Final Decision

Ausgrid Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Overview

April 2024

AUSTRALIAN ENERGY REGULATOR

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This Overview forms part of the AER's final decision on the distribution determination that will apply to Ausgrid for the 2024–29 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. In these circumstances, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following documents:

Executive Summary

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

A regulated network business must periodically apply to us to determine the maximum allowed revenue it can recover from consumers for using its network. On 31 January 2023 we received a revenue proposal from New South Wales (NSW) electricity distribution network service provider Ausgrid, for the period 1 July 2024 to 30 June 2029 (2024–29 period).

This final decision is the conclusion of over two and half year's work to determine what Ausgrid can recover from its customers in the 2024–29 period.

On 29 October 2021, Ausgrid formally requested we revise its Framework and approach (F&A) paper. The F&A is responsible for determining which services we will regulate, and why, and the broad nature of the regulatory arrangement. Our final decision on Ausgrid's F&A was published in July 2022.

Ausgrid states that its initial proposal, submitted on 31 January 2023, was shaped by extensive consultation with its customers and stakeholders over its 18-month engagement program. It had been guided by the Better Resets Handbook (the Handbook) and, while not on the early signal pathway, worked to develop an initial proposal that reflects consumer preferences and is capable of being accepted.[1]

In March 2023, our Issues paper highlighted key elements of Ausgrid's proposal, based on our preliminary review that we considered likely to be the focus of our assessment. We also highlighted that additional factors impacting the Australian economy may affect Ausgrid's total revenue for the 2024–29 period. In particular, that there has been increases in interest rates and inflation over the 2019–24 period.

We held a public forum in April 2023, to assist stakeholders in their consideration of Ausgrid's proposal, and received a number of submissions prior to publishing our draft decision on 28 September 2023.

Our draft decision acknowledged Ausgrid has provided a good quality proposal, which it developed through a robust engagement process. However, we did not accept elements of Ausgrid's proposal, including proposed capital and operating expenditure (capex and opex), and its tariff structure statement.

Ausgrid responded to our draft decision in its revised proposal, submitted 30 November 2023. Interested stakeholders were invited to provide submissions on our draft decision and Ausgrid's revised proposal.

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1 Ausgrid, *2024–29 Regulatory Proposal*, 31 Jan 2023, pp. 5, 14.

Our assessment has been balanced so that consumers only pay for what is necessary and in their long term interests. When we undertake our expenditure assessments, we consider whether or not we are satisfied that proposed expenditure reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs (the capex and opex criteria).[2] We must make our decision in a manner that will, or is likely to, deliver efficient outcomes in terms of the price, quality, safety, reliability and security of supply, and to achieve targets for reducing Australia's greenhouse gas emissions that benefit consumers in the long term (as required under the NEO).[3]

In practice, this has involved us applying our various analytical tools, such as the replacement capital expenditure (repex) model and economic benchmarking for opex, scrutinising the business cases and supporting information provided by the businesses, and having regard to the advice provided by our expert consultants. In addition, our findings have been informed by the various stakeholder submissions we received, and the information on consumer preferences and priorities elicited through the consumer engagement processes of the businesses and from our Consumer Challenge Panel.

We have assessed that the majority of expenditure Ausgrid proposed has likely to deliver these efficient outcomes and is therefore in the long term interests of consumers.

Our final decision on Ausgrid's revised proposal

Our final decision is that Ausgrid can recover $9,980.9 million ($nominal, smoothed) from consumers over the 2024–29 period. This is $295.5 million (3.1%) more than Ausgrid's revised proposal, and $361.3 million (3.8%) more than our draft decision. The increase in overall revenue in this final decision compared to Ausgrid's revised proposal is mainly driven by our final decision on a higher forecast opex amount and for updates in data related to external economic factors, such as a lower expected inflation rate (which increases the regulatory depreciation building block) and a higher forecast rate of return.

For illustrative purposes, we estimate that the total revenue from this final decision would result in an average increase of $14 per annum to the average electricity bill for Ausgrid residential customers over the 2024–29 period. For small business customers, the impact would be an increase on average of $38 per annum. Ausgrid sought to address affordability in its revised proposal by reducing proposed expenditure in areas such as repex and by deferring other areas of expenditure such as extending its Enterprise Resource Planning program spend into the 2029–34 period, and spreading out planned resilience investments over multiple regulatory periods.

While affordability has been a strong driver of Ausgrid's revised proposal, it has also continued to focus on investments it had identified as priority areas for its customers. This included investments such as climate and cyber resilience, innovation, and consumer energy resources (CER) integration programs.

Our final decision does not accept Ausgrid's revised proposal capex forecast of $3,069.4 million ($2023–24). Our final decision is to substitute our alternate forecast of $2,882.7 million, a reduction of 6.1% to Ausgrid's revised proposal capex forecast. Our

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2 National Electricity Rules (NER), cl.6.5.6(c) and cl. 6.5.7(c).

3 National Electricity Law (NEL), ss. 7, 16(1)(a).

alternative forecast accepts most of its recurrent expenditure forecast which makes up the majority of the total capex forecast.

We have not accepted Ausgrid's forecast in full largely because of the differences in our forecasts in new and emerging areas of capex - climate resilience, CER and its innovation program. We are cognisant of the uncertainty in forecasting expenditure in these areas, and appreciate the constructive engagement we had with Ausgrid post submission of its revised proposal which assisted in narrowing areas of contention. In response to our draft decision, Ausgrid provided further supporting information and submitted lower forecasts, especially in the areas of non-recurrent information and communication technologies (ICT) and cyber security. As a result, we are able to accept more of Ausgrid's expenditure in these areas than we were at the draft decision stage.

For Ausgrid's climate resilience proposal, we recognise the need for investments by networks to better manage extreme weather events and the projected increase in climate related risk. We also acknowledge Ausgrid's commitment to adhere to our guidance note on climate resilience and to engage with its stakeholders on this issue. We especially note Ausgrid's efforts to work with local communities to better understand their preferences. In this regard, we have accepted Ausgrid's forecast for its community resilience program.

We note Ausgrid's investment in different models to support its proposal. We accept the climate modelling underpinning it. But we had concerns with Ausgrid's modelling of the network impact from a projected expected increase in climate risk. We found that Ausgrid did not provide sufficient evidence to support its premise that its network will be materially impacted from windstorms to justify a total expenditure investment of $90.4 million. For remaining parts of its climate resilience proposal, we found a lack of supporting cost benefit analysis. Given these concerns, we were not satisfied that Ausgrid's proposed climate resilience investment is prudent and efficient, and have included an alternative forecast of $41.6 million for its climate resilience program in the total capex forecast.

For its Network Innovation Program, we acknowledge the need for ex-ante innovation funding for trials and pilots to test and explore new ideas, concepts and technology before committing to solutions and rolling these into business-as-usual activities. We appreciate that Ausgrid provided further information about specific projects in its revised proposal, but found that some projects were not innovative, nor aligned with the expenditure objectives, or overstated a prudent level of volume/scale typically expected for a trial or pilot. Our final decision includes $17 million in total expenditure and sets out our approach to assessing future innovation proposals which includes the criteria that has been applied to assess Ausgrid's Network Innovation Program.

For CER integration, our final decision is not to accept Ausgrid's revised capex forecast of $45.3 million. We have included $29.1 million for CER integration in our alternative capex estimate, which accepts Ausgrid's forecast capex to integrate rooftop solar and for dynamic service capabilities, but includes a lower capex forecast to integrate electric vehicles (EVs). This expenditure will ensure customers can continue to benefit from their investments in consumer energy resources, with export service levels maintained and sufficient network capacity to accommodate the forecast increase in EVs. Ausgrid will also undertake foundational investments to develop its distribution system operator capabilities.

Our final decision is to approve total forecast opex of $2,364.8 million ($2023–24), including our estimate of debt raising costs, which is consistent with Ausgrid's revised proposal when Software as a Service (SaaS) implementation costs are included. Our alternative forecast on

this basis is not materially different to Ausgrid's revised forecast opex. As noted in our draft decision, Ausgrid's revealed opex has significantly reduced in recent years and become relatively more efficient. Consumers will benefit from these efficiencies through the lower total opex forecast for the 2024–29 period when compared to previous regulatory periods.

To address affordability concerns of its customers, Ausgrid proposed to reallocate SaaS costs to capex in the 2024–29 period. We recognise current affordability concerns were an important driver for this proposed change from our draft decision. However, following lengthy consideration, our final decision is that these SaaS implementation costs should be reallocated to total forecast opex, consistent with the accounting treatment of these costs for all network businesses and our draft decision. Our decision had regard to the fact that short term savings for customers from Ausgrid's approach would be offset by higher costs in the longer term and did not justify applying a different approach for Ausgrid compared to other networks.

In addition, to manage the uncertainty of timing of a new $128 million substation at Macquarie Park, Ausgrid's revised proposal also included a new contingent project, which we have accepted in our final decision. Ausgrid also provided a revised set of triggers for the Macquarie Park contingent project in response to our concerns about the workability of its initial proposed triggers.

Our draft decision commended Ausgrid on the progress it had achieved on tariff reform, while managing customer impacts. Ausgrid's revised tariff structure statement responded to the feedback provided in our draft decision, including our request for further information on embedded network tariffs. Our final decision is to approve Ausgrid's revised tariff structure statement with two amendments. We extend the transition period over which Ausgrid's embedded network tariffs are gradually introduced and provide for individually calculated tariffs for storage.

Our final decision accepts Ausgrid's revised proposal to keep metering as an alternative control service. Following the Australian Energy Market Commission's (AEMC) final decision on the metering review, our draft decision asked businesses to consider reclassifying legacy metering services to standard control services. This approach would socialise Ausgrid's legacy metering services costs across a wider customer group and mitigate inequitable price impacts during the smart meter transition. Ausgrid's revised proposal maintained legacy metering services as alternative control services but has socialised the costs across customers.

Ensuring consumers pay no more than necessary while supporting the future energy network transition

Our draft decision reflected that the 2024–29 revenue determinations had been developed during a challenging time for energy consumers. Economy wide factors have resulted in higher inflation and interest rates and cost-of-living pressures and affordability concerns continue to be important to consumers.

Energy Consumers Australia's recent sentiment survey observed that 54% of households believe having affordable energy prices is the most important issue for the future energy

system (up 5%).[4] While consumers note current cost-of-living pressures and the challenges ahead for the energy system in terms of the importance of affordable energy prices for all Australians, they are also considering the importance of the energy transition and the pace at which this should be occurring.[5]

Our final decisions for the 2024–29 businesses continue to seek the balance of affordability, with necessary expenditure required to support the energy transformation, and to address important emerging issues such as network cybersecurity, climate resilience, integration of CER, and digitalisation.

Our draft decision noted the role distributors could play in the energy transition. We also note that the Australian Energy Market Operator's (AEMO's) recent Draft Integrated System Plan states that the lowest cost way to supply electricity throughout Australia's transition to a net zero economy is with new transmission and modernised distribution networks. These will connect a diverse mix of utility-scale renewables, rooftop solar and distributed solar, and firming technologies such as energy storage to consumers.[6]

AEMO's Optimal Development Path (Step Change) includes a forecast of a four-fold increase in rooftop solar capacity by 2050, representing almost a third of the total generation capacity. It also includes facilitating consumer-owned batteries and CER via Virtual Power Plants to deliver flexible demand response to the National Electricity Market, representing almost half of the total dispatchable capacity. AEMO's draft 2024 Forecasting Assumptions update also outlines that EV uptake is forecast to increase from the 2023 yearly projections under all scenarios.[7]

Given these ongoing developments, we maintain that flexibility in response to a rapidly changing energy industry is important. We consider the national regulatory framework can adapt to changes in technology, emerging business models and evolving customer preferences.

Alongside the transitioning energy market, the current environment has several uncertainties that network businesses are required to consider, including evolving threats around cybersecurity and climate risk. These issues have been considerations for all businesses in developing their 2024–29 proposals. All businesses have proposed, to varying extents, investments in new and emerging areas of CER integration, climate resilience, and cybersecurity.

We recognise the continuing need for investments in these important areas. We have provided efficient levels of funding to enable the businesses to continue to respond prudently to the cyber security risks and climate change-related risks that their networks face.

In addition, our decisions provide both necessary funding for export service levels so customers with rooftop solar may export their excess electricity to the grid, and appropriate price signals to optimise network capacity. Where network tariff price signals are passed

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4 Energy Consumers Australia, *Sentiment Survey,* December 2023. See https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2023/.

5 Energy Consumers Australia, *Challenges ahead for the energy system' and 'Speed of transition,* December 2023. See https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2023/featured-content-household-sentiment-dec-2023/.

6 AEMO, *Draft 2024 Integrated System Plan (ISP),* 17 January 2024, pp. 9-11.

7 AEMO, *Draft 2024 Forecasting Assumptions Update*, December 2023, p. 24

through in a retail offer, and customers are well placed to respond, appropriately structured network tariffs can enable growth in the value and number of people with CER, particularly rooftop solar. Energy storage operating in line with the right price signals will direct more renewables to peak evening periods when fossil fuel generation still dominates supply.

Similarly for the forecast increase in electricity demand from a continued uptake of EVs, the right mix of investment and price will facilitate new, clean, forms of transport at least cost to electricity customers.

Innovation will assist customers who are able to respond with greater opportunities to reduce their bills. The accelerated roll-out of smart meters to customers, flagged by the AEMC's metering review, is a critical enabler for the energy transition, including the integration of CER work programs. Our decisions facilitate cost recovery of old legacy network-delivered meters in the quickest, least cost way to all customers.

Some of our 2024–29 final decisions provide for dedicated innovation expenditure – this will enable the businesses to test new and unproven technologies and ways of managing their networks, to benefit consumers. We also outline guidance on what factors we will consider in assessing future innovation expenditure proposals.

