

Final Decision

Ausgrid Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029)

Attachment 20 Metering services

April 2024

© Commonwealth of Australia 2024

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 3.0 AU licence.

Inquiries about this publication should be addressed to:

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

AER reference: AER212493

Amendment record

Version	Date	Pages
1	30 April 2024	

List of attachments

This attachment 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. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 12 – Customer service incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 19 – Tariff structure statement

Attachment 20 – Metering services

Contents

List of attachments	iii
20 Metering services	1
20.1 Background	2
20.2 Final decision.....	4
20.3 Ausgrid’s revised proposal.....	4
A. Reasons for final decision	7
A.1 Classification and form of control.....	7
A.2 Smart meter deployment rates.....	8
A.3 Annual revenue requirement.....	8
A.4 Regulatory asset base	9
A.5 Rate of return.....	10
A.6 Regulatory depreciation.....	10
A.7 Capital expenditure.....	11
A.8 Operating expenditure	11
B. Metering price caps	15
Shortened forms	16

20 Metering services

This attachment sets out our final decision for the 2024–29 regulatory control period (2024–29 period) for type 5 (interval) and type 6 (accumulation) metering services for assets owned by Ausgrid.

Metering services include the maintenance, reading, data services, and the recovery of capital costs related to meters. Since the introduction of the Power of Choice reforms on 1 December 2017, Ausgrid is no longer responsible for installation of new meters and may not install any type 5 or type 6 meters from 1 April 2018. We are responsible for setting prices for Ausgrid’s metering services.

Metering assets are used to measure electrical energy flows at a point in the network to record consumption for the purposes of billing. Not all customers have the same type of meter. There are different types of meters which measure electricity usage in different ways:¹

- Type 1 to 4 meters have a remote communication ability. We refer to these as smart meters. Type 1 to 4 metering services are contestable and therefore not regulated.
- Type 5 meters are interval meters and Type 6 meters are accumulation meters. We refer to these as legacy meters, which are being progressively replaced by smart meters.
- Type 7 metering services are unmetered connections with a predictable energy consumption pattern (for example, public lighting connections). Type 7 metering services are a monopoly provided service and are covered by our determination on standard control services.

Distributors also provide some non-routine metering services which are charged to customers when requested, such as meter disconnection. These non-routine metering services are fee-based ancillary network services, which are discussed in attachment 16.

This attachment:

- Provides a background to recent changes affecting metering services, including the decision framework, and the impacts of the Australian Energy Market Commission’s (AEMC) metering review on this final decision (section 20.1). It applies to our determinations for all distributors in New South Wales, Australian Capital Territory and Tasmania.
- Sets out our final decision (section 20.2), which draws on the reasons in Appendix A.
- Summarises Ausgrid’s revised proposal (section 20.3).
- Sets out the reasons for our final decision (Appendix A).
- Sets out our final decision price caps for type 5 (interval) and type 6 (accumulation) routine metering services (Appendix B).

¹ AER, *Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy for the 2024–29 regulatory control period*, July 2022, pp. 28–29.

20.1 Background

20.1.1 Transition to smart metering

The 2017 Power of Choice reforms removed the distributors' ability to provide new meters to customers and intended to introduce competition for providing and servicing meters by other meter providers in the NEM.² New standards mean only smart meters (mostly type 4 meters for residential customers) with remote communications may now be installed.

The take up of smart meters across the NEM has generally been slow. Ausgrid has forecast a legacy meter population of nearly 1,243,000 meters in 2023–24, being 55% of the legacy metering asset base when the reforms were introduced.³

In August 2023, the AEMC completed its review of the regulatory framework for metering services (the metering review). The AEMC review looked at how to expedite the uptake of smart meters. The AEMC's report noted that smart meters provide whole-of-system benefits which should be realised as soon as possible.⁴

As such, the metering review recommended a target of universal take-up of smart meters by 2030 in NEM jurisdictions. This recommendation would have the most impact in New South Wales, the Australian Capital Territory, Queensland and South Australia. Tasmania has a program in place to accelerate smart meter deployment by 2026. Victoria has already achieved a near universal uptake of smart meters.⁵

To achieve this outcome, the AEMC proposed a framework where the distributors develop legacy meter retirement plans (LMRPs) in consultation with retailers, metering parties, and other stakeholders. It is envisaged the LMRPs will schedule bulk meter replacements (retailers to replace legacy meters with smart meters) on a geographical basis to leverage economies of scale. Customers may have little choice as to when their legacy meter will be replaced as it will be determined by the distributors and other providers.

