Ausgrid's 2024-29 Revised Proposal

30 November 2023

Empowering communities for a resilient, affordable and net zero future

Ausgrid

Acknowledgment of Country

We acknowledge the Traditional Custodians of the lands where the Ausgrid distribution network is located, and we pay our respects to the elders past, present and emerging.

As set out in our Reconciliation Action Plan, it is important that this recognition leads to industry wide support and understanding of the knowledge, stories, languages and experiences of Aboriginal and Torres Strait Islander peoples, as our way of paying respect, and contributing to, some of the oldest continuous cultures of the world.

Our network and operations span the traditional country of 17 languages, tribal and nation groups in Sydney, the Central Coast and Hunter regions of New South Wales. We want to lead and foster a workforce, and approach to our operations, that embraces the learnings, voices, cultures and histories of these Traditional Owners into our own organisation.

Artwork designed for Ausgrid by Charmaine Mumbulla, a proud Kaurna and Narungga woman. The artwork explores the dynamic relationship of energy sources and pathways on Country for Aboriginal People - sun, lightning, and fire.

About Ausgrid

Ausgrid owns and operates the network of substations, powerlines, underground cables, and power poles that delivers power to communities in large parts of Greater Sydney, the Central Coast and the Hunter.

We build, operate and maintain this distribution network with a focus on providing a safe, reliable and affordable energy supply to all electricity consumers in our network area, both now and over the long term.

Ausgrid is moving beyond distributing electricity to just homes and business, to also transmitting it, storing it and charging cars with it. The role we play is more important than ever as our communities, stakeholders and partners call on us to help balance the cost of living with contributing to an electrified and decarbonised future.

We want our communities to have an accessible, affordable and lowest cost transition to net zero.

About this Regulatory Proposal

The revenue we earn and the prices we charge for our distribution network services are regulated by the Australian Energy Regulator (**AER**) under the National Electricity Rules (**NER**).

Our original 2024-29 Regulatory Proposal, submitted to the AER on 31 January 2023 (**Initial Proposal**), outlined the revenue we require to deliver the services our customers expect over the 2024-29 period. This document and its supporting attachments form Ausgrid's Revised Proposal to the AER for the 1 July 2024 to 30 June 2029 Regulatory Control Period (**2024-29 period**). Our Revised Proposal is an update to our Initial Proposal – providing updated or new information in relation to, and addressing material issues outlined in, the AER's 27 September 2023 Draft Decision (**Draft Decision**).

To the extent that elements of our Initial Proposal have not been updated, amended or otherwise changed in this Revised Proposal, we have not restated our proposals again in this Revised Proposal and its attachments.

Our 2024-29 Regulatory Reset process continues to be shaped by extensive consultation with our residential and business customers, our delivery partners, and other stakeholders such as customer advocates and government agencies. Our customers are telling us that we need to be mindful of increasing cost of living concerns. However they are also aware – as reinforced by many of our stakeholders – that delivering the net zero energy transition is becoming increasingly urgent. These challenges not only include significant delays to the construction of necessary transmission infrastructure, but also the fragmented roll-out of community-scale storage and electric vehicle (**EV**) charging.

There have also been several important energy policy and regulatory developments since our Initial Proposal, including:

- The Australian Energy Market Commission's (**AEMC**) Metering Framework Review Final Decision (**Metering Review**);
- The AEMC's Consumer Energy Resources (**CER**) Technical Standards Final Decision (**CER Technical Standards Review**);
- The Australian Energy Market Operator's (**AEMO**) 2023 Electricity Statement of Opportunities (**ESOO**);
- The NSW Government's Response to the Electricity Security and Reliability Check Up (**the Check Up**);
- The NSW Government's 2023 Budget Commitments; and
- The NSW Government's Climate Change (Net Zero Future) Bill 2023.[1]

These developments reflect the Federal and State Government's recognition of the challenges ahead, and their commitment to driving forward a transition that is inclusive and at lowest cost. Our Revised Proposal responds to policy and market developments in a balanced way, in accordance with our customers' priorities and preferences.

Cover page picture: Ausgrid's Narara Community Battery partially funded by the Federal Government's Community Battery Program.

1 At the time of drafting the Revised Proposal, this Bill had not yet been debated in NSW Parliament.

Contents

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Our Revised Proposal reflects the AER's and our customers' feedback since our Initial Proposal.

1. Message from the Chairman and CEO

Since we submitted Ausgrid's Initial Proposal in January 2023, the energy market, economy and broader policy environment has experienced a continually rapid rate of change. We present our revised 2024-29 Regulatory Proposal (**Revised Proposal**) to the AER in this context. Our Revised Proposal represents a key milestone in delivering our intent to become a network that is a platform for services to:

- Enable and accelerate the energy transition;
- Facilitate electrification;
- Connect new renewables and CER; and
- Enable greater accessibility in the transition at the lowest cost for our customers.

The AER's Draft Decision accepted many aspects of our Initial Proposal, particularly in our business-as-usual (**BAU**) areas, and acknowledged the extent of our customer engagement and how it had been reflected in our Initial Proposal. However, the AER indicated that further justification was required before it could accept some of our proposed investments, including in new categories of expenditure that our customers are supportive of, such as climate resilience, innovation and CER integration.

We are grateful to the AER for its feedback. We have listened, responded and continued to engage with the AER staff since the Draft Decision to further understand their concerns. To develop this Revised Proposal we also continued our deep, ongoing engagement with residential customers via our Voice of Community Panel (**VoC**) and expert customer advocates via the Reset Customer Panel (**RCP**).

We know that remaining efficient and focussed on affordability will be critical in the years ahead. Our customers have told us that affordability is important as cost of living pressures continue to increase. These pressures are driven by external macroeconomic factors including increasing interest rates and persistently high inflation. These pressures challenge us all and directly impact this Revised Proposal.

In response, we have sought to rebalance the competing customer priorities of resilience, affordability and pursuing net zero in our Revised Proposal. Our revised 2024-29 capital expenditure (**capex**) and operating expenditure (**opex**) forecasts are now respectively 2% below and 0.8% above our current 2019-24 period spend. For our customers, this means that their Ausgrid network service will be more climate-resilient, cyber-safe and accommodate more customer-owned renewables, for a lower level of investment. We have also taken a considered and pragmatic approach to ease the impact of bill increases in the 2024-29 period. We have done this while continuing to focus on and prioritise investments that are aligned with our commitment to facilitate a transition to net zero, which customers have continued to ask us to pursue.

We are therefore confident this Revised Proposal is capable of acceptance.

The RCP has also prepared its fourth and final report in response to the Draft Decision and our Revised Proposal. We sincerely thank the RCP who have continued to challenge us every step of the way and made an immensely valuable contribution to Ausgrid and our customers throughout this process.

Sincerely,

Dr Helen Nugent AC
Chairman, Ausgrid

Marc England
CEO, Ausgrid

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Over the past decade, Ausgrid has taken significant steps to transform our business and better meet our customers' expectations. This has included reducing our costs, delivering more affordable services, and working to better understand and respond to our customers' expectations.

2. Executive Summary

The energy transition is causing structural shifts in the economy that means distribution networks' role at the centre of the electricity system is evolving. Customers are switching from gas to electricity to power their homes, and from petrol to EVs for private and public transport. NSW needs to increase in renewable generation and storage capacity by 5-7 times current levels by 2040 to meet AEMO's Integrated System Plan step change scenario. Increasingly frequent and severe weather events are requiring customers, essential service providers and Governments to co-ordinate and invest in climate mitigation and adaptation strategies to manage the impacts across communities.

Distribution networks have an increasingly important role to play in this changing environment. Our customers have told us they want Ausgrid to become a platform that enables and accelerates the energy transition, the connection of new renewables, and enabling broader participation in delivering a net zero future. We think distribution networks are uniquely positioned to de-risk a timely and inclusive transition for energy consumers.

This Revised Proposal sets out Ausgrid's service and pricing proposition for the 2024-29 period, that ensures we continue deliver for customers in a rapidly changing energy system. It reflects valuable feedback from the AER, our customers and other stakeholders on our Initial Proposal for the 2024-29 period. Importantly, since the AER's Draft Decision, our customers have shared their increasing challenges with the cost of living, and our Revised Proposal responds to these concerns. We have adjusted our investment proposal and provided additional supporting information where required. We retain our key pricing initiatives in our TSS and have added a new trial tariff that efficiently prices local electricity flows, including to and from community batteries.

As set out below, we consider our Revised Proposal is capable of acceptance by the AER because it meets our customers' changing expectations, and key regulatory requirements such as those set out in the AER's Better Resets Handbook.

Ensuring we are meeting the AER's Better Resets Handbook:

Our overall period-on-period total expenditure (**totex**) is lower, with category-level increases focussed in areas that have strong customer support.[2]

Our replacement expenditure (**repex**) forecast, making up 43% of our total capex, is 36% below the AER's Repex Model efficiency threshold.[3]

Our base opex costs are reflective of the costs of an efficient business. As at FY22, we are ranked third in operating expenditure efficiency in the National Electricity Market (**NEM**), driven by a 40% reduction in our operating costs since 2015.

On a like for like basis, our revised opex forecast is $57 million lower than our Initial Proposal, and our revised step changes reflect genuine cost increases from the macroeconomic environment (growth in insurance costs and increased cyber security threats), more detailed supplier quotes on our smart meter data and climate resilience step changes and categories with strong customer support (climate resilience and innovation investments).

Responding to customers macroeconomic cost of living concerns:

In response to the VoC Panel, we have revisited project timing and reduced and/or delayed some expenditure to smooth the cost of these investments over multiple regulatory periods, while still delivering the benefits of the investments; this has resulted in us reducing proposed capex by $98 million.

Our Revised Proposal will reduce our capex to 2% below our current period spend. Even with lower period-to-period investment we will deliver future focussed investments, such as climate resilience, Enterprise Resource Planning (**ERP**) replacement, cyber security and CER augmentation.

We are proposing that software as a service (**SaaS**) implementation costs continue to be treated as capex rather than following the accounting treatment to be opex, which means the costs are recovered over 5-15 years rather than immediately. This would benefit customers at a time when cost of living is significantly affecting customers.[4]

2 Our period on period capex is 2% lower in 2024-29 factoring in FY23 actuals ($836 million) and year-to-date delivery that puts Ausgrid on track to meet our estimate of $790 million in FY24. We use totex to avoid the impact of how software-as-a-Service (**SaaS**) costs are treated from one regulatory period to the next.

3 AER (2023) Issues Paper: Ausgrid Electricity Distribution Determination, 1 July 2024 to 30 June 2029, p. 15.

4 Taking a two-period view, our proposal would result in a SaaS implementation costs causing a material increase in 2024-29 period revenue, followed by another material increase in 2029-34 period revenue. However, applying the change from 1 July 2024 (per our Initial Proposal and the Draft Decision), would result in a much greater increase in 2024-29 revenue, followed by a material reduction in revenue in the 2029-34 period. Given our customers have indicated significant concerns about affordability at this time, and the revenue volatility (other things equal) arising from applying the change from 1 July 2024 versus 1 July 2029, on balance we consider our proposed approach is in customers' long-term interests. Detail is outlined in **Attachment 6.1 – Proposed operating expenditure**.

Responding to the AER's Draft Decision and staff feedback:

We have removed a 20% contingency from our proposed ERP program and deferred spend to manage delivery, resulting in a $31 million reduction in capex.

We have reduced our cyber security program by $21 million but remain committed to achieving the highest level of protection, security profile 3 (**SP-3**), through efficiency savings. At the Draft Decision stage, the AER was advised by its technical consultant, EMCa, that Ausgrid should invest in a lower level of cyber protection. We maintain that the criticality of our network requires the highest level of cyber protection.

We have proposed that a new $128 million substation at Macquarie Park be treated as a contingent project for the 2024-29 period. The new substation would serve multiple customers with large load requirements that have approached Ausgrid for connection services. As we have not yet received a formal connection application for the required works, the construction of the new substation is proposed as a contingent project.

We heard from the AER in its Draft Decision that we should consider a wider range of options to efficiently and prudently respond to the growing impact of storms on our network. This feedback, along with increasing customer concerns about affordability, has led us to reduce our climate resilience program by 41% to $114 million relative to our Initial Proposal. These savings will be made by spreading out our planned resilience investments over 4 regulatory periods.

In response to AER feedback, we are proposing to share the risk and uncertainty that comes with innovation projects, sharing the costs of these investments with our customers similar to an innovation scheme administered by UK's Ofgem.

2.1 The Draft Decision

The AER's Draft Decision accepted many aspects of our Initial Proposal, particularly in our BAU areas of focus such as our growth capex and our recurring opex. The Draft Decision indicates that our significant engagement with customers in developing our Initial Proposal was a material factor in these areas:

> *"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"* [5]

The AER's Draft Decision capex forecast represented a 15% period-to-period reduction in investment. In making this Draft Decision, the AER found that the majority of our forecast was reasonable and would be required to maintain the safety, reliability and security of electricity supply of our network. The AER also commended our improved governance around decision-making for recurrent capex projects and quantitative analysis used to support our investments.[6] Our recurring opex, as represented in our base year, was also accepted by the AER, who noted that our productivity performance has improved in recent years.

However, the proposed expenditure that was identified as increasing in priority and that we had specifically tested with customers through our consultation process was largely not approved in the Draft Decision. This included our proposed resilience, innovation and CER integration programs which all received strong levels of support. Customers also expressed significant concerns about the threat of a cyber-attack, however the Draft Decision included a significant cut to proposed cyber security expenditure. The Draft Decision also included a significant cut to our ERP replacement program, which will facilitate tariff reform. The Draft Decision indicated that further justification was required from us before the AER could accept our proposed investments in these areas. For:

- **Climate resilience**, the AER requested further justification on the causal link between the impact on Ausgrid's network and the expected increase climate risk, and requested transparency of the modelling underpinning our forecasts;
- **Innovation**, the AER requested additional information to support and justify our proposed innovation expenditure;
- **CER integration**, the AER considered we overestimated the benefits associated with some of our proposed CER integration programs and impact of forecast solar uptake;
- **Cyber security**, the AER recognised the increasing and uncertain threat landscape, however did not accept our cost assessment; and
- **ERP replacement**, the AER did not accept the inclusion of contingency costs and raised concerns regarding delivery risks of the program.

We have been engaging with AER staff since the Draft Decision to further understand their concerns. This Revised Proposal reflects that engagement and comprehensively addresses the concerns raised in the Draft Decision.

2.2 Customer and stakeholder feedback informing our Revised Proposal

We developed the Revised Proposal in consultation with our customers and stakeholders to ensure we are balancing the affordability challenges in the current environment with the community's expectation that we play a more substantial role in driving a faster transition to net zero.

At our VoC panel in October 2023 we tested with customers whether they were still comfortable with the balance between their expectations of driving a faster transition to net zero and affordability of our forecast overall Revised Proposal.

Since our Initial Proposal, the balance between spending on customer priorities and affordability has shifted. This is to be expected, as cost of living pressures have worsened since January 2023. Our Initial Proposal included a number of affordability initiatives which resulted in average household bill savings of $34 for customers, including committing to additional efficiency savings.[7]

In our Revised Proposal we thought carefully about how we could further ease the impact of bill increases caused by broader macroeconomic pressures. However we continue to focus on, and deliver, our customers' priority investments for the future, such as climate and cyber resilience, innovation and CER integration programs.