The amended National Electricity Objective and the current regulatory determination resets

The NEL requires us to make our decision in a manner that contributes, or is likely to contribute, to achieving the NEO. The focus of the NEO is on promoting efficient investment in, and operation and use of, electricity services (rather than assets) in the long term interests of consumers. This is not delivered by any one of the NEO's factors in isolation, but rather by balancing them in reaching a regulatory decision.

Prior to the emissions objective rule change, the 2024–29 businesses' proposals were already considering the challenges faced by the energy transition, including the steps needed to deliver net zero.

Many of the businesses have been proactive in considering the impact of emissions reduction as part of their regulatory proposals. In considering customer and stakeholder engagement provided as part of the regulatory resets, many of these network service providers noted that stakeholders were advising that climate change mitigation was a priority to them and should be incorporated or prioritised accordingly in regulatory proposals.

We have had regard to the recently published interim value of emissions reduction in these final decisions where relevant. In the 2024–29 regulatory determinations, only a limited number of businesses used a quantitative value in their initial and revised proposals, and it was related to a relatively small component of the proposed overall expenditure, such as in the case of certain innovation and CER-related expenditure. In those cases, we have considered the interim value of emissions reduction in assessing whether to accept or reject specific programs as part of our final decisions.

Consumers at the centre of proposals

As outlined in our draft decision, consumer engagement is an important facet of our assessment; together with ensuring we are satisfied that the proposed forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs. Genuine engagement with consumers is resulting in better quality proposals.

Since the release of the Handbook, we have seen a strong commitment from all 2024–29 businesses to engage with customers and have their preferences considered and reflected in their revenue proposals.[8]

Ausgrid has continued its extensive engagement program since the draft decision, successfully drawing out customer priorities and maintaining a strong partnership with the Reset Customer Panel (RCP). We acknowledged in our draft decision that Ausgrid has stepped-up its engagement with customers and stakeholders. We have continued to see Ausgrid develop its consumer-centric culture throughout this process.

Ausgrid's Voice of Community Panel (VoC Panel) and local government area engagement have played a critical role in identifying ongoing priorities and providing insights. An example is Ausgrid's engagement with local government areas on public lighting services, which elicited broad support and commendation from stakeholders on Ausgrid's approach. This has further included Ausgrid's responding to feedback from its customers and stakeholders to balance increasing affordability challenges against customer priorities, as cost of living pressures have worsened since the initial proposal.

The Consumer Challenge Panel, sub-panel 26 (CCP26) has highlighted that ongoing engagement is likely to deliver considerable benefits. Consumer engagement is likely to reduce the volume of bespoke reset-related engagement activities that are needed to adequately inform regulatory proposals, through businesses having a better understanding of the long term insights from their consumers.[9]

Following this decision, we encourage Ausgrid to build on the work undertaken during this process to ensure consumer engagement becomes a sustainable and continuous business-as-usual process.

The 2024–29 final decisions mark the completion of the first businesses whose proposals have been developed using the expectations and guidance in the Handbook. We have heard from consumer stakeholders broadly, that while the guidance of the Handbook has been valuable, there should be consideration of the application of the Handbook and early signal pathway.

The Handbook not only sets important expectations on how network businesses engage with consumers, but outlines our expectations for capex, opex, regulatory depreciation and tariff structure statements. These aspects are important to ensure we continue to encourage networks to develop high quality proposals through genuine engagement with consumers and that meet our expectations to constrain cost increases.

We acknowledge the importance of seeking insights and learning from this process for future regulatory determinations. We are not undertaking a formal review of the Handbook at this stage, however, we are capturing the feedback already provided and have been refining our process in response. We will continue to develop the successful application of the Handbook as we work with the businesses on current and upcoming determinations.

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

9 Consumer Challenge Panel 26, *Advice to AER – 2024–29 Revised Electricity Determination and Draft Decision – Ausgrid,* January 2024, p. 12.

Contents

1 Our final decision

Our final decision allows Ausgrid to recover a total revenue of $9,980.9 million ($ nominal, smoothed) from its consumers from 1 July 2024 to 30 June 2029. Our final decision provides for the combined revenue of Ausgrid's distribution and dual function (transmission) assets.[10]

In the sections below we briefly outline what is driving Ausgrid's revenue, and the key differences between our final decision revenue compared to the $9,619.6 million in our draft decision, and the $9,685.4 million in its revised proposal.[11]

1.1 What is driving revenue?

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

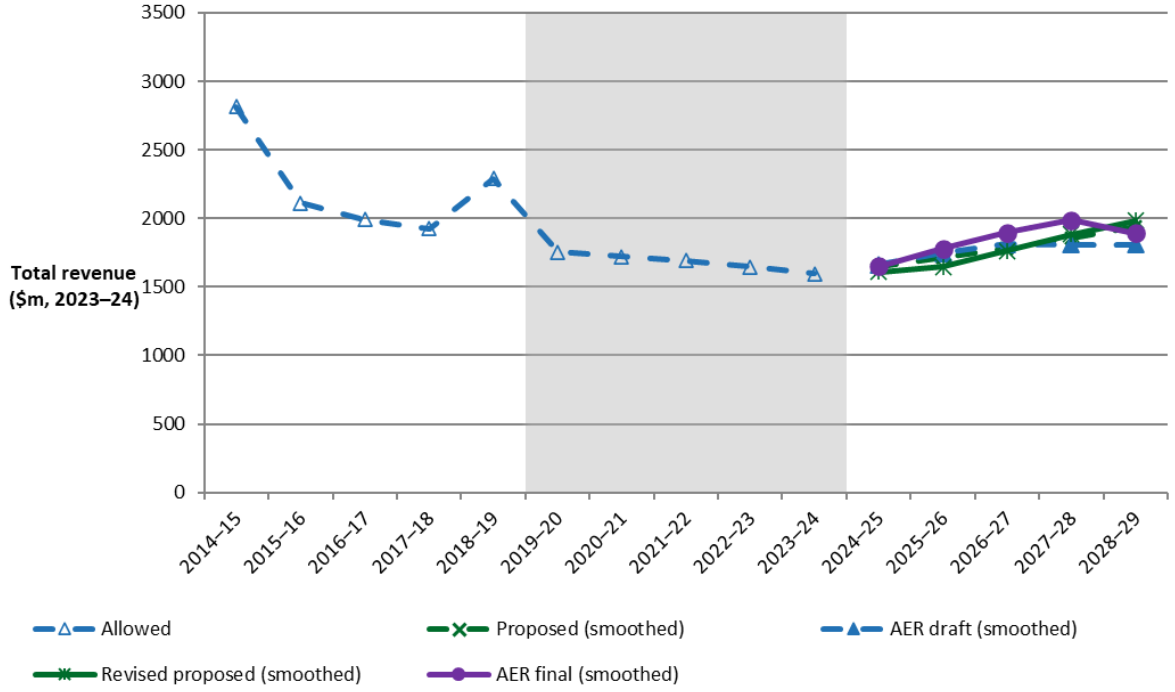
Over time, inflation impacts the spending power of money. To compare revenue from one period to the next on a like-for-like basis, in this section we use 'real' values based on a common year (2023–24) that have been adjusted for the impact of inflation instead of the nominal values above.

In real terms, this final decision would allow Ausgrid to recover $9,200.7 million ($2023–24, smoothed) from consumers over the 2024–29 period. This is 9.4% higher than our decision for the current (2019–24) period. Changes in Ausgrid's revenue over time are shown in Figure 1.

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

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

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



Source: AER analysis.

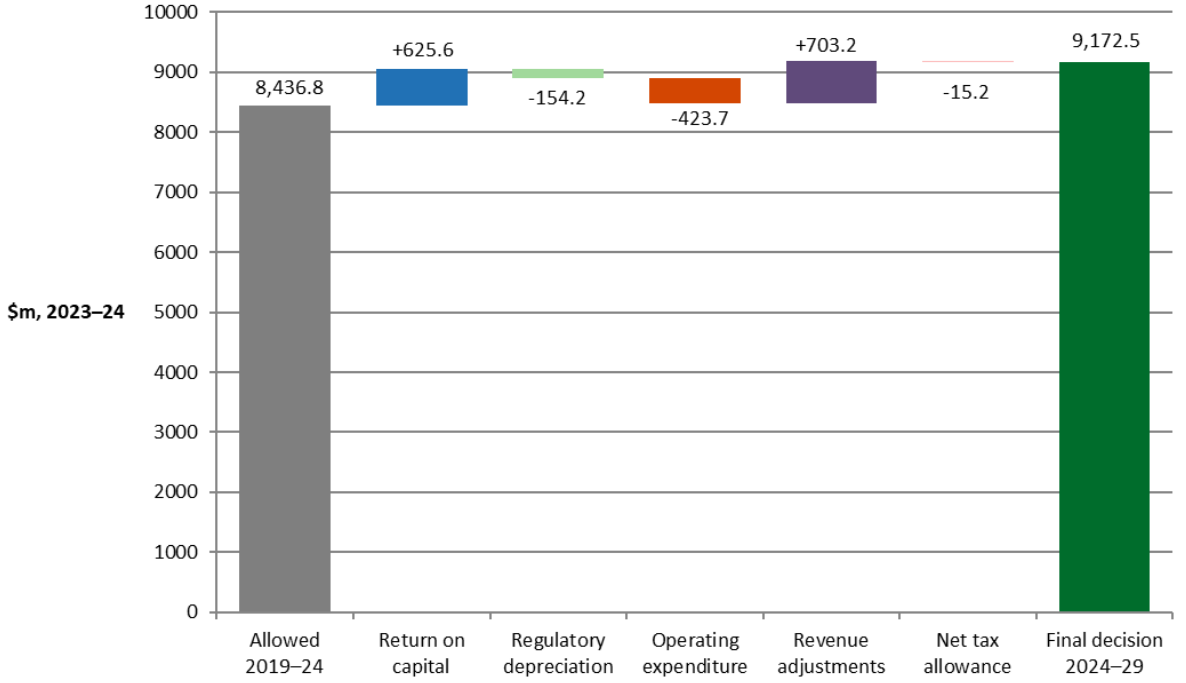
In real terms, this final decision would allow Ausgrid to recover a total building block revenue of $9,172.5 million ($2023–24, unsmoothed) over the 2024–29 period. Figure 2 highlights the key drivers of the change between the revenue approved for Ausgrid for the 2019–24 period and in this final decision for the 2024–29 period. Similar to our observations in the draft decision, it shows that our final decision provides for reductions in the building blocks for:

- return of capital (regulatory depreciation), which is $154.2 million (17.8%) lower than the 2019–24 period, driven primarily by a higher indexation of the regulatory asset base (RAB) for the 2024–29 period
- opex, which is $423.7 million (15.2%) lower than the 2019–24 period, driven primarily by lower revealed opex in the base year
- net tax allowance, which is $15.2 million (10.3%) lower than the 2019–24 period, primarily due to the exclusion of gifted assets from the calculation of the estimated cost of corporate income tax in the 2024–29 period.

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

- return on capital, which is based on the opening RAB, capex and rate of return. This is $625.6 million (12.8%) higher than the 2019–24 period, driven by an increase in the RAB due in part to higher actual inflation in that period, and a higher rate of return being applied in the 2024–29 period, in accordance with the 2022 Rate of Return Instrument
- revenue adjustments, which are $703.2 million higher than the 2019–24 period, due to the expiry of a one-off large negative revenue adjustment for the 2014–19 remittal decision included in the 2019–24 determination for Ausgrid's dual function assets. It is also driven by a material Efficiency Benefit Sharing Scheme (EBSS) reward applied in the 2024–29 period.

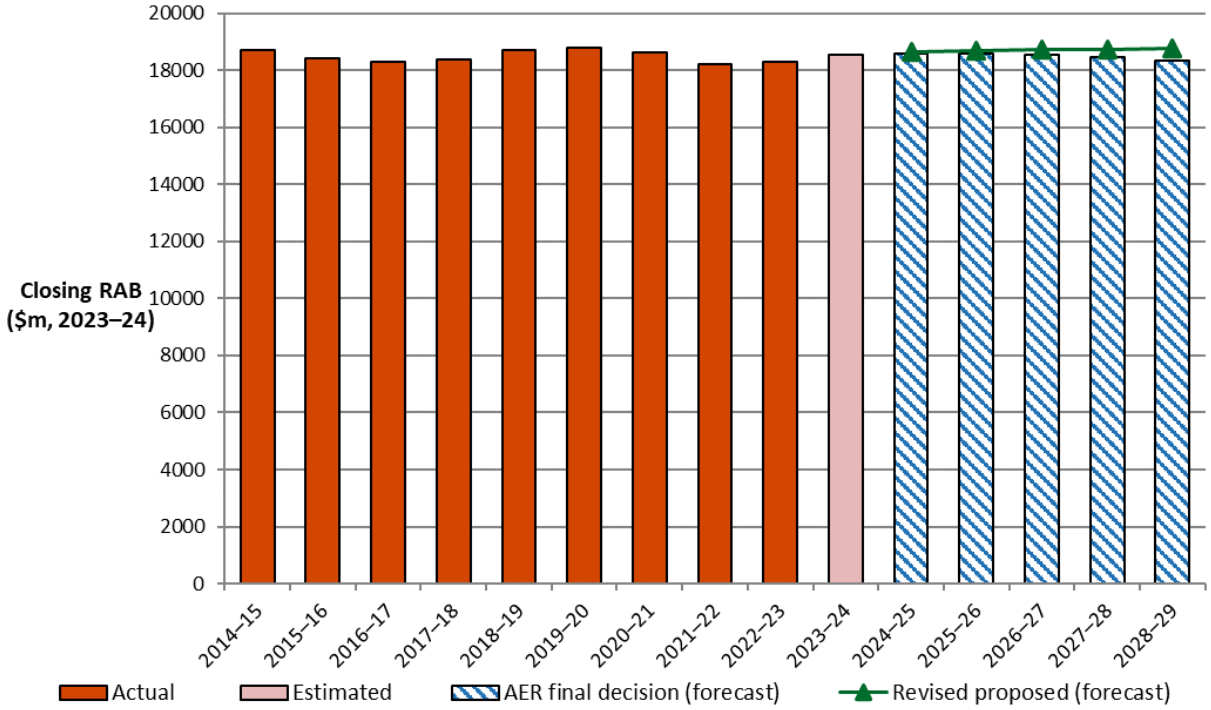
Figure 2 Changes in total revenue between 2019–24 period and 2024–29 period – distribution and transmission ($ million, 2023–24, unsmoothed)



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

Figure 3 shows the value of Ausgrid's combined RAB over time. After a RAB reduction of 0.9% in real terms over the 2019–24 period, our final decision results in a further forecast reduction of the RAB by $184.4 million ($2023–24) or 1.0% over the 2024–29 period. As we observed in the draft decision, this reduction is mainly driven by higher forecast straight-line depreciation over the 2024–29 period compared to the 2019–24 period.

