31 October 2023

Kris Funston
Executive General Manager Network Regulation
Australian Energy Regulator
Level 17 Casselden, 2 Lonsdale Street
Melbourne VIC 3000

Dear Mr Funston

Proposed CitiPower, Powercor and United Energy 2026–2031 Framework and Approach

CitiPower, Powercor and United Energy would like to request that the Australian Energy Regulator (AER) replace the Framework and Approach (F&A) to apply for the 2026–2031 regulatory period.

A new F&A is needed to ensure that the services we provide to customers are appropriate for a rapidly changing energy system. Our extensive customer and stakeholder engagement on service classification, undertaken collaboratively with all Victorian distributors, has shaped the development of our F&A proposal.

Customers and stakeholders identified that access to network data would be valuable and that supporting advice to understand or interpret network data will provide customers and stakeholders with agency. We are proposing new services to ensure that customers and stakeholders have access to the network data and advice that they require to make informed energy decisions.

Our customers and stakeholders also recognised that distributors should have a role in providing essential system services that could maintain system security and lower bills for customers. We are proposing services that will facilitate distributors providing essential system services where their provision delivers customer value.

We are proposing to change the ACS price control formula to recover economic tax costs where the recovery of tax credits is deferred to ensure we recover real tax costs rather than nominal tax costs. We also propose to retain other existing forms of control, incentive schemes and the depreciation approach.

We look forward to further engagement with the AER and stakeholders on design of the F&A and appropriate future-focussed service classifications.

Yours sincerely

[redacted]

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Proposed framework and approach

2026–2031
REGULATORY PERIOD

OCTOBER 2023

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1. Overview

The energy transformation is fundamentally changing the way that customers think about energy. Customers have more options to shape their energy use than ever before, such as whether to install solar, replace their gas use, adopt an electric vehicle or shift demand in response to incentives.

With the significant scope of change, the transformation is creating gaps in the provision of some key services that energy consumers expect to be delivered. It is also reframing the role of distribution businesses and shaping our ability to deliver specific services at lowest long-term costs to customers.

In this context, we are requesting that the Australian Energy Regulator (AER) replace the current framework and approach (F&A) to include new service classifications that will allow us to provide services that deliver enhanced value for our customers.[1] The rationale for our proposed service classifications has been informed by engagement with the customer advisory panel (CAP) and through a series of forums with the other Victorian distributors.

1.1 Engagement with the Customer Advisory Panel

The CAP is an independent group that has been established to challenge us to ensure customer and stakeholder views shape and are at the heart of our decision-making processes.

We consulted with the CAP several times to discuss the F&A proposal, including its implications and potential value streams for customers. Specifically, this engagement included the following:

- an initial session focused on introducing the F&A and its role in the regulatory framework to support the delivery of services to customers and determine foundational elements of our reset proposal. We outlined the role of different service classifications, types of services groupings and ring-fencing to ensure that the CAP could form independent views on how services should be classified. We also flagged the intention to propose several new services and invited all CAP members to attend the joint Victorian distributor forums for detailed engagement
- follow-up CAP sessions on data and advisory services and non-mandatory essential system services, including detail on existing data requests and which customers would pay for the provision of new services.

The customer value proposition of each new service was a focus of the CAP, and they considered that we address the F&A consultation through the lens of customer value and potential customer benefits. We agreed with this consideration and have committed to using customer value to frame conversations and target key issues.

1.2 Victorian distributor engagement forums on the F&A

The RPS Group facilitated two separate engagement forums on behalf of the Victorian distributors to engage with customers and stakeholders on the key issues of the F&A. The forums focused on what the role of distributors should be during the 2026–2031 regulatory period and sought feedback on options to deliver enhanced value to customers through new service classifications.

These forums were managed and hosted by RPS as an independent third party, and were attended by representatives from the respective customer panels of each Victorian distributor (including the CAP) as well as Government, retailers, industry participants and the AER. RPS prepared two engagement reports that independently detailed customer and stakeholder feedback from each session.[2]

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1 The framework and approach sets the foundation for important elements of our regulatory proposals, such as the form of control mechanisms, incentive schemes, depreciation approaches and service classifications.

2 RPS, Framework and Approach outcomes reports, available here and here.

1.2.1 Joint forum one (May 2023)

RPS held our first engagement forum in May 2023, where they facilitated a discussion focusing on:

- the current gaps in services provided
- potential opportunities to deliver enhanced value for customers and other stakeholders if distributors provided new services
- whether customers and stakeholders saw it as our role to fill identified service gaps
- insights that could be used to shape our F&A submission.

All participants were provided with context on the potential services we could provide, considerations for service provision and key questions for stakeholders prior to the forum. The forum involved a series of short presentations about each service, followed by small group discussions facilitated through smaller breakout rooms to ensure that all voices were heard.

Forum participants generally supported export services and stand-alone power systems, and recommended further engagement around network data sharing and advisory services. Forum participants had questions around customer value and appropriateness of distributors providing essential system services. Forum participants did not support unlocking value from batteries without contracting costs or providing new electricity services in regional areas.

A summary of the feedback from this engagement forum is set out in table 1, and further detail can be found in RPS' independent workshop outcomes report (forum one).