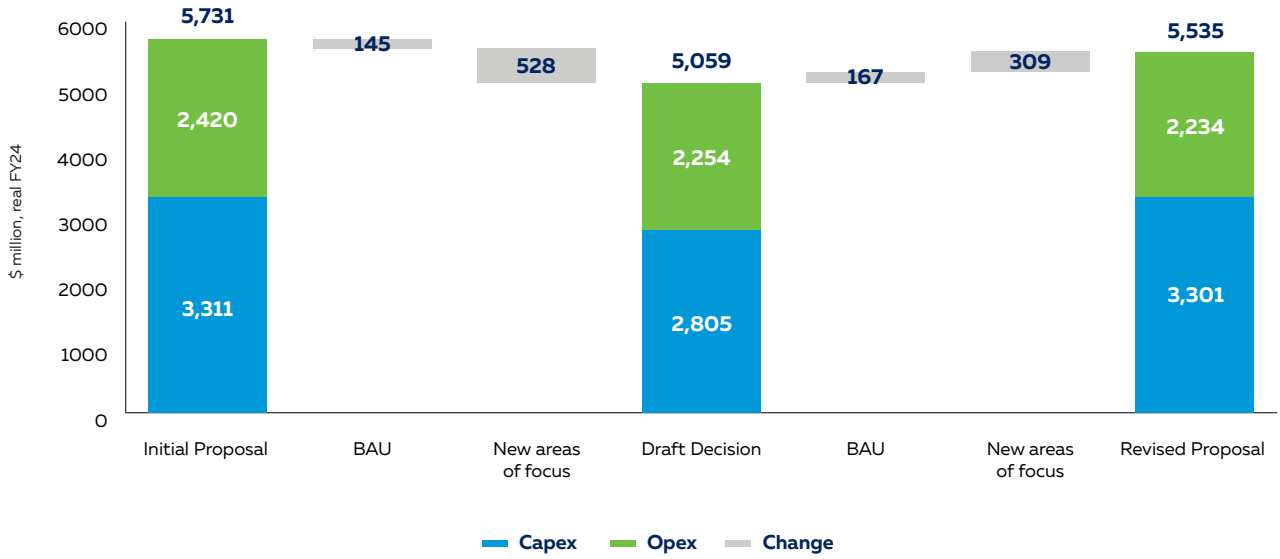
5 AER (2023), Ausgrid Electricity Distribution Determination 2024 to 2029 Draft Decision: Overview, pg x.
6 AER (2023), Ausgrid Electricity Distribution Determination 2024 to 2029 Draft Decision: Overview, pg 22.
7 See Ausgrid (2023), 2024-29 Regulatory Proposal, **Section 5.12** and Ausgrid (2023), 2024-29 Regulatory Proposal, Attachment 6.1 – Proposed operating expenditure, **Section 7.3**.

2.3 Our 2024-29 Revised Proposal

The Revised Proposal responds to matters raised in the AER's Draft Decision. It includes additional analysis to support our proposed expenditure on resilience, innovation, CER integration and cyber security to address the AER's concerns about these aspects of our Initial Proposal.

We have accepted or substantially accepted the majority of the AER's Draft Decision. **Figure 2.1** below shows that the AER accepted most of our BAU areas of focus with a reduction of $145 million. It also shows that the AER made large reductions of $528 million to our customers' new areas of focus such as climate resilience and CER integration. In response, our Revised Proposal updates BAU expenditure not accepted in the Draft Decision ($167 million) with the latest information on key inputs. We have also proposed rationalised investment programs in areas of customer focus. These reductions have been made in response to AER feedback and efforts to promote affordability following our engagement with customers since the Draft Decision.

Figure 2.1 Revised total expenditure compared to the Draft Decision ($m, real FY24)



Note 1: The AER's Draft Decision accepting $2,805 million in capex excludes modelling adjustments totalling $13.6 million.
Note 2: We use totex to assess updates between our Initial and Revised Proposals because looking at capex or opex in isolation is heavily impacted by how SaaS costs are treated.

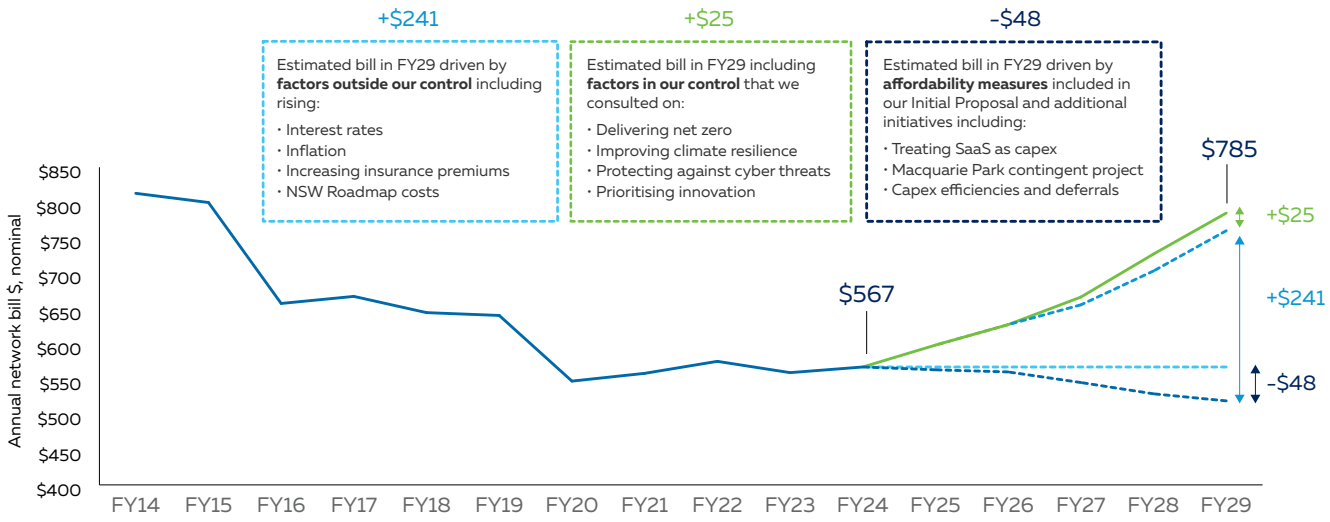
We are proposing revenues of $9,616 million (nominal, unsmoothed) for the 2024-29 period. This is $98 million (1%) lower than the revenue we sought in our Initial Proposal and $32 million (0.3%) higher than the revenues proposed by the AER in its Draft Decision.

Figure 2.2 shows the drivers for potential increases in household network charges. Interest rates, inflation, rising insurance premiums and other factors outside of our control are the overwhelming drivers for higher household network charges, contributing $241 of the increase in network charges by FY29. We have worked hard to limit the impact of the factors outside of our control. Our proposed expenditure within our control to deliver net zero, improve climate resilience, protect against cyber attacks, and prioritise innovation, results in a potential increase of $25 in network charges by FY29. The increases are forecast to be mitigated by reductions in network charges of $48 in proposed affordability measures included across our Initial and Revised Proposals including the reduction or deferral of expenditure, and treating SaaS as capex instead of opex.

The Revised Proposal results in an average annual residential bill increase of 6.7%. This is 2.3% higher than our Initial Proposal and 1.5% higher than the Draft Decision.[8]

8 Note that differences in revenue smoothing profile between our Revised Proposal, the Draft Decision and our Initial Proposal affect these comparisons. In addition, our estimated annual bill increase in the Initial Proposal did not account for increases in the network bill due to the NSW Roadmap costs and updated Transgrid costs.

Figure 2.2 Drivers of potential increases in household network charges ($ nominal, excl GST)



Note:

1. Ausgrid total network charges include distribution plus pass through of transmission costs, the NSW Climate Change Fund and the NSW Roadmap costs. In FY24 our estimate of total network charges is $567.
2. Bill calculated using 5,000 kWh per year on EA010 to FY23 and EA116 from FY24 onwards.

If our Revised Proposal is accepted, we estimate our total network charges (i.e. transmission, distribution, the NSW Climate Change Fund and NSW Electricity Infrastructure Investment Roadmap (**NSW Roadmap**) scheme recoveries) would increase in real terms (adjusting for inflation) by 3.8% for households and 4.2% for small businesses in each year of the 2024-29 period. Note our Initial Proposal did not include NSW Roadmap scheme recoveries because no information was available at the time. We now have this information and it has increased our network bill forecast.

Distribution charges alone are expected to increase by 2.4% for households and 2.2% for small businesses (see **Figure 2.3**), in each year of the period in real terms (adjusted for inflation). We note that our customer bill impacts assume a full pass through by retailers and for this reason should be considered estimates.

Figure 2.3 Estimated impacts of our Revised Proposal on the distribution component of customer bills over 2024-29 ($, real FY24)

		Residential	Small Business
	FY24	$452	$943
Next Period	**FY25**	$445	$934
	FY26	$438	$955
	FY27	$461	$975
	FY28	$487	$980
	FY29	$508	$989
Average annual increase		**$11**	**$22**

Note: Distribution component only. Some Ausgrid revenue is included in the transmission component of bills. Residential based on EA116 and 5,000 kWh per year usage. Small business based on EA050 and 10,000 kWh per year usage.

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Ausgrid is committed to becoming and remaining an industry leader in customer engagement.

3. Customer engagement

Since our Initial Proposal we have continued to engage with customers and the AER to improve our plans and ensure that customers support our Revised Proposal. We continued to apply our approach to customer engagement to inform the development of our Revised Proposal, engaging with our VoC Panel, the RCP, the Pricing Working Group (**PWG**) and targeted customer groups:

- In 2023 we created a new VoC Panel consisting of 101 participants from across the Ausgrid network with 35% membership from the 2022 panel and past participants in Ausgrid's community engagement, and 66 new members. Its remit was to consider how Ausgrid should "plan for the future while being fair to customers today" and provide recommendations as to Ausgrid's plans for the 2024-29 period. See **Figure 3.4** below;
- The RCP is an independent challenge body, whose primary purpose is to represent the long-term perspectives of our customers and to challenge Ausgrid on key issues in relation to the 2024-29 period; and
- The PWG enables Ausgrid and customer advocates to collaborate on tariff strategies and reforms that promote customer choice and reduce the long-term cost of electricity for customers.

As noted in the AER's Draft Decision, we conducted an extensive engagement program to inform our Initial Proposal to ensure it responded to our communities' preferences and priorities. This program integrated our BAU engagement (through our VoC Program) and our reset engagement.[9] Since we submitted our Initial Proposal in January 2023, we have continued to engage with the RCP, PWG, VoC Panel, targeted customer groups and other stakeholders to:

- Further refine key elements of our proposal, such as resilience, CER, innovation, and Customer Service Incentive Scheme (**CSIS**); and
- Ensure we remain responsive to our customers' circumstances in a changing environment so we can adjust our Revised Proposal accordingly.

Following the release of the AER's Draft Decision, we also tested our Revised Proposal positions with the RCP and our VoC Panel for feedback, particularly on areas where we did not agree with the AER's Draft Decision as it did not reflect what our customers supported in our Initial Proposal.

We met with our VoC Panel on 21 October to discuss the AER's Draft Decision and test the balance of customer expectation to drive a net zero future against affordability of our forecast overall Revised Proposal. The VoC Panel continues to support expenditure in the areas of innovation, net zero and resilience, however since our Initial Proposal, the balance has moved towards affordability (see **Figure 3.1** below). This is to be expected as cost of living pressures have worsened since January.

Verbatims from Day 3 of the VoC Panel (21 Oct 2023)

"We feel that we are still happy with everything that was proposed originally even though some cost of living issues have increased."

"I am comfortable with the overall proposal as I feel that the aspects that were rejected by the AER (innovation, movement to net zero) need to be implemented to future-proof the network. Also, the additional spend is offset by the savings found."

"If the cost of living crisis is not addressed within this period and interest rates continue to rise, I am concerned about this cost would be too high. Safety nets for vulnerable people are very important in this circumstance."

9 Our approach to customer engagement was outlined in **Sections 3.1** and **3.2** of our Initial Proposal: Ausgrid (2023), 2024-29 Regulatory Proposal.

Figure 3.1 VoC Panel level of comfort with the overall proposal and associated bill impact

4%	Very comfortable – I would be willing for us to spend a whole lot more	3 participants
13%	Comfortable – more than ok I would have been happy for us to spend a bit more	9 participants
41%	OK – this spend for us all is spot on!	29 participants
26%	Uncomfortable – I think this is a little too much for us all to spend	18 participants
16%	Very uncomfortable – this overall spend is a real stretch for us all	11 participants

Details of the VoC Panel session can be found in **Attachment 3.1 – MosaicLab - Ausgrid Voice of Community Panel 2023 - Day 3 Workshop - What Was Said report**.

Figures 3.2 and **3.3** summarise our approach to engagement between the submission of our Initial Proposal and Revised Proposal.

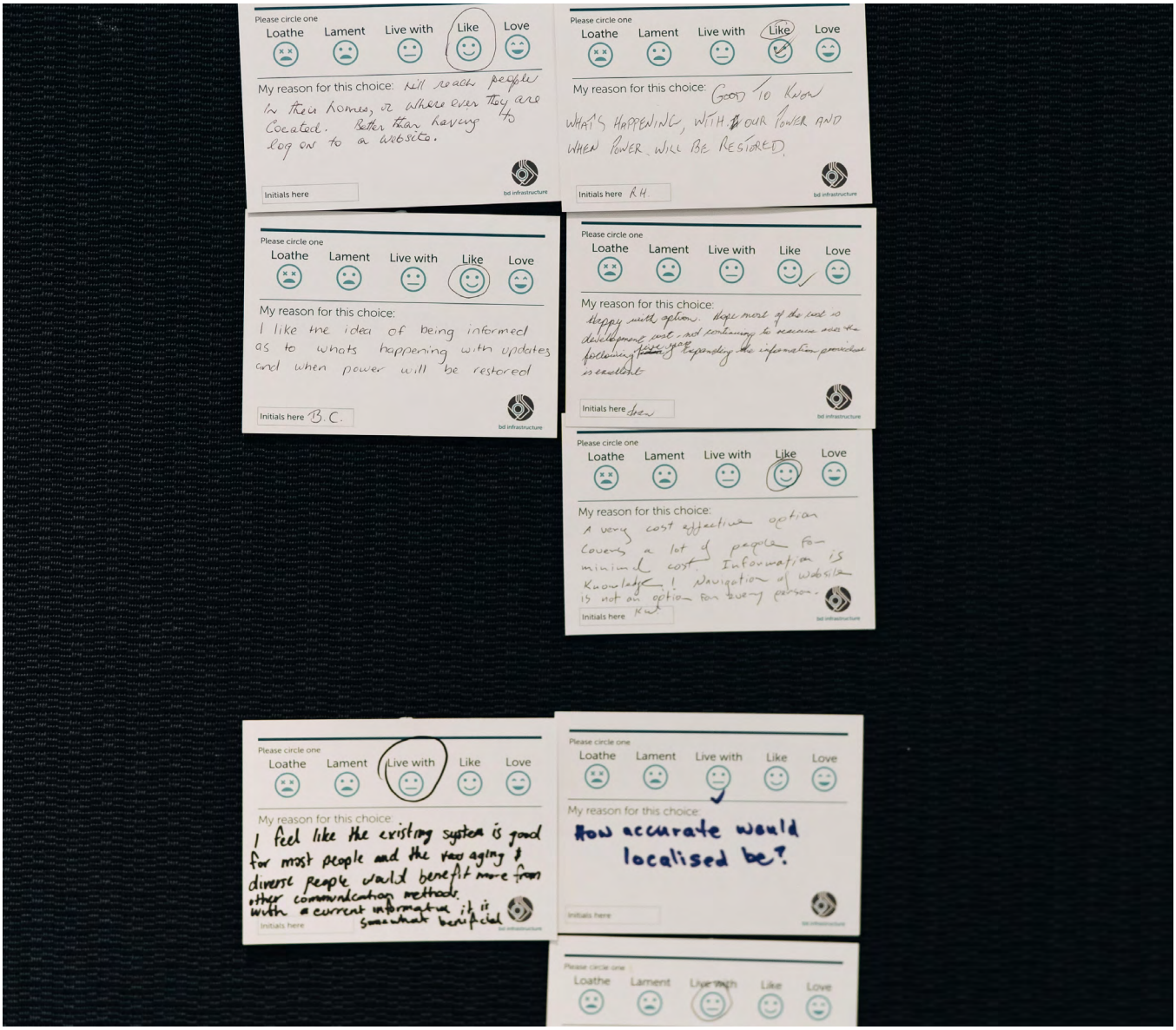


Figure 3.2

Our Revised Proposal engagement journey

Key:

- All
- Voice of Community ongoing engagement program
- Partner and stakeholder engagement
- Customer engagement

January 2023

Initial Proposal

February

25, 26 Feb; 4 Mar

Resilience workshops to identify 'unmet needs'
For: selected LGAs*, F2F

March

23, 29, 30 Mar

Resilience workshops to identify community priorities
For: selected LGAs*, online

April

31 March

Update on the regulatory reset and proposed engagement
For: RCP

5 April

AER Public Forum on our Initial Proposal
For: all

May

20, 27, 28 May

Resilience workshop to test bespoke resilience solutions
For: selected LGAs*, F2F

11 May

RCP submission to the AER on our 2024-29 Regulatory Proposal
For: all

5 May

Feedback on metering classification and bill impact modelling
For: RCP

1, 29 April

Community feedback on our Initial Proposal and questions in the AER's Issues Paper
For: VoC Panel^, F2F

June

2 June

Feedback on revised approach to resilience modelling and incentive schemes
For: RCP

17, 24 June

Community feedback on willingnesss to pay for resilience investments
For: VoC Panel^, F2F

July

30 June

Feedback on our revised resilience business case and metering treatment
For: RCP

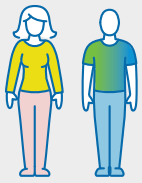
7 July

Feedback on proposed new embedded network tariffs, two way tariffs and business customer tariff assignment
For: PWG

August

1, 10 August

Community feedback on proposed revisions to our CSIS
For: VoC Panel^, RCP



October

10, 11, 12 Oct

Community feedback on proposed resilience solutions
For: selected LGAs*, online

9 October

AER's Draft Decision Public Forum
For: all

6 October

Feedback on the proposed response to the AER's Draft Decision on our tariffs
For: PWG

November

12 October

Feedback on the AER's Draft Decision and our revised resilience program
For: RCP

21 October

Discuss AER's Draft Decision and proposed Revised Proposal approach
For: VoC Panel

27 October

Feedback on our revised 2024-29 expenditure and revenue forecasts
For: RCP

10 November

Feedback on metering treatment, step changes and base year adjustment
For: RCP

December

Revised Proposal

Glossary

CSIS – Customer Service Incentive Scheme
F2F – Face to face
LGA – Local Government Area
RCP – Reset Customer Panel
PWG – Pricing Working Group
VoC – Voice of Community

* Lake Macquarie, Port Stephens, Central Coast
^ Central Coast, Hunter and Newcastle, & Sydney Metro

Figure 3.3 Revised Proposal stakeholder engagement

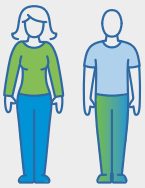
Stakeholder group	Scope of engagement
Local Government Area (LGA) Resilience engagement 	Ausgrid undertook a series of workshops in three NSW LGAs particularly impacted by extreme weather events (Central Coast, Lake Macquarie and Port Stephens) to further develop our resilience expenditure package. We held 4 workshops in each LGA throughout 2023, including 2 in person full day workshops and 2 4-hour Zoom online workshops. Workshop participants included local community members, LGA representatives, utilities, NSW Government (the NSW Reconstruction Authority) and RCP members. Engagement topics included: • Resilience activities and solutions that would work in each community, including the extreme heat resilience project, which was added to our resilience investments in response to the feedback we heard from stakeholders during the AER's Predetermination conference; • Criteria that should be used to assess and prioritise the proposed resilience activities and solutions; and • The mix of solutions Ausgrid should propose to the AER.
Voice of Community Panel 	We continued to engage with our VoC Panel to continue to refine aspects of our proposal, particularly our CSIS, and resilience investments. While VoC Panel members were disappointed that the AER's Draft Decision did not accept the Initial Proposal, they were also challenged by the broader cost of living pressures and what the broader macroeconomic environment means for vulnerable customers. Some feedback includes: • *"It feels like Ausgrid has really listened to the community."* • *"We thought we were being conservative and prudent in reducing the amount Ausgrid spends on various programs, but it seems that the regulator would like to reduce the percentage of innovation and investment to a greater extent than we do. Without AER's actual presence and participation in these discussions, it's hard for us to understand what evidence or perspectives the AER is coming from to reach such conclusions. The feeling is that while the government talks about the importance of net-zero and dealing with climate risks, it doesn't want to allow too much expenditure on actual investment in these areas."* • *"We're really happy that Ausgrid isn't abandoning the important issues that the VoC have proposed!!"* • *"On Ausgrid's part there is a net -$3, that seems very fair for investment into the future. Costs are not going to come down in the future if we don't weather the near term pain of investment. You can't save your way out of climate change."* • *"-$36 through affordability measures and +$33 investment in your control: You've responsibly saved in order to afford these investments. The increase is tough on the most vulnerable but the investment paves the way for cheaper energy (renewables) overall."* • *"I understand that the reasons for the price increase are mostly out of anyone's control, but it seems like customer bills are going up and up and up. There's only so much we can cope with."* • *"I speak for all those who may be in my position when I say we are just in some cases coping and we would hope that Ausgrid realises this from this vote and would where possible reduce some of our expectations in putting their next submission to the AER."* We also engaged with the VoC Panel on the Draft Two-way Pricing Fact Sheet. The VoC Panel members' feedback was invaluable to improving the accessibility of the Fact Sheet for residential customers. For information about the response to engagement on heat resilience see **Attachment 5.5 – Climate Resilience Business Case**.

Figure 3.3 **Continued**

Stakeholder group	Scope of engagement
PWG	We continued to engage with the PWG on our tariff strategies and reforms we are intending to introduce to promote customer choice and reduce the long-term cost of electricity for consumers. Key aspects of our tariff proposal we consulted on included: • New embedded network tariffs; • Fact sheet for export tariffs; • Business customer tariff assignment; • Individually calculated tariff method; • Dynamic operating envelopes and dynamic pricing (Project Edith); • Controlled load and EV charging; and • Local use of system trial tariff.

Figure 3.4

2023 Voice of Community Panel

22nd March
Meet and Greet Online Forum

1st and 29th April
Day 1 Regional Forum
- **Newcastle** (Hunter Valley & Central Coast) - Sat 1 April
- **Sydney** (Greater Sydney) - Sat 29 April

17th and 24th June
Day 2 Regional Forum
- **Newcastle** (Hunter Valley & Central Coast) - Sat 17 June
- **Sydney** (Greater Sydney) - Sat 24 June

1st August
Additional Day Customer Service Incentive Scheme

21st October
Day 3 Final Online Forum

Attendees

101

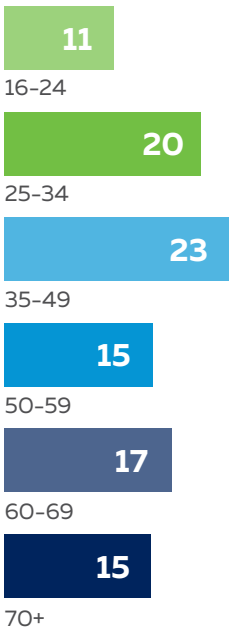
Gender

53
52.5% Female

47
46% Male

1
1.5% Other

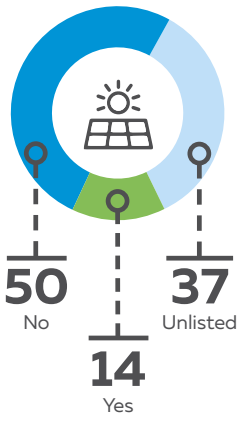
Age



Own/rent

40 Home-owner
24 Tenant
37 Unlisted

Solar panel owner

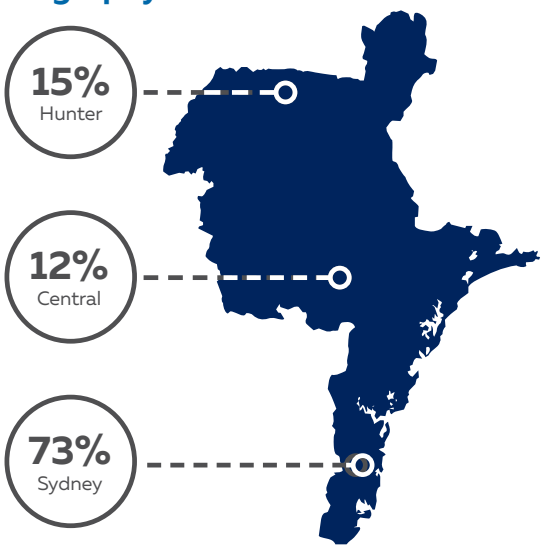


Engagement

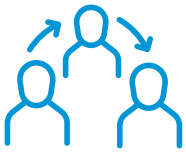
Face-to-face

42
HRS

Geography



Meetings



7

Between March and October 2023

Ausgrid

4

Our proposed revised revenue is our forecast of the revenue we need to generate over the 2024-29 period to deliver our standard control services (SCS) and recover the efficient costs to operate our network, while adding new affordability measures.

4. Proposed revenue

As noted in **Sections 1, 2.2** and **3**, we have heard our customers when they raised mounting cost of living pressures since our Initial Proposal. We have taken measures to limit increases to revenue where possible, noting that the most material increases to revenue are outside Ausgrid's control.

Our proposed revised 2024-29 revenue is $9,616 million (nominal, unsmoothed) which is $98 million (1%) less than our Initial Proposal and $32 million (0.3%) more than the Draft Decision. Our proposed revenue will be used to maintain and invest in our network and non-network assets to ensure we can deliver on our role as a key platform in the energy transition, as well as continue to meet our regulatory obligations now and over the long term.

This revenue reflects our plans for the 2024-29 period, which we developed in collaboration and partnership with our customers, delivery partners and other stakeholders (see **Chapter 3**). These plans reflect our strategy to build on our role as a network platform to enable and advance the energy transition.

This chapter summarises our proposed revenue for the 2024-29 period. More detail, including the distribution and dual function asset revenue breakdown is in **Attachment 4.1 – 2024- 29 Proposed revenue.**

4.1 Overview of our Revised Proposal

Our revised revenue requirement reflects changes made to opex and capex, based on updated analysis and in response to customer and AER feedback. We describe these components in later chapters of this Revised Proposal.

Figure 4.1 shows the differences between revenue in our Initial Proposal, the AER's Draft Decision and our Revised Proposal. **Figure 4.2** shows the breakdown of our revenue by building block component.

Figure 4.1 Our revised Annual Revenue Requirements ($ million, nominal)

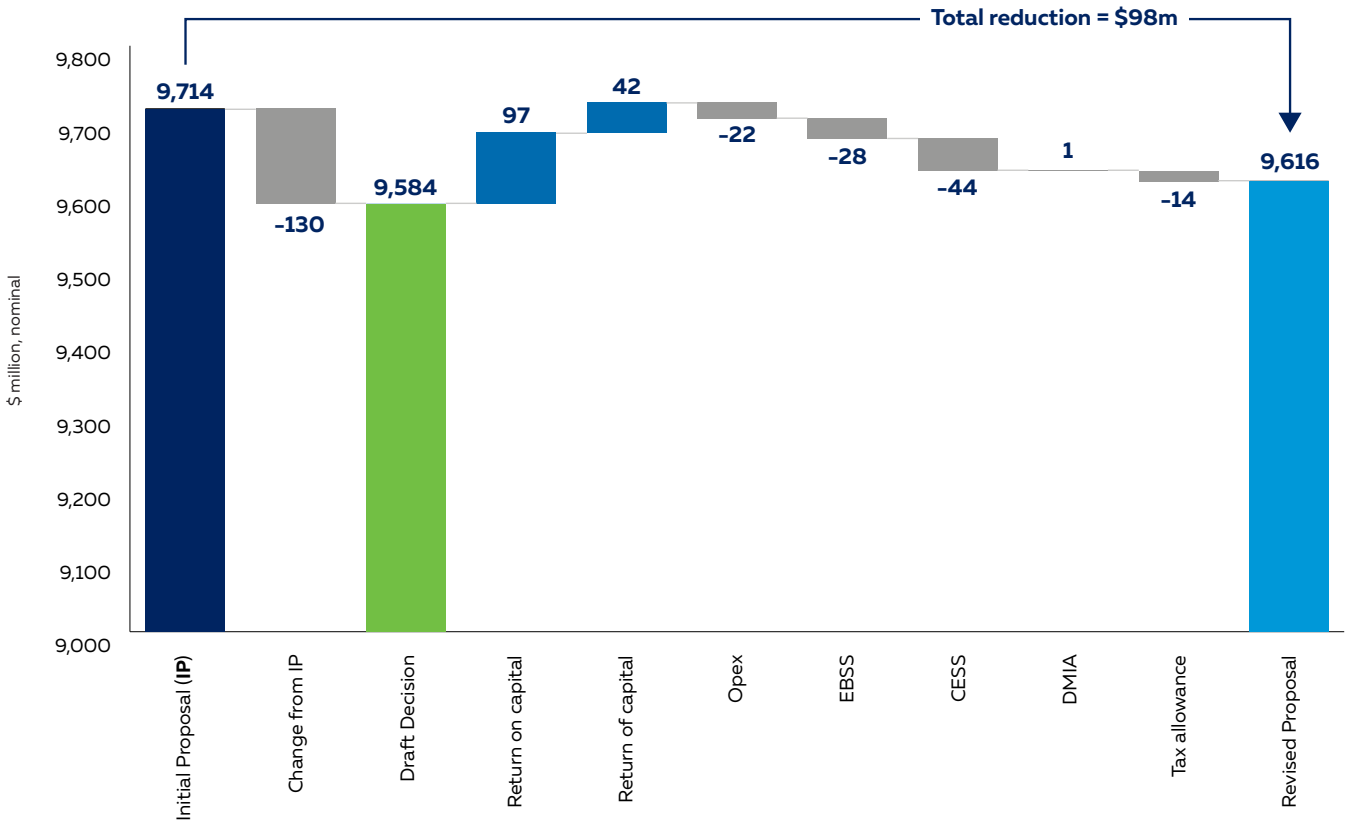


Figure 4.2 Proposed revenue and building block components for the 2024-29 period ($m, nominal)

	FY25	FY26	FY27	FY28	FY29	Total
Return on capital	1,084.9	1,133.8	1,184.5	1,238.3	1,292.6	**5,934.2**
Return of capital	81.5	115.0	152.5	177.8	159.9	**686.7**
Opex	450.7	470.3	484.6	502.7	521.2	**2,429.6**
Efficiency Benefit Sharing Scheme (EBSS)	144.8	197.4	55.4	(13.3)	6.0	**390.4**
Capital Efficiency Sharing Scheme (CESS)	14.3	14.8	15.2	15.6	16.0	**75.9**
Demand Management Innovation Allowance Mechanism (DMIAM)	1.6	1.7	1.7	1.7	1.8	**8.6**
Shared assets	(3.0)	(3.3)	(3.8)	(3.9)	(4.2)	**(18.1)**
Tax allowance	22.4	21.3	21.9	22.8	20.6	**109.0**
Revenue requirement	**1,797.4**	**1,950.9**	**1,912.0**	**1,941.8**	**2,014.0**	**9,616.1**

The key differences between the AER's Draft Decision and our Revised Proposal are:

- Opening RAB $127 million higher due to higher than forecast FY23-FY24 capex, which has a revenue impact of $35 million (nominal);
- Opex reduced by $22 million, nominal (1%);
- Net capex over FY25-FY29 increased by $482 million[10] (real FY24) (18%), which has a revenue impact of $90 million (nominal);
- CESS decreased by $44 million (37%) based on updated FY23 actual and FY24 forecast expenditure; and
- EBSS decreased by $28 million (7%) based on updated FY23 actual expenditure.