If distributors maintained the 2019–24 settings for metering services with costs allocated to a declining customer base, customers with meters replaced later in the deployment may be charged inequitably higher costs for metering services than customers with meters replaced earlier, even though there is no change in the service they receive. This arises because:

- Large fixed-cost base will be recovered over a rapidly declining number of customers (e.g. systems and IT, base labour force).
- Per unit costs to read a meter increase as it is further to travel between each meter.
- Some costs that are necessary for the transition, such as site remediation, may also occur within the 2024–29 period. As the rate of replacement increases, more of the sites requiring remediation will be brought forward into the 2024–29 period.

² This does not apply to the Northern Territory and Victorian customers who are covered by state regulation that places responsibility for metering with the distributors.

³ Ausgrid, *Att. 9.4 - Standardised metering capex and opex model 2024–29*, 30 November 2023; AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering PTRM*, April 2024.

⁴ AEMC, *Final report Metering review*, August 2023, p.13.

⁵ AEMC, *Final report Metering review*, August 2023, p. iii.

20.1.2 Our draft decision

Our draft decision had regard to the metering review and how to address potential inequity in metering service costs as a result of the metering transition. It applied the following regulatory settings:

- The service classification as alternative control services (ACS) is retained.
- The price cap form of control is retained, which sets the maximum fixed prices distributors can charge per customer.
- The price caps are set with the expectation that distributors will recover costs from all low voltage customers who have had a legacy meter, instead of an ever-decreasing population of customers with legacy meters.
- The price caps are set to recover the revenue requirement as a whole (one price), rather than separate capital and non-capital components for recovery from different customer bases as per the approach in the 2019–24 period.
- The legacy metering asset base is subject to accelerated depreciation to fully depreciate the asset base within the 2024–29 period. This reflects a change in the remaining life of the assets due to the metering review.
- An assumption that the meter replacement rate will accelerate along a straight line from 2025 to achieve 100% deployment at the end of the 2029–30 financial year.⁶

The central goal of the draft decision was to ensure that potentially vulnerable customers are protected from rising costs. This change ensured no customer is worse off due to when their legacy meter is replaced. However, we recommended distributors reclassify legacy metering services as standard control services (SCS) with costs recovered through the revenue cap because it is likely to reduce material price impacts for customers through the metering transition. Contribution by all customers is appropriate as all energy users will recognise the network benefits of this transition.

We considered the recommendations of the metering review to be a material change in circumstances that supports a departure from the final framework and approach (F&A).⁷ We encouraged the distributors to engage with stakeholders in considering potential changes in classification and form of control for their revised proposals. We considered it important that a reclassification of metering services as SCS would need to retain the current level of transparency through the continued use of the standardised metering models.

⁶ We set this path based on the best information available to us at the time of our draft decision. We expect actual rates of replacement to be different to this linear path, and for some exceptions to be made for meters with complicating factors.

⁷ AER, *Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy for the 2024–29 regulatory control period*, July 2022, p. 29.

20.2 Final decision

Our final decision is to not accept Ausgrid’s revised proposal as submitted. Based on our analysis, our final decision is to:

- Accept Ausgrid’s revised metering capex. We apply updated actual and forecast inflation and inputs related to the 2022 rate of return instrument.⁸
- Accept the unaccelerated depreciation schedules proposed by Ausgrid.
- Substitute our forecast metering opex, particularly relating to the step and trend components. We apply updates to labour cost escalation and inflation.
- Substitute our annual revenue requirement, which applies our substitute inputs as noted above.
- Accept Ausgrid retaining the ACS classification.
- Substitute our price cap calculation for legacy metering services with charges varying by tariff type.

