

# Replacement of framework and approach papers

AusNet Services, CitiPower, Jemena, Powercor,  
United Energy

1 July 2026 – 30 June 2031

December 2023

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Inquiries about this publication should be addressed to:

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

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# 1 Introduction

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. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work is guided by the National Electricity Objective (NEO).

A regulated network business must periodically apply to us for a determination of the revenue it can recover from consumers using its network. Electricity distribution network service providers AusNet Services, CitiPower, Jemena, Powercor and United Energy are due to submit their next revenue proposals on 31 January 2025, for the period 1 July 2026 to 30 June 2031 (2026–31 period).

The first step in our process to determine efficient prices for electricity distribution services for these businesses is to publish Framework and Approach papers (F&A). The F&A sets our approach to key elements of the upcoming determinations and facilitates early consultation on these before businesses prepare and submit their revenue proposals. These elements include:

- Which incentive schemes will apply, for example, to service quality, improvements in network reliability or capital and operating expenditure.<sup>1</sup> The purpose of incentive schemes is to encourage network service providers to manage their business in a safe, reliable manner that serves the long-term interests of consumers. The schemes provide network service providers with incentives to only incur efficient costs and to meet or exceed service quality targets.
- For distribution network service providers, which services will be covered by our revenue determination<sup>2</sup>, and the form of regulation that will apply to them<sup>3</sup>. For example, we may determine that costs for a particular service can be bundled into a generic electricity supply service (standard control service). Alternatively, we may decide that charging for a service on a user-pays basis is more appropriate (alternative control service), or to allow consumers and network service providers to negotiate the price of a service (negotiated distribution service).
- Our approach to setting efficient expenditure allowances<sup>4</sup> and the establishment of the opening regulatory asset base for the upcoming regulatory control period<sup>5</sup>.

The F&As that have applied to AusNet Services, CitiPower, Jemena, Powercor and United Energy in the current (2021–26) regulatory control period were published in January 2019. Since then, we have seen significant transition in the energy market and the rules, schemes and guidelines under which we regulate electricity networks.

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<sup>1</sup> NER, cl. 6.8.1(2)(iii), (iv), (v), (vi), (vii)

<sup>2</sup> NER, cl. 6.8.1(2)(i)

<sup>3</sup> NER, cl. 6.8.1(1)(i); 6.8.1(2)(ii)

<sup>4</sup> NER, cl. 6.8.1(2)(viii)

<sup>5</sup> NER, cl. 6.8.1(2)(ix)

On 31 October 2023, all five businesses wrote to us asking us to consider amending and replacing their current F&As in preparation for the 2026–31 period. We published those letters on our website and sought submissions from stakeholders on whether amendments to the F&As are necessary or desirable.

Having received no submissions, we have considered the information provided by the businesses and have decided that we will make amended or replacement F&As for each of AusNet Services, CitiPower, Jemena, Powercor and United Energy. Our reasons for commencing this review are summarised in this paper.

We will engage further with stakeholders as we consider preliminary positions on the amendments required, before making a final decision on amended or replacement F&As in July 2024.

## 2 Matters identified for review

This section sets out our reasons for deciding to make amended or replacement F&As for each of AusNet Services, CitiPower, Jemena, Powercor and United Energy in preparation for the 2026–31 period.

### 2.1 Distribution service classification

Our F&As for AusNet Services, CitiPower, Jemena, Powercor and United Energy will set out our proposed approach to the classification of distribution services in our determinations for the 2026–31 period.<sup>6</sup> Service classification determines the type of economic regulation, if any, that we apply to electricity distribution services provided by distribution network service providers. Our initial views about service classification are set out in our F&As. Classification decisions are then finalised as part of our revenue determinations for the relevant regulatory control periods.

As the transition of the energy market continues, expectations for the way consumers interact with the electricity network are also changing. In addition to this, a number of significant regulatory changes have been introduced that are relevant for these jurisdictions. Some of these changes are outlined below.