We have not amended the rate of return or forecast regulatory inflation in the Revised Proposal. Rate of return is a placeholder and will be replaced by the AER in the final decision. Regulatory inflation is a placeholder and will be updated in the Final Decision based on inflation forecasts in the Reserve Bank of Australia's (**RBA**) February Statement on Monetary Policy (**SOMP**).

4.2 Smoothed revenue and X-factors

Annual revenue requirements might fluctuate from year to year over the course of a regulatory control period, which can cause price volatility. This volatility can be smoothed so that prices do not fluctuate with the timing of expenditure programs during a regulatory period. We have amended the AER's Draft Decision on our X-factors to accommodate the updated revenue. We have not maintained the final year differences in the Draft Decision because we have tried to smooth the price differences evenly each year. This reflects customer preferences expressed by our VoC Panel in 2022.

Figure 4.3 shows the proposed X-factors used to smooth revenue. **Figure 4.4** shows building block and smoothed revenue. More detail, including the distribution and dual function asset revenue breakdown is in **Attachment 4.1 – 2024- 29 Proposed revenue.**

10 Compared to the Draft Decision capex including modelling adjustments totalling $13.6 million.

Figure 4.3 Proposed X-factors for the 2024-29 period

	FY25	FY26	FY27	FY28	FY29
Distribution	0.00%	(2.00%)	(6.47%)	(6.47%)	(5.00%)
Dual function	(30.00%)	(8.00%)	(10.49%)	(10.49%)	(9.00%)
Weighted average	(2.22%)	(2.57%)	(6.87%)	(6.89%)	(5.42%)

Figure 4.4 Smoothed and unsmoothed revenue ($m, nominal)

	FY25	FY26	FY27	FY28	FY29	Total
Unsmoothed revenue	1,797.4	1,950.9	1,912.0	1,941.8	2,014.0	**9,616.1**
Smoothed revenue	1,651.4	1,741.2	1,912.9	2,101.9	2,277.9	**9,685.4**
Difference	(146.0)	(209.7)	0.9	160.1	264.0	**69.3**

5

Capex is a significant driver of our component of electricity prices and customer bills. The assets we invest in today can remain in service for 50 years or more.

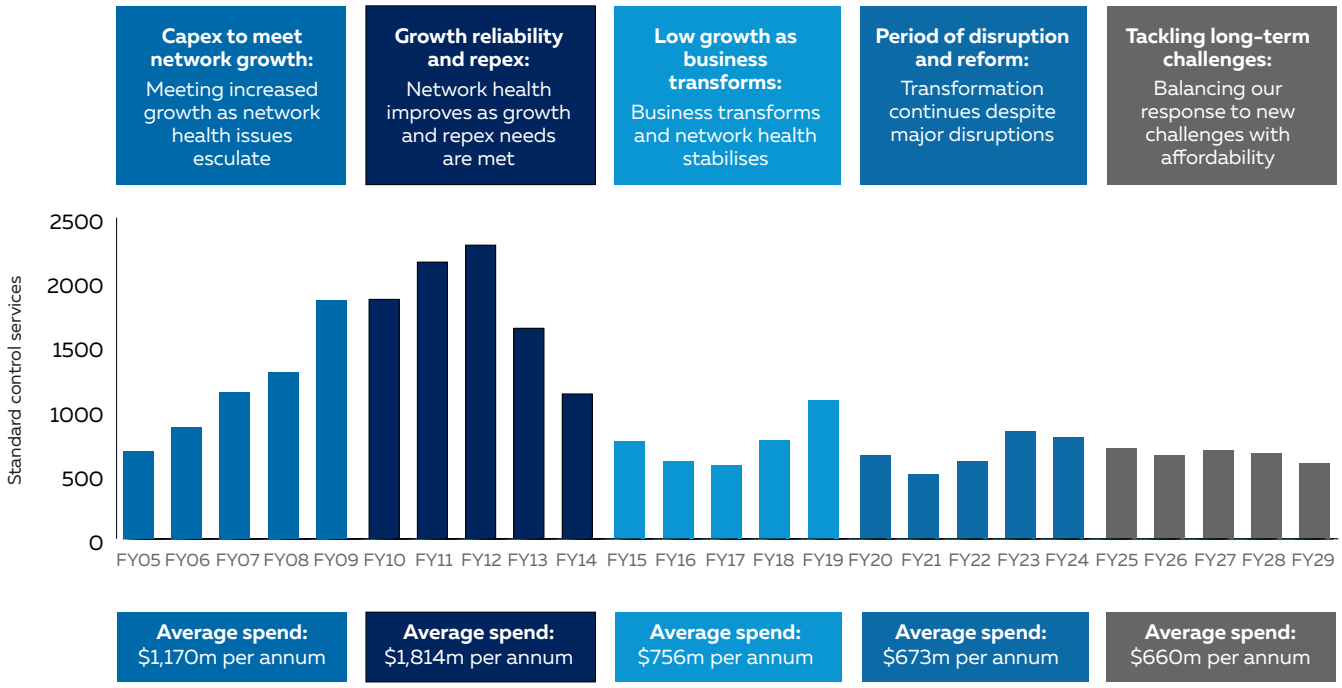
5. Capital expenditure

The 2024-29 period will be pivotal for our network and customers. New challenges lie ahead, including responding to climate change, protecting our network from cyber security threats, and efficiently integrating solar, batteries and a mass uptake of EVs into our grid.

Above all else, we need to balance the costs of how we respond to new challenges with the need to promote affordability. With the help of our customers over a process extending more than 2 years, we consider we have got this balance right by proposing capex that is flat between the current period and the 2024-29 period.

Our capex forecast of $3,301 million[11] (real FY24) is 2% below our current 2019-24 spend.[12] For our customers, this means that their Ausgrid network service will be more climate-resilient, cyber-safe and accommodate more customer-owned renewables, for a lower level of investment than we are spending today. Our long-term trend in capex, as set out in **Figure 5.1** below, shows that our proposal will maintain a downward trend in our capex for four consecutive regulatory control periods.

Figure 5.1 Our long-term trend in capex ($m, real FY24)



Lower 'period-to-period' investment that, in addition, delivers:

Climate resilience	ERP replacement	Cyber security	CER augmentation	Innovation program
$114m	$118m[13]	$70m[14]	$37m	$44m

11 Includes SaaS costs which we are proposing to treat as capex in the 2024-29 period.
12 Our period on period capex is 2% lower in the 2024-29 period factoring in FY23 actuals ($836 million) and year-to-date delivery that puts Ausgrid on track to meet our estimate of $790 million in FY24.
13 Includes SaaS costs.
14 Includes SaaS costs.

Our revised capex forecast by expenditure driver is set out in **Figure 5.2**. For most categories we have either substantially accepted the AER's Draft Decision or put forward a lower forecast relative to our Initial Proposal. We are also proposing to:

- Keep SaaS implementation costs as capex in the 2024-29 period as an affordability measure saving customers $2.30 per annum on average (see **Attachment 5.1** for more detail); and
- Treat a new substation build ($128 million) at Macquarie Park, called the Wallumatta sub-transmission substation (**STS**), as a contingent project in response to pre-lodgement feedback from the AER.

More information about how we have responded to the AER's Draft Decision is set out in **Figure 5.3** below.

5.1 Our response to the AER's Draft Decision

Figure 5.2: Summary of our Response to the AER's Draft Decision

$m, real FY24	Initial Proposal	Draft Decision	Difference to Initial Proposal	Summary of our response	Revised Proposal	Difference to Initial Proposal
Replacement	1,446	1,358	(88)	**Substantially accept**	1,428	(18)
Network growth	190	190	0	**Accept**	190	0
CER integration	47	8	(39)	**Lower forecast**	37	(10)
Resilience	194	26	(168)	**Lower forecast**	114	(80)
Operational technology (OT)	68	42	(26)	**Lower forecast**	60	(8)
Innovation	49	0	(49)	**AER feedback adopted**	45	(5)
Information, communications and technology (ICT)	301	202	(99)	**Lower forecast**	273	(28)
Fleet	148	148	0	**Accept**	147	(1)
Property	145	145	0	**Accept**	145	0
Overheads	724	686	(38)	**Accept**	732	8
SaaS costs	157	74	(83)	**Lower forecast**	131	(26)
Total (excluding SaaS)	3,311	2,805	(506)	**Lower forecast**	3,170	(141)
Total (including SaaS)	**3,469**	**2,879**	**(590)**	**Lower forecast**	**3,301**	**(168)**

Note: The AER's Draft Decision accepting $2,805 million in capex excludes modelling adjustments totalling $13.6 million that were not allocated to specific drivers of investment.

Figure 5.3 How we have responded to the AER's Draft Decision

Issue in Draft Decision	Our response in Our Revised Proposal	More information
Dedicated mains	Our Revised Proposal of $80 million is $63 million lower than our Initial Proposal. This reduction reflects updated unit rates which we have revisited in response to AER feedback. We have provided updated information to more clearly show the safety and reliability benefits of our dedicated mains reconfiguration program.	**Att. 5.4 - Replacement**
CER augex	Our Revised Proposal of $37 million is $10 million lower in capex than our Initial Proposal. This reflects a reduction in our solar curtailment investment in line with AER feedback in its Draft Decision. We have also run additional analysis on the impact of high levels of EV penetration in pockets of our network.	**Att. 5.7 - CER business case**
Climate resilience	Our Revised Proposal of $114 million is less than our Initial Proposal ($194 million) but more than the AER's Draft Decision ($26 million). We acknowledge that there were transparency issues with our modelling at the Initial Proposal stage and that more analysis was required to demonstrate the causal link between our planned investments and growth in climate risks. In response, we have adjusted our modelling and met with AER staff to refine our approach.	**Att. 5.5 - Climate resilience business case**
Innovation	Our Revised Proposal of $44 million is 11% lower than our Initial Proposal ($49 million). In response to AER feedback, we have proposed a change in how innovation projects are funded. We will fund 10% of our innovation program similar to an established approach applied by the UK's energy regulator, Ofgem.	**Att. 5.8 - Network innovation program**
Cyber	Our Revised Proposal of $70 million is less than our Initial Proposal ($91 million). This reduction represents a 23% efficiency saving embedded into our forecast based on feedback from the AER in its Draft Decision ($52 million).	**Att. 5.9.2 - Cyber security program**
ERP replacement	Our Revised Proposal of $118 million is 32% less than our Initial Proposal ($184 million). In putting forward a lower forecast we have responded to the feedback in the AER's Draft Decision by: • Removing a 20% contingency; and • Phasing our ERP replacement over two regulatory periods to support deliverability of the program. We have updated our forecast to adjust for a modelling error which understated our ERP replacement program by $34 million in our Initial Proposal.	**Att. 5.9.1 - ERP upgrade program**
CER related ICT	Our Revised Proposal of $21 million is $2 million lower than our Initial Proposal but higher than our Draft Decision ($14 million). In response to AER feedback, we have recalculated the benefits underpinning our dynamic service capabilities program using the AER's latest customer export curtailment values.	**Att. 5.7.1 – CER Dynamic Services Business Case**

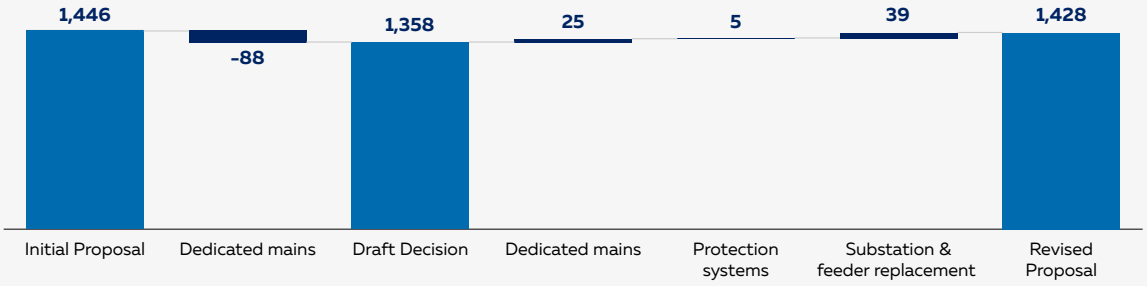
5.2 Replacement expenditure

Overview

Our revised repex forecast of $1,428 million meets the needs of customers and satisfies the requirements in the NER for the AER to approve it, because:

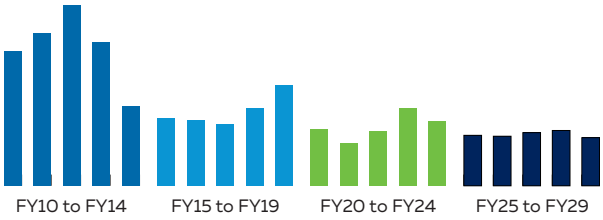
- The 'modelled repex' component is 36% below the AER's repex model threshold;[15] and
- Our Revised Proposal applies an efficiency adjustment to our dedicated mains reconfiguration program to reflect AER feedback on our unit rates.

Forecast ($m, real FY24)



Trend

Lower than the current 2019-24 period (FY20 to FY24)



20-year trend

Our response to the Draft Decision

Modelled repex

36%

below AER's efficiency threshold

Accept AER's Draft Decision

We accept the AER's Draft Decision approving our 'modelled repex'. Outperformance against the AER's repex model (36% below efficient threshold) is a strong indicator our repex forecast, at the portfolio level, should be approved.

Dedicated mains

$63m

reduction

Unit rates reduction

We have applied a $63 million reduction to our dedicated mains reconfiguration program to reflect lower unit rates in response to AER feedback in its Draft Decision.

