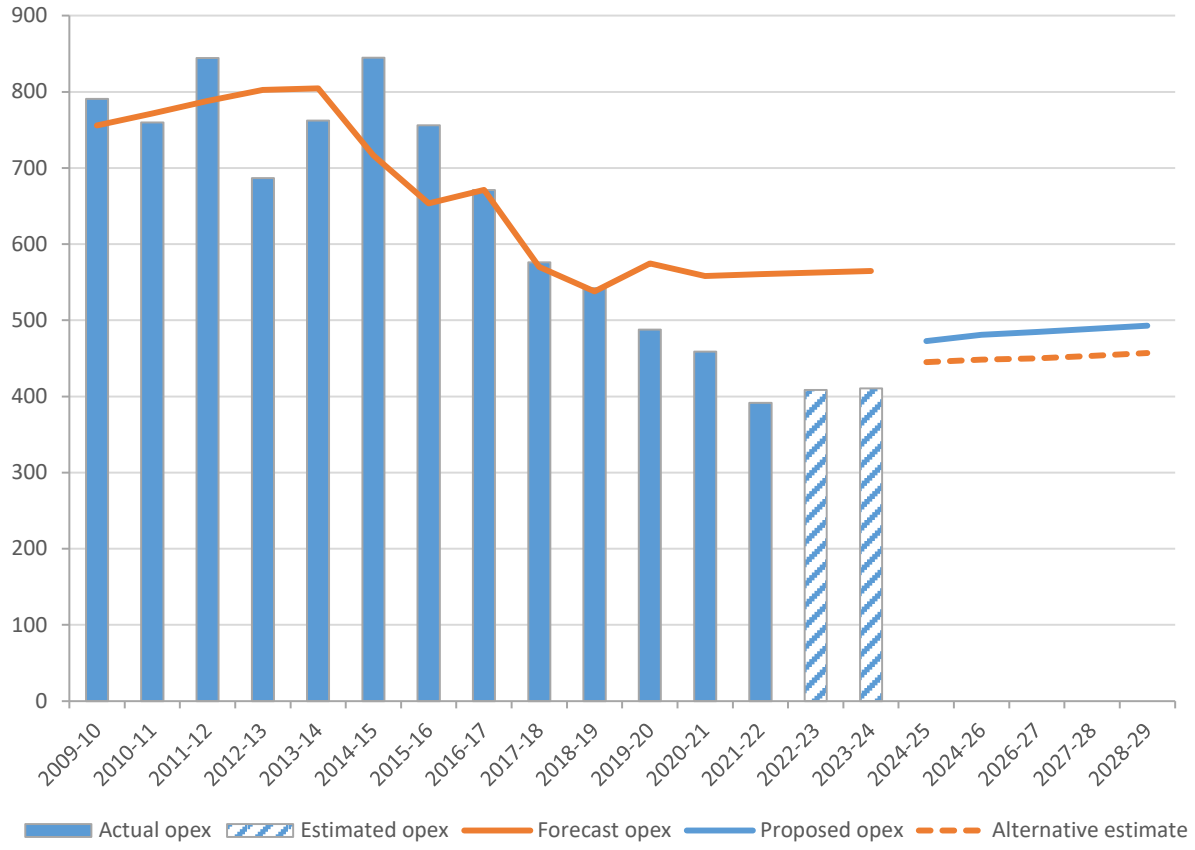
[76] The opex criteria are set out in cl. 6.5.6(c) of the NER. We must not accept a distributor's proposed opex if we are not satisfied that it reasonably reflects those criteria: NER, cl. 6.5.5(d).

Our draft decision is to include our alternative estimate of total forecast opex of $2,254.3 million, which we consider reasonably reflects the opex criteria. This draft decision is:

- $166.2 million (or 6.9%) lower than Ausgrid's proposal for the 2024–29 period, largely reflecting we have excluded, or included lower estimates for, the majority of the base year adjustments and step changes proposed by Ausgrid
- $96.8 million (or 4.5%) higher than Ausgrid's actual (and estimated) opex in the 2019–24 period
- $566.3 million (or 20.1%) lower than the opex forecast we approved in our final decision for the 2019–24 period.[77]

Figure 10 compares the opex forecast we approve in this draft decision for the 2024–29 period to Ausgrid's proposal, the forecasts we approved for the last two regulatory periods from 2009–10 to 2023–24, and Ausgrid's actual and estimated opex across that period.