TABLE 1 SUMMARY OF FEEDBACK: ENGAGEMENT FORUM ONE

POTENTIAL NEW SERVICE	STAKEHOLDER FEEDBACK	NEXT STEPS
Export services to provide structure for two-way pricing and export service delivery for customers	• General support for two-way pricing • Cost and fairness were key issues	No change to F&A - already supported through existing services
New stand alone power system (SAPS) service to enable us to roll out SAPS in line with Australian Energy Markets Commission (AEMC) rule change	• SAPS are an important part of the energy mix • Having an exemption for distributors to own generation is likely to result in customer benefits	Propose in F&A
Provision of data on customer request (beyond basic meter data that is free)	• Agreement that providing data to customers and stakeholders would be valuable • Questions around complexity, privacy, cost allocation were raised	Required further engagement
An energy advisory service to provide on-request advice to customers, particularly for commercial reasons	• There is a need for advisory services to match the right needs to the right data given the complexities involved • There is a perceived gap with translating data into customer-friendly information	Required further engagement
Ability to provide essential system services (also known as system support services) to AEMO when requested	• The problem definition needed further thought and customer value needed to be demonstrated, but having lowest cost services was generally favourable • The use of shared assets and cost allocation were key stakeholder concerns	Required further engagement
Energy storage devices, waiver requirement to contract with third party to deliver full benefits	• Batteries will be a large part of the energy transition, but the Victorian distributors need to ensure a level playing field • Distributors should contract for services from wholesale markets	Not progressed because stakeholders stated that this was not our role
EV charging provider of last resort – rolling out EV charging infrastructure if directed by Government	• It is not the role of distributors to provide charging infrastructure in regional areas • Initiatives should be funded and driven by Government policy	Not progressed because stakeholders stated this was not our role

Source: RPS, Framework and Approach workshop outcomes report, June 2023 and CitiPower, Powercor and United Energy for next steps

1.2.2 Joint forum two (August 2023)

RPS held our second engagement forum in August 2023, building on feedback from the previous forum to dive deeper into customer value propositions and trade-offs for services. The purpose of the forum was to:

- share the outcomes from the first forum and how stakeholder views had been considered
- clearly define the problem definition to frame discussions about customer value
- demonstrate the value that customers would receive from proposed services and seek feedback on refined proposals for new service classifications.

The forum focused on two potential services—data and advisory services, and essential system services. Detailed information about the problem definition and our approach to demonstrating customer value through delivering each service was provided to attendees in advance to facilitate open and engaging discussion.

The forum was again independently facilitated, with in-depth discussions during the forum to identify whether we had defined the problem accurately, whether stakeholders supported us providing each service, and any other considerations for potentially proposing new service classifications.

Broadly, stakeholders supported the provision of data and advisory services, but noted that the types of data that should be provided through automation or manual means required further investigation to demonstrate customer value.

Stakeholders also supported the intent for distributors to provide essential system services to AEMO through their markets to lower customer bills and ensure sufficient essential system services were available to keep the lights on. However, ensuring that the benefits of service provision were shared with customers remained a key consideration.

Further information on our second detailed engagement forum can be found in RPS' independent workshop outcomes report (forum two).

2. Proposed service classification

We have proposed several changes to service classifications that recognise the changing role of networks through the energy transition and our ability to deliver specific services at lowest long-term costs to customers. These changes will enhance customer value through improved access to services, lower costs or both.

All five Victorian distributors have also endeavoured to align service classifications to ensure that Victorian customers have a consistent framework for service provision.

As outlined in section 1, customer engagement has underpinned the development of our proposed service classifications.

2.1 Data and advisory services

Victorian distributors have smart meters that collect data on usage and power quality, and monitoring devices that capture real-time data at higher voltages.

We currently share significant volumes of this data with customers and stakeholders, in line with regulatory obligations to provide specific data to customers.[3] Over 80,000 customers request consumption data annually through our myEnergy portal.[4]

We also received nearly 200 bespoke data requests over the last 12 months that have required dedicated resources to produce. Our existing alternative control service for the customer requested provision of electricity network data has allowed us to fulfil these customer requests and allocate costs to those requesting bespoke data. However, each distributor has a different definition for its data provision service, creating inconsistencies in the data provision framework for customers.

While the existing regulatory obligations and service definitions for data provision have been useful, more fit-for-purpose service definitions for the next regulatory period would improve customer outcomes. Specifically, we are proposing two separate data services that define a holistic framework for data provision:

- a new standard control service (SCS) for data provision to action customer requests for data that can be provided through automated means. We expect that this new service can efficiently meet expected increases in the number of future data requests from customers and stakeholders
- a new alternative control service (ACS) that would replace the existing data provision and advice service. The new service ensures that distributors can work with customers and stakeholders to fulfil bespoke data requests under a consistent framework and supporting customers and stakeholders through advice on data interpretation.

The standard control service is broader than existing services for the provision of meter data as it captures network data. Network data, such as information about the customer's network area, could further inform customer and stakeholder decision making.

The AER is currently identifying optimal pathways to make data sets available to customers and the market through its consultation paper on the benefits of increased visibility of networks.[5] We will have regard to the findings of this review and will ensure that customer value is delivered if proposing expenditure for the automated provision of data.