Substation replacement

+$39m

compared to Draft Decision

Latest information

We have included an additional $39 million for substation and feeder replacement works. This expenditure is driven by updated inputs into our modelling (load growth) and condition assessments.

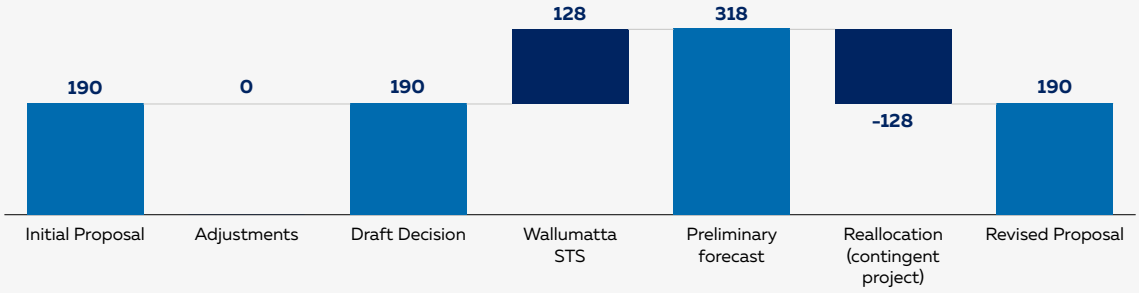
15 AER (2023) Issues Paper: Ausgrid Electricity Distribution Determination, 1 July 2024 to 30 June 2029, p. 15.

5.3 Network growth

Overview

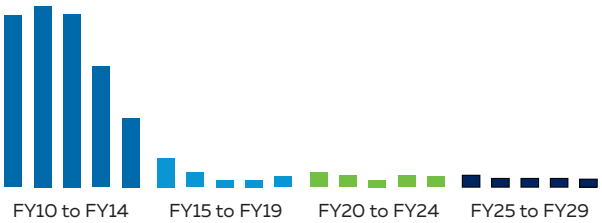
We accept the AER's Draft Decision approving our network growth capex. We considered including a new substation at Macquarie Park, called Wallumatta STS, in our capex forecast in our Revised Proposal. However, after careful consideration we have instead included the expenditure in a contingent project proposal. This is because we have yet to receive a formal connection application for the new substation, although we expect this to happen early in the 2024-29 period.

Forecast ($m, real FY24)



Trend

Lower than the current 2019-24 period (FY20 to FY24)



20-year trend

Our response to the Draft Decision

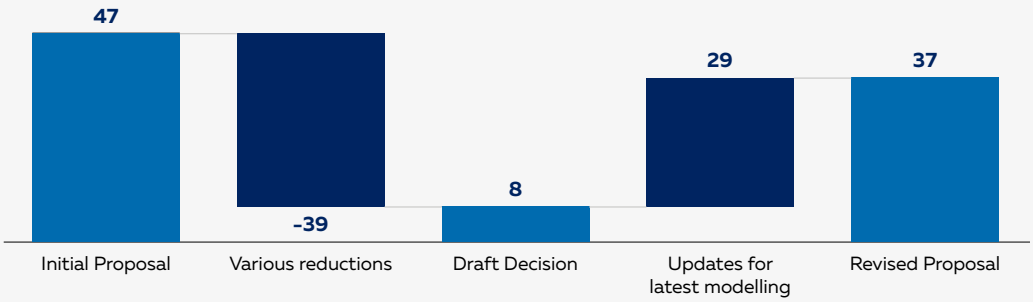
Base level of network growth	**AER endorsed initial forecast**	We accept the AER's Draft Decision approving our initial forecast of $190 million for network growth.
Treating Wallumatta STS as a contingent project	**Certainty in new connection**	We have included the Macquarie Park substation (Wallumatta STS) as a contingent project. We have taken this approach since the new customers have yet to lodge a formal connection application, although we expect that this will occur early in the 2024-29 period.

5.4 CER augmentation

Overview

New technologies require us to make different types of investments compared to the past. Our CER investment strategy is to avoid curtailment of solar exports, where efficient, and to integrate the high uptake of EVs within pockets of our network in a way that maintains reliability for all customers.

Forecast ($m, real FY24)



Percentage of total program

1%

of total investment helps integrate more than 1.4 million CER devices

Our CER augmentation program delivers benefits to the 1,420,000 CER assets expected to be installed by our customers on our network by FY29, at about 1% of our total capex program.

Our response to the Draft Decision

Our modelling applies AER guidance and inputs	**Meeting AER expectations**	We have applied the AER's CER Guidance Note for CER investments and adopted the AER's latest customer energy curtailment values. Our updated modelling and analysis now shows that Ausgrid has some of the highest overvoltage in the NEM.
Deferring $10m in solar curtailment investment until 2029-34 period	**Responding to AER feedback**	We are deferring $10 million in solar curtailment investment. This is in response to updated modelling we have untaken to incorporate the AER's feedback at the Draft Decision stage.
Support reliability for all customers	**Integrating EV charging**	Pockets of our network have among the highest EV adoption rates in the NEM. Our CER integration targets investment at these locations where there is a risk that EV charging could overload the network, disrupting reliability for EV customers and their neighbours.

5.5 Climate resilience

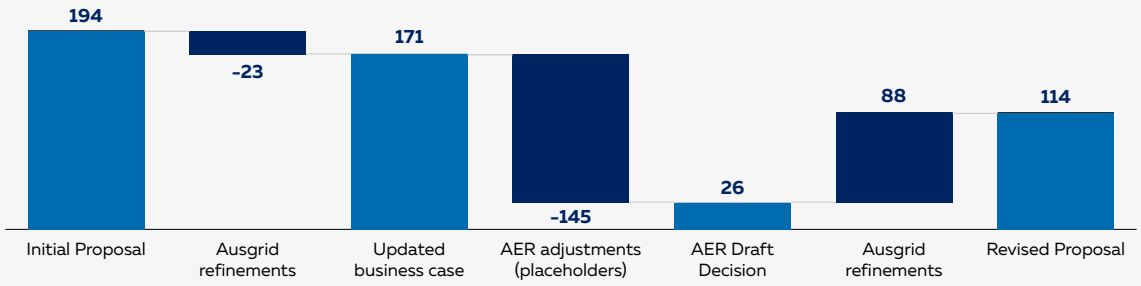
Overview

Ausgrid's overarching program design holds the objective to maintain current customer and community service outcomes by enhancing the resilience of electricity distribution services in line with the projected growth in risk of disruptive climate events across the period 2024 to 2050.

To achieve this, Ausgrid has identified the need to:

- Invest prudently and efficiently, staging investments at the right time to provide resilience to expected climate change related perils whilst avoiding overinvestment; and
- Establish systems and processes to engage with vulnerable communities and support their capacity to withstand and recover from climate change related outages; and
- Develop corporate knowledge of material climate risks and impacts to inform identification of future potential resilience investment needs.

Forecast ($m, real FY24)



Customer Engagement

82 hours

of customer engagement

Customers have told us that they put a high value on climate resilience and support a level of investment that exceeds our Revised Proposal of $114 million.

Our response to the Draft Decision

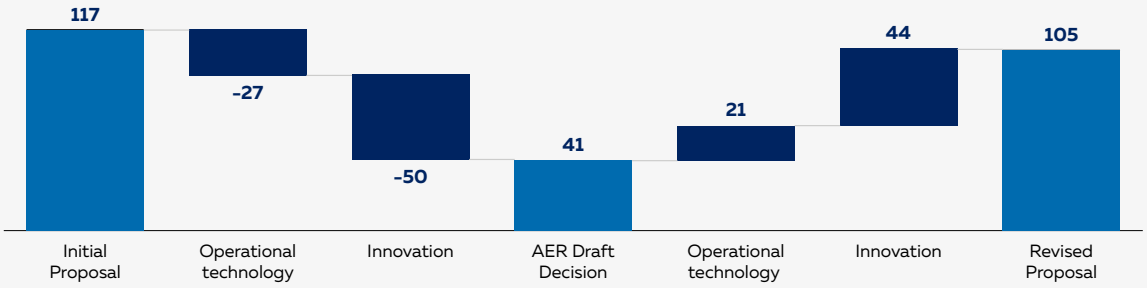
Prudent level of investment **$80m** less than our initial forecast	**Improved options analysis and staging of investments**	Ausgrid's Revised Proposal seeks to make investments that mitigate currently projected climate risk growth to 2050 within twenty years, enabling us to prioritise the most cost-effective investments for FY25-29. This is the most prudent and efficient path forward considering the growing risk.
A causal link between the expected increase in climate risk and the impact on Ausgrid's network	**Transparent analysis**	Ausgrid has provided its climate and impact modelling to the AER in an Excel format so that the inputs and assumptions are more transparent. We have calibrated against historic events and conducted sensitivity analysis. We have continued to engage with climate scientist to ensure our interpretation is aligned with the best scientific advice.
Stakeholder feedback from the AER's predetermination conference about extreme heat	**Customer benefits clearly shown**	We have considered stakeholder feedback presented at the AER's Predetermination Conference on extreme heat resilience. Following further engagement with customers on this topic, we have included a heat resilience program in this Revised Proposal.

5.6 Operational Technology and Innovation (OTI)

Overview

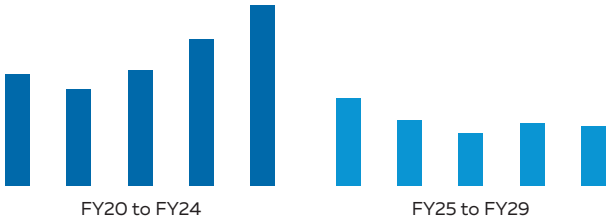
Our revised capex for OTI in the 2024-29 period is $105 million. OT ($60 million) consists of the software and systems that monitor and control our network, the ongoing reliability and security of which play a central role in our ability to meet our critical infrastructure obligations. Our Network Innovation Program ($45 million) will allow us to keep pace with a rapidly evolving transformation of the energy system at a time of unprecedented change.

Forecast ($m, real FY 24)



Trend

Lower than in the current 2019-24 period



10-year trend

Our response to the Draft Decision

Cyber security in line with our criticality

$7m

lower than Initial Proposal

Protecting our network from growing cyber threats

Our network is becoming increasingly automated through advancements in operational technology. This helps us sustain recent efficiency gains and unlock other benefits for customers, but also requires prudent cyber security investment in line with growing threats and the criticality of our network.

New innovation funding model

$45m

over 5 years

Adopting an international approach

We propose to limit the cost recovery of our planned innovation program to 90% based on an Ofgem approach where we will fund the remaining 10%. This will amplify the incentives on Ausgrid to select innovation projects that deliver transformative benefits.

Case Study

Project Edith:
Winner of the 2023 Energy Network Industry Innovation Award

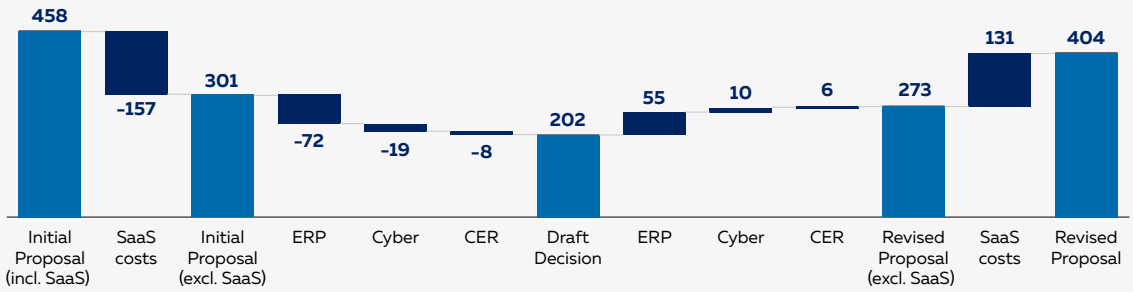
Ausgrid's flagship innovation trial, Project Edith, has been possible as direct result of the AER's approval of the 2019-24 period innovation capex and our partnership with customers via the Network Innovation Advisory Committee (**NIAC**). Project Edith involves working with an aggregator, Reposit, to showcase how distribution networks, through dynamic tariffs and virtual power plants, can unlock more value from CER. It's an award winning project that's already delivering customer benefits.

5.7 Information Communications Technology

Overview

Our revised ICT capex proposal of $404 million (including SaaS costs) will keep our network safe from cyber threats and unlock new capabilities, including the sophisticated billing systems needed to efficiently integrate EVs into our network through innovative tariffs. We have listened to the AER's feedback and made refinements to key projects, like our ERP replacement. As an affordability measure, we propose to maintain SaaS costs as capex in the 2024-29 period at a saving of $2.30 per annum on average off customer bills.

Forecast ($m, real FY24)



Trend

Lower than the current 2019-24 period [16] when our ERP program is excluded

20-year trend

Our response to the Draft Decision

Cyber efficiencies

$21m

lower than Initial Proposal

Highest level of protection at a lower cost

We maintain that the criticality of our network requires the highest level of cyber protection but, in response to the AER's feedback, have embedded productivity improvements within our program that lowers our forecast costs to achieve this outcome.[17]

Responding to AER feedback on our ERP

$24m

lower than Initial Proposal

Refined project costs and timing

In response to AER feedback, our revised forecast removes a 20% contingency and phases the project over a longer period to enhance deliverability and allow time for 'hypercare'.

Updated analysis to support our CER related ICT spend

Additional analysis

We have recalculated the benefits underpinning the dynamic service capabilities in line with AER feedback, including re-calculating benefits based on customer export curtailment values rather than wholesale market benefits.

16 Including SaaS implementation costs.
17 The RCP also raised concerns about the AER's technical consultant's analysis, concluding that it is deficient and unbalanced.

5.8 Fleet, property and capitalised overheads

Overview

The AER's Draft Decision accepted our initial fleet capex forecast ($147 million), which we are not seeking to revise. Regulatory reforms via amendments to the National Electricity Objective (**NEO**) provided a trigger for us to revise our forecast to include EVs. However, we did not have enough time to consult with customers about an updated forecast as required in the AER's Amended NEO Guidance Note, so we have not put one forward.

We have kept our non-network property forecast the same, as approved in the AER's Draft Decision, and only updated our capitalised overheads in line with changes in our direct capex forecast.

Our response to the Draft Decision

Fleet capex **$147m**	 **No new fleet capex for EVs**	We plan to investigate ways to self-fund an ambitious fleet electrification strategy in the 2024-29 period. This will mean that customers receive, at no extra cost, a reduction in emissions from our activities which following a recent amendment to the NEO is now recognised as a market benefit. Our current fleet is one of our largest contributors to Scope 1 emissions.
Non-network property **$145m**	 **Accept AER's Draft Decision**	No updates to our non-network property proposal from the forecast accepted in our Draft Decision.
Capitalised overheads **$732m**	 **Accept AER's method**	We have applied the AER's standard method to forecasting capitalised overheads, with the only updates reflecting changes in direct capex.

6

Our revised opex for the 2024-29 period builds on significant cost reductions implemented since 2015, by reducing our proposed opex by $188m from our Initial Proposal.

6. Operating expenditure

Our revised 2024-29 opex forecast is $2,187 million (excluding debt raising costs), which is $188 million (8%) less than our Initial Proposal or $57 million (2%) on a like for like basis before moving SaaS to capex. We accept key elements of the AER's Draft Decision and have only made minor changes to reflect actual, or more recent information. Where we have disagreed with an aspect of the AER's Draft Decision we have provided additional analysis to support our position. We believe our revised opex forecasts satisfies the requirements of the NER.