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



Source: AER analysis.

1.2 Key differences between our final decision and Ausgrid's revised proposal

Our draft decision did not accept core components of Ausgrid's proposal and made reductions to the proposed forecast capex and opex amounts. We also made reductions to Ausgrid's Capital Expenditure Sharing Scheme (CESS) rewards in our draft decision. Ausgrid sought a higher forecast capex in its revised proposal and provided further supporting information to address the issues we raised in our draft decision. Ausgrid also sought additional forecast capex due to its proposal to treat SaaS costs as capex instead of opex, which we did not accept in the final decision.

Our final decision made reductions to Ausgrid's revised proposed capex forecasts, driven primarily by our final decision to not accept Ausgrid's revised proposal to treat SaaS costs as capex. As such, our final decision is to reallocate these SaaS costs to opex and we have therefore increased Ausgrid's revised proposed opex forecasts (which we have otherwise accepted) for this reason. Movements in market variables such as expected inflation and rate of return have also led to revenue outcomes that are materially higher in our final decision than in Ausgrid's revised proposal. These include:

- higher return on capital, driven primarily by a higher average rate of return over the 2024–29 period which more than offsets the reductions we made to capex
- higher regulatory depreciation amount, driven primarily by the lower expected inflation rate in our final decision than at the time of Ausgrid's revised proposal
- higher estimated cost of corporate income tax amount, driven primarily by our final decision on a higher regulatory depreciation amount and higher return on equity amount.

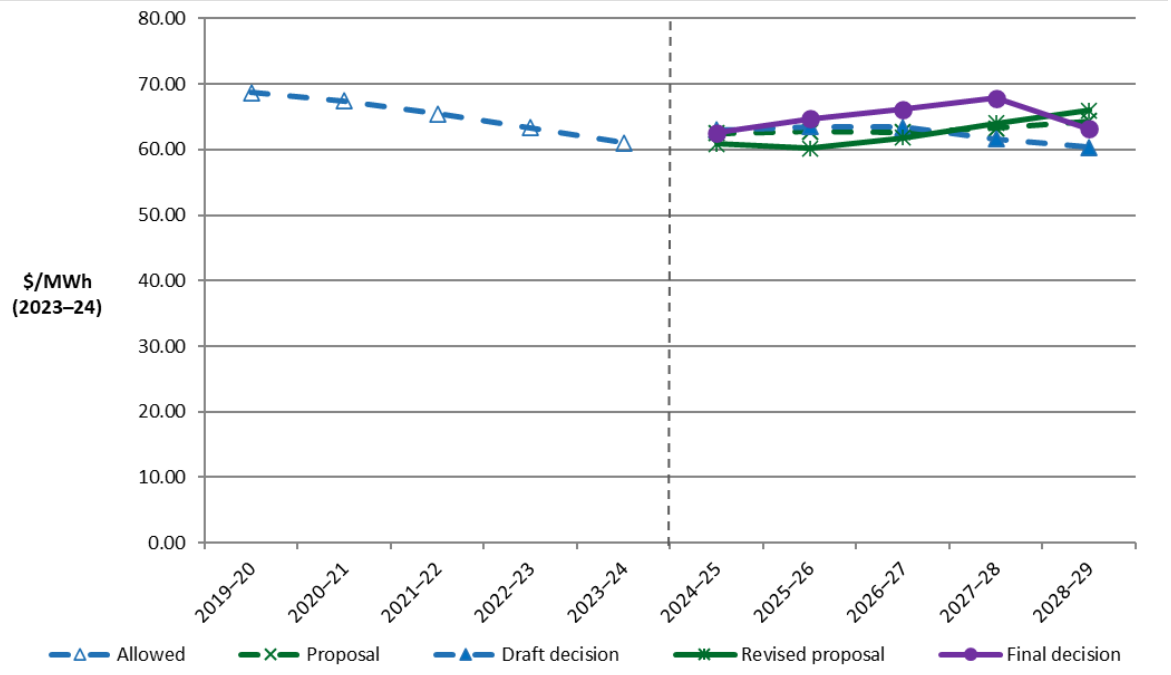
The higher regulatory depreciation and return on equity amounts increase the cost of corporate income tax as they are both components of revenue for tax purposes.

1.3 Expected impact of our final decision on electricity bills

Ausgrid recovers its distribution regulated revenue through distribution charges, set annually by reference to the tariff structure statement and pricing formulae approved by us as part of this decision. Ausgrid's transmission (dual function assets) regulated revenues are recovered through transmission charges, as we have decided to continue applying transmission pricing to these assets.[12]

For illustrative purposes only, we estimate the impact of this final decision would be a total increase to Ausgrid's network charges (distribution and transmission) of around 2.9% in real terms by 2028–29 compared to 2023–24 levels, or an average increase of 0.6% per annum.[13] This estimate will be subject to ongoing revenue adjustments and changes in consumer energy consumption. Figure 4 compares this indicative price path for the 2024–29 period to the 2019–24 period.

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



Source: AER analysis.

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

13 The average increase to indicative network charges of 0.6% ($2023–24) per annum reflects two components: 1) The final decision combined smoothed revenue average increase of 3.8% per annum ($2023–24); and 2) The forecast energy delivered in Ausgrid's distribution network area which is expected to increase on average by 2.9% per annum.

1.3.1 Potential bill impact

Ausgrid's network charges (distribution and transmission) make up around 22% of its residential customers' electricity bills and 23% of its small business customers' electricity bills. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, core transmission network charges, environmental schemes and the costs and margins applied by electricity retailers in determining the prices they will charge consumers for supply—also contribute to the prices ultimately paid by consumers.[14] These sit outside the decision we are making here and will also continue to change throughout the period.

In nominal terms, which include the impact of expected inflation, the impact of this final decision would be an increase to Ausgrid's network component of customers' energy bills.[15] For illustrative purposes only, we estimate the impact of our final decision on the average annual electricity bill in Ausgrid's network area, as it is today, would be:

- an increase of $69 (3.8%) by 2028–29, or an average of $14 per annum for a residential customer
- an increase of $191 (3.8%) by 2028–29, or an average of $38 per annum for a small business customer.[16]

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

Over the 2024–29 period there are several additional mechanisms under the NER that may operate to increase or decrease those charges. These include cost pass through events or the contingent project[17] proposed by Ausgrid and approved in this final decision. The triggers we have set out for these events or contingent project in this decision will, if met, allow Ausgrid to apply for additional revenue throughout the period, at which point proposed costs will be subject to further consultation and assessment.

1.4 Consumer Engagement

Our draft decision set out the extensive work that Ausgrid undertook to establish its customer engagement program to support the development of its proposal.[18]

Following our draft decision, Ausgrid maintained its strong partnership with its RCP. It tested its revised proposal positions with them, as well as its Voice of Customer Panel (VoC Panel).

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

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

16 Our estimated bill impact is based on the typical annual electricity usage of 3,911 kWh and 10,027 kWh for residential and small business customers in Ausgrid's network area, respectively. This is based on the 2023–24 final decision default market offer.

17 Ausgrid's revised proposal proposed a new contingent project of $128 million for a new substation at Macquarie Park.

18 AER, *Overview – Draft decision – Ausgrid distribution determination 2024–29*, September 2023, pp.8-15.

Consideration was given to those areas of the draft decision that Ausgrid did not agree with or did not reflect what its customers had supported in its initial proposal.[19]

At Ausgrid's October 2023 VoC Panel, it tested its overall revised proposal forecast with customers to determine whether they were still comfortable with the balance between their expectations of driving a faster transition to net zero and affordability.[20] Ausgrid identified that since its initial proposal, the balance between spending on customer priorities and affordability has shifted, which was to be expected given the worsening cost of living pressures.[21]

Ausgrid submitted that its initial proposal had included several affordability initiatives for household bill savings.[22] For its revised proposal, Ausgrid considered how it could further ease the impact of bill increases caused by macroeconomic pressures. Ausgrid noted that it continues 'to focus on, and deliver, its customers' priority investments for the future, such as climate and cyber resilience, innovation and CER integration programs.'[23]

As already discussed, the treatment of SaaS costs and the Macquarie Park contingent project were introduced as initiatives to respond to customers' affordability concerns.[24] The RCP noted that Ausgrid had proposed 6 additional affordability initiatives in response to affordability concerns of its VoC Panel. It observed that most of the initiatives involved traditional approaches of finding efficiencies[25], however, it was encouraged by the creativeness of two initiatives (partially self-funding innovation and the deferral of the SaaS accounting change).[26] The RCP stating it believes that:

> other networks should be encouraged to seek out these and other opportunities to find ways within the regulatory framework to reduce bill impacts in the medium term to enable increased investment (period to period) in the areas that have strong customer support.[27]

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19 Ausgrid, *Revised proposal – 2024–29 Revised Regulatory*, November 2023, p.15.

20 Ausgrid, *Revised proposal – 2024–29 Revised Regulatory*, November 2023, p.11.

21 Ausgrid, *Revised proposal – 2024–29 Revised Regulatory*, November 2023, p.15. See a summary of what was said by customers at the October 2023 workshop at Ausgrid, *Revised proposal - MosaicLab - Att. 3.1 - Ausgrid Voice of Community Panel 2023 - Day 3 Workshop - What Was Said report*,31 Oct 2023.

22 Ausgrid, *Revised proposal – 2024–29 Revised Regulatory*, November 2023, p.11.

23 Ausgrid, *Revised proposal – 2024–29 Revised Regulatory*, November 2023, p.11.

24 Ausgrid, *Revised proposal – 2024–29 Revised Regulatory*, November 2023, pp. 13, 34.

25 The RCP outlined initiatives such as: such as the application of lower unit rates to repex; the refinement of modelling for resilience; the deferment of expenditure for CER augmentation; and the inclusion of the Macquarie Park substation augmentation as a contingent project.

26 Ausgrid, *Revised proposal - Reset Customer Panel - Att. 3.2 - Independent report on Ausgrid's 2024–29 revised revenue proposal*, November 2023, p. 19.

27 Ausgrid, *Revised proposal - Reset Customer Panel - Att. 3.2 - Independent report on Ausgrid's 2024–29 revised revenue proposal*, November 2023, p. 19.

The RCP noted that delaying Macquarie Park augmentation capex and the treatment of SaaS were first presented as initiatives to them on 10 November, and it was supportive of the affordability measures.[28]

CCP26 noted that while Ausgrid appears to have genuinely committed to absorbing some costs in its revised proposal, some components that Ausgrid claims as affordability measures, such as some of its resilience program, may be unlikely to meet regulatory requirements. CCP26 submitted that we should be cautious about considering it as a bill saving for customers.[29] CCP26 also questioned whether Ausgrid's main affordability measure, of SaaS staying in capex, was in the long term interest of consumers. [30]

Submissions on our draft decision and Ausgrid's revised proposal largely focused on concerns regarding its embedded network tariffs. Most of these submissions were from embedded network operators or retailers concerned that these tariffs could impact the viability of embedded networks. We responded to these concerns by requiring Ausgrid to extend the transition period for customers (i.e. embedded network operators) being assigned to embedded network tariffs from 5 years to 7 years, to lower the average annual network bill impact. A smaller number of submissions raised concerns regarding other elements of its tariff structure statements, including two-way tariffs.[31]

Our draft decision commended Ausgrid on the significant step-up on its engagement approach with local councils on issues such as public lighting. This sentiment was echoed in the submission from the Southern Sydney Regional Organisation of Councils (SSROC), which commended Ausgrid on conducting its consultations on its public lighting proposal in a transparent manner. The SSROC submitted that Ausgrid gave it the opportunity to challenge key assumptions and provided full explanations of amendments between the draft decision and the revised proposal. The SSROC stated it trusts this sets a precedent for future determinations.[32]

A number of submissions also outlined support for elements of Ausgrid's resilience program, including aerial bundled cables and its local government area engagement.[33]

The RCP submission supported Ausgrid's revised proposal, stating that it is capable of acceptance where the AER finds its revised capex and opex step changes are prudent and efficient. The exception to the AER's considerations was that the RCP indicated support for

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28 Ausgrid, *Revised proposal - Reset Customer Panel - Att. 3.2 - Independent report on Ausgrid's 2024–29 revised revenue proposal*, November 2023, pp. 19-20. The RCP noted it had not had sufficient time to consider 2 aspects of the contingent project and raised these concerns in it's report. It noted that subject to these concerns and the AER's review it supported in principle the delay.

29 CCP26, *Advice to AER – 2024–29 Revised Electricity Determination and Draft Decision - Ausgrid*, January 2024, pp. 9-10.

30 CCP26, *Advice to AER – 2024–29 Revised Electricity Determination and Draft Decision - Ausgrid,* January 2024, pp. 9-10.

31 See submissions from Active Utilities, CCIA, Compliance Quarter, Energy Locals, EWON, Network Energy Services on embedded network tariffs. See submissions from Evie Networks, stakeholder submission, Origin Energy, Red and Lumo Energy, IPART, and Tesla for general tariff issues.