Subsequent to Ausgrid submitting its revised proposal, we engaged Ausgrid on further refinements to its metering charges. As a result, Ausgrid submitted an amended cost recovery approach with a simpler tariff structure that provides a greater socialisation of costs and better price outcomes for customers than their revised proposal.⁹ Our final decision accepts the amended approach.

20.3 Ausgrid’s revised proposal

Ausgrid proposed that legacy metering services be classified as ACS and regulated under a price cap (see Appendix A.1).

As the provision of these services is subject to the progressive retirement of legacy meters Ausgrid’s proposal is based on an accelerated rate of replacement. Ausgrid proposed to retire 75% of its legacy meters, leaving around 313,000 legacy meters in place in 2028–29.¹⁰

20.3.1 Metering revenue

Ausgrid proposed a total smoothed annual revenue requirement of \$277.3 million (\$nominal) for the 2024–29 period.¹¹ To determine its proposed revenue requirement Ausgrid used the AER’s standardised metering models which applies the building block approach to determine allowable revenue. Ausgrid’s proposed annual revenue requirement and building blocks are set out in Table 20.1.

⁸ AER, *Rate of Return Instrument 2022*. The 2022 Rate of Return Instrument was amended in August 2023. See <https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision>.

⁹ Ausgrid, *Ausgrid resubmission – Type 5 & 6 metering*, 15 March 2024; Ausgrid, *Type 5&6 Metering amendment to revised proposal*, 15 March 2024, pp. 1–3.

¹⁰ Ausgrid, *Att. 9.4 - Standardised metering capex and opex model 2024–29*, 30 November 2023.

¹¹ Ausgrid, *Att. 9.3 - Metering PTRM 2024–29*, 30 November 2023.

Table 20.1 Ausgrid’s proposed building blocks and annual revenue requirement (\$million, nominal)

Building block component	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	6.3	5.4	4.0	2.6	1.1	19.6
Return of capital (regulatory depreciation)	22.0	28.4	28.9	29.3	17.8	126.5
Operating expenditure	28.2	28.6	26.0	22.3	16.7	121.9
Revenue adjustments	-	-	-	-	-	-
Net tax allowance	0.6	1.4	1.1	1.1	0.0	4.1
Annual revenue requirement (unsmoothed)	57.1	63.8	60.0	55.4	35.7	272.0

Source: Ausgrid, *Att. 9.3 - Metering PTRM 2024–29*, 30 November 2023.

20.3.1.1 Capex

Ausgrid proposed total net capex of \$19.4 million (\$2023–24) for the 2024–29 period.¹² This includes the cost of assets such as depots and communications technology which enable Ausgrid to deliver these services.¹³ Ausgrid did not propose any direct capex because direct capex relates to investment in new assets and Ausgrid is not allowed to install new meters.

20.3.1.2 Opex

Ausgrid’s proposed opex of \$113.0 million (\$2023–24) for the 2024–29 period includes the costs of performing routine meter reading, maintenance and other support activities.¹⁴ Ausgrid developed its opex forecast using the ‘base-step-trend’ approach, consistent with the standardised models, the approach for SCS, and the approach used in the 2019–24 period. Ausgrid proposed the following step changes to its metering operating expenditure:¹⁵

- \$2.5 million (\$2023–24) for the development and facilitation of its LMRP
- -\$0.1 million (\$2023–24) for the reduction in bulk meter testing which is partially offset by transitional metering services
- \$3.9 million (\$2023–24) to undertake bulk final meter reads for removed Type 5 meters by Accredited Service Providers (ASP) and Meter Providers.

To establish the trend in opex over the 2024–29 period, Ausgrid applied the following factors:¹⁶

- declining number of meters

¹² Ausgrid, *Att. 9.3 - Metering PTRM 2024–29*, 30 November 2023.