6.1 Our response to the AER's Draft Decision

Figure 6.1: Summary of our Response to the AER's Draft Decision

$m, real FY24	Initial Proposal	Draft Decision	Difference to Initial Proposal	Summary of our response	Revised Proposal	Difference to Draft Decision
Base year opex	2,042.8	2,055.0	12.2	**Updated forecast**	2,087.6	32.6
Base year adjustments						
Cost allocation methodology (CAM)	36.7	36.7	0.0	**Accept**	35.0	(1.7)
SaaS	154.7	74.3	(80.3)	**Refined analysis**	0.0	(74.3)
Other adjustments	32.1	(16.4)	(48.4)	**Accept**	(16.4)	0.0
Trend	44.6	39.3	(5.3)	**Accept**	40.1	0.8
Step changes						
Insurance premiums	9.5	0.0	(9.5)	**Refined analysis**	11.3	11.3
Climate resilience	8.4	0.0	(8.4)	**Refined analysis**	5.9	5.9
Smart meter data	24.9	10.7	(14.2)	**Updates to reflect AER feedback**	10.2	(0.5)

18 This assumes SaaS will be treated as capex in the 2024-29 period, as per our proposal below. If SaaS is included in our forecast opex for the 2024-29 period, our revised opex is $57 million lower than our Initial Proposal.

Figure 6.1 **Continued**

$m, real FY24	Initial Proposal	Draft Decision	Difference to Initial Proposal	Summary of our response	Revised Proposal	Difference to Draft Decision
Cyber security	20.6	19.0	(1.6)	**Refined analysis**	18.1	(0.9)
CER integration	10.4	4.6	(5.7)	**Refined analysis**	6.4	1.8
Property strategy	(14.5)	(14.5)	0.0	**Accept**	(15.3)	(0.8)
Category specific forecasts						
Network Innovation Program (NIP)	5.0	0.0	(5.0)	**Refined analysis**	4.5	4.5
Debt raising costs	45.4	45.6	0.2	**Updated forecast**	46.3	0.7
Total	**2,420.5**	**2,254.3**	**166.2**	**Lower than Draft Decision**	**2,233.7**	**(20.6)**

We have listened to the AER's feedback in its Draft Decision and engaged with AER staff on elements of our proposed step changes via pre-lodgement meetings. **Figure 6.2** sets out, at a high level, how we have responded to this feedback and sets out where more information can be found. Further detail on how we've responded to the AER's Draft Decision is set out in **Attachment 6.1**.

Figure 6.2: How we have responded to the AER's Draft Decision

Issue in Draft Decision	Our response in Our Revised Proposal	More information
	Base year	
SaaS implementation costs – benefits from ERP transformation	Our ERP transformation will enable critical peak pricing. In response to AER feedback, our revised forecast removes a 20% contingency and phases the project over a longer period to enhance deliverability and allow time for 'hypercare'. This results in a lower forecast for SaaS implementation totex related to the ERP transformation during the 2024-29 period. We are proposing to continue to treat SaaS as capex, consistent with the historical accounting treatment of these costs for regulatory purposes, as an affordability measure to reduce price impacts on our customers. More information on the impacts in both the 2024-29 period and 2029-34 period are contained in **Attachment 6.1 – Proposed operating expenditure**.	**Att. 6.1 - Proposed operating expenditure**
	Step changes	
Materiality of step changes – insurance premium increases and climate resilience	We disagree with the AER's Draft Decision to reject our insurance and climate resilience step changes on the basis that their expenditure is not 'material'. We understand that when considering materiality in the context of step changes, the AER is assessing whether the costs of the step change are double counted in other elements of the opex forecast.[19] We have provided additional detail to demonstrate that the proposed step changes for insurance and climate resilience are not covered by other elements of our opex forecast.	**Att. 6.1 - Proposed operating expenditure**
Low voltage network visibility – smart meter data	We revisited the forecast step change amount to respond to the AER's feedback and have taken into account the AEMC's Metering Review Final Decision in revising our proposed step change on smart meter data.	**Att. 6.1 - Proposed operating expenditure**
Cyber security maturity uplift to SP-3 maturity	Independent assessment of Ausgrid's critical infrastructure status supports the requirement to achieve and sustain SP-3 cyber security maturity levels. However, in response to the AER's feedback, we have embedded productivity improvements within our program that lowers our forecast costs to achieve this outcome. Our revised forecast amount is $2.5 million lower than the Initial Proposal and $0.9 million lower than the AER's Draft Decision. At the Draft Decision stage, the AER was advised by its technical consultant, EMCa, that Ausgrid should invest in a lower level of cyber protection. We disagree and note that the RCP has provided a report that finds EMCa's views to be largely based on judgement and includes deficient analysis.[20]	**Atts. 6.1 - Proposed operating expenditure** and **5.1 - Proposed capital expenditure**
CER integration – connections processes, benefits estimation	We accept the AER's inclusion of an opex step change for the uplift in our modelling and analytics capabilities and their alternate forecast to improve our connections processes. We have revised our modelling for the dynamic service capabilities aspect of the CER integration step change to address the AER's comments on the modelling assumptions.	**Atts. 6.1 - Proposed operating expenditure** and **5.1 - Proposed capital expenditure**

19 AER (2021), Powercor Distribution Determination 2021 to 2026 Final Decision: Attachment 6 Operating Expenditure, pg 32.
20 Reset Customer Panel, Report on Ausgrid's 2024-29 Revised Proposal, November 2023, p. 24.

Figure 6.2 **Continued**

Category specific forecasts		
Genuinely transformative innovation program	We have updated our Network Innovation Program to respond to the AER's feedback that programs must be 'genuinely transformative'. We have also provided a strong commitment to progressing innovation. In developing our Revised Proposal, we have adopted a partial self-funding approach, which mirrors elements of other regulated frameworks such as the UK's Ofgem. We have also changed these costs to be category specific forecasts in response to feedback from the AER about the nature of the expenditure and basis of the forecast.	**Atts. 6.1 - Proposed operating expenditure** and **5.1 - Proposed capital expenditure**

Figure 6.3: Customer benefits if the AER approves key elements of our Revised Proposal

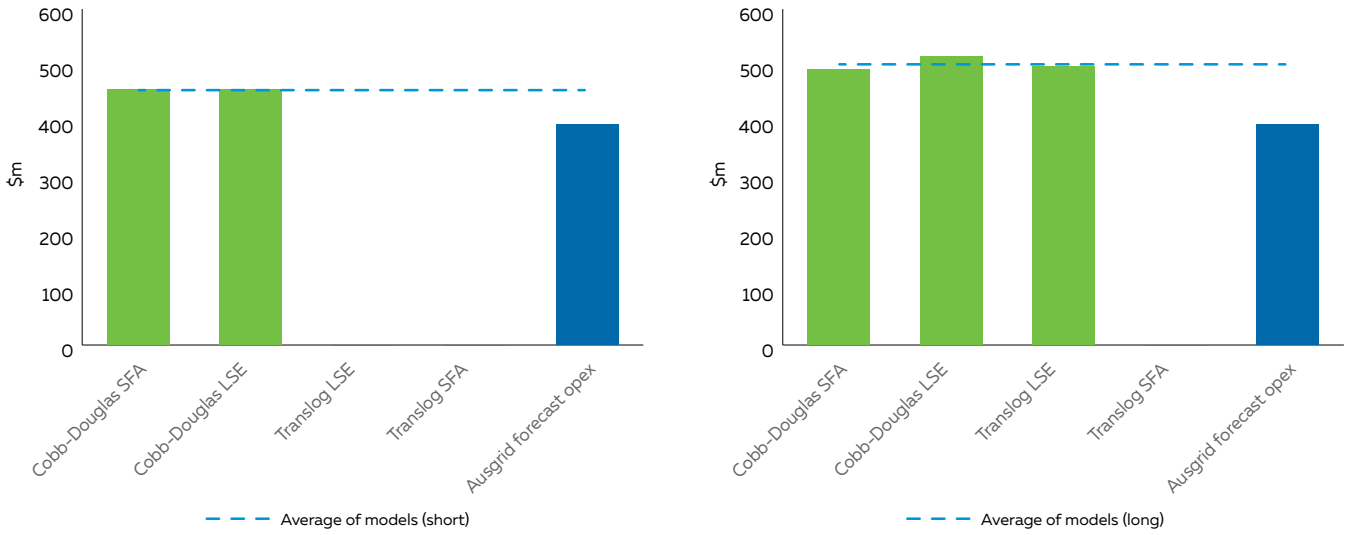
 Enabling small-scale renewables	Our CER program will: • Enable more rooftop solar and EVs (1,420,000 CER assets by 2029); and • Contribute to meeting Australia's emission reduction targets.
 Climate resilience	We will act on the climate science telling us to build greater resilience to the impact of storms, rollout bushfire resistant poles and implement a range of community-based resilience initiatives, including investing to improve bushfire resistance, undertaking a pilot on extreme heat, improving emergency response effectiveness and improving community resilience.
 Cyber security protection	We continue to consider SP-3 the appropriate maturity target based on the criticality of our network and the impact a cyber attack could have on our ability to fulfil our obligations as a distribution network service provider (**DNSP**). We have listened to our customers about cost of living pressures and re-evaluated our costings, resulting in a lower forecast. However, we remain unchanged in our commitment to reach SP-3 in the 2024-29 period.
 Additional affordability measures	We are implementing the following additional affordability measures in our opex forecasts in response to the increased cost of living pressures: • Absorbing cost increases of $14.6 million related to guaranteed service level (**GSL**) payments and employment of more graduates and apprentices • Absorbing $1.7 million in components of our proposed community resilience program; and • Continuing to treat SaaS costs as capex, to smooth costs over longer-term, resulting in a reduction in revenue of around $93 million in nominal terms.

6.2 Base year

We accept the AER's Draft Decision to use our FY23 actual opex as the base year for our opex forecast. We have updated our base year forecast to reflect our actual underlying opex (excluding non-recurrent costs) for FY23, consistent with the AER's standard methodology.[21]

Our FY23 actual opex is comparable to the forecast included in our Initial Proposal, which the AER indicated was not materially inefficient in the Draft Decision.[22] As shown in **Figure 6.4**, our Revised Proposal base year opex compares well with the AER's benchmark comparators.[23]

Figure 6.4: Base year efficiency ($m, real FY24; short period LHS, long period RHS)



21 The AER's standard forecasting methodology, as outlined in the Expenditure Forecast Assessment Guideline, and the AER's Draft Decision, adopts actual operating expenditure as the base year.
22 AER (2023), Ausgrid Regulatory Proposal 2024 to 2029 Draft Decision: Attachment 6 Operating expenditure, pg 11.
23 We note that the AER has made changes to their benchmarking models to address differences in capitalisation practices between DNSPs. Under this revised approach, we rank third on the AER's opex efficiency benchmarking ratings. This changed approach has contributed to our improved performance in the 2023 Annual benchmarking reports. When considering our performance using the AER's previous approach, we ranked seventh. AER (2023), 2023 Annual benchmarking report: Electricity distribution network service providers.

6.3 Base year adjustments

Overview

Our revised base year adjustments of $10.1 million meets the needs of customers and satisfies the requirements in the NER for the AER to approve our opex forecast, because the proposed base year adjustments:

- Are not reflective of ongoing opex requirements, and do not affect our future opex; and
- Take into account changes in accounting practices and cost allocations that affect our future opex.

Our response to the Draft Decision

Lease costs accounting treatment change	**Accept AER's Draft Decision**	We accept the AER's Draft Decision to adjust our base year opex due to the reclassification of ongoing lease costs as capex. Further, we accept the AER's Draft Decision to remove $5.3 million from our forecast opex for the removal of non-ongoing lease costs from forecast opex via a non-recurrent efficiency adjustment.
Updated CAM	**Accept AER's Draft Decision**	We accept the AER's Draft Decision to adjust our base year opex to account for the effect of our new CAM. We investigated an alternate method to forecast the base year adjustment to account for the changes to our CAM, however found that this resulted in a forecast that was not materially different to our Initial Proposal forecast. As such, we have accepted the AER's Draft Decision. Our revised estimate is $1.7 million lower than the Initial Proposal as a result of more recent inflation data and actual FY23 costs.
SaaS	**Additional analysis**	We have undertaken additional analysis to address the AER's concerns on our proposed ICT capex. As a result our SaaS costs have reduced from our Initial Proposal. For our Revised Proposal, we are proposing to continue to treat SaaS costs as capex for regulatory purposes. We are proposing this change as part of our proposed affordability measures for our customers in order to balance our response to driving a faster transition to net zero in line with customers' expectations, with the affordability of our overall Revised Proposal.
Natured induced costs	**Accept AER's Draft Decision**	We accept the AER's Draft Decision to not include a base year adjustment for nature induced costs. In response to information requests from the AER, we provided further information about our year-to-date actual expenditure, which indicated that our actual costs in FY23 were now unlikely to be materially different to the historic average, and a base year adjustment is not required. However, we remain committed to the principle that such a base year adjustment may be required where the impact is more material.

6.4 Step changes

Overview

Our revised step changes of $36.5 million meet the needs of customers and satisfies the requirements in the NER for the AER to approve our opex forecast, because:

- These costs are not captured by other aspects of our opex forecast as explained in **Attachment 6.1**;
- We are absorbing $14.6 million in opex cost increases as outlined in our Initial Proposal, and have committed to absorb a further $2 million in recognition of our customers' affordability challenges;
- Our Revised Proposal includes further analysis that more clearly establishes the causal link between our planned investment and the drivers of the step change expenditure, consistent with the categories in the AER's Better Resets Handbook; and
- Our modelling assumptions supporting our CER program and climate resilience risks have been updated, responding to AER feedback on key inputs.

Our response to the Draft Decision

Insurance premiums **+$11.3m** compared to Draft Decision	 **Additional analysis**	We disagree with the AER's views that the increases in our insurance premium are captured in the non-labour price growth (**CPI**) component of the rate of change. We have provided additional justification for this step change in **Attachment 6.1**, and revised our forecast based on more up to date information around the state of the insurance market.
Climate resilience **+$5.9m** compared to Draft Decision	 **Additional analysis**	We disagree with the AER's Draft Decision position that our proposed resilience expenditure relates to minor increases in BAU expenditure. Our revised forecast provides additional analysis to support our overall climate resilience package (including both capex and opex components), including undertaking sensitivity analysis of key modelling inputs. Our proposed step change includes updated information in **Attachment 6.1** that more clearly establishes that the proposed resilience package is not an extension of BAU activities covered by other elements of our opex forecast, and provides more detail on the causal link between our planned investment and the expected increase in climate risk, considered a major external factor.
Smart meter data **-$0.5m** compared to Draft Decision	 **Additional analysis**	We revisited the forecast step change amount to respond to the AER's feedback and have taken into account the AEMC Metering Review Final Decision, which, when implemented, will allow networks access to basic smart meter data at least daily at no cost. We note there is significant uncertainty around the timing and detail of how this recommendation will be implemented, however our forecast assumes the likely provision of basic smart meter data through the new mechanisms from 1 January 2026.