32 SSROC, *Submissions on Ausgrid's revised proposal and draft decision 2024–29*, January 2024, pp. 3–4.

33 See submissions from Resilient Sydney, Rural Fire Service, Western Sydney University, Central Coast Council, North Sydney Council, NIAC, Hunter Water and Committee for Sydney.

Ausgrid's innovation capex, and the innovation and climate resilience opex step changes based on the primacy of the quality of the engagement and commitments made by Ausgrid.[34]

CCP26 acknowledged that Ausgrid continues to embrace the expectations outlined in the Handbook. It observed that Ausgrid's post-lodgement engagement 'was successful in drawing out customer preferences, particularly in light of evolving community expectations in the net-zero transition and the cost-of-living pressures facing its customers'.[35]

The Public Interest Advocacy Centre (PIAC) submitted:

> Considering the ambitious scope of Ausgrid's engagement, a post-implementation review could deliver important insights for how a robust deliberative engagement program can be more efficient and achieve high quality results without assuming that more resources are required. The resources Ausgrid committed were significant and could be regarded as unsustainable in relation to the reliance on informed consumer stakeholders to engage via its RCP. This is not a critique of Ausgrid, far from it, but a caution to ensure that robust engagement is as efficient as possible, and is accessible to all business, and able to be sustainable for them.[36]

We recognise the important step that Ausgrid has taken in committing to its customers in this regulatory period. We encourage Ausgrid to continue the work it has done in engaging with its customers, at a level that is sustainable.

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34 Ausgrid, *Revised proposal - Reset Customer Panel - Att. 3.2 - Independent report on Ausgrid's 2024–29 revised revenue proposal*, November 2023, p. 3.

35 CCP26, *Advice to AER – 2024–29 Revised Electricity Determination and Draft Decision - Ausgrid,* January 2024, p.3.

36 PIAC, *Submission on the NSW revised proposals and draft decisions 2024–29*, February 2024, p. 6.

2 Key components of our final decision on revenue

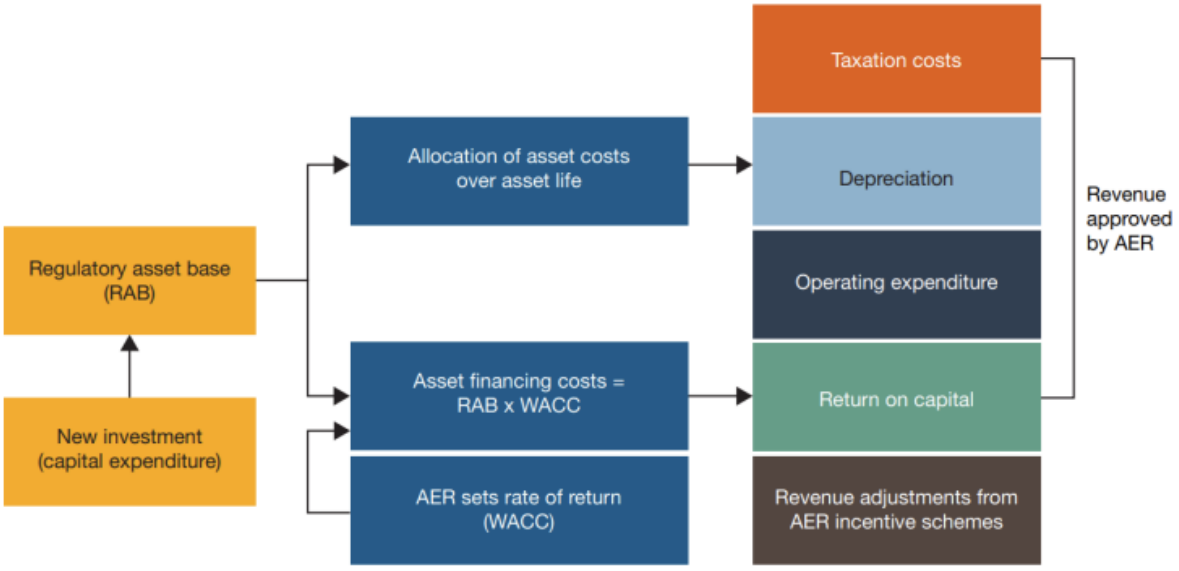
Building block approach

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

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

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

Figure 5 The building block model to forecast network revenue



Source: AER

Revenue smoothing

Our final decision incudes a determination of Ausgrid's annual revenue requirement (ARR) (unsmoothed revenue) and annual expected revenue (smoothed revenue) across the 2024–29 period. The expected revenues we set in this final decision are the amounts that Ausgrid will target for its annual pricing purposes and recover from its customers for the provision of standard control services for each year of the 2024–29 period.[37]

The ARR is the sum of the various building block costs for each year of the regulatory control period, which can be lumpy over the period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. As such, revenue smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period.

Revenue smoothing also helps to minimise any potential large revenue variance (and thus price shocks) at the commencement of the 2029–34 period. Our standard approach has been to keep a divergence of up to +/–3% between the smoothed and unsmoothed revenues for the last year of the regulatory period if this can achieve smoother price changes across the regulatory control periods.

For this final decision, we approved higher revenues than those in Ausgrid's revised proposal. This is mainly driven by our final decision on a higher forecast opex amount and external economic factors, which involves updating data to reflect lower expected inflation rate (which increases the regulatory depreciation amount) and higher interest rates (which increases the return on capital amount).

Ausgrid's combined unsmoothed revenue for the first year of the 2024–29 period (2024–25) is about 19.0% (nominal) higher than its approved revenue for the last year of the 2019–24 period (2023–24). We are mindful that the magnitude of this increase in revenue would have a significant impact on network charges for Ausgrid's customers.

Consequently, we have smoothed the increase in expected revenues over the first 4 years of the 2024–29 period for Ausgrid. We have also relaxed our standard approach to the final year difference between the smoothed and unsmoothed revenue being kept to +/–3, to further help ease the price increases for customers in the earlier years of the 2024–29 period. In the present circumstances, we have determined that the final year revenue difference is about 5%.

Our final decision results in an initial increase of 7.8% (nominal) to the smoothed revenue in 2024–25, followed by average increases of 6.2% per annum over the remaining 4 years of the 2024–29 period (2025–26 to 2028–29).[38]

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37 Our final decision expected revenues have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

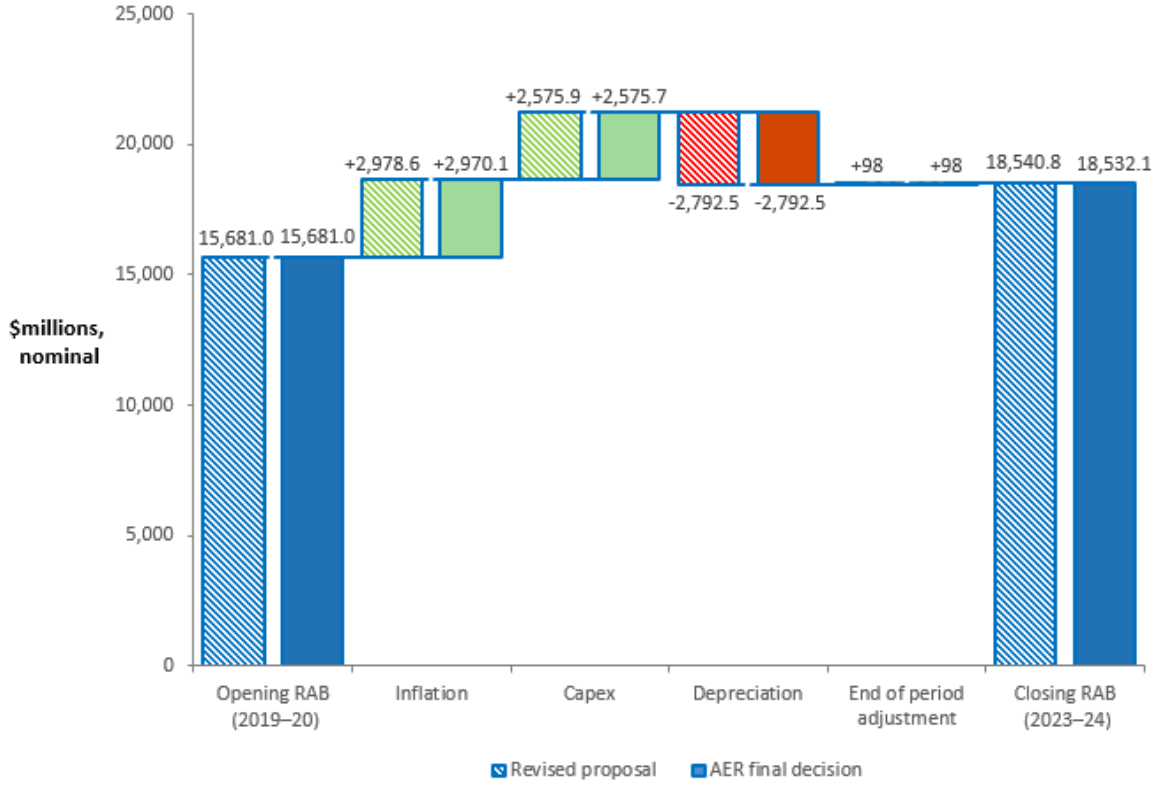
38 This reflects the combined distribution and transmission smoothed revenues for Ausgrid.

2.1 Regulatory asset base

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

For this final decision, we have determined a combined opening RAB value of $18,532.1 million ($ nominal) as at 1 July 2024. This value is $8.7 million (0.05%) lower than Ausgrid's revised proposed opening RAB of $18,540.8 million. This reduction is largely due to the updates we made to the consumer price index (CPI) input for 2023–24 to reflect the actual outcome in the roll forward model (RFM). Figure 6 shows the key drivers of change in Ausgrid's RAB over the 2019–24 period compared to its revised proposal.

Figure 6 Key drivers of change in the RAB over the 2019–24 period – revised proposal compared to the AER's final decision – distribution and transmission ($ million, nominal)

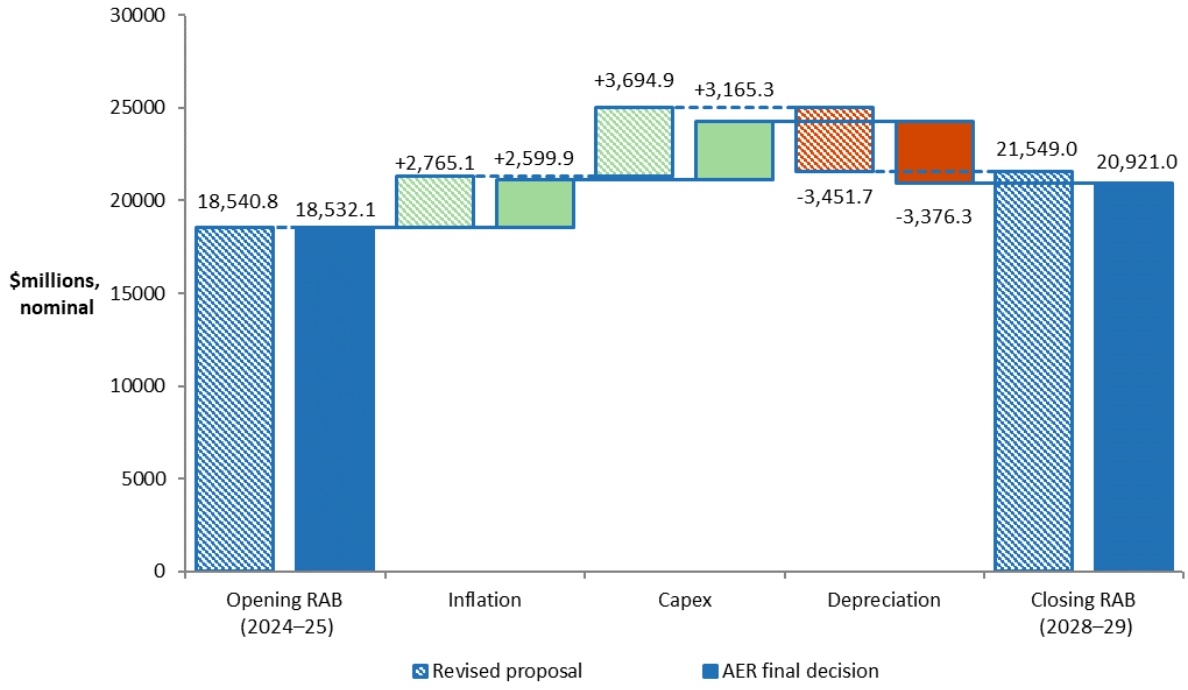


Source: AER analysis.
Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

Figure 7 likewise shows the key drivers of change in Ausgrid's combined RAB over the 2024–29 period compared to its revised proposal. Our final decision projects an increase of

$2,388.9 million (12.9%) to the RAB by the end of the 2024–29 period compared to the $3,008.2 million (16.2%) increase in Ausgrid's revised proposal. We have determined a projected closing RAB of $20,921.0 million ($ nominal) as at 30 June 2029, which is $628.0 million (2.9%) lower than Ausgrid's revised proposal of $21,549.0 million. This lower value is mainly due to a lower expected inflation rate applied in our final decision and reductions we made to Ausgrid's revised proposed forecast capex. It also reflects our final decision on a lower opening RAB as at 1 July 2024, forecast capex and forecast depreciation (discussed in the sections below).

Figure 7 Key drivers of change in the RAB over the 2024–29 period – revised proposal compared to the AER's final decision – distribution and transmission ($ million, nominal)



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

2.2 Rate of return and value of imputation credits

The return each business is to receive on its RAB (the 'return on capital') is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the RAB.

We estimate the rate of return by combining the returns of two sources of funds for investment – equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and give a return on equity to investors.