¹³ A relevant allocation of this indirect capex to legacy metering services is calculated in line with Ausgrid’s applicable Cost Allocation Methodology.

¹⁴ Ausgrid, *Att. 9.3 - Metering PTRM 2024–29*, 30 November 2023.

¹⁵ Ausgrid, *Att. 9.1 - Alternative Control Services*, 30 November 2023, pp. 7-8; Ausgrid, *Att. 9.4 - Standardised metering capex and opex model 2024–29*, 30 November 2023.

¹⁶ Ausgrid, *Att. 9.4 - Standardised metering capex and opex model 2024–29*, 30 November 2023.

- real price changes in labour costs
- an adjustment reflecting the growing diseconomies of scale.

20.3.1.3 Regulatory depreciation

Ausgrid did not accept our draft decision to accelerate depreciation for legacy meters by adjusting the remaining metering asset life to 5 years in their revised proposal. Ausgrid’s metering asset base is already scheduled to be fully depreciated by 2028–29. The forecast closing metering regulatory asset base is a mix of metering and shared assets, totalling \$3.2 million (\$nominal).

20.3.2 Pricing

Ausgrid proposed to calculate its price caps for legacy metering services using the building blocks from the post tax revenue model (PTRM).

The table below shows Ausgrid’s proposed first year price caps for selected tariff types in the 2024–29 period.

Table 20.2 Ausgrid’s proposed first year price cap per meter (\$p.a. nominal)

Tariff type	2024–25
Residential flat	19.64
Residential demand	34.92
Controlled load	6.72
Small business flat	25.62
Small business demand	34.17
Large Business	55.32
Generator	8.53

Source: Ausgrid, *Att. 9.3 - Metering PTRM 2024–29*, 30 November 2023.

Since the revised proposal was submitted, Ausgrid submitted an amended cost recovery approach with a simpler tariff structure that provides a greater socialisation of costs and better price outcomes for customers than their revised proposal. The revised proposal maintained the distinction between flat tariff meter charges and time-of-use/demand tariff meter charges. Ausgrid considered a single weighted average charge for residential, small business and large business customers would be more appropriate pricing and give better effect to the AER’s aims.¹⁷

Table B.2 reflects the amended approach by showing the resulting first year price caps for tariff types in the 2024–29 period.

¹⁷ Ausgrid, *Ausgrid resubmission – Type 5 & 6 metering*, 15 March 2024; Ausgrid, *Type 5&6 Metering amendment to revised proposal*, 15 March 2024, pp. 1–3.

A. Reasons for final decision

A.1 Classification and form of control

Our final decision accepts Ausgrid’s revised proposal to retain metering as ACS and recover costs through the price cap form of control. For all subsequent years of the 2024–29 period, revenues will be adjusted by the applicable control mechanism formula set out in Attachment 14. This mechanism adjusts pricing caps annually for inflation, an X factor, and any relevant adjustments. These metering costs would be recovered through a varying per tariff charge to customers.

In our Final F&A, we classified legacy metering services as ACS and noted we would depart from these settings if the metering review constituted a “material change in circumstances”. As such, the ACT, NSW and TAS distributors’ initial proposals were based on F&A settings and subject to change based on the outcomes of the AEMC’s metering review.¹⁸ The AEMC’s metering review has resulted in a material change in circumstances, due to the requirement to replace all legacy meters by 2030 and the changes to regulated expenditure to support the metering transition.

As noted in section 20.1.1, if distributors did not revise their metering cost recovery settings from their initial proposals, some customers could have experienced inequitable price increases as more meters are replaced. As such, our draft decision expressed a preference for distributors to reclassify metering as SCS to mitigate inequitable price increases to individual customers by recovering costs across a wider customer base.