The alternative control service for data provision and advice to customers on a user-pays basis would replace the 'customer requested provision of electricity network data' service in our existing F&A. The new proposed service has several benefits relative to the existing service:

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3 Chapter 7 of the National Electricity Rules and the Essential Services Commission's Electricity Customer Metering Code of Practice

4 CitiPower and Powercor myEnergy portal

5 Energy Security Board, Benefits of increased network visibility consultation paper, July 2023

- customers and stakeholders could seek assistance to understand or interpret network data, or assistance to identify the data they require to meet their needs. This is preferable to the current definition because it helps customers or third parties to derive value from data
- greater flexibility is provided for customers and stakeholders to request any network data that may be beneficial to them (subject to privacy considerations)
- standardises the base service classification framework for data provision among Victorian distributors to promote similar experiences for all Victorian customers.

The resources required to meet data requests can vary significantly based on scope, complexity and other specific details of the requests. We therefore expect that this would be a quoted alternative control service where recovered costs would vary for each bespoke request.

This set of data services comprising standard control and alternative control definitions is fit-for-purpose during an energy transformation where customers are seeking more information, technology is evolving and reliance on data is increasing.

Stakeholder feedback

Our proposed approach was informed by initial stakeholder views, and then tested again with stakeholders through the joint Victorian distributor forums. Our customers and stakeholders told us we should be providing data and advisory services as smart meter data and other information about our assets and network can help customers and service providers make better, more informed decisions.

Table 2 sets out in more detail how our proposed approach has considered stakeholder feedback.

TABLE 2 HOW OUR PROPOSAL MEETS STAKEHOLDER FEEDBACK

STAKEHOLDER FEEDBACK	HOW IT HAS BEEN CONSIDERED IN OUR PROPOSAL
The cost of providing data services should be recovered in a fair way and that relevant costs are allocated to those who benefit from the provision of data	Separate standard control and alternative control services will allocate costs fairly to customers based on who is likely to benefit from data provision, where customers share the cost for efficient high-volume data delivery to all customers and individual proponents bear the cost of more bespoke data requests
Value will need to be considered in the context of what will already be provided in 2026 following the AER's Network Visibility Project	The AER's (formerly ESB's) Network Visibility project is investigating which data should be provided through automated or manual means, which will inform the types of data that are provided under each service. We will ensure any expenditure proposals that underpin data provision deliver value to customers
Distributors should consider how the nature and volume of requests may change over time	We expect the number of requests will grow substantially over time as reliance on data increases with new technology adoption and smarter network solutions, while the nature of many requests will continue to be bespoke. Separate service classifications are important to support these increasing needs
Data privacy and security should be properly managed	Legislative requirements bind us to ensure customer data remains private and unidentifiable. We will continue to treat data privacy and security as a critical service
Data can play a key role in unlocking innovative business models which allow all consumers to benefit from solar investments, batteries and electric vehicles	We agree, noting that data which is likely to provide overall value to customers can be investigated for automated provision under the standard control service. Reliance on data will continue to grow into the future as third parties seek to innovate
Individuals should be supported to understand the impacts of data, noting better information about local network areas will give consumers agency	Our proposal includes advisory provisions as part of the user-pays network data service to ensure that customers and stakeholders can interpret and understand data if required

Source: RPS, Workshop outcomes report (stakeholder feedback) and CitiPower, Powercor and United Energy (proposal consideration)

We look forward to further engagement with the AER and stakeholders through its network visibility project to identify the types of data that should be provided under each data service.

2.2 Essential system services

Essential system services (ESS) are the services procured by the Australian Energy Market Operator (AEMO) to ensure stable operating conditions for the National Electricity Market. ESS include:

- reliability and emergency reserve trader (RERT) services to maintain the supply-demand balance
- frequency control ancillary services (FCAS) to keep electricity supply frequency at 50 hertz
- system strength services to maintain a stable voltage waveform for healthy power quality
- inertia to reduce the system impact of unexpected events, such as a generator tripping offline.

AEMO are forecasting that there could be shortfalls in system strength services from 2026–2027 onwards in Victoria and that significant industry effort is needed to deliver system strength.[6] Insufficient ESS reserves can lead to negative system-wide impacts that can impact the availability or quality of customer supply.

We currently have the physical capability to provide some ESS using existing network assets, including:

- RERT services using voltage management technologies, controlled load (i.e. hot water) and batteries
- FCAS (5 min services) using voltage management technologies, curtailing large generators using our systems or managing batteries
- minimum demand response through generator curtailment using our systems or management of battery systems
- under-frequency load services where large generator connections on the sub-transmission network requires new under-frequency load shedding assets at distribution level.

These services are procured by AEMO through its market processes, but we are prevented from participating in these markets by existing ring-fencing and service classification arrangements. These arrangements have been in place to ensure we do not use revenue earned from regulated services to cross-subsidise contestable services.

2.2.1 Emergency backstop mechanism

The Victorian Government has recognised the system strength challenges identified by AEMO and is currently introducing legislative changes to formalise its emergency backstop mechanism. Under the mechanism, customers would have their solar exports curtailed as a last resort to manage minimum system load emergencies and protect Victoria's system security. This ensures that customers maintain access to electricity services.