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



Source: Ausgrid, *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*; Ausgrid, *2024–29 Regulatory proposal*, January 2023; AER analysis.

[77] The $566.3 million difference is calculated using our opex allowance for the 5 year 2019–24 period converted to real 2023–24 dollars using unlagged inflation. The difference of $535.4 million ($2023–24) stated in section 1.1 has been calculated using lagged inflation.

The following factors have contributed to our lower alternative total opex forecast:

- **Negative non-recurrent efficiency adjustment (–$26.3 million)**: we included a non-recurrent efficiency adjustment of –$26.3 million to account for the removal of a major lease from Ausgrid's base year opex.
- **Base year adjustments ($102.4 million less than Ausgrid's proposal)**: we have not included Ausgrid's proposed base adjustment for nature-induced costs ($21.8 million), and our adjustment for SaaS implementation costs is lower (by $80.3 million) than Ausgrid's proposal due to our lower estimates of efficient expenditure for cyber security and the Enterprise Resource Planning ICT project.
- **Step changes ($44.4 million less than Ausgrid's proposal)**: we have not included Ausgrid's proposed step changes for insurance ($9.5 million) network innovation ($5 million) and community resilience ($8.4 million). In addition, our estimates for the DER integration and smart meter data step changes are lower than Ausgrid's proposal (by $5.7 million and $14.2 million, respectively).

We have also updated Ausgrid's opex amount for the 2022–23 base year from $2,042.8 million to $2,055.0 million. The difference between Ausgrid's proposed amount and our alternative is due to:

- the use of different inflation forecasts. We have used the latest inflation forecasts published by the Reserve Bank of Australia (RBA).
- including leases as opex for the remainder of the current regulatory control period.

Our reasoning behind these positions is outlined in further detail 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 a combined estimated cost of corporate income tax amount of $123.1 million ($ nominal) for Ausgrid over the 2024–29 period. This is an increase of $29.7 million (31.8%) from Ausgrid's proposal of $93.4 million. This increase is primarily due to our draft decision on a lower tax depreciation amount resulting from our capex reductions. Tax depreciation is a component of tax expense, hence a lower amount in turn increases the estimated taxable income for Ausgrid and therefore the cost of corporate income tax.

2.7 Revenue adjustments

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

Our draft decision includes:

- A revenue adjustment of $110.0 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 for both distribution and transmission. This is $24.3 million less than

Ausgrid's proposed increment of $134.3 million. The CESS increment arises as a result of an underspend in total capex applicable to the CESS against the forecast for the 2019–24 period, primarily due to actual asset disposals exceeding the forecast.

- A revenue adjustment (reward of $398.1 million) under the EBSS. This is lower than Ausgrid proposed due to our adjustments to include a non-recurrent efficiency gain related to the accounting treatment of leases in the 2019–24 period, and update for the latest actual and forecast inflation inputs.
- An allowance of $7.2 million ($2023–24) for the Demand Management Innovation Allowance Mechanism (DMIAM). In each year of the 2024–29 period, Ausgrid will submit demand management projects for approval under the DMIAM. Any part of the $7.2 million that is not spent on an approved project will be returned to consumers in the subsequent period.
- Our draft decision also includes a shared asset adjustment of –$16.6 million ($2023–24) to be shared with customers across the 2024–29 period.

The combined effect of these revenue adjustments is a combined positive $498.7 million ($2023–24) revenue adjustment building block in this draft decision compared to the positive $525.4 million in Ausgrid'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.

The following incentive schemes that will continue to apply to Ausgrid 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. We have not accepted Ausgrid's proposal to exclude innovation from the CESS in the 2024–29 period as we consider this is not consistent with the intended application of the CESS and there are alternatives to achieving the desired outcome than pre-determining an exclusion. Our reasoning behind these positions is outlined in further detail in Attachment 9.
- Service target performance incentive scheme (STPIS). The 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 Ausgrid, 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 customer 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 as Ausgrid has met the incentive design of the scheme. The discussion regarding Ausgrid's customer consultation process and approval are outlined in Attachment 12 of this draft decision.

- 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 Ausgrid's proposal.

4 Tariff structure statement

Ausgrid'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 distributors charge 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 consumer energy resources (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.[78] The policies and procedures that will be used to assign customers to tariffs, or reassign customers from one tariff to another must also be outlined.