The estimate of the rate of return is important for promoting efficient prices in the long term interests of consumers. If the rate of return is set too low, the network business may not be able to attract sufficient funds to be able to make the required investments in the network and reliability may decline. Conversely, if the rate of return is set too high, the network business may seek to spend too much and consumers will pay inefficiently high tariffs.

The NEL requires us to apply the 2022 Rate of Return Instrument (Instrument)[39] to estimate the rate of return for Ausgrid. [40]

Ausgrid's revised proposal adopted the 2022 Instrument.[41] The 5.95% (nominal vanilla) rate of return in this final decision is higher than the 5.85% placeholder in the revised proposal, principally due to an increase in interest rates.

Our calculated rate of return in Table 1 would apply to the first year of the 2024–29 period. A different rate of return may apply for the remaining years of the 2024–29 period. This is because we will update the return on debt component of the rate of return each year, in accordance with the 2022 Instrument, to use a 10-year trailing average portfolio return on debt that is rolled-forward each year. Hence, only 10% of the return on debt is calculated from the most recent averaging period, with 90% from prior periods.

Our final decision accepts Ausgrid's proposed risk free rate[42] and debt averaging periods[43] because they were consistent with 2022 Instrument.[44] For this final decision, we adopt the confidential appendix setting out the averaging periods issued with our draft decision.

Table 1 Final decision on Ausgrid's rate of return (nominal)

	AER's draft decision (2024–29)	Ausgrid's revised proposal (2024–29)	AER's final decision (2024–29)	Allowed return over the regulatory control period
Nominal risk-free rate	3.95%	3.95%	4.19%[a]	
Market risk premium	6.20%	6.20%	6.20%	
Equity beta	0.6	0.6	0.6	
Return on equity (nominal post-tax)	7.67%	7.67%	7.91%	Constant (%)
Return on debt (nominal pre-tax)	4.64%	4.64%	4.65%[b]	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	5.85%	5.85%	5.95%[c]	Updated annually for return on debt
Expected inflation	2.80%	2.80%	2.66%	Constant (%)

39 AER, *Rate of return Instrument (version 1.2)*, February 2023. See https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision.

40 NEL, ss 18V and 18H.

41 Ausgrid, *Att. 4.1 – 2024–29 Proposed revenue,* 30 November 2023, p. 12.

42 AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return - Ausgrid Distribution revenue proposal,* September 2023, p. 1.

43 AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return - Ausgrid Distribution revenue proposal,* September 2023, p. 2.

44 AER, *Rate of return Instrument (version 1.2)*, February 2023, cll 7–8, 23–25.

Source: AER analysis; AER, *Draft Decision Attachment 3 - Rate of return - Ausgrid – 2024–29 Distribution revenue proposal*, 28 September 2023, p. 2; Ausgrid, *Att. 4.1 – 2024–29 Proposed revenue,* 30 November 2023, p. 12.

(a) Calculated using Ausgrid's actual nominated risk-free rate averaging period from 25 January 2024 to 29 February 2024.
(b) Calculated using Ausgrid's actual nominated return on debt averaging period.
(c) Applied to the first year of the 2024–29 regulatory control period.

Debt and equity raising costs

In addition to providing for the required rate of return on debt and equity, we provide an allowance for the transaction costs associated with raising debt and equity. We include debt raising costs in the opex forecast because these are regular and ongoing costs, and equity raising costs in the capex forecast because these costs are incurred once and would be associated with funding particular capital investments. Our approach to forecasting capital raising costs is set out in more detail in our draft decision.[45]

Ausgrid has proposed to use our approach to estimate equity raising costs.[46] We have updated our estimate for the 2024–29 period based on the benchmark approach using updated inputs. This results in zero equity raising costs.

Our final decision is to apply a debt raising cost of 8.31 basis point per annum, which has been used to calculate the debt raising cost forecast set out in the opex attachment (attachment 6).

Imputation credits

Our final decision applies a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument.[47] Ausgrid's revised proposal has also adopted the value of gamma set out in the 2022 Instrument.[48]

Expected inflation

As set out in Table 2, our estimate of expected inflation is 2.66%. It is an estimate of the average annual rate of inflation expected over a five-year period based on the outcome of our 2020 inflation review.[49] Ausgrid's revised proposal adopted our current approach for estimating expected inflation.[50]

Table 2 Final decision on Ausgrid's forecast inflation (%)

	Year 1	Year 2	Year 3	Year 4	Year 5	Geometric average
Expected inflation	3.10%	2.60%	2.57%	2.53%	2.50%	2.66%

45 AER, *Draft Decision - Attachment 3 - Rate of return - Ausgrid – 2024–29 Distribution revenue proposal,* September 2023, pp. 4-6.

46 Ausgrid, *Att. 4.1 – 2024–29 Proposed revenue*, 30 November 2023, p. 13.

47 AER, *Rate of return Instrument (version 1.2)*, February 2023, cll. 27.

48 Ausgrid, *Att. 4.1 – 2024–29 Proposed revenue,* 30 November 2023, p. 16.

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

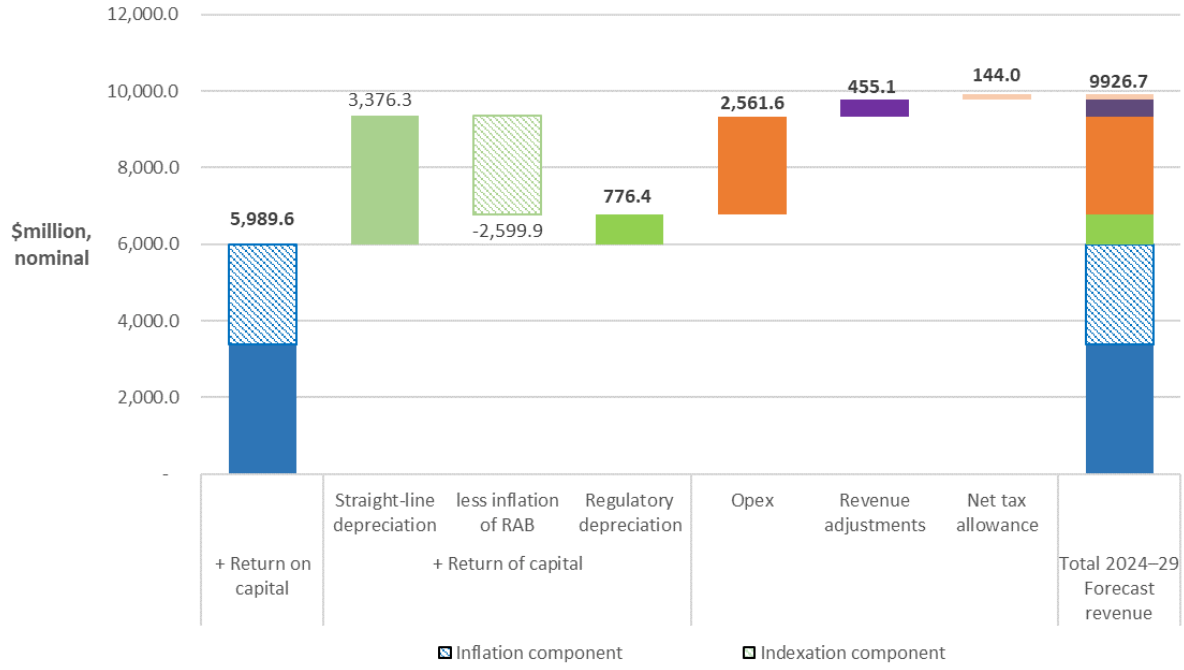
50 Ausgrid, *Att. 4.1 – 2024–29 Proposed revenue,* 30 November 2023, p. 12.

Source: AER Analysis; RBA, *Statement on Monetary Policy*, February 2024, Table 3.1: Detailed Forecast Table. See https://www.rba.gov.au/publications/smp/2024/feb/outlook.html#table31.

Our final decision uses the Reserve Bank of Australia's (RBA) February 2024 Statement of Monetary Policy (SMP) which contains a CPI forecast for the year-ending June 2024 and June 2025. This means the first two years of the 2024–29 period are based on RBA forecasts and, thereafter, a linear glide-path from year three to the mid-point of the RBA's inflation target band of 2.5% in year five.

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

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



Source: AER analysis.

2.3 Regulatory depreciation (return of capital)

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

Our final decision determines a combined regulatory depreciation amount of $776.4 million ($ nominal) for the 2024–29 period. This is an increase of $89.7 million (13.1%) from Ausgrid's revised proposal of $686.7 million.

This increase is primarily due to our final decision on the expected inflation rate for the 2024–29 period, which affects the projected RAB over this period. The lower expected inflation rate

applied in this final decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. The reasons for our decision are discussed in attachment 4.

2.4 Capital expenditure

Our final decision is to not accept Ausgrid's forecast total net capex of $3,069.4 million ($2023–24) for the 2024–29 period.[51] [52] Our alternative forecast is $2,882.7 million which is 6.1% lower than Ausgrid's forecast. Overall, we found that the majority of Ausgrid's forecast would be required to maintain the safety, reliability and security of electricity supply of its network.

Table 3 sets out our final decision for Ausgrid by capex category.

Table 3 AER's final decision by capex category ($2023–24, million)

Category	Ausgrid Revised Proposal	AER Final Decision
Replacement	1416.4	1389.7
Network resilience	113.7	38.1
Augex	139.6	139.6
Connections	51.9	51.9
Operational Technology and Innovation	104.9	75.7
Consumer Energy Resources	45.3	29.1
Information and Communication Technology	264.5	264.5
Fleet	147.2	147.2
Property	144.8	144.8
Capitalised overheads	723.7	690.7
Total capax (excluding capital contributions)	**3152.1**	**2971.3**
Less Disposals	82.6	82.6
Less Modelling adjustments	0.0	6.0
Net capex (without SaaS costs)	**3069.4**	**2882.7**

Source: Ausgrid capex model and AER analysis.

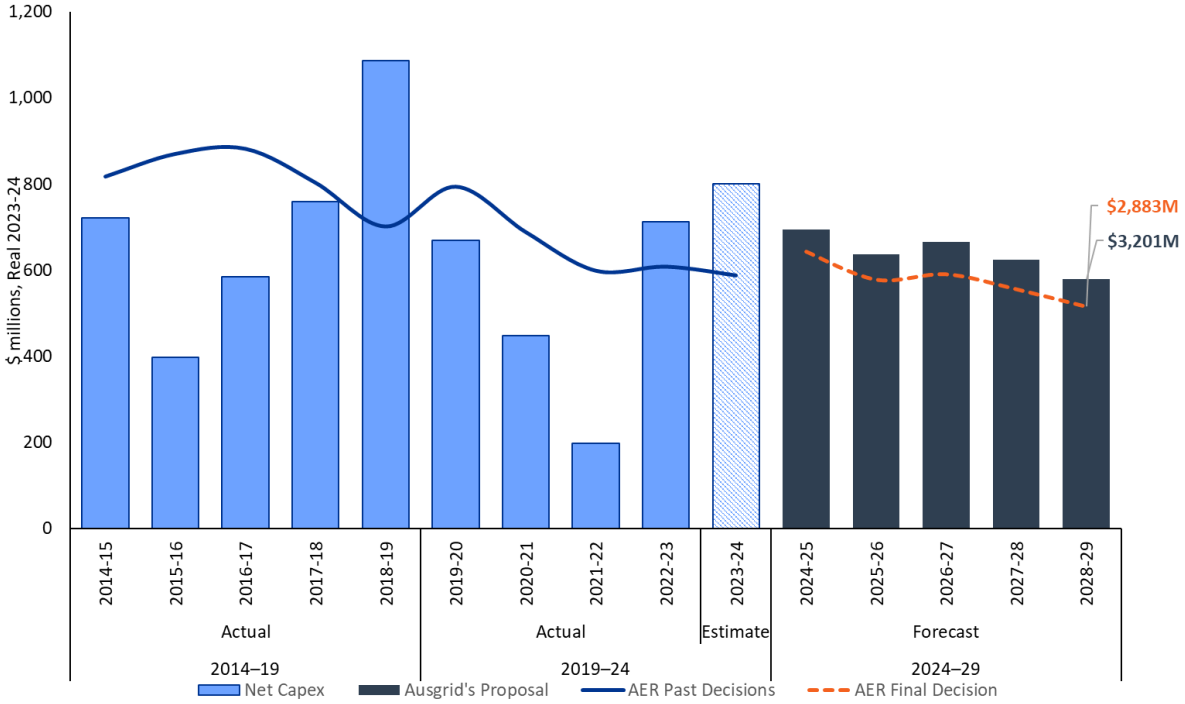
Note: (a) Numbers may not sum due to rounding. Modelling adjustments relate to updates to the consumer price index (CPI) and real cost escalation assumptions (including the exclusion of external contract labour cost escalation).

Figure 9 depicts Ausgrid's historical capex trend, its proposed revised forecast for the 2024–29 period, and our final decision.

51 Exclude $131 million of software as a service (SaaS) costs.

52 Ausgrid resubmitted it capex forecast confirming an $8 million capitalised overheads reporting error on 22 January and withdrew $12 million of repex on 16 February.

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



Source: AER analysis. Capex is net of asset disposals and capital contributions.
Note: Ausgrid's Proposal includes $131 million of SaaS costs.

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

We are satisfied that our alternative forecast of total capex of $2,882.7 million is reasonable and sufficient for Ausgrid to maintain its network. Our reduction of 6.1% to Ausgrid's revised capex forecast compared to our more material reduction in our draft decision of 17%. The difference reflects Ausgrid's efforts in responding to our draft decision by providing further supporting information and submitting lower forecasts especially in the areas of non-recurrent ICT and cyber security.