In response to our draft decision and the revised proposal, the Public Interest Advocacy Centre (PIAC) requested that Ausgrid should:

- recover legacy metering costs from all customers, not just low voltage customers, through SCS
- recover legacy metering costs proportionally, as opposed to a flat price
- not be allowed to accelerate the depreciation of its legacy metering asset base¹⁹

We note that PIAC’s submission acknowledged that a reclassification to SCS would not differ materially to that proposed, but rather it be pursued to maintain a consistent classification across NSW.

Our analysis of Ausgrid’s approach shows that it mitigates inequitable price increases over the 2024–29 period and supports the transition to the whole-of-system benefits that smart meters will provide. We note these elements of a cost recovery approach is supported by PIAC. PIAC preferred Ausgrid to recover metering costs from all customers (not just low voltage customers), however the NER precludes this. The pricing principles do not allow

¹⁸ AEMC, *Final report Metering review*, August 2023.

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

metering costs to be recovered from tariff classes that did not previously have legacy meters.²⁰

CCP26 observed that Ausgrid continued its strong partnership approach with the Ausgrid Reset Customer Panel as it developed its Revised Proposal and that Ausgrid’s approach to metering was given more attention than other issues by the Reset Customer Panel.²¹

We accept Ausgrid’s revised proposal to retain metering as ACS and recover metering costs through a varying charge based on tariff type to low voltage customers. We have further engaged Ausgrid on its revised proposal and requested further analysis on whether its approach provided the best outcome for relevant customers. We also considered whether a better outcome could be achieved with another option, including reclassifying to SCS.

Ausgrid re-emphasised there is insufficient benefit in moving to SCS to outweigh the burden of changing at this point. However, Ausgrid submitted an amended and simpler tariff structure that provides a greater socialisation of costs and better price outcomes for customers than their revised proposal.²²

Ausgrid’s analysis showed the amended tariff structure results in the lowest average price impact for customers that are adversely impacted.²³ We accept this approach as we consider that having the lowest average adverse price impact to be the best outcome for customers.

A.2 Smart meter deployment rates

Our final decision accepts the legacy meter replacement rates as proposed. Ausgrid’s revised proposal substituted our assumptions of business-as-usual replacements before a steep increase in replacements from 2025–30 with a 100% replacement rate by 2030. Instead, it updated its forecasts for the current observed increase in replacements and a less steep trend.

We consider Ausgrid’s revised forecast to be prudent and reduces the risk of windfall gains or losses over the 2024–29 period. Also, section A.8 of this document explains how we will reduce misalignment in revenues caused by the projected and actual smart meter deployment rates through the metering opex true-up mechanism.

A.3 Annual revenue requirement

Our final decision is for a total smoothed annual revenue requirement (ARR) of \$275.5 million (\$nominal) for Ausgrid over the 2024–29 period.²⁴ This is a decrease of \$1.7 million (\$nominal) or 0.63% to Ausgrid’s revised proposal total ARR of \$277.3 million (\$nominal) for this period. This reflects the impact of our final decision on the various building block costs,

²⁰ NER, cl. 6.18.5(g)(1).

²¹ Consumer Challenge Panel 26, *CCP26 Advice to AER re 2024–29 Ausgrid Revised Regulatory Proposal and AER Draft Decision*, January 2024, p. 6.

²² Ausgrid, *Ausgrid resubmission – Type 5 & 6 metering*, 15 March 2024; Ausgrid, *Type 5&6 Metering amendment to revised proposal*, 15 March 2024, pp. 1–3.

²³ Ausgrid, *Ausgrid resubmission – Type 5 & 6 metering*, 15 March 2024; Ausgrid, *Type 5&6 Metering amendment to revised proposal*, 15 March 2024, pp. 1–3.

²⁴ AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering PTRM*, April 2024.

including updated actual and forecast inflation and inputs related to the 2022 rate of return instrument.