In this determination we must decide whether to approve Ausgrid's tariff structure statement, which will form the basis of annual pricing proposals throughout the 2024–29 period.[79] We

78 NER, cl. 6.18.1A(a).

79 NER, cl. 6.12.1(14A).

are also required to decide the policies and procedures for assigning or re-assigning customers to tariff classes.[80] While an indicative pricing schedule must accompany the tariff structure statement, [81] 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.[82]

We commend Ausgrid 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 more cost-reflective tariffs. We have given weight to the considerable stakeholder engagement Ausgrid undertook in the development of its tariff structure statement, as well as the submissions we have received.

In its proposed tariff structure statement Ausgrid continues to move towards more cost reflective tariff structures in recognition of the changes taking place in the electricity sector and the increasing levels of CER connected to its network. This is evidenced by the introduction of tariffs with stronger price signals to better encourage more energy consumption during solar peak periods, less during peak load times, and to reward people for exporting energy to the grid when it is most needed. These include an export reward tariff and grid scale battery tariffs.

We encourage Ausgrid 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 Ausgrid to provide supporting information on a proposed further change to the medium business assignment policy which it communicated after submission of the tariff structure statement (a change to the usage threshold at which demand and time-of-use tariffs apply to businesses that consume over 160MWh and with demand over 100 kVA).[83] Further, given the current and anticipated uptake of EVs in NSW and associated EV charging load, we think that Ausgrid should consider further tariff options to help manage potential network impacts from uncontrolled EV charging.

We further consider Ausgrid is required to do the following to achieve compliance with the NER pricing principles:

- consult on and provide further information to justify its proposed new network tariffs for new and existing low voltage and high voltage embedded networks (embedded network tariffs)

---

80 NER, cl. 6.12.1(17)

81 NER, cl. 6.8.2(d1).

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

83 Ausgrid informed us of further changes it is consulting on to the threshold at which capacity charges apply in *AGDIR35 Embedded network tariffs and 100MWh capacity threshold for electric vehicle charging stations* – 20230614.

- outline its approach to setting individually calculated tariffs, in particular outlining how they will diverge from the otherwise applicable NUOS tariffs and the charging parameters that apply.

In Attachment 19, we describe in further detail these changes that we consider necessary for us to approve Ausgrid'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 (F&A) for the NSW distributors[84], and Issues Paper for Ausgrid,[85] 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.[86] The AEMC's final decision was released on 30 August 2023,[87] 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.[88]

We consider the AEMC's final decision constitutes a material change in circumstances for Ausgrid which justifies departure from the classification of legacy meter services in the F&A.[89] 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 to identify a proposed approach that ensures customers are not inequitably impacted from rising costs in the transition and prevented from realising the benefits the smart meters provide.

5.2 Material change in circumstances

For Ausgrid to achieve the AEMC's targets it will be required to develop a legacy metering retirement plan (LMRP) 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, Ausgrid's customers with meters replaced later in the LMRP implementation will be charged inequitably higher costs for metering services than customers with meters replaced earlier, even though there is no change in the service they receive.

---

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

85 AER, *Issues Paper - Ausgrid – 2024–29 Distribution revenue proposal*, March 2023.

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

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

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

89 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.

5.3 Proposed approach

Our proposed approach and guidance for legacy meter services is set out in Attachment 20 – Metering. Due to timing of the AEMC's final decision, this draft decision retains the classification for metering services as ACS and spreads costs over a subset of customers. 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 Ausgrid's metering services costs across a wider customer group during the smart meter transition and maintain compliance with the pricing principles in the NER.[90]

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 Ausgrid to have regard to and consider the AEMC's final decision of targeting the 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, accepting Ausgrid's proposal.

[90] Clause 6.18.5 of the NER.

6 Constituent decisions

Our draft decision on Ausgrid'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 Ausgrid 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 Ausgrid's building block proposal. Our draft decision on Ausgrid'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 Ausgrid'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 Ausgrid' 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)(ii) and acting in accordance with clause 6.5.7(d) of the NER, the AER's draft decision is to not accept Ausgrid's proposed total forecast capital expenditure of $3,296.6 million ($2023–24). Our draft decision therefore includes an alternative estimate of Ausgrid's total forecast capex for the 2024–29 regulatory control period of $2,736.1 million ($2023–24). The reasons for our draft decision are set out in Attachment 5.
In accordance with clause 6.12.1(4)(ii) and acting in accordance with clause 6.5.6(d) of the NER, the AER's draft decision is to not accept Ausgrid' proposed total forecast operating expenditure, inclusive of debt raising costs and exclusive of DMIAM of $2,420.5 million ($2023–24). Our draft decision therefore includes an alternative estimate of Ausgrid's total forecast opex for the 2024–29 regulatory control period of $2,254.3 million ($2023–24) including debt raising costs and exclusive of DMIAM. The reasons for our draft decision are set out in Attachment 6.
Ausgrid 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 5.85% (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 Ausgrid's combined regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is $18,413.7

Constituent component
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 Ausgrid's combined estimated cost of corporate income tax is $123.1 million ($ 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 tables below.