The difference in our forecasts is mostly in new and emerging areas of capex – climate resilience, CER and innovation – as well as in Ausgrid's dedicated low voltage (LV) reconfiguration program. While we agree with Ausgrid that some level of investment in its dedicated LV mains reconfiguration program is prudent, Ausgrid did not provide sufficient information to demonstrate that its preferred option is efficient. We make the following observations about these areas of capex:

- *Climate resilience* – our final decision includes $41.6 million in total expenditure. This is $78 million (or 65.2%) lower than Ausgrid's revised forecast of $119.6 million in capex and opex. Our alternative forecast includes $3.4 million for community resilience, accepting Ausgrid's forecast for that component of its climate resilience program. We

acknowledge Ausgrid's efforts to adhere to our network resilience guidance note. We also appreciate that Ausgrid has undertaken an extensive and ambitious customer engagement process in a new area of expenditure. Climate resilience is an important issue to consumers as was reflected in the many submissions received from stakeholders about Ausgrid's climate resilience proposal.

The main area of contention regarding climate resilience was Ausgrid's forecast for network solutions in three Local Government Areas representing 75.5% of its climate resilience proposal. Ausgrid submitted updated modelling that applied our top-down model using its own assumptions. We commend Ausgrid on its efforts to address our concerns about its initial bottom-up model, and found it to be transparent, and well-documented. We also appreciate Ausgrid's application of the AER's top-down model. However, we found concerns with assumptions in its bottom-up and top-down models, which meant that we did not have confidence that its model outcomes or proposed investments were prudent and efficient and therefore in the long term interests of consumers.

In particular, we had a number of concerns with its models including finding that Ausgrid's forecast investments to not be prudent as Ausgrid was not prioritising those with high failure rates, value of unserved energy based on past climate events, and when the Benefit to Cost Ratio (BCR) is net positive. Benefits from avoided outages also appear to be overstated as benefits where no investment is proposed were included in its benefits calculation. Further, we consider that Ausgrid's assumption that there is a 100% probability of a wind event occurring in the same location (the return frequency) every year is overstated. As Ausgrid is proposing targeted investments at a feeder level, it is appropriate to apply locational specific return frequency. While the network as a whole may see a yearly recurrence of a major storm, the benefits from investment at a specific location can only be realised at the frequency at which a major storm occurs at the specific investment location itself.

We consulted with Ausgrid about our concerns with its forecasting methodology, giving it the opportunity to respond and provide additional evidence on our proposed adjustments to the Ausgrid models.

- *Network Innovation Program* – our final decision includes $17 million in total expenditure. This is $32.2 million (or 65.4%) lower than Ausgrid's revised forecast of $49.2 million in capex and opex. We acknowledge the need for ex-ante innovation funding for trials and pilots to test and explore new ideas, concepts and technology before committing to implementing of solutions and rolling these into business-as-usual activities. We appreciate Ausgrid's efforts to respond to information gaps noted in our draft decision, and additional modelling to support its proposal. We agree with Ausgrid that there is a need for some level of ex-ante innovation investment but Ausgrid did not provide sufficient evidence to support its forecast of $49.2 million. Our final decision sets out our approach to assessing future innovation proposals which includes the criteria that has been applied to assess Ausgrid's Network Innovation Program.
- *CER* – our final decision includes $29.1 million which is $16.2 million (35.8%) lower than Ausgrid's revised forecast of $45.3 million.[53] While we accepted Ausgrid's forecast for

[53] $8.1 million of CER-related ICT is re-categorised as CER for the purpose of this final decision.

rooftop solar integration, we found that its modelling assumptions for its EV integration to be conservative, overstating the necessary expenditure to manage the integration.

- *Dedicated LV reconfiguration program* – our final decision includes $56.1 million which is $24.5 million (or 30.4%) lower than Ausgrid's revised forecast of $80.5 million. While we acknowledge Ausgrid has applied lower unit rates to achieve a lower forecast, it did not provide sufficient evidence to support a 105% step up relative to its actual spend and that its forecast is efficient.

2.5 Operating expenditure

Our final decision is to not accept Ausgrid's revised proposal total opex forecast of $2,233.7 million ($2023–24).[54] We consider Ausgrid's revised proposal total opex forecast largely reflects prudent and efficient costs required to achieve the opex objectives in the 2024–29 period. However, we consider that Ausgrid's SaaS implementation costs (which it had allocated to capex in its revised proposal) should be reallocated to total forecast opex consistent with the accounting treatment of these costs and our draft decision. Our reasoning behind our decision is outlined in further detail in attachment 6.

Accounting for this reallocation, our alternative estimate of total forecast opex (including SaaS implementation costs) of $2,344.0 million ($2023–24) is not materially different to Ausgrid's revised proposal total opex forecast (including SaaS implementation costs) of $2,364.8 million on a like for like basis.[55]

Our final decision is therefore to approve total forecast opex of $2,364.8 million, including our estimated debt raising costs, for the 2024–29 period as reasonably reflecting the opex criteria.[56] This consists of Ausgrid's revised proposed opex forecast of $2,233.7 million, plus SaaS implementation costs of $131.2 million, which we have allocated to opex, and our estimated debt raising costs.

Our final decision opex forecast for Ausgrid is:

- $110.5 million (or 4.9%) higher than the opex forecast in our draft decision for the 2024–29 period
- $202.9 million (or 9.4%) higher than Ausgrid's actual (and estimated) opex in the 2019–24 period
- $447.5 million (or 15.9%) lower than the opex forecast we approved in our final decision for the 2019–24 period.[57]

Figure 10 compares the opex forecast we approve in this final decision for the 2024–29 period to Ausgrid's revised proposal, our alternative estimate for the 2024–29 period, the

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54 All figures in this section are in $2023–24 real terms unless stated otherwise.

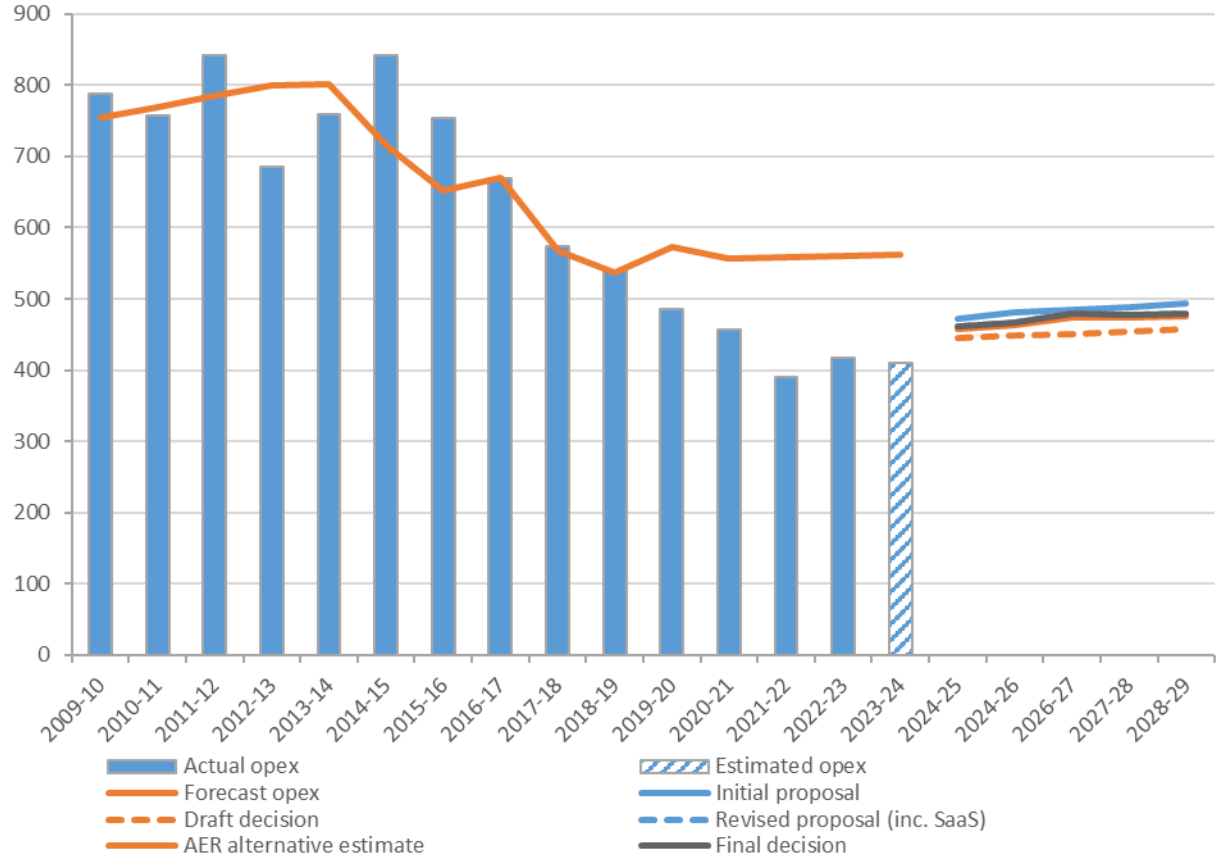
55 Ausgrid, *Att. 6.2 – Opex model,* November 2023; AER analysis. Includes SaaS implementation costs of $131.2 million.

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

57 The $447.5 million difference is calculated using our opex allowance for the 5 year 2019–24 period converted to real 2023–24 dollars using unlagged inflation. The difference of $423.7 million ($2023–24) stated in section 1.1 has been calculated using lagged inflation.

forecasts we approved for the last two regulatory periods from 2009–10 to 2023–24, and Ausgrid's actual and estimated opex across that period.

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



Source: Ausgrid, *Economic benchmarking – Regulatory Information Notice response* 2009–23; AER, *Final decision PTRM* 2009–14; AER, *Final decision 2014–19 PTRM*; AER, *Final decision 2019–24 PTRM and Opex model*; Ausgrid, *2024–29 Revised regulatory proposal*, November 2023; AER analysis.

The following factors contributed to our slightly lower alternative total opex forecast for our assessment purposes (when compared to Ausgrid's revised proposal opex forecast including SaaS implementation costs):

Step changes ($14.0 million lower than Ausgrid's revised proposal):

- we have not included Ausgrid's proposed step change for insurance ($11.3 million), consistent with our draft decision
- we have included a lower estimate for Ausgrid's proposed climate resilience step change of $3.2 million in our alternative estimate, which is $2.7 million lower than Ausgrid's revised proposal.

Category specific forecasts ($2.9 million lower than Ausgrid's revised proposal):

- we have included a lower estimate of $1.6 million for Ausgrid's network innovation program, which is $2.9 million lower than Ausgrid's revised proposal.

2.6 Corporate income tax

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

Our final decision determines a combined estimated cost of corporate income tax amount of $144.0 million ($ nominal) for Ausgrid over the 2024–29 period. This is an increase of $35.0 million (32.1%) from Ausgrid's revised proposal of $109.0 million.

This increase is primarily due to our final decision on a higher regulatory depreciation amount and higher return on equity amount (see sections 2.2 and 2.3). Regulatory depreciation and return on equity are both components of revenue for tax purposes. Therefore, higher regulatory depreciation and return on equity will increase the estimated taxable income for Ausgrid, thereby increasing the estimated cost of corporate income tax.

2.7 Revenue adjustments

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

Our final decision includes:

- A revenue adjustment of $70.19 million ($2023–24) for the CESS. This is from the application of the CESS in the 2019–24 period and the corresponding CESS carryover true-up for 2018–19 for both distribution and transmission. This is $0.40 million more than Ausgrid's revised proposed increment of $69.79 million. The CESS increment arises as a result of an underspend in total capex applicable to the CESS against the forecast for the 2019–24 period, primarily due to actual asset disposals exceeding the forecast.
- a revenue adjustment of $371.0 million ($2023–24) from the application of the EBSS in the 2019–24 period. This is $1.1 million less than Ausgrid's revised proposal due to inclusion of the latest inflation forecast from the Reserve Bank of Australia's February *Statement of Monetary Policy* to convert amounts to 2023–24 dollars. In its revised proposal, Ausgrid accepted our draft decision and included the following mechanical updates:
  - removed costs from its base year associated with Retailer of Last Resort bad debts
  - updated actual expenditure for total opex, Demand Management Innovation Allowance Mechanism (DMIAM) and movements in provisions for 2022–23.
- An allowance of $8.13 million ($2023–24) for the DMIAM. In each year of the 2024–29 period, Ausgrid will submit demand management projects for approval under the DMIAM. Any part of the allowance that is not spent on an approved project will be returned to consumers in the subsequent period.
- A shared asset adjustment of –$16.6 million ($2023–24) to be shared with customers across the 2024–29 period.

The total effect of these revenue adjustments is a combined positive $432.7 million ($2023–24) revenue adjustment building block in this final decision compared to the positive $433.1 million in Ausgrid's revised proposal.

3 Incentive schemes

Incentive schemes are a component of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of the network.

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

3.1 Capital Expenditure Sharing Scheme

The CESS mechanism was updated in April 2023. The changes to the CESS only apply to its application in the 2024–29 period and onwards.[58]

Our final decision is to apply a CESS revenue adjustment (increment) of $70.19 million for the CESS. This is from the application of the CESS in the 2019–24 period and the corresponding CESS carryover true-up for 2018–19 for both distribution and transmission. Our final decision on the revenue impact of the application of the CESS in the 2019–24 period and the corresponding CESS carryover true-up 2018–19 is summarised in Table 4 for distribution and transmission.

Table 4 CESS revenue increments in 2024–29 ($2023-24, million)

Segment	CESS item	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Distribution	CESS revenue increment as per NER 6.4.3(a)(5)	20.11	20.11	20.11	20.11	20.11	100.53
	CESS carryover true-up for 2018–19	-5.31	-5.31	-5.31	-5.31	-5.31	-26.54
	AER final decision CESS	**14.80**	**14.80**	**14.80**	**14.80**	**14.80**	**74.00**
Transmission	CESS revenue increment as per NER 6.4.3(a)(5)	0.72	0.72	0.72	0.72	0.72	3.59
	CESS carryover true-up for 2018–19	-1.48	-1.48	-1.48	-1.48	-1.48	-7.40
	AER final decision CESS	**-0.76**	**-0.76**	**-0.76**	**-0.76**	**-0.76**	**-3.81**
Total	**AER final decision CESS**	**14.04**	**14.04**	**14.04**	**14.04**	**14.04**	**70.19**

[58] That is, for CESS revenue increments based on spending in the 2019–24 regulatory period, we follow this guideline: AER, *Capital expenditure incentive guideline*, November 2013. However, in applying the CESS in the 2024–29 period, we refer to this guideline: AER, *Final decision - Capital expenditure incentive guideline*, April 2023.