Table A.1 Annual revenue requirement (unsmoothed, \$million, nominal)

Annual revenue requirement	2024–25	2025–26	2026–27	2027–28	2028–29
Ausgrid initial proposal	53.5	59.0	56.6	53.1	36.3
Draft decision	53.1	57.6	54.1	49.0	28.9
Ausgrid revised proposal	57.1	63.8	60.0	55.4	35.7
Final decision	57.3	63.8	59.9	55.1	35.5

Source: Ausgrid, *Att. 9.2.d - Metering PTRM 2024–29*, January 2023; AER, *Draft decision - Ausgrid distribution determination 2024–29 - Metering PTRM*, September 2023; Ausgrid, *Att. 9.3 - Metering PTRM 2024–29*, 30 November 2023; AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering PTRM*, April 2024.

We assessed Ausgrid's metering proposal by analysing the metering PTRM and the roll-forward model (RFM). In doing this we had regard to the outcomes of the AEMC's metering review which might affect inputs into the elements of the PTRM and RFM.

The AER's PTRM calculates the ARR for each year of the 2024–29 period. This unsmoothed ARR for each year is the sum of the building block costs.

Table A.2 shows the total building block costs that form the ARR and where discussion on the elements that drive these costs can be found within this final decision.

Table A.2 Metering building block components (\$million, nominal)

Building block component	Total – Ausgrid's revised proposal	Total – final decision	Section where element is discussed
Return on capital	19.6	19.9	A.5
Return of capital (regulatory depreciation)	126.5	126.4	A.6
Operating expenditure	121.9	121.2	A.8
Revenue adjustments	-	-	-
Net tax allowance	4.1	4.1	-
Revenue requirement	272.0	271.6	A.3

Source: Ausgrid, *Att. 9.3 - Metering PTRM 2024–29*, 30 November 2023; AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering PTRM*, April 2024.

A.4 Regulatory asset base

Our final decision accepts Ausgrid's asset roll forward and calculation method, but we have substituted values based on updated final decision inflation inputs.

The value of the regulatory asset base (RAB) impacts Ausgrid's revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase

both the return on capital and return of capital (depreciation) components of the distribution determination. This final decision sets out:

- the opening RAB as at 1 July 2024
- the forecast closing RAB as at 30 June 2029
- a profile of accelerated depreciation as set out in section A.6.

Table A.3 Summary of asset roll forward (\$million, nominal)

Summary of asset roll forward	Ausgrid's revised proposal	Final decision
Opening RAB	108.5	108.4
Net capex (total nominal)	21.3	21.2
Regulatory depreciation (total nominal)	-135.7	-135.1
Inflation on opening RAB (total nominal)	9.2	8.7
Forecast closing RAB	3.2	3.2

Source: Ausgrid, *Att. 9.3 - Metering PTRM 2024–29*, 30 November 2023; AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering PTRM*, April 2024.

We use the RFM to roll forward Ausgrid's RAB over from the 2019–24 period to arrive at an opening RAB value at 1 July 2024. This roll-forward calculation accounts for inflation, the weighted average cost of capital, actual net capex and actual depreciation. The amounts are estimated based on forecasts where actuals data is not available.

The opening RAB may also be adjusted to reflect any changes in the use of the assets, with only assets used to provide metering services to be included in the RAB. No such adjustments were included in the final decision.

The PTRM used to calculate the annual revenue requirement for the 2024–29 period generally adopts the same RAB roll-forward approach as the RFM, although the annual adjustments to the RAB are based on forecasts, rather than actual amounts.

A.5 Rate of return

Our final decision on legacy metering services applies the same rate of return as applied throughout our determination, which is set out in Attachment 3.

Attachment 3 states that the final decision uses the 2022 rate of return instrument. This includes updated rates for return on debt, inflation, and equity raising costs.

A.6 Regulatory depreciation

Our final decision accepts the depreciation schedules proposed by Ausgrid, to fully depreciate the asset base within the 2024–29 period.

Depreciation is the return of capital over the economic life of the asset. In deciding whether to approve the depreciation schedules submitted by Ausgrid, we make determinations on the

indexation of the RAB and depreciation building blocks for Ausgrid's 2024–29 period. The regulatory depreciation amount is the depreciation less the indexation of the RAB.