Distribution

($million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	47.1	47.5	50.6	53.1	49.5	247.8
Less: value of imputation credits	26.9	27.1	28.8	30.3	28.2	141.2
Net cost of corporate income tax	**20.3**	**20.4**	**21.7**	**22.8**	**21.3**	**106.5**

Transmission

($million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	7.0	7.8	8.4	7.4	7.9	38.5
Less: value of imputation credits	4.0	4.4	4.8	4.2	4.5	21.9
Net cost of corporate income tax	**3.0**	**3.4**	**3.6**	**3.2**	**3.4**	**16.6**

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 Ausgrid. Our draft decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b). The combined regulatory depreciation amount approved in this draft decision is $644.3 million ($ 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 Ausgrid 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 Ausgrid 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 Ausgrid for the 2024–29 regulatory control period. Our reasons are set out in Attachment 10.
- We will apply the DMIS and DMIAM to Ausgrid 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 Ausgrid for the 2024–29 regulatory control period. Our reasons are set out in Attachment 12.

Constituent component
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 Ausgrid 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.
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 Ausgrid 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.
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 Ausgrid 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 The definitions of these events, and our reasons for this decision, are set out in Attachment 15.
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 Ausgrid. The reasons for our draft decision are set out in Attachment 19.
In accordance with clause 6.12.1(15) of the NER, the AER's draft decision is that the negotiating framework as proposed by Ausgrid will apply for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 17.
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 Ausgrid. The reasons for our draft decision are set out in Attachment 17.
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 Ausgrid is set out in Attachment 19.
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 Ausgrid's regulatory control period as at 1 July 2029 is to be based on forecast capex (forecast depreciation). The reasons for our draft decision are set out in Attachment 2.
In accordance with clause 6.12.1(19) of the NER, the AER's draft decision on how Ausgrid is to report to the AER on its recovery of designated pricing proposal charges and account for the under and over

Constituent component
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.
In accordance with clause 6.12.1(20) of the NER, the AER's draft decision on how Ausgrid 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.
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 Ausgrid. Our draft decision is to amend Ausgrid's proposed connection policy as set out, and for the reasons given, in Attachment 18.
In accordance with clause 6.12.1(17A) of the NER, the AER's draft decision is to approve Ausgrid's proposed pricing methodology for transmission standard control services. The reasons for our draft decision are set out in Attachment 21.

7 List of submissions

We received 25 submissions in response to Ausgrid's revenue proposal, as well as 455 from individuals via 'formbuilder'. These are listed below.[91]

Submissions from	
Active Utilities Pty Ltd	Origin Energy
Ausgrid	Public Interest Advocacy Centre
Ausgrid's Reset Customer Panel, Voice of Community Panel and Network Innovation Advisory Committee	PT Utilities
Caravan & Camping Industry Association NSW	Red Energy & Lumo Energy
Compliance Quarter	Shopping Centre Council of Australia (SCCA)
Consumer Challenge Panel, sub-panel 26	Solar Citizens
Electric Vehicle Council	Southern Sydney Regional Organisation of Councils (SSROC)
Energy Intelligence	Individual stakeholder
Energy Locals	
EnergyAustralia	
Evie Networks	
Energy & Water Ombudsman NSW (EWON)	
Flow Power	
Quarry Products Newcastle	
Hugh Saddington	
John Short – Consultant	
Network Energy Services	
NSW stakeholders – 455 from individuals via 'formbuilder' on the NSW distributors proposed solar export charges[92]	

91 Submissions available on the AER website at https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausgrid-determination-2024%E2%80%9329/proposal#step-86566.

92 A sample of some of the submissions received are available on the AER website at https://www.aer.gov.au/system/files/NSW%20stakeholders%20-%20Sample%20of%20submissions%20-%20NSW%20DNSP%27s%20proposed%20solar%20export%20charges%20-%20May%202023_1.pdf.

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
CER	Consumer Energy Resources
CESS	capital expenditure sharing scheme
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
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
STPIS	service target performance incentive scheme
VCR	value of customer reliability