Source: AER analysis, Ausgrid, *Ausgrid Revised proposal – Att. 4.12 – CESS distribution model – 30 Nov 2023*, 30 November 2023 & Ausgrid, *Ausgrid Revised proposal – Att. 4.12 – CESS transmission model – 30 Nov 2023*, 30 November 2023.
Note: Numbers may not sum due to rounding.

Ausgrid's revised proposal adjusted its actual/estimated capex for the current regulatory period, resulting in a reduction in CESS benefit of $39.67 million. This adjustment has increased the overspend from our draft decision and resulted in a CESS total increment of $70.19 million. The reasoning for our final decision is consistent with our draft decision.[59]

In its revised proposal, Ausgrid accepted our draft decision to not exclude distribution management system (ADMS), cyber security and innovation capex from the CESS model. We acknowledge that the RCP supports the exclusion of these from the CESS. However, the RCP's reasoning has not significantly changed from what we previously addressed in our draft decision.

We note that Ausgrid has not agreed to forgo the $63 million in CESS benefit associated with the compulsory acquisition of Bligh Street. Ausgrid states that forgoing this amount could create a precedent for future ex-post exclusions.[60] We maintain our view that this asset disposal does not reflect the CESS principle of rewarding efficiencies in capex.[61]

PIAC's submission agreed with our view, stating that the inclusion of the CESS benefit associated with the Bligh Street compulsory acquisition was not in the long term interest of consumers.[62] The RCP noted that it did not have enough information to support the waiver in CESS benefit.[63] Both PIAC and the RCP have recommended the CESS guideline be amended to include treatment of compulsory property acquisitions.[64]

3.2 Efficiency Benefit Sharing Scheme

Our final decision is to include EBSS carryover amounts totalling $371.0 million ($2023–24) from the application of the EBSS in the 2019–24 period. This is a $1.1 million decrease compared to Ausgrid's proposed carryover amount of $372.1 million.

This difference reflects adjustments we made to account for the most recent inflation figures (not available at the time Ausgrid submitted its revised proposal) to convert amounts into 2023–24 dollars. Details of the calculation of EBSS carryover amounts are included in the EBSS model published with our final decision.

We set out our final decision on Ausgrid's EBSS carryover amounts in Table 5.

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59 AER, *Draft Decision Attachment 9 – Capital expenditure sharing scheme – Ausgrid - 2024–29 Distribution revenue proposal – September 2023*, 28 September 2023.

60 Ausgrid, *Revised proposal - 2024–29 Revised Regulatory Proposal*, November 2023. p. 47.

61 AER, *Draft Decision Attachment 9 – Capital expenditure sharing scheme – Ausgrid - 2024–29 Distribution revenue proposal,* September 2023. p. 6.

62 PIAC, *Submission on the NSW revised proposals and draft decisions 2024–29*, 19 February 2024. p. 19.

63 Reset Consumer Panel, *Report on Ausgrid Revised Proposal*, November 2023, pp.42-3.

64 PIAC, *Submission on the NSW revised proposals and draft decisions 2024–29*, 19 February 2024. p. 19.

Table 5 EBSS carryover amounts in 2024–29 ($2023–24, million)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Ausgrid's revised proposal	140.8	186.8	51.0	–11.9	5.3	372.1
AER final decision	140.4	186.3	50.9	–11.8	5.2	371.0
Difference	**-0.4**	**-0.5**	**-0.1**	**0.0**	**0.0**	**-1.1**

Source: AER analysis, Ausgrid, *Revised Proposal – Att 4.11 – EBSS Model*, 30 November 2023.
Note: Numbers may not sum due to rounding.

We will continue to apply version 2 of the EBSS to Ausgrid in the 2024–29 period. This provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between Ausgrid and network users.

Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods. In calculating EBSS carryover amounts, we will exclude cost categories and adjust, as required by the scheme and previously set out in our draft decision. In addition to the exclusions noted previously in our draft decision,[65] we will also exclude costs associated with Ausgrid's network innovation program.

3.3 Service Target Performance Incentive Scheme (STPIS)

Ausgrid accepted our draft decision to apply the STPIS 2.0 for the 2024–29 period without the customer service parameter (telephone answering parameter). In lieu of the STPIS customer service component. Ausgrid also updated its STPIS incentive rates, reliability performance targets and historical reliability performance to take into account its actual performance in FY23.[66]

Our final decision is to apply the STPIS 2.0[67], consistent with our draft decision, albeit with changes to reliability targets, incentive rates and value of customer reliability as a result of updates to the final revenue numbers and the CPI. The reasoning behind our position is outlined in our draft decision.[68]

Further, Ausgrid must continue to report on the telephone answering parameter in the upcoming regulatory 2024–29 period. Our final decision on each of these parameters is contained in Table 6, Table 7 and Table 8.

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65 AER, *Draft decision, Attachment 8 – Efficiency benefit sharing scheme – Ausgrid – 2024–29 – Distribution revenue proposal,* September 2023, pp. 8–9.

66 Ausgrid, *Ausgrid's 2024–29 Revised Proposal*, 30 November 2023, p. 47.

67 AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018.

68 AER, *Draft Decision Attachment 10 - Service target performance incentive scheme -Ausgrid – 2024–29 Distribution revenue proposal*, September 2023, pp. 4–6.

Table 6 Final decision - STPIS reliability targets for Ausgrid for the 2024–29 period

	CBD	Urban	Short rural	Long rural
SAIDI (minutes)[69]	13.0183	64.7924	129.0408	841.1598
SAIFI (interruptions)[70]	0.0382	0.5575	0.9312	2.2695

Source: AER analysis.

Table 7 Final decision - STPIS incentive rates for Ausgrid for the 2024–29 period

	CBD	Urban	Short rural	Long rural
ir - SAIDI	0.0038	0.0764	0.0108	0.0001
ir - SAIFI	0.8723	5.9204	0.9984	0.0191

Source: AER analysis
Note: ir is the incentive rate (expressed in a percentage per unit of the parameter).

Table 8 Value of customer reliability (VCR) ($/MWh)

Feeder types	CBD	Urban	Short rural	Long rural
VCR	52,144	49,333	49,333	49,333

Source: AER analysis

3.4 Demand Management Incentive Scheme (DMIS) and DMIAM

Our final decision is to apply the DMIS and DMIAM to Ausgrid in the 2024–29 period. This approach is consistent with Ausgrid's revised proposal[71] and our draft decision on DMIS and DMIAM.[72]

Ausgrid's Network Innovation Advisory Council (NIAC) submitted that the current innovation funding options available to networks under DMIAM are no longer sufficient to underpin the scale of innovation required to deliver the clean energy electricity system of the future.

We acknowledge NIAC's concerns on the level of DMIAM allowance.[73] However, consideration about the scheme's design as it relates to allowances is not within the scope of our DMIAM decision and can only be considered if the scheme is reviewed.

69 System Average Interruption Duration Index (SAIDI).

70 System Average Interruption Frequency Index (SAIFI).

71 Ausgrid, *2024–29 Revised Proposal*, 30 November 2023, p. 50.

72 AER, *Draft Decision Attachment 11 - DMIS and DMIAM - Ausgrid – 2024–29 Distribution revenue proposal*, September 2023; p. 1.

73 NER, cl. 6.12.1(9).

The DMIAM allowance for Ausgrid for the 2024–29 period, based on the final PTRM for Ausgrid, is outlined in section 2.7 of this document.

3.5 Customer Service Incentive Scheme (CSIS)

The CSIS is designed to encourage electricity distributors to engage with their customers and provide customer service in accordance with their preferences. The CSIS allows us to set targets for distributor customer service performance and require distributors to report on performance against those targets. Under the CSIS distributors may be financially rewarded or penalised depending on how they perform against their customer service targets.

Our final decision is that a CSIS will apply because Ausgrid's incentive design meets the requirements of the scheme. Our reasoning for our final decision is set out in detail in attachment 12.

4 Tariff structure statement

Ausgrid's revised 2024–29 regulatory proposal includes its third tariff structure statement. This 2024–29 tariff structure statement will apply from 1 July 2024 and remain in effect for the 2024–29 regulatory period.

Our final decision is to approve Ausgrid's revised 2024–29 tariff structure statement with the following further two amendments:

- to extend the transition period over which Ausgrid's embedded network tariffs will be introduced from 5 years to 7 years
- to include an individually calculated tariff for storage customers.

These amendments complement the changes Ausgrid already made in its revised tariff structure statement to align with our draft decision. The changes included:

- providing more information on its approach to setting individually calculated tariffs and the charging parameters that apply to these tariffs
- changing, with supporting information, the threshold at which businesses cannot opt-out of capacity tariffs (so that businesses that consume up to 160MWh and with demand over 100 kVA can still access time-of-use or demand tariffs).[74,75]

Ausgrid also proposed one additional change to its small customer assignment policy. The change responded to stakeholder feedback and reflected Ausgrid's updated implementation costs for its proposed two-way tariff. As the change is relatively minor, our final decision is to allow Ausgrid to

- change its small customer assignment policy so customers on the withdrawn introductory time-of-use tariffs will be assigned to the introductory demand tariff for 12 months before being assigned to the standard demand tariff (previously these customers were to be assigned directly to the standard demand tariff).

As already noted, we received significant feedback from stakeholders on its embedded network tariffs. Our final decision is to amend the transition period for Ausgrid's embedded network tariffs from 5 years to 7 years. This responds to stakeholder submissions on the bill impact of the higher demand charges of the embedded network tariffs relative to the current tariffs faced by embedded network operators.

We consider a 7-year transition period will better mitigate the impact of sharp bill increases for embedded network operators and customers within embedded networks while progressively reducing the extent to which non-embedded network customers cross-subsidise embedded networks.

We amended the tariff structure statement to include an individually calculated tariff option for storage customers at the request of Ausgrid. Ausgrid identified this as an unintended gap

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74 MWh = megawatt hours; kVA = kilo volt amperes.

75 For a complete list of changes we encouraged Ausgrid to include in its revised tariff structure statement, see AER, D*raft Decision Attachment 19, Tariff Structure Statement, Ausgrid 2024–29 Distribution revenue proposal,* September 2023, pp 4 – 5.

in its individually calculated tariffs and the structure for the individually calculated tariff (storage) will match the structure of its utility-scale storage tariffs.

In Attachment 19 we describe our assessment of Ausgrid's revised tariff structure statement and explain our final decision to approve it.

5 Other price terms and conditions

In this section, we consider other aspects of our determination, which include the classification of the services, the application of the AEMC metering review and Ausgrid's connection policy, transmission pricing, and negotiated services.

5.1 Metering services

Smart meters are foundational to a more connected, modern, and efficient energy system and one mechanism to ensure that future technologies, services, and innovations are supported. Throughout the 2024–29 regulatory determinations we signalled that the AEMC's final decision on the transitioning of legacy meters may require us to consider different classification and/or price/revenue control settings for the businesses.

The key objective of the AEMC's final decision, released in August 2023, is to target a 100% replacement of distribution network owned accumulation meters with smart meters offered by other parties by 30 June 2030.[76] Our draft decision indicated this would constitute a material change in circumstances, which would justify departure from the classification of legacy meter services in the Framework and approach (F&A). [77]

We had identified concerns that customers whose meters are replaced later in the replacement program would incur inequitably higher prices than those whose meters are replaced earlier. While socialisation of metering costs generally occurs at the retail level, we were concerned that retailer's ability to socialise differs based on a number of settings, so socialisation at the network level would produce more consistent outcomes for customers.

Our draft decisions asked businesses to consider whether reclassification of legacy meter services to standard control services was likely to be more appropriate, as this would result in the socialisation of metering costs across a wider customer group.

Since the publication of our draft decision, we have engaged with the businesses on the most appropriate outcome to ensure customers are not inequitably impacted from rising costs in the transition and prevented from realising the benefits the smart meters provide.

While we looked to maintain consistency of approach to legacy metering services across the 2024–29 businesses, further consideration of the individual circumstances of the businesses identified that a tailored approach would be required to ensure we are providing an outcome that is in the long term interest of consumers.

For Ausgrid, our final position is to accept its revised proposal to maintain legacy metering services as alternative control services. It was identified for Ausgrid's customers that there would be minimal difference in reclassifying these services to standard control services. Our analysis supports Ausgrid's approach. The reasons for our decision are discussed in detail at attachment 20.

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

77 AER, *Draft Decision Overview - Ausgrid – 2024–29 Distribution revenue proposal, September 2023*, pp. 32-33.

Outcomes relating to service classification to support the AEMC's intention are discussed at attachment 13.

5.2 Classification of services

As discussed in section 5.1, the AEMC's final decision on metering resulted in a material change of circumstance to justify a departure from final F&A.[78] Our final decision for Ausgrid is to accept the majority of changes proposed to support the transition of legacy meters under the AEMC's final decision.

In addition, Ausgrid also proposed changes to include new unregulated distribution services, submitting that a material change of circumstance had occurred as a result of the continued growth and path of the energy transition. The NSW businesses all raised concerns that during this transition period they will be required to play an expanded role in providing services in the contestable market.

We have considered the concerns raised, and note that these issues were also extensively consulted on during the development of the F&A. Following consideration of the new services proposed for classification by the businesses in their revised proposal, our final position is to maintain our final F&A decision and not classify the new support services proposed, except for including a clarifying example of the leasing space on electricity infrastructure for EV charging.

Details of our reasoning and the final list of classified services for Ausgrid are set out in attachment 13 to this decision.