- The electricity market is rapidly evolving, and electricity networks are becoming platforms for consumer energy resources (CER) with a move away from the operation of ‘traditional poles and wires’ towards new options for meeting energy needs. This includes an increased incidence of customers exporting excess electricity for use by other customers.
- Regulatory changes have enabled the incorporation of Stand Alone Power Systems (SAPS), as a distribution service.
- There have been rule changes to access, pricing and incentive arrangements for CER and the AEMC has finalised a review of the metering services framework.
- Changes by the Victorian Government also require consideration. These include the impacts of the Gas Substitution Roadmap (which will accelerate the transition from gas to electricity), and the Emergency Backstop Mechanism, which will remotely turn off rooftop solar systems during an energy supply emergency to avoid blackouts.
- Additionally, in their letters to us, the businesses proposed the classification of Essential System services, and network data and advisory services as new services.

Since we made our decisions on service classifications for the current, 2021–26 period, we have updated our approaches to service classification and ring-fencing to recognise some of these changes.

We agree with AusNet Services, CitiPower, Jemena, Powercor and United Energy that these changes warrant review and amendment of the service classifications for the 2026–31 period.

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<sup>6</sup> NER, cl. 6.8.1(2)(i).

## 2.2 Form of control

Once distribution services have been classified, our F&As for AusNet Services, CitiPower, Jemena, Powercor and United Energy will set out the form of control mechanisms<sup>7</sup> (how we will determine prices for regulated services) and the control mechanism formulae that give effect to the form of control mechanisms<sup>8</sup> for each group of services.

For distribution services classified as direct control services, we must determine the price or revenue controls (or some other hybrid arrangement) for each service or group of services. The form of control may be, for example, a cap on revenue or a cap on prices charged by the network service providers. The Rules set out assessment criteria we must consider.<sup>9</sup> Our assessment is particularly important as we have limited discretion to amend the form of control in our final determination.<sup>10</sup>

At present, AusNet Services, CitiPower, Jemena, Powercor and United Energy operate under a revenue cap for standard control services, a revenue cap for metering as an alternative control service, and price caps for all other alternative control services (public lighting and ancillary network services).

The Rules also require us to set out the control mechanism formulae we will use to calculate service prices.<sup>11</sup> The distributors have proposed the inclusion of tax and/or margin elements within the price cap formula for quoted services in order to align with other recent F&A decisions. Tax and margin elements are applied in the price cap formula for quoted services for all other distributors/jurisdictions in the NEM.

We have limited discretion to alter control mechanism listed in the F&A at the time of the determination unless we consider unforeseen circumstances have arisen.<sup>12</sup> As a result, we consider it important to review the form of control applicable to AusNet Services, CitiPower, Jemena, Powercor and United Energy before finalising the F&A for the 2026–31 period.

## 2.3 Dual-function assets

Dual-function assets are high voltage transmission assets forming part of a distribution network. Considering transmission assets as part of a distribution determination avoids the need for a separate transmission proposal. Where a network service provider notifies us that it owns, controls or operates dual function assets, we assess how material the value of the dual-function asset is to decide whether the revenue attributed to dual-function assets is to be recovered according to the transmission or distribution pricing principles.<sup>13</sup>

AusNet Services, CitiPower, Jemena, Powercor and United Energy do not have any dual-function assets.

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<sup>7</sup> NER, cl. 6.8.1(b)(1)(i).

<sup>8</sup> NER, cl. 6.8.1(b)(2)(ii).

<sup>9</sup> NER, cl. 6.2.5.

<sup>10</sup> NER, cl. 6.8.1(b)(1)(i) and 6.12.3(c) and (c1).

<sup>11</sup> NER, cl. 6.8.1(b)(2)(ii).

<sup>12</sup> NER, cl. 6.12.3(c1).

<sup>13</sup> NER, cl. 6.8.1(b)(1)(ii) and 6.25(b)-(d).