Stage one of the emergency backstop mechanism has been legislated and introduced, applying to all new, upgrading and replacement solar systems greater than 200 kW. Stage two applies to all new, upgrading and replacement systems less than 200 kW and is expected to apply from 1 July 2024.

As the emergency backstop mechanism is a compliance obligation, we have proposed a new service classification—'mandatory provision of essential system services'.

We have also specified activities relating to interruption or curtailment of embedded generating units and disconnection of supply to premises at AEMO's direction to manage ESS risks. This includes the provision of other ESS that we may be mandatorily required to provide in the future.

2.2.2 Non-mandatory essential system services provision

The system security challenges identified above are also relevant to the role of distribution networks in providing non-mandatory ESS. In many cases, we could provide these services using existing assets at lowest long-term costs and/or impact to customers—for example:

- following a request from AEMO, the AER recently granted a ring-fencing waiver that allowed distributors to provide an efficient, low cost from of RERT services via voltage management. The ring-fencing waiver was granted for 28 months and expires in April 2025. The AER cites that the waiver will result in lower RERT charges passed on to consumers.[7] While this supports distributors to provide immediate RERT services, it restricts their provision to one method when several are available, and is not a long-term solution
- distributors have the physical capability to provide lighter-touch interventions such as voltage control, however, we are not permitted to provide such services directly to AEMO. Voltage control would represent a much lighter-touch approach to ensuring system stability than, for example, actioning directions to load

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6 AEMO, 2022 System Strength Report p. 5 and p. 63.

7 AER, Decision - Distribution ring-fencing class waiver for Reliability and Emergency Reserve Trader (RERT) services via voltage management (2022) p. 5.

shed customers. Excluding distributors from voltage control services, therefore risks poor customer outcomes that may otherwise be avoidable.

Under our proposed service classification, distributors would be able to contract with AEMO to provide ESS. If we are contracted to provide ESS through AEMO and its market processes, distributors will have demonstrated our ability to provide these services cheaper than alternative providers. This will result in lower costs for customers because AEMO's costs to manage system security will be lower, and AEMO's fees are passed through to customers via Transmission Use of System charges.

Revenue sharing

The design of a mechanism to share revenue received from AEMO with customers will depend on how non-mandatory provision of ESS is defined in the F&A. We have identified two feasible approaches for classifying non-mandatory provision of ESS that could set the foundations for addressing stakeholder considerations:

- the first approach would be to classify non-mandatory ESS provision as a standard control service. This would allow distributors to provide ESS for the benefit of all consumers, and a revenue sharing mechanism such as an incentive scheme could be developed as a mechanism to share revenue through service provision with customers
- the second approach would be to classify non-mandatory ESS provision as a negotiated service. Providing ESS under this classification would require a ring-fencing waiver, which through its design could provide oversight to the AER and accountability for distributors. This approach would treat AEMO's contracting processes as the negotiation, where successful negotiation would mean we are contracted by AEMO to provide ESS. A revenue sharing mechanism to share contracted service revenue with customers would need to be adopted.

The Office of Gas and Electricity Markets (Ofgem) in the United Kingdom has allowed distributors to provide customer load active system services (CLASS) to the electricity system operator since 2016 and reaffirmed its decision in 2022.[8] CLASS consists of distribution network voltage control system and other technologies that can balance the system.

Ofgem considers that CLASS is one of the many low cost, low carbon and reliable technologies that will be needed to meet future balancing service requirements, and estimates it could unlock value of £1.8B ($3.4B AUD). This is a practical example of ESS provision that stands to generate significant value for customers.

Stakeholder feedback

The Victorian distributors jointly sought stakeholder views on whether distributors had a role to provide ESS to AEMO using existing assets, and tested our proposed position that it was appropriate to provide ESS. Our customers and stakeholders told us that we did have a role in providing ESS, with stakeholders seeking further discussion and information about the role of distributors, how revenue would be shared with customers, and how negatively impacted customers would be compensated.

Table 3 sets out in more detail how our proposed approach has considered stakeholder feedback.

[8] Ofgem, Regulatory treatment of Customer Load Active System Services as a balancing service in the RIIO-ED2 price control (2022), p. 3.

TABLE 3 HOW OUR PROPOSAL MEETS STAKEHOLDER FEEDBACK

STAKEHOLDER FEEDBACK	HOW IT HAS BEEN CONSIDERED IN OUR PROPOSAL
Participants recognised that the Victorian distributors have a role in providing ESS, with many participants acknowledging potential benefits, however further discussion and information was requested about their role and how it should be delivered	Providing ESS will result in the lowest overall costs for the provision of services to AEMO, leading to lower transmission use of system (TUoS) charges. We are working through the potential delivery mechanisms that could be used to allow distributors to provide ESS
Participants requested further information on how revenue would be shared with customers and how costs are allocated	Some revenue should be shared with customers and we will work with the AER through its F&A consultation process to design appropriate cost allocations
It will need to be demonstrated that there will not be negative impacts to customers from distributors providing ESS	We must maintain compliance with our regulatory obligations, including maintaining voltage within compliance limits Customer outcomes from distributors having the option to provide ESS will be improved relative to not providing ESS
Further evidence would support claims of the impact of not providing essential system services	AEMO are forecasting potential shortfalls in system strength services from 2026–2027 onwards, for example the Moorabool system strength node[9] Insufficient ESS reserves can lead to negative system-wide impacts that can impact the availability or quality of customer supply
Distributors should evidence that ESS should be a classified service rather than through existing ring-fencing waivers	The broad benefits of providing ESS using existing assets outweigh the costs. For example, prior to current arrangements, we provided RERT via voltage management in 2019 with AEMO where an estimated 66,200 customers avoided load shedding as a result All customers also benefit through lower TUoS charges, consistent with a standard control service application Ring-fencing waivers are a temporary solution, and it is more efficient to have certainty to provide greater ability for AEMO to factor in distributors' ability to provide ESS
The AER should have visibility and oversight of the costs incurred and revenues received by networks	We agree and can work with the AER to establish appropriate cost and revenue sharing arrangements