We determine the regulatory depreciation amount using the PTRM. The calculation of depreciation in each year is governed by the value of assets included in the RAB at the beginning of the regulatory year, and by the depreciation schedules.²⁵

Our standard approach for depreciating a distributor's existing assets in the PTRM uses the remaining asset lives at the start of a regulatory control period as determined in the RFM.

In this case we consider that the appropriate economic life of the metering asset base may be different to the standard asset lives due to the accelerated deployment of legacy meters. Ausgrid's metering asset base is already scheduled to be fully depreciated by 2028–29 and did not propose to accelerate depreciation of their legacy meters in the 2024–29 period.

However, as noted in section A.1, PIAC preferred the NSW distributors, including Ausgrid, to apply accelerated depreciation of its metering asset base. Our decision accepts Ausgrid's approach because it is unnecessary to accelerate depreciation.

A.7 Capital expenditure

Our final decision is to accept Ausgrid's revised proposal forecast capex of \$19.4 million (\$2023–24).²⁶

Table A.4 below compares our final decision capex to Ausgrid's revised proposal forecast capex.

Table A.4 Forecast net capex (\$million, 2023–24)

Forecast capex	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Ausgrid's revised proposal net capex	5.0	4.0	4.3	3.3	2.8	19.4
Final decision net capex	5.0	4.0	4.3	3.3	2.8	19.4

Source: Ausgrid, *Att. 9.3 - Metering PTRM 2024–29*, 30 November 2023; AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering PTRM*, April 2024.

A.8 Operating expenditure

Our final decision is to not accept Ausgrid's revised proposal forecast opex of \$113.0 million (\$2023–24).^{26,27} Our final decision includes an alternate estimate of \$112.8 million (\$2023–24), reflecting updates to labour cost escalation and inflation.²⁸

Our final decision and Ausgrid's revised proposal both use the base-step-trend method to calculate forecast opex for the 2024–29 period. Due to the uncertainty around opex, which depends both on the proposed scheduling of meter replacements and the actual rate of

²⁵ NER, cl. 6.5.5(a).

²⁶ AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering PTRM*, April 2024.

²⁷ Ausgrid, *Att. 9.3 - Metering PTRM 2024–29*, 30 November 2023.

²⁸ AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering PTRM*, April 2024.

meter replacement, the final decision also includes a true-up mechanism for total opex as a product of meter volumes to manage this misalignment (forecast versus actual) and ensures customers pay no more than necessary for the metering transition (discussed below).

Base opex

If we find the business is operating efficiently, our preferred methodology is to use the business's historical or 'revealed' costs in a recent year as a starting point for our opex forecast. For the final decision the base opex is taken to be the actual opex in 2022–23.

Rate of change

We trend base opex forward by applying our forecast 'rate of change'. We estimate the rate of change by forecasting the expected growth in input prices, outputs and productivity.

We forecast input price growth using a combination of labour and non-labour price change forecasts. Labour costs represent a significant proportion of a distributor's costs.²⁹ We use input price weights between labour and non-labour components consistent with SCS.

We forecast the change in output (number of meters) to account for the annual change in operational costs to provide metering services. Our final decision applies a weighting of 65% variable and 35% fixed costs.³⁰ The change in variable costs is determined based on the change in output using a productivity factor.

As more legacy meters are retired, the average metering cost per customer is expected to rise due to higher travel costs of individual meter reads. Our final decision accepts Ausgrid's meter volume forecasts.

Step changes

Lastly, we add or subtract any components of opex that are not appropriately compensated for in base opex or the rate of change, but which should be included in the forecast total opex to meet the opex criteria.³¹

Our draft decision acknowledged that the networks will incur some additional temporal costs due the AEMC's decision on the replacement of legacy meters over the 2024–29 period. As a result the networks have submitted operating expenditure step changes for these costs.