## 2.4 Application of incentive schemes

Our F&As for AusNet Services, CitiPower, Jemena, Powercor and United Energy will set out our proposed approach to the application of the following incentive schemes in the 2026–31 period:

- STPIS<sup>14</sup>
- efficiency benefit sharing scheme (EBSS)<sup>15</sup>
- capital expenditure sharing scheme (CESS)<sup>16</sup>
- demand management incentive scheme (DMIS) and demand management innovation allowance mechanism (DMIAM)<sup>17</sup>
- customer service incentive scheme (CSIS)<sup>18</sup>

These schemes work together within a revenue determination to provide incentives for network service providers to invest efficiently and operate in the long-term interests of consumers.

Since we published the F&As for the current, 2021–26 period, we have finalised a review of the CESS and EBSS that were applied under determinations for that period, and a new version of CESS will be available to AusNet Services, CitiPower, Jemena, Powercor and United Energy for the first time in the 2026–31 period.

Jemena has also proposed to develop:

- an export service incentive scheme (ESIS), to enable electricity distribution businesses to propose incentives related to export services; and
- a market sharing incentive scheme (MSIS), to incentivise the provision of ESS.

In light of these changes, and because incentive schemes operate in combination to drive desired behaviours within a revenue determination, we consider that the application of all incentive schemes should be reviewed in finalising the F&As for the 2026–31 period.

## 2.5 Expenditure forecast assessment guidelines

Our F&As for AusNet Services, CitiPower, Jemena, Powercor and United Energy will set out our proposed approach to the application of our Expenditure Forecast Assessment Guidelines to each business.<sup>19</sup> These guidelines describe the process, techniques and associated data requirements for our approach to setting efficient expenditure allowances for network businesses.

The Guidelines applied to AusNet Services, CitiPower, Jemena, Powercor and United Energy in our assessment of proposals for the current, 2021–26 period. To ensure this

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<sup>14</sup> NER, cl. 6.8.1(b)(iii)

<sup>15</sup> NER, cl. 6.8.1((b)(2)(iv)

<sup>16</sup> NER, cl. 6.8.1(b)(2)(v)

<sup>17</sup> NER, cl. 6.8.1(b)(2)(vi)

<sup>18</sup> NER, cl 6.8.1(b)(2)(vii)

<sup>19</sup> NER, cl. 6.8.1(b)(2)(viii)



approach is still appropriate and to review alignment with the Better Resets Handbook, we consider the application of the Guidelines should be reviewed for all five businesses in finalising the F&As for the 2026–31 period.

## **2.6 Establishing the opening regulatory asset base for the 2031–36 regulatory period**

Our F&As for AusNet Services, CitiPower, Jemena, Powercor and United Energy will set out whether depreciation for establishing the opening regulatory asset base at the commencement of the 2031–36 regulatory control period is to be based on actual or forecast capital expenditure.<sup>20</sup>

For the 2026–31 period, we will establish the opening regulatory asset base using depreciation based on forecast capital expenditure.<sup>21</sup> AusNet Services, CitiPower, Jemena, Powercor and United Energy have indicated they are open to maintaining this approach for the 2031–36 period.

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<sup>20</sup> NER, cl. 6.8.1(b)(2)(ix).

<sup>21</sup> AER, *Final Framework and Approach for AusNet Services, CitiPower, Jemena, Powercor and United Energy*, January 2019, p. 94.

## Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
CER	Consumer Energy Resources
CESS	Capital Expenditure Sharing Scheme
CSIS	Customer Service Incentive Scheme
DMIAM	Demand Management Innovation Allowance Mechanism
DMIS	Demand Management Incentive Scheme
EBSS	Efficiency Benefit Sharing Scheme
ESIS	Export Service Incentive Scheme
ESS	Essential System Services
F&A	Framework and Approach
FCAS	Frequency Control Ancillary Services
MSIS	Market Sharing Incentive Scheme
MSL	Minimum System Load
NEO	National Electricity Objective
NEL	National Electricity Law
NER	National Electricity Rules
RERT	Reliability and Emergency Reserve Trade
SAPS	Stand Alone Power Systems
STPIS	Service Target Performance Incentive Scheme
UFL	Under-Frequency Load