Source: RPS, Workshop outcomes report (stakeholder feedback) and CitiPower, Powercor and United Energy (proposal consideration)

We look forward to engaging further with the AER and stakeholders to consider further design of non-mandatory ESS provision services and ensure that customers share the benefits of service provision.

2.3 Other changes to service classification

Our F&A proposal contains several other inclusions that will benefit consumers. Some of these services are consistent with inclusions in other distributor F&As that were accepted by the AER.

These proposed service inclusions are:

- enabling distributors to provide stand-alone power systems, in line with previous AER positions on service classification
- rectifying simple customer faults, in line with previous AER positions on service classification

9 AEMO, 2022 System Strength Report p. 72

- provisions to dynamically manage import and export limits (e.g. the use of flexible exports)
- other administrative changes for clarity and consistency between Victorian distributors.

Further detail on discrete services is described in appendix A - Proposed 2026–2031 service classification.

2.4 Potential services not proposed (following stakeholder feedback)

We investigated the inclusion of several potential services in our F&A with customers and stakeholders during joint-Victorian distributor engagements. While we believe these services may deliver customer benefits, customers and stakeholders did not support them and we are subsequently not proposing them in our F&A submission.

These services include:

- unlocking value from batteries without contracting costs—stakeholders viewed that distributors should continue to contract with third parties
- providing regional EV charging facilities— stakeholders considered that it was not the role of distributors to provide EV charging infrastructure in regional areas.

3. Other elements of the F&A

The F&A also includes the form of control for how revenue is recovered, the application of incentive schemes, and specification of the depreciation approach to roll forward the regulatory asset base.

The existing forms of control, incentive schemes and depreciation approach have resulted in efficient incentives for our networks. Efficient incentives have led to the delivery of overall benefits for customers through higher quality services and efficient costs.

These elements of the F&A remain appropriate to deliver further customer value through the 2026–2031 regulatory period.

3.1 Forms of control

We propose to retain the existing forms of control that currently apply to our networks, including:

- revenue cap for services classified as standard control services
- revenue cap for types 5 and 6 (including smart meters) metering services classified as alternative control services
- caps on the prices of individual services that are classified as alternative control services.

3.1.1 Proposed changes to ACS price control formula

We are proposing a change to the price cap formula of our ancillary services that are classified as ACS to recover economic tax costs.

Currently, when we charge a fee for the alternative control provision of ancillary services, we incur an immediate tax liability. Alternative control services already include provisions to recover upfront tax costs, however there are circumstances where we do not recover economic tax costs.

Where we expense alternative control costs, we incur an immediate tax liability when a customer pays and an immediate tax credit when we 'write off' our expenditure. In the case where we capitalise the costs of ACS, we incur an immediate tax liability, and for tax accounting purposes, the tax credit that is applied is recovered over the life of the asset.

In practice this results in under-recovery of economic tax costs because the tax credits recovered over the life of the asset are not indexed and are lower in present value terms than the value of the tax liability.

We propose that the price control formula for alternative control services be adjusted to ensure recovery of economic tax costs. We propose that this change applies to both fixed and quoted services as we currently under-recover economic tax allowances.

This change is consistent with clause 7A(2)(a) of the National Electricity Law, which requires that a regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in providing direct control network services, which includes alternative control services.

We propose that the price control formula to apply to our fixed fee ancillary network services is amended to ensure recovery of economic tax costs. Our proposed price control formula for fixed fee ancillary network services would retain the existing elements of the price cap formula and include a new economic tax recovery component.

The economic tax recovery component would be a function of the revenue received, tax rate, asset life, depreciation rate, discount rate, and gamma. The economic tax recovery component would only impact alternative control network ancillary services that are capitalised, where the recovery of tax credits occurs over time.

We propose that the price control formula to apply to our quoted ancillary network services is similarly amended to include an economic tax component:

Price = Labour + Contractor Services + Materials + Tax

where the existing definitions for labour, contractor services and materials are maintained, and the definition of tax is to be defined during the regulatory determination.

3.2 Incentive schemes

We propose to retain all existing incentive schemes that currently apply to our networks, including:

- capital expenditure sharing scheme (CESS) to incentivise efficient capital expenditure
- efficiency benefits sharing scheme to incentivise efficient operating expenditure
- service target performance incentive scheme to balance the expenditure incentives with reliability improvements
- demand management incentive scheme to encourage development of non-network solutions
- demand management innovation allowance mechanism to fund research and development of new demand management opportunities
- Victorian f-factor scheme to reduce fire ignitions
- customer service incentive scheme with specific incentive targets to be determined during the regulatory determination process.