5.3 Negotiating framework and criteria

In our draft decision, we approved Ausgrid's proposed distribution negotiating framework for the 2024–29 period.[79] We did not receive any objections or submissions on our draft decision. Our final decision maintains the decision to approve Ausgrid's negotiating framework.

We are also required to decide on the Negotiated distribution service criteria for the distributor. Our final decision is to retain the Negotiated distribution service criteria published for Ausgrid in February 2023 for the 2024–29 period.[80] Details of Negotiated distribution service criteria are set out in attachment 17 of our draft decision.[81]

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78 AER, *Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy for the 2024–29 regulatory control period*, July 2022.

79 AER, *Attachment 17 - Negotiated services framework and criteria | Draft decision - Ausgrid distribution determination 2024–29*, September 2023.

80 AER, *Proposed Negotiated Distribution Service Criteria 2024–29 for Ausgrid*, February 2023.

81 AER, *Attachment 17 - Negotiated services framework and criteria | Draft decision – Endeavour Energy distribution determination 2024–29*, September 2023, pp. 4-6.

5.4 Connection policy

In our draft decision, we did not approve Ausgrid's proposed connection policy for the 2024–29 period. We modified its connection policy to the extent necessary to enable it to be approved in accordance with the NER requirements.[82]

In its revised proposal, Ausgrid accepted all changes made to the initial connection policy. Ausgrid's approved connection policy for the 2024–29 period is appended to attachment 18 of our final decision.[83]

5.5 Transmission pricing

Ausgrid submitted a transmission pricing methodology for our approval because its network includes high-voltage transmission assets, which are subject to the pricing arrangements for transmission standard control services.[84]

Ausgrid accepted our draft decision and therefore did not submit a revised pricing methodology.[85] We consider the Ausgrid's proposed pricing methodology[86] gives effect to, and is consistent with, the NER pricing principles, and complies with the information requirements as per the pricing methodology guidelines.[87]

Our detailed assessment of Ausgrid's pricing methodology is set out in attachment 21 of our draft decision.

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82 The NER requirements are set out in Part DA of chapter 6. See also AER, *Attachment 18 – Connection policy | Draft decision – Ausgrid distribution determination 2024–29*, September 2023.

83 Ausgrid, *Email to AER re Ausgrid Connection Policy*, 7 December 2023.

84 NER, rule. 6.25.

85 Ausgrid*, RE: Ausgrid – Information request - #069 – Transmission pricing methodology*, 5 February 2024.

86 Ausgrid, *Att. 8.8 – Transmission pricing methodology*, 31 January 2023. Our draft decision also accepted Ausgrid's proposed pricing methodology; AER, *Draft Decision Attachment 21 – Transmission Pricing methodology - Ausgrid – 2024–29 Distribution revenue proposal*, September 2023.

87 Principles for the recovery of revenue or these service, and pricing methodologies are set out in cll. 6A.23.3 and 6A.24.1 of the NER; See also, AER, *Electricity transmission service providers pricing methodology guidelines*, August 2022.

6 Constituent decisions

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

Constituent component
In accordance with clause 6.12.1(1) of the NER, the AER's final decision is that the classification of services set out in Attachment 13 will apply to Ausgrid for the 2024–29 regulatory control period, for the reasons set out in that attachment.
In accordance with clause 6.12.1(2)(i) of the NER, the AER's final decision is to not approve the annual revenue requirement set out in Ausgrid's building block proposal. Our final decision on Ausgrid's annual revenue requirement for each year of the 2024–29 regulatory control period is set out in Attachment 1.
In accordance with clause 6.12.1(2)(ii) of the NER, the AER's final decision is to approve Ausgrid's proposal that the regulatory control period will commence on 1 July 2024. Also, in accordance with clause 6.12.1(2)(ii) of the NER, the AER's final decision is to approve Ausgrid's proposal that the length of the regulatory control period will be five years from 1 July 2024 to 30 June 2029.
The AER did not receive a request for an asset exemption under clause 6.4B.1(a)(1) and therefore has not made a decision in accordance with clause 6.12.1(2A) of the NER.
In accordance with clause 6.12.1(3)(ii) and acting in accordance with clause 6.5.7(d) of the NER, the AER's final decision is to not accept Ausgrid's proposed total net capital expenditure forecast of $3,200.6 million ($2023–24). Our final decision therefore includes an alternative estimate of Ausgrid's total net capex forecast for the 2024–29 regulatory control period of $2,882.7 million ($2023–24). The reasons for our final decision are set out in Attachment 5.
In accordance with clause 6.12.1(4)(ii) and acting in accordance with clause 6.5.6(d) of the NER, the AER's final decision is to not accept Ausgrid' proposed total forecast operating expenditure, inclusive of debt raising costs and exclusive of DMIAM of $2,233.7 million ($2023–24). Our final decision therefore includes an alternative estimate of Ausgrid's total forecast opex for the 2024–29 regulatory control period of $2,364.8 million ($2023–24) including debt raising costs and exclusive of DMIAM. The reasons for our final decision are set out in Attachment 6.
In accordance with clause 6.12.1(4A) of the NER, the AER's final decision is to determine that the Macquarie Park project, proposed in Ausgrid's revised proposal, is a contingent project for the purpose of this revenue determination. The AER determines that the capital expenditure for the Macquarie Park project is $128 million. The AER determines that the trigger events for the Macquarie Park contingent project, as set out in section B.1.4 of Attachment 5, are appropriate. Our decision on the Macquarie Park contingent project is set out in Attachment 5 of this final decision.
In accordance with clause 6.12.1(5) of the NER and the 2022 Rate of Return Instrument, the AER's final decision is that the allowed rate of return for the 2024–25 regulatory year is 5.95% (nominal vanilla), for the reasons set out in section 2.2 in the overview. The rate of return for the remaining regulatory years of the 2024–29 period will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.

Constituent component

In accordance with clause 6.12.1(5A) of the NER and the 2022 Rate of Return Instrument, the AER's final decision on the value of imputation credits as referred to in clause 6.5.3 is to adopt a value of 0.57. The reasons for our final decision are set out in section 2.2 in the overview.

In accordance with clause 6.12.1(6) of the NER the AER's final decision on Ausgrid's combined regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is $18,532.1 million ($ nominal). The reasons for our final decision are set out in Attachment 2.

In accordance with clause 6.12.1(7) of the NER, the AER's final decision on Ausgrid's combined estimated cost of corporate income tax is $144.0 million ($ nominal) for the 2024–29 regulatory control period. The reasons for our final decision are set out in Attachment 7 and the amount for each regulatory year of the 2024–29 regulatory control period is set out in the tables below.

Distribution

($ million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	57.3	56.8	58.6	61.9	56.2	290.7
Less: value of imputation credits	32.7	32.4	33.4	35.3	32.0	165.7
Net cost of corporate income tax	**24.6**	**24.4**	**25.2**	**26.6**	**24.2**	**125.0**

Transmission

($ million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	8.7	9.1	9.4	7.8	9.1	44.1
Less: value of imputation credits	5.0	5.2	5.3	4.5	5.2	25.1
Net cost of corporate income tax	**3.7**	**3.9**	**4.0**	**3.4**	**3.9**	**19.0**

In accordance with clause 6.12.1(8) of the NER, the AER's final decision is to not approve the depreciation schedules submitted by Ausgrid. Our final decision substitutes alternative depreciation schedules that we determine accord with clause 6.5.5(b). The combined regulatory depreciation amount approved in this final decision is $776.4 million ($ nominal) for the 2024–29 regulatory control period. The reasons for our final decision are set out in Attachment 4.

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

- We will apply version 2 of the EBSS to Ausgrid in the 2024–29 regulatory control period. Our reasons are set out in section 3.2 of the overview and Attachment 8 of our draft decision.
- We will apply the CESS as set out in the Capital Expenditure Incentives Guideline to Ausgrid in the 2024–29 regulatory control period. Our reasons are set out in section 3.1 of the overview and Attachment 9 of our draft decision.
- We will not apply the ESIS for the 2024–29 regulatory control period as set out in the Overview of our draft decision.

Constituent component
• We will apply the STPIS version 2 to Ausgrid for the 2024–29 regulatory control period as set out in section 3.3. • We will apply the DMIS and DMIAM to Ausgrid for the 2024–29 regulatory control period as set out in section 3.4. • We will apply the CSIS to Ausgrid for the 2024–29 regulatory control period. Our reasons are set out in Attachment 12.
In accordance with clause 6.12.1(10) of the NER, the AER's final decision is that all other appropriate amounts, values and inputs are as set out in this final determination including attachments.
In accordance with clause 6.12.1(11) of the NER and our framework and approach paper, the AER's final decision on the form of control mechanisms (including the X factor) for standard control services is a revenue cap. The revenue cap for Ausgrid for any given regulatory year is the total annual revenue calculated using the formula in Attachment 14, which includes any adjustment required to move the Distribution Use of Service (DUoS) unders and overs account to zero. The reasons for our final decision are set out in Attachment 14.
In accordance with clause 6.12.1(12) of the NER and our framework and approach paper, the AER's final decision on the form of the control mechanism for alternative control services is to apply price caps for all alternative control services. The reasons for our final decision are set out in Attachment 14, Attachment 16 and Attachment 20.
In accordance with clause 6.12.1(13) of the NER, to demonstrate compliance with its distribution determination, the AER's final decision is that Ausgrid must maintain a DUoS unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.
In accordance with clause 6.12.1(14) of the NER the AER's final decision is to apply the following nominated pass through events to Ausgrid for the 2024–29 regulatory control period in accordance with clause 6.5.10: • Insurance coverage event • Insurer's credit risk event • Terrorism event • Natural disaster event The definitions of these events, and our reasons for this decision, are set out in Attachment 15.
In accordance with clause 6.12.1(14A) of the NER, the AER's final decision is to approve the tariff structure statement proposed by Ausgrid, with the amendments described in Attachment19. The reasons for our final decision and amendments are set out in Attachment 19.
In accordance with clause 6.12.1(15) of the NER, the AER's final decision is that the negotiating framework as proposed by Ausgrid will apply for the 2024–29 regulatory control period. The reasons for our final decision are set out in section 5.3 of overview and Attachment 17 of our draft decision.
In accordance with clause 6.12.1(16) of the NER, the AER's final decision is to apply the negotiated distribution services criteria published in February 2023 to Ausgrid. The reasons for our final decision are set out in section 5.3 of overview and Attachment 17 of our draft decision.

Constituent component
In accordance with clause 6.12.1(17) of the NER, the AER's final decision on the procedures for assigning retail customers to tariff classes is set out in Attachment 19 of the draft decision.
In accordance with clause 6.12.1(17A) of the NER, the AER's final decision is to approve Ausgrid's proposed pricing methodology for transmission standard control services. Our reasons for this are set out in section 5.5 of the Overview and Attachment 21 of our draft decision.
In accordance with clause 6.12.1(18) of the NER, the AER's final decision is that the depreciation approach to be used to establish the RAB at the commencement of Ausgrid's regulatory control period as at 1 July 2029 is to be based on forecast capex (forecast depreciation). The reasons for our final decision are set out in Attachment 2.
In accordance with clause 6.12.1(19) of the NER, the AER's final decision on how Ausgrid is to report to the AER on its recovery of designated pricing proposal charges, and how it must account for the under and over recovery of designated pricing proposal charges, is that it must use the unders and overs mechanism described in Attachment 14. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.
In accordance with clause 6.12.1(20) of the NER, the AER's final decision on how Ausgrid is to report to the AER on its recovery of jurisdictional scheme amounts, and how it must account for the under and over recovery of jurisdictional scheme amounts, is that it must use the unders and overs mechanism described in attachment 14. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.
In accordance with clause 6.12.1(21) of the NER, the AER's final decision is to approve the connection policy proposed by Ausgrid as set out in section 5.4 and Attachment 18.

7 List of submissions

We received 25 submissions in response to Ausgrid's revised revenue proposal and our final decision. These are listed below[88].

Stakeholder submissions	
Active Utilities	Sebastian Pfautsch, Western Sydney University
AGL	Southern Sydney Regional Organisation of Councils (SSROC)
Ausgrid's Reset Customer Panel	Stakeholder submission
Caravan and Camping Industry Association NSW	Tesla
Central Coast Council	
Committee for Sydney	
Compliance Quarter	
Consumer Challenge Panel, sub-panel 26	
Energy and Water Ombudsman NSW	
Energy Locals	
Evie Networks	
Hunter Water Corporation	
Independent Pricing and Regulatory Tribunal (IPART)	
Origin Energy	
Network Energy Services	
Network Innovation Advisory Committee	
North Sydney Council	
Public Interest Advocacy Centre (PIAC)	
Red and Lumo Energy	
Rural Fire Service	
Resilient Sydney	

88 Submissions are available on the AER website at: https://www.aer.gov.au/industry/registers/determinations/ausgrid-determination-2024-29/consultation-submissions-draft-decision-and-revised-proposal.

Shortened forms

Term	Definition
ACS	alternative control services
ADMS	Advanced Distribution Management System
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ARR	annual revenue requirement
capex	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 26
CESS	capital expenditure sharing scheme
CER	consumer energy resources
CPI	consumer price index
CSIS	customer service incentive scheme
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service Provider
EBSS	efficiency benefit sharing scheme
EV	electric vehicle
F&A	framework and approach
ICT	information and communication technologies
LV	low voltage
NEL	National Electricity Law
NEO	National Electricity Objectives
NER	National Electricity Rules
NIAC	Network Innovation Advisory Council
opex	operating expenditure
PIAC	Public Interest Advocacy Centre
PTRM	post-tax revenue model
RAB	regulated asset base
RBA	Reserve Bank of Australia
RCP	Reset Customer Panel

Term	Definition
repex	replacement expenditure
SaaS	Software as a Service
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital
WPI	wage price index
VCR	value of customer reliability
VoC Panel	Voice of Community Panel