	Cyber security **-$0.9m** compared to Draft Decision	**AER's Draft Decision**	Independent assessment of Ausgrid's critical infrastructure status supports the requirement to achieve and sustain SP-3 cyber security levels. However, in response to the AER's feedback, we have embedded productivity improvements within our program that lowers our forecast costs to achieve this outcome. We have accepted the AER's Draft Decision on our cyber security step change, due to lower opex associated with the reduction in the cyber security capex program. This funding should enable us to comply with our current regulatory obligations to the Australian Signals Directorate and other government authorities.
	CER **+$1.8m** compared to Draft Decision	**Additional analysis**	We have revised our modelling for the dynamic service capabilities aspect of the CER integration step change to address the AER's comments on the modelling assumptions, and provide further justification to support our proposed expenditure program.
	Property **-$0.8m** compared to Draft Decision	**Accept AER's Draft Decision**	We accept the AER's Draft Decision to include our proposed negative step change in their forecast opex, arising from property sales in the current 2019-24 period that reduce land tax and other costs associated with properties sold. We have updated the forecasts to account for more recent CPI data.

6.5 Category specific forecasts

Overview	Our revised category specific forecast meets the needs of customers and satisfies the requirements in the NER for the AER to approve our opex forecast, because: • The efficient costs for our network innovation program are not provided by other components of our total forecast opex; and • We have adopted a shared-funding approach to delivering the full innovation program, while self-funding the equivalent of 10% of program costs.		
Our response to the Draft Decision	**Innovation** **+$4.5m** compared to Draft Decision	**Additional analysis**	We have updated our innovation program to respond to the AER's feedback that programs must be 'genuinely transformative'. We have also provided a strong commitment to progressing innovation. In developing our Revised Proposal, we have adopted a partial self-funding approach, which mirrors elements of other regulated frameworks such as the UK's Ofgem. We have also changed these costs to be category specific forecasts in response to feedback from the AER about the nature of the expenditure and basis of the forecast.

7

Our Revised Proposal includes incentive schemes that cover expenditure, service performance, customer service and demand management.

7. Incentive schemes

Our customers will benefit from each of the incentive schemes that will apply during the 2024-29 period:

- The EBSS and the CESS each give our customers about 70% of any cost reductions we can achieve;[24]
- The Service Target Performance Incentive Scheme (**STPIS**) gives us an incentive to improve our reliability;
- We proposed a new CSIS which we have designed through close customer engagement to further deliver customer service improvements; and
- The demand management incentive scheme (**DMIS**) and DMIAM encourage us to implement lower-cost, non-network solutions consistent with our customers' expectations.

We accept the AER's Draft Decision on the application of the EBSS, CESS, STPIS, CSIS, DMIS and DMIAM in the 2024-29 regulatory period.

In the following sections we provide an overview of how we have responded to key issues raised in the AER's Draft Decision.

7.1 EBSS

We accept the AER's Draft Decision to apply version 2 of the EBSS in the 2024-29 period. We also accept the AER's Draft Decision to apply the adjustments in the current version of the EBSS,[25] and exclude the following cost categories from the calculation of efficiency gains or losses for the EBSS reward or penalty:

- Debt raising costs;
- Movements in provisions related to opex;
- Project costs under the DMIAM; and
- Network innovation program opex.

7.2 CESS

We accept the AER's Draft Decision to apply the CESS in the 2024-29 period, as set out in the updated capital expenditure incentives guideline.[26] We have responded to specific issues around exclusion of certain cost categories raised in the AER's Draft Decision in **Figure 7.1**.

24 The updates to the AER's CESS Guideline in April 2023 include that the sharing factor under the CESS may not necessarily be 30% - a lower sharing factor of 20% will be applied to any underspend amount greater than 10% of the approved forecast capex allowance.
25 AER (2013), Efficiency Benefit Sharing Scheme for Electricity Network Service Providers, clause 1.4.
26 AER (2023), AER - Final decision - Capital expenditure incentive guideline, pp. 3–9.

Figure 7.1: How we have responded to the AER's Draft Decision

Issue in Draft Decision	Our response in Our Revised Proposal
Exclusion of distribution management system (**ADMS**), cyber security and innovation costs from the CESS	We note the AER's Draft Decision that it does not consider CESS at a transactional level because it would be "inconsistent to pre-determine which projects or programs to exclude from the CESS when the forecast is determined at the total level".[27] We maintain our Initial Proposal view that ADMS, cyber security and innovation capex should be excluded from the CESS as a result of the forecasting uncertainty associated with these programs, and to minimise the risk of being rewarded with a CESS increment if we were to underspend the allowance for these programs. However, we have not included these proposed exclusions from the CESS in our Revised Proposal.
Treatment of compulsory acquisition of assets under the CESS	We do not agree with the AER's proposal that Ausgrid forgo the full amount of the CESS associated with the compulsory acquisition of Bligh Street. We note the unusual circumstances of this property disposal. However, we have concerns with excluding specific cost categories on an ex-post basis. Doing so could create precedent for future ex-post exclusions on a project or cost-category basis, which is inconsistent with the CESS principles and CESS Guideline: • The CESS Guideline includes limited ex-post exclusions for inefficient or imprudent expenditure or deferred expenditure and does not contemplate exclusions in these circumstances; • The AER itself notes that it is inconsistent to exclude projects or programs from the CESS when the forecast is determined at the total level;[28] and • Applying ex-post exclusions for these circumstances could impact on the incentives and outcomes the CESS is seeking to achieve and it would effectively change the sharing factor on an ex-post basis. We consulted with the RCP on the treatment of compulsory acquisition of assets under the CESS. The RCP acknowledged our right to not exclude this amount from the CESS as would be inconsistent with the principles of the scheme to operate at an overall level, consistent with how the capex allowance was determined.

7.3 STPIS

We accept the AER's Draft Decision to apply the STPIS 2.0 for the 2024-29 period without the customer service parameter.

We have updated our STPIS incentive rates, reliability performance targets and historical reliability performance to take into account our actual performance in FY23 in line with the AER's 2018 version of the STPIS.[29] This information is set out in **Figures 7.2** to **7.4** below.

27 AER (2023), Final decision – Ausgrid 2019-24: Attachment 9 – Capital expenditure sharing scheme, pg. 8.
28 AER (2023), Final decision – Ausgrid 2019-24: Attachment 9 – Capital expenditure sharing scheme, pg. 8.
29 AER (2018), Service Target Performance Incentive Scheme v 2.0 - updated 13 December 2018.

Figure 7.2: STPIS Incentive rates

	System Average Interruption Duration Index (SAIDI) incentive rate	System Average Interruption Frequency Index (SAIFI) incentive rate
CBD	0.0035	0.7969
Urban	0.0698	5.4082
Short rural	0.0099	0.9120
Long rural	0.0001	0.0175

These incentive rates are based on the formula specified in the Explanatory Statement to the AER's 2018 STPIS.[30] As required, we have based our reliability targets (see **Figure 7.3** below) on an average of our last 5 years of historical reliability performance (**see Figure 7.4**).

Figure 7.3: Proposed reliability performance targets for the 2024-29 period

	SAIDI target (minutes)	SAIFI target (interruptions)
CBD	13.015	0.038
Urban	64.719	0.557
Short rural	128.943	0.930
Long rural	841.322	2.270

Figure 7.4: Historical reliability performance

		FY19	FY20	FY21	FY22	FY23	Average
SAIDI	CBD	24.863	3.625	18.817	6.081	11.689	**13.015**
	Urban	65.788	80.953	60.769	63.129	52.958	**64.719**
	Short rural	131.674	160.629	130.013	130.500	91.899	**128.943**
	Long rural	465.903	652.528	614.097	1564.725	909.354	**841.322**
SAIFI	CBD	0.112	0.005	0.019	0.009	0.046	**0.038**
	Urban	0.603	0.637	0.518	0.554	0.471	**0.557**
	Short rural	1.041	1.013	0.875	0.929	0.793	**0.930**
	Long rural	2.222	2.054	2.010	2.041	3.020	**2.270**

30 AER (2018). Explanatory Statement - Amending the Service Target Performance Incentive Scheme (STPIS) and establishing a Distribution Reliability Measures Guideline (DRMG).

7.4 CSIS

Since the Draft Decision, which accepted our proposed CSIS, we have further consulted on our proposed CSIS with the RCP, as suggested in the AER's Draft Decision. We provided an update to the RCP on changes to our measurement methodology following findings from an internal audit. We also provided an update on our baseline performance since to 30 September 2023.

Our proposed CSIS aims to drive improvements in our service delivery performance and to focus on areas of service that our customers have told us they most value improvement in. Under this symmetrical scheme, we risk losing up to $43 million in regulated revenue over the 2024-29 period if our performance deteriorates in key service areas over the period or could be rewarded for up to $43 million in regulated revenue if we improve our performance.

The revisions to our CSIS in response to the AER's Draft Decision and additional customer feedback is summarised in **Figure 7.5** below. More detail on our revised CSIS is in **Attachment 7.1: Proposed 2024-29 CSIS**.

Figure 7.5: Summary of changes to our CSIS

Customer Engagement	**~ 7 hours** **of customer engagement with our VoC Panel since our Initial Proposal**		Customers have told us that they are supportive of the inclusion of all four of Ausgrid's proposed metrics in the CSIS. Customers would like us to change our approach to setting incentives so that rewards for smaller improvements are lower and greater rewards are available for larger improvements.
Our response to the Draft Decision	**Proposed CSIS metrics**	**Accept AER's Draft Decision**	We accept the AER's Draft Decision approving our proposed CSIS design, including our proposed metrics of planned outage service ease (urban), planned outage service ease (regional), website satisfaction and connection timeframes.
	Measurement methodology / setting targets	**Latest information**	We have updated our targets for more recent performance data, as set out in **Attachment 7.1**. We are proposing a change to the data source used to set the target and measure the connections project timeframe metric to address an issue identified with the data through an audit of our baseline data.
	Revenue at risk	**Additional analysis**	We have updated our approach to split our revenue at risk equally across our three focus areas to better reflect how metrics are set and used elsewhere in our business.
	Incentive rates	**Additional analysis**	We have updated our approach to setting incentive rates in **Attachment 7.1** to address the feedback we received from our customers. Our proposed incentive rates will be non-linear and will increase (or decrease) as our performance improves (or declines).

7.5 DMIS and DMIAM

We accept the AER's Draft Decision to apply the DMIS and DMIAM for the 2024-29 period. The DMIS and DMIAM will help us to identify more efficient alternatives to building new infrastructure and provide funding to test new demand management options.

8

Full details of our tariff proposal can be found in our Revised Tariff Structure Statement (TSS) Compliance Paper and Our Revised TSS Explanatory Statement for 2024-29.

8. Network tariffs

In the TSS Explanatory Statement, we outline how we see the role of the distribution network changing to facilitate these priorities, support the transition to net zero and enable greater customer choice.

The revised TSS Explanatory Statement (**Attachment 8.2**) provides information on our pricing reforms and tariff innovation to support our TSS compliance document (**Attachment 8.1**). Our TSS compliance document demonstrates how Ausgrid's proposed network tariffs for the 2024-29 period comply with the requirements of the NER, and the AER's Export Tariff Guidelines.

8.1 Our proposed pricing reforms for 2024-29

We have developed a set of pricing reforms that respond to the changes and opportunities in the energy sector in the 2024-29 period, and reflect what we heard from our customers and communities. The revised TSS compliance document and TSS Explanatory Statement respond to the AER's Draft Decision and include further information on:

- Our embedded network tariffs and stakeholder consultation;
- Our pricing approach for individually calculated tariffs;
- Our tariff assignment for medium business customers;
- Our import long run marginal cost (**LRMC**) in areas where demand is falling;
- How our controlled load and trial tariffs can be used for EV charging; and
- How the AER's Draft Decision on our ERP project impacts tariff innovation and reform.

Our key proposals are outlined in **Figure 8.1** and describe what has changed since the publication of our Initial Proposal and the AER's Draft Decision. Each reform is discussed in detail in **Attachment 8.2**.

Figure 8.1: Proposed pricing reforms from 1 July 2024

Reform	What and why	What has changed since the Initial Proposal
Tariff streamlining	Withdraw 10 network tariffs that are very similar to other tariffs, or have few or no customer assigned to them. This will increase the likelihood of our tariff offerings being passed through by retailers or responded to by market aggregators.	We seek to amend our Initial Proposal and assign customers on introductory ToU (EA011/EA051) to the introductory demand tariffs (EA111/EA251) for 12 months, before the assignment to "standard" demand tariffs. This amendment will improve the customer experience when moving to demand tariffs and has been triggered as a result of feedback from a retailer.
Export tariffs	Introduce opt-in export pricing for small customers in July 2024, and make it the default assignment for new and existing small customers on time of use (**TOU**) tariffs and demand network tariffs who are export capable from July 2025.	In response to the AER's Draft Decision, we have published an export tariff factsheet, which includes case studies, bill impacts and worked examples for this new pricing structure (**Attachment 8.14**). We amended our assignment policy for the export tariff so that it only applies to customers who are export capable. The tariff code was also updated to EA029. At the VoC meeting on 21 October 2023 we presented our customer export tariff factsheet for feedback and comment. Customers wanted the factsheet to be simpler and clearer and describe how customers could benefit from the reward price. The factsheet has been amended to include this feedback, including shortening it to two pages in length.

Figure 8.1 Continued

Reform	What and why	What has changed since the Initial Proposal
Sub-threshold (trial) tariffs	Ausgrid currently has several sub-threshold tariffs available for retailers. These trial tariffs examine customer responses to innovative pricing structures such as critical peak prices, different time-of-use periods, and reward-based export tariffs.	We plan to introduce a local use of system (**LUOS**) sub-threshold tariff in July 2024. This tariff will test whether incentives for customers located near a community battery will encourage participation in a related retailer product.
Small customer tariff assignment	The tariff assignment policy in our Initial and Revised Proposals allow small customers moving to demand tariffs to access introductory demand tariffs (EA111 and EA251) for 12 months.	As outlined in the Draft Decision, we confirm that the 12-month transitional demand tariff will be available to any customers whose meters may be upgraded due to a smart meter acceleration rule change.
Embedded network pricing	Introduce 3 tariffs for embedded networks (**ENs**) with medium or large annual energy usage with a five-year transition period. These will be the default tariffs for new and existing ENs connected to our network from 1 July 2024.	In response to the AER's Draft Decision, we have included further details of our stakeholder engagement on EN tariffs, commentary on the proposed tariff component structure, and published a model estimating the extent of the tariff arbitrage (**Attachment 8.13**). We have also considered whether any network costs are avoided as a result of ENs, and whether this could be reflected in our proposed tariffs.
Utility scale storage	Introduce tariffs for utility scale storage facilities connected at sub-transmission, high and low voltage parts of our network. This will enable storage projects to connect to our network where there is existing capacity and reduce network charges for other customers by contributing to residual revenue.	We have amended the tariff codes for the proposed storage tariffs and renamed the "N reliability measure" as the "network reliability measure". The AER's Draft Decision on the ERP upgrade provides for only $18 million (instead of the proposed $149 million). Without the full ERP upgrade we consider it is unlikely we will have capability to apply these tariffs on a locational basis in the 2024-29 period.
Business customer tariff assignment	Lift the lower usage threshold at which capacity charges apply from 40 MWh to 100 MWh. This change will align with the NSW ombudsman scheme and the *National Energy Retail Law Regulation 2020 (NSW)* definition of a small customer. It will also improve available options in our tariff assignment process for small business customers.	In response to stakeholder feedback we are proposing to allow more customers to access demand and TOU tariffs. We have included further commentary to support this change in the TSS Explanatory Statement (**Attachment 8.2**). We have also removed the "100 amp" rule to avoid inconsistency with this change.
Controlled load	Change the switching times for controlled load devices to allow customers to use these devices during the daytime, when solar customers are exporting to the grid. This proposal will encourage soaking of solar exports during the day, improve network utilisation, and potentially reduce greenhouse gas emissions, improving pricing efficiency and supporting the transition to net zero.	Amended our assignment policy for the new switching times so that they are only available for customers with capable metering.