We also propose that the option of developing an export services incentive scheme (ESIS) is applied to our networks for the 2026–2031 regulatory period, as the development of an ESIS may incentivise our networks to deliver high-quality export services to customers. We will engage with customers to identify key areas of export services that customers value during the development of our regulatory proposal to inform design of a potential ESIS.

If an appropriate ESIS can be designed and is supported by customers, we will detail scheme elements such as performance parameters, measurement methodologies, assessment approach and financial components in an incentive design proposal submitted as part of our regulatory proposal.

3.3 Depreciation approach

We propose to retain the forecast depreciation approach to establish the RAB at the commencement of the 2031–2036 regulatory period. Existing incentives placed on our networks under the CESS are sufficient to ensure capex is efficient.

A. Proposed service classification: 2026–2031

SERVICE GROUP	FURTHER DESCRIPTION	PROPOSED SERVICE CLASSIFICATION
Common distribution services—use of the distribution network for the conveyance/flow of electricity (including the services relating to network integrity)		
Common distribution services	The suite of activities that includes, but is not limited to, the following: • the planning, design, repair, maintenance, construction, and operation of the distribution network • the relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer) • works to fix damage to the network (including recoverable works to fix damage caused by a customer or third party) • support for another distribution network service provider (DNSP) during an emergency event • procurement and provision of network demand management or other network management activities for distribution or system reliability, efficiency or security purposes • use of dynamic network capacity management capabilities (including communication of import and export limits) for distribution purposes • providing 'shared asset facilitation' of DNSP assets[10] • emergency disconnect for safety reasons and work conducted to restore a failed component of the distribution system to an operational state upon investigating a customer outage • establishment and maintenance of National Metering Identifiers (NMIs) in market and/or network billing systems, and other market and regulatory obligations • inspection of private electrical networks (not part of the shared network) required under legislation for safety reasons[11] • supply abolishment of basic connection[12] • customer safety information, e.g. 'dial before you dig' services	Standard control – no change. Included provisions to highlight dynamic network capacity management (e.g. flexible exports) as an efficient means to manage the network Included investigation of faults and rectification of simple faults in line with other network F&A inclusions, allowing SAPS in line with AEMC rule change and provision of network data following our consultation with customers that demonstrated customers see a need for data provision

10 Revenue for these services is charged to the relevant third party and is treated in accordance with the shared asset guideline.
11 The Victorian Electricity Safety Act 1998, clause 113F, requires Vic DNSPs to inspect overhead private electric lines.
12 This service is classified as Standard Control Services under the 2016-20 Determination for public safety reasons. Victorian DNSPs wish to continue with the classification.

	• bulk or boundary supply point metering – activities relating to monitoring the flow of electricity through the distribution network
	• third party-initiated network asset relocations/re-arrangements including under the Victorian Electricity Distribution Code of Practice[13]
	• transmission network support
	• investigation of customer-reported network faults
	• rectification of simple customer faults where:
	  ○ the need for rectification work is discovered in the course of the provision of distribution services
	  ○ the work performed is the minimum required to restore safe supply
	  ○ the work can be performed in less than thirty minutes and does not normally require a second visit
	• work related to a regulated stand-alone power system (SAPS) deployment, operation and maintenance (including fault and emergency repairs)[14], and customer conversion activities
	• provision of network data	

Network ancillary services—customer and third party initiated services related to common distribution services		
Access permits, oversight and facilitation	Activities include: • a DNSP issuing access permits or clearances to work to a person authorised to work on or near distribution systems including high and low voltage • a DNSP issuing confined space entry permits and associated safe entry equipment to a person authorised to enter a confined space • a DNSP providing access to switch rooms, substations and other network equipment to a non-DNSP party who is accompanied and supervised by a DNSP's staff member. May also include a DNSP providing safe entry equipment (fall-arrest) to enter difficult access areas. • specialist services (which may involve design related activities and oversight/inspections of works) where the design or construction is non-standard, technically complex or environmentally sensitive and any enquiries related to DNSP assets • facilitation of generator connection and operation of the network • facilitation of activities within clearances of DNSP's assets, including physical and electrical isolation of assets.	Alternative control – no change

13 This classification applies where a customer contribution is calculated and applied in accordance with Essential Services Commission (ESCV) Electricity Distribution Code of Practice (EDCoP) or where a customer contribution is calculated and applied in accordance with any other relevant Victorian legislation or regulation, including regulations made under the National Electricity (Victoria) Act, 2005. The party requesting such works under this classification must pay the net cost of the works, subject to any rebates specified in the EDCoP or by any other relevant Victorian legislation or regulation.

14 Includes simple customer fault rectification on generation service of regulated SAPS.

Sale of approved materials or equipment	Includes the sale of approved materials/equipment to third parties for connection assets that are gifted back to become part of the shared DNSP network.	Alternative control – no change
Notices of arrangement and completion notices	Examples include: • work of an administrative nature where a local council requires evidence in writing from the DNSP that all necessary arrangements have been made to supply electricity to a development. This includes but is not limited to: receiving and checking subdivision plans, copying subdivision plans, checking and recording easement details, site visits, assessing supply availability, liaising with developers if errors or changes are required, and preparing notifications of arrangement. • provision of a completion notice (other than a notice of arrangement). This applies where the DNSP is requested to provide documentation confirming progress of work. Usually associated with discharging contractual arrangements (e.g. progress payments) to meet contractual undertakings.	Alternative control – no change
Network related property services	Activities include: • network related property services such as property tenure services relating to providing advice on, or obtaining: deeds of agreement, deeds of indemnity, leases, easements or other property tenure in relation to property rights associated with a connection or relocation. • conveyancing inquiry services relating to the provision of property conveyancing information at the request of a customer.	Alternative control – no change
Network safety services	Examples include: • provision of traffic control and safety observer services by the DNSP where required • fitting of tiger tails and aerial markers • high load escorts • third party request for de-energising wires for safe approach • customer requested site visit relating to location of underground cables/assets	Alternative control – no change
Customer requested rescheduling of a planned interruption	Examples include: • where the customer requests to move a DNSP planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours	Alternative control – no change
Customer or third-party requested supply outage	Examples include: • customer or third-party initiated network outage (e.g. to allow customer and/or contractor to perform maintenance on the customer's assets, work close to or for safe approach, which impacts other networks users).	Alternative control – no change

Inspection and auditing services	Activities include: • inspection and reinspection by a DNSP, of gifted assets or assets that have been installed or relocated by a third party • investigation, review and implementation of remedial actions that may lead to corrective and disciplinary action of a third party service provider due to unsafe practices or substandard workmanship • customer or third-party requested inspection of privately owned low voltage or high voltage network infrastructure (i.e. privately owned distribution infrastructure before the meter) • auditing and inspection of a third party service provider's work practices in the field • re-test at a customer's installation, where the installation fails the initial test and cannot be connected or has been disconnected for more than 12 months or disconnected for safety reasons.	Alternative control – Moved third-party requested inspection to a more appropriate service grouping and added descriptions to cover re-testing for safety reasons
Provision of training to third parties for network related access	Training services provided to third parties that result in a set of learning outcomes that are required to obtain a distribution network access authorisation specific to a DNSP's 'network. Such learning outcomes may include those necessary to demonstrate competency in the DNSP's electrical safety rules, to hold an access authority on the DNSP's network and to carry out switching on the DNSP's network. Examples of training might include high voltage training, protection training or working near power lines training.	Alternative control – no change
Authorisation and approval of third party service providers design, work and materials	Activities include: • authorisation or re-authorisation of individual employees and subcontractors of third party service providers and additional authorisations at the request of the third party service providers (excludes training services) • acceptance of third party designs and works • assessing an application from a third party to consider approval of alternative material and equipment items that are not specified in the DNSP's approved materials list	Alternative control – no change
Security lights	Provision, installation, operation, and maintenance of equipment mounted on the distribution system used for security services, e.g. nightwatchman lights. Note: excludes connection services.	Alternative control – no change
~~**Customer requested provision of electricity network data**~~	~~Data requests by customers or third parties including requests for the provision of electricity network data or consumption data outside of legislative obligations.~~	Removed – replaced with more appropriate alterative control network data and advice service
Third party funded network alterations or other improvement	Alterations or other improvements to the shared distribution network to enable third party infrastructure (e.g. telecommunications assets) to be installed on the shared distribution network. This does not relate to upstream distribution network augmentation.	Alternative control – no change
Community network upgrades	Collective customer requested network enhancement. Activities related to community requests to augment the network to enable higher PV exports.	Alternative control – no change

Mandatory provision of essential system services (ESS)	Activities include: • interruption or curtailment of generation of embedded generating units connected to the distribution system at AEMO's direction to manage minimum system load (MSL) risks • interruption or disconnection of supply to premises at AEMO's direction to manage under-frequency load (UFL) risks • provision of other mandatory essential system services	New service – to undertake interruption, curtailment or disconnection of generation in line with expected jurisdictional mandates (Victorian Government Emergency Backstop Mechanism for rooftop solar)
Non-mandatory provision of ESS	For contracted ESS provided to AEMO. ESS refers to services to manage ongoing power system security, such as but not limited to: • Reliability and Emergency Reserve Trader services • frequency control ancillary services • system strength • inertia • other system security requirements	New service – to facilitate efficient provision of ESS to AEMO, resulting in lower customer costs through lower AEMO fees (TUoS). To be accompanied by a relevant revenue sharing mechanism to share revenue with customers
Network data and advice	Activities include: • specific data requests by customers or third parties for network data beyond the scope of SCS provision • advice related to network data where customers or third parties seek assistance to understand or interpret network data or assistance to identify the data they require to meet their needs	New service – to facilitate all manually prepared data requests from customers or third parties and to ensure that the requested data meets the proponents' needs
Metering services—activities relating to the measurement of electricity supplied to and from customers through the distribution system (excluding network meters)		
Type 1 to 4 customer metering services	Type 1 to 4 customer metering installations[15] and supporting services are competitively available.	Unregulated – no change
Type 5 and 6 (inc smart metering) services where the DNSP remains responsible	Includes:	Alternative control – no change

[15] Includes the instrument transformer, as per the definition of a 'metering installation' in Chapter 10 of the NER.