Figure 8.1 Continued

Reform	What and why	What has changed since the Initial Proposal
Charging windows	Move our peak period window to later in the day for customers on TOU and demand/capacity network tariffs, and extend it to weekends for residential customers. These changes will ensure our peak charges accurately signal the periods when these customers' energy use impose the highest costs on the network, improving pricing efficiency and fairness.	No changes to our Initial Proposal

8.2 Transitional arrangements

To help implement these reforms we are proposing transitional arrangements, which mostly apply in the first one or two years of the 2024-29 period, depending on the measure. By the end of the 2024-29 period, our overall tariff strategy will include the following core features:

- All customers with a smart meter are assigned to a cost reflective network tariff;
- Cost reflective tariffs are available for utility scale storage facilities;
- All customers on TOU, demand or capacity tariffs have simpler tariffs – with only two charging windows, peak and off-peak;
- All residential and small business customers are assigned to modest export pricing arrangements – incorporating both charges and rewards depending on the time of export; and
- All embedded network connections connected to the low voltage (**LV**) network (with annual consumption >160 MWh) or connected to the high voltage (**HV**) network are assigned to embedded network tariffs.

8.3 Energy affordability and bill impacts

After a period when our customers saw their bills go down, a range of factors are now putting upward pressure on the costs of supplying electricity, and thus on its affordability for our customers. These factors are largely outside of Ausgrid's control or affect the non-network components of electricity bills. For example:

- Rising interest rates and higher inflation are increasing our network costs, as well as the overall cost of energy supply, while also increasing our customers' cost of living;
- Disruptions in the energy supply chain due to gas shortages and an aging fleet of coal fired power stations are driving up the generation component of bills; and
- Significant investments in transmission infrastructure are expected to increase the transmission component of bills.

As explained in Our TSS Explanatory Statement (**Attachment 8.2**), we are proposing a number of key changes to reform our standard tariff offerings for the 2024-29 period in response to the changes and opportunities ahead for the energy sector, and to what we are hearing in our engagement with our customers and communities. Many of our proposed pricing reforms also aim to support an affordable transition by giving our customers choice and control over their energy services and bills.

The full details of the bill impacts (by tariff) are included in **Attachment 8.3**. We have also included the customer network bill impacts for each of the main pricing reforms within the TSS Explanatory Statement (**Attachment 8.2**).

8.4 Alternative control services

Detail on Alternative Control Services (**ACS**) can be found in Chapter 9 and **Attachment 9.1 - Alternative Control Services**.

9

Our ACS include public lighting, metering and ancillary network services.

9. Alternative control services

Our ACS include metering, ancillary network services (**ANS**) and public lighting. We substantially accept key elements of the AER's Draft Decisions for metering and public lighting. For ANS, where we do not agree with an aspect of the AER's Draft Decision we have provided additional analysis to support our position.

9.1 Metering services

We substantially accept the AER's Draft Decision on our basic metering services.

In its Draft Decision the AER suggested that DNSPs may consider reclassifying basic metering services as SCS, and subsequently provided guidance on how to implement the change. The intended policy outcome of reclassifying metering services is to minimise customers facing inequitable costs as the number of basic meters declines.

The AER's Draft Decision to merge the capital and non-capital components of our metering charges in the 2024-29 period, which Ausgrid supports, addresses this situation without moving to a SCS classification. Under this new charging structure, customers with a basic metering service as of 1 July 2024 will continue paying a single basic metering charge, even if they switch to a smart meter. This continued payment throughout the 2024-29 period means that the last remaining customers will not be put in a situation where they, alone, are left paying for a basic meter service with rising diseconomies of scale.

We have maintained the 'building block' approach to develop our proposed metering prices, in line with AER guidance and our 2019-24 determination. This involves forecasting the revenue required to fund our basic metering service and then translating this amount to prices based on our forecast of customer numbers. We substantially accept the AER's Draft decision as it applies to Ausgrid's building block approach, however we have included a step change to reflect outcomes from the AEMC Metering Review Final Report.

More detail is contained in **Attachment 9.1 – Alternative Control Services**.

9.2 Ancillary network services

We have accepted the AER's Draft Decision to reduce the labour rates for three of the six labour categories.

We have proposed to adopt the AER's benchmark labour rates, updated for revised escalation rates, and proposed minor amendments to the definitions for two of our ANS connection services, as follows:

- Ausgrid proposes to adopt the AER's benchmark labour rates for all six labour categories. If the AER benchmark labour rates are considered appropriate for administrative officers, technical specialists and field workers, it follows that the appropriate labour rates for engineers, senior engineers and engineering managers are also the AER's benchmark rates for those labour categories.
- Labour rates have been increased to reflect revised labour escalation data, provided by our consultants Oxford Economics (see **Attachment 9.6 – Real labour escalation report**). This has increased the average labour rate for ANS by 0.03% from the Draft Decision benchmark labour rates.
- Ausgrid proposes to amend the description for the "Disconnection completed – Includes reconnections" by removing "rotate plug in meter" as one of the disconnection methods. This will allow this service to again be provided by non-electrical qualified technicians following changes to the technical requirements.
- Ausgrid proposes to amend the description for "Disconnection completed Technical/advanced– Includes reconnection" to provide greater flexibility for the qualified electrician assigned to the job to select the most appropriate disconnection method for the premises.

Further information on the revised labour rates and descriptions for ANS is provided in **Attachment 9.1 – Alternative Control Services** and a copy of the Oxford Economics report is provided at **Attachment 9.6 – Real labour escalation report**. Our full price list for ANS is provided in **Attachment 8.8 – Indicative Pricing Schedule - ACS**.

9.3 Public Lighting

Ausgrid substantially accepts the AER's Draft Decision on public lighting, noting that this was based on a revised pricing model that Ausgrid submitted in response to the AER's information request and further consultation with LGAs, who are our primary public lighting customers.

Our Revised Proposal incorporates the following changes (relative to the Draft Decision):

- The labour rate for Field Worker R4 has been updated for revised real labour escalation, which increased the labour rate by 0.5% relative to the Draft Decision;
- The CPI for FY26 – FY29 has been updated to reflect the approach adopted by the AER for the Draft Decision. The AER adopted their lagged CPI approach and this was reflected in the CPI value for FY25 in the Draft Decision pricing model. However, the updated inflation was not carried through to the remaining years (i.e. FY26 – FY29) in the Draft Decision model;
- Proposed post-July 2009 prices for smart controller maintenance and capex charges have been reduced to reflect contractual prices for the smart controllers and refined estimates for maintenance; and
- Ausgrid proposes to adopt the weighted average prices for luminaire maintenance and the capital costs of brackets. LGAs have been consulted on this approach and are supportive weighted prices because it reduces the fee categories (i.e. is simpler) and there are no material impacts on any one LGA.

Ausgrid continues to engage with public lighting customers on the option of adopting accelerated depreciation for pre July 2009 assets. We have also offered upfront capital contributions for those LGAs who wish to fund the capital costs upfront.

Further information on public lighting services is provided in **Attachment 9.1 – Alternative Control Services**. Our full price list for public lighting services is provided in **Attachment 8.8 – Indicative Pricing Schedule - ACS**.

10

This section discusses Ausgrid's proposed approach for other regulatory matters including service classification, pass throughs and control mechanisms.

10. Other regulatory items

10.1 Service classification

Ausgrid proposes that the AER use its discretion to review and amend its July 2022 Framework and Approach (**F&A**) decision due to the rate of change in policy developments, in particular the AEMC's Metering Review since our Initial Proposal. We are proposing two streams for the AER to consider and accept. The first, which we consider capable of acceptance is in response to the AER's Draft Decision and consistent with our Initial Proposal (**Section 10.1.1**).

The second reflects the broader pace of change since our Initial Proposal and requires a step change in current DNSP service classification mindset to enable future regulations for networks to be a platform for electrification to achieve government policy and net zero targets within the 2024-29 period (**Section 10.1.2**).

Further justification is provided in **Attachment 10.1 - Service Classification**.

10.1.1 Draft Decision Response

Ausgrid's proposed updates to our service classification in response to the AER's Draft Decision are consistent with our request for a new F&A, and the AEMC's Metering Review. **Attachment 10.1** includes a high level table with the proposed amendments to our service classification list and the rationale for these updates to our service classification in the following areas:

- **Metering services** – amendments to enable NSW DNSPs to respond to state policy or final rule changes in response the AEMC's Metering Review and NSW Government's Check Up report;
- **Future energy services** – amendments to distribution asset rental to include leasing out excess battery capacity and including EV charging in examples of rental of distribution assets; and a new unregulated distribution service for essential system services to provide contestable system support services to AEMO; and
- **Data services** – amendments for new drafting on sharing standard data and existing drafting on non-standard customer requested third party data, in response to the AEMC's Metering review providing free basic power quality data to DNSPs.

Ausgrid collaborated with Endeavour Energy and Essential Energy to propose a common approach as far as possible for NSW DNSPs for these proposed amendments.

10.1.2 Future regulation – networks as a platform for electrification

While **Section 10.1.1** responds to service classification within the confines of the current regulatory framework, this section responds to the rapid rate of change and urgency for a least-cost net zero transition towards electrification that meets jurisdictional targets. **Section 3** in **Attachment 10.1** highlights how distribution networks can contribute to the energy transition in a way that benefits customers and the net zero transition and how the regulatory framework could develop to facilitate a greater role for networks.

We have not included any additional expenditure or service offerings for this section as its aim is to identify the necessary paradigm shift in regulatory frameworks required for the AER to be able to consider any incremental expenditure in these areas.

10.2 Cost pass throughs

We proposed four nominated events in our Initial Proposal. The AER accepted that each of these events are consistent with the nominated pass through event considerations in the NER. However, the AER's Draft Decision did not accept the wording of our proposed natural disaster event definition.

We maintain our Initial Proposal stance that the definition for a natural disaster event in the 2024-29 period should read:

> ***Natural disaster events will include**, but may not be limited to, **natural disasters declared by a relevant government authority**. Where a government authority has made a declaration that a natural disaster has occurred, the **temporal and geographic scope** of the natural disaster event will be **defined by reference to the terms of that declaration**.*

Our proposed wording provides a clear mechanism for defining a natural disaster event by elevating how the AER currently considers natural disaster declarations made by a government authority. NSW Government declarations state the timing of the event and the impacted LGAs.[31] Using this information, the AER can clearly define the temporal and geographic boundaries of a natural disaster event, without having to investigate meteorological data or other scientific information.

We outline our reasoning in more detail in **Attachment 10.2**.

10.3 Control Mechanism

10.3.1 Revenue cap for standard control services

The AER's Draft Decision maintains the same revenue cap control formulae for standard control services as published in the final F&A for Ausgrid.[32] The AER's Draft Decision defines the I, B, C and X factors, which are largely consistent with the definitions in our current control mechanism, with the following adjustments:

- Incorporating the CSIS and Export Service Incentive Scheme as part of the I factor;[33] and
- Adjusted the presentation of the calculation and definition of the B-factor to include any other bespoke adjustments that the AER may specify or that currently exist.

We accept the revenue cap control formula provided in the AER's Draft Decision and have applied the formula in setting prices for the 2024-29 period.

10.3.2 Side constraint

On 17 November 2022, the AER released its final position paper to review the application of the side constraint mechanism.[34] This paper sets a single mechanism to be applied in all DNSPs' determinations to ensure consistent interpretation and application of the side constraint. The AER's Draft Decision applied this revised side constraint mechanism. Consistent with the AER's Draft Decision, we will apply the new side constraint formula in annual distribution network price proposals for the 2024-29 period.

10.3.3 Alternative control services

The AER's Draft Decision maintains the same price cap formulae for alternative control services as published in the final F&A for Ausgrid.[35] We do not propose any changes to the formula provided in the AER's Draft Decision and have applied the formula in setting prices for alternative control services for the 2024-29 period.

31 NSW Government (2023). Natural Disaster Declarations.
32 AER (2022), Framework and Approach – Ausgrid, Endeavour Energy and Essential Energy (New South Wales) Regulatory control period commencing 1 July 2024, pg 37-39.
33 We have included the Export Services Incentive Scheme as part of the I factor in the control mechanism to be consistent with the AER's Draft Decision formula, even though no Export Services Incentive Scheme will apply to Ausgrid during the 2024-29 period.
34 AER (2022), Annual pricing process review - Final position paper - Side constraint mechanism.
35 AER (2022), Framework and Approach – Ausgrid, Endeavour Energy and Essential Energy (New South Wales) Regulatory control period commencing 1 July 2024, pg 39-40.

Glossary

2024-29 period – 2024-29 regulatory control period
ACS – Alternative Control Service
ADMS – Advanced Distribution Management System
AEMC - Australian Energy Market Commission
AEMO – Australian Energy Market Operator
AER – Australian Energy Regulator
ANS - Ancillary network services
BAU – Business-as-usual
capex – Capital expenditure
CAM - Cost Allocation Method
C&I - Commercial and Industrial
CECV – Customer Export Curtailment Values
CER – Customer Energy Resources
CESS – Capital Expenditure Sharing Scheme
CPI - Consumer Price Index
CSIS – Customer Service Incentive Scheme
DER – Distributed energy resources (now commonly referred to as CER)
DMIAM – Demand Management Innovation Allowance Mechanism
DMIS – Demand Management Incentive Scheme
DNSP – Distribution Network Service Provider
EBSS – Efficiency Benefit Sharing Scheme
EN - Embedded Network
ERP – Enterprise Resource Planning
ESOO – Electricity Statement of Opportunities
EV – Electric Vehicle
F&A – Framework and approach
GSL – Guaranteed Service Level
HV - High voltage
ICT – Information, communications and technology
LGA – Local government area
LRMC - Long run marginal cost
LUOS - Local use of system
LV - Low voltage
LHS – Left hand side
NEM – National Electricity Market
NEO – National Electricity Objective
NER – National Electricity Rules
NIAC – Network Innovation Advisory Committee
NIP – Network Innovation Program
opex – Operational expenditure
OT – Operational Technology
OTI – Operational Technology and Innovation
PWG – Pricing Working Group
RAB – Regulated Asset Base
RBA – Reserve Bank of Australia
RCP – Reset Customer Panel
repex – Replacement expenditure
RHS – Right hand side
SaaS – Software as a Service
SAIDI – System Average Interruption Duration Index
SAIFI – System Average Interruption Frequency Index
SCS – Standard Control Service
SP-3 - Security Profile 3
STPIS – Service Target Performance Incentive Scheme
STS - Sub-transmission substation
SOMP - Statement on Monetary Policy
TSS – Tariff Structure Statement
TNSP – Transmission Network Service Provider
totex – Total expenditure
TOU – Time of use
VoC – Voice of Community

Ausgrid

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