	• recovery of the cost of type 5 and 6 metering equipment[16] including communications network (including meters with internally integrated load control devices). • testing, inspecting, investigating, maintaining or altering existing type 5 or 6 metering installations or instrument transformers. • quarterly or other regular reading of a metering installation. • metering data services that involve the collection, processing, storage and delivery of metering data, the provision of metering data from the previous two years, remote or self-reading at difficult to access sites, and the management of relevant NMI Standing Data in accordance with the NER.	
Auxiliary metering services (type 5 to 7 including smart metering) where the DNSP remains responsible	Activities include: • requests to test, inspect and investigate, or alter an existing type 5 or 6 metering installation • testing and maintenance of instrument transformers for type 5 and 6 metering purposes • non-standard metering services for type 5 to 7 meters and any other meter types introduced. • works to re-seal a type 5 or 6 meter due to customer or third party action (e.g. by having electrical work done on site) • change DNSP load control relay channel on request that is not a part of the initial load control installation, nor part of standard asset maintenance or replacement. • remote de-energisation and re-energisation • remote meter configuration • field based special meter read • office based special meter read • meter exit services	Alternative control – no change
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the NER and jurisdictional requirements. Includes the processing and delivery of calculated metering data for unmetered loads, and the population and maintenance of load tables, inventory tables and on/off tables	Alternative control – no change

16 Includes the instrument transformer, as per the definition of a ‘metering installation’ in Chapter 10 of the NER.

Connection services[17]—services relating to the electrical or physical connection of a customer to the network		

Basic connection services	Means a connection service[18] related to a connection (or a proposed connection) between a distribution system and a retail customer's premises (excluding a non-registered embedded generator's premises) in the following circumstances:
	• either:
	  ○ the retail customer is typical of a significant class of retail customers who have sought, or are likely to seek, the service; or
	  ○ the retail customer is, or proposes to become, a micro embedded generator; and
	• the provision of the service involves minimal or no augmentation of the distribution network; and
	• a model standing offer has been approved by the AER for providing that service as a basic connection service
		Alternative control – no change

Standard connection service	Means a connection service (other than a basic connection service) for a particular class (or sub-class) of connection applicant and for which a model standing offer has been approved by the AER.	Standard control – no change
Negotiated connection	Means a connection service (other than a basic connection service) for which a DNSP provides a connection offer for a negotiated connection contract. This includes connections under Chapter 5 of the NER.	Standard control – no change
Connection application and management services	Activities include:	Alternative control – no change

17 When discussing connections, we must consider how connection policies and chapter 5A of the NER impact the regulation of connection services. For this reason, we will not be able to completely address the classification of connection services in the classification guideline.

18 Italics denotes definitions in Chapter 5A of the NER.

	• connection application related services • works initiated by a customer or retailer that are specific to the connection point. This includes, but is not limited to: • field based de-energisation[19] and re-energisation • non basic supply abolishment or reposition non-basic connection • temporary connections (e.g. for builder's supply, fetes etc.) • overhead service line replacement – customer requests the existing overhead service to be replaced (e.g. as a result of a point of attachment relocation). No material change to load • protection and power quality assessment • supply enhancement (e.g. upgrade from single phase to three phase) • customer requested change requiring primary and secondary plant studies for safe operation of the network (e.g. change protection settings) • upgrade from overhead to underground service • rectification of illegal connections or damage to overhead or underground service cables • calculation of a site specific distribution loss factor on request in respect of a generating unit up to 10 MW or a connection point for an end-user with actual or forecast load up to 40 GWh per annum capacity, as per clause 3.6.3(b1) of the NER • power factor correction • embedded network management • assessing connection applications or a request to undertake relocation of network assets as contestable works and preparing offers • processing preliminary enquiries requiring site specific or written responses • undertaking planning studies and associated technical analysis (e.g. power quality investigations) to determine suitable/feasible connection options for further consideration by applicants • liaising with groups representing multiple connecting parties (e.g. community group upgrades) • site inspection in order to determine the nature of the connection service sought by the connection applicant and ongoing co-ordination for large projects • registered participant support services associated with connection arrangements and agreements made under Chapter 5 of the NER	
Enhanced connection services	Other or enhanced connection services provided at the request of a customer or third party that include: • those that are provided with higher quality of reliability standards, or lower quality of reliability standards (where permissible) than required by the NER or any other applicable regulatory instruments. This includes reserve feeder installation and maintenance • those that are in excess of levels of service or plant ratings required to be provided by the DNSP • management of export and load at a customer site that provides the customer greater network capacity than they would otherwise be eligible for	Alternative control - added enhanced service for management of export and load that improves services for customers by means of dynamic export limits or flexible load. Consistent with the Australian Energy Market Commission's rule change[20]

Public lighting services—lighting services provided in connection with a distribution network		
Public lighting	• operation, maintenance, repair and replacement public lighting services • alteration and relocation of public lighting assets • new public lighting services incl. greenfield sites & new light types (DNSP provided) • provision, construction and maintenance of emerging public lighting technology	Alternative control - no change

19 De-energisation services related to business as usual activities and de-energisation services that may relate to changing over meter types

20 Australian Energy Market Commission, National Electricity Amendment (Access, pricing and incentive arrangements for distributed energy resources) rule (2021), p. 60.