LMRP and reduced testing and inspection step change

Most DNSPs proposed a step change for a LMRP. In consultation with key stakeholders, DNSPs are required to develop LMRPs that schedule groupings of legacy meters to be retired and replaced each year of the five-year acceleration period. Ausgrid committed to engage with Endeavour and Essential for a common approach to the smart meter roll out.³²

²⁹ AER, *Expenditure forecast assessment guideline – distribution*, August 2022, pp. 25–26.

³⁰ AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering expenditure model*, April 2024.

³¹ AER, *Expenditure forecast assessment guideline for electricity distribution*, November 2013, p. 24.

³² Ausgrid, *Reset Customer Panel - Att. 3.2 - Independent report on Ausgrid's 2024–29 revised revenue proposal*, 30 Nov 2023, p. 8.

Several DNSPs also proposed a negative step change to reflect the reduced costs of testing and inspecting legacy meters during the acceleration period.

Our final decision is to accept Ausgrid's proposed step changes for the LMRP and the reduced meter testing as they are prudent responses to the AEMC metering review. These are summarised below.

Table A.5 Revised proposal and final decision meter volumes, step changes and opex

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Meter volumes (accepted)	1,178,980	1,028,532	789,897	551,263	312,628	-
Total step changes (\$million, 2023–24, accepted)	0.5	1.4	1.4	1.4	1.4	6.2
Ausgrid's proposed opex (\$million, 2023–24)	27.4	27.0	23.9	20.0	14.6	112.9
Final decision opex (\$million, 2023–24)	27.3	26.9	23.9	20.0	14.5	112.6

Source: Ausgrid, *Att. 9.4 - Standardised metering capex and opex model 2024–29*, 30 November 2023; AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering expenditure model*, April 2024.

Bulk final reads of type 5 meters step change

Our final decision is to accept Ausgrid's proposed step change for the bulk final reads of type 5 meters is a more efficient and lower cost approach to read meters compared to the fee-based ancillary network service for an individual meter read. Ausgrid explained how undertaking final reads of these meters in bulk, and embedding this cost in their metering operating expenditure has a number of benefits to metering customers including:³³

- reduced cost due to economies of scale through bulk processing of returned meters.
- reduced cost due to reduction in the management, processing and dispute resolution with retailers of individual ANS charges.

True-up mechanism for opex

Our final decision applies Ausgrid's revised proposal meter replacement, as described in section A.2.

Although the distributors are responsible for developing the LMRPs to schedule the meter replacements, the actual replacement in a retailer-led smart meter roll out is out of their control. A key concern is that replacement profiles in our final decision may not align with the LMRPs (both forecasts), and the actual replacement rates may not reflect the profiles from

³³ Ausgrid, *RE: Ausgrid – information request AGD IR#066 – Legacy Meters – 20240124*, 2 February 2024.

the LMRPs. This exposes the distributors to a misalignment in cost recovery and consumers in paying more or less than they otherwise should.

To manage this misalignment, our final decision applies a true-up of total metering opex (forecast versus actual) related to replacement rates through the price cap formulae to (see Figure 14-6 in Attachment 14). This ensures the distributors only recover their actual costs and consumers pay no more or less than they should for the metering transition. For the avoidance of doubt, no components of opex other than meter volumes will be updated through this true-up mechanism.

B. Metering price caps

Table B.1 X factors for each year of the 2024–29 period for metering services, final decision (per cent)

	2025–26	2026–27	2027–28	2028–29
X factor	0%	0%	0%	0%

Note: We apply 0% X-factors as we set a real flat price path for years 2–5 to reduce volatility of prices.

Table B.2 Final decision metering price caps (\$p.a., nominal)

Tariff type	2024–25
Residential	26.89
Controlled Load	8.80
Small Business	37.26
Large Business	54.08
Generator Tariff	12.40

Source: AER, *Final decision - Ausgrid distribution determination 2024–29 - Metering PTRM*, April 2024.

Shortened forms

ACS	alternative control services
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ARR	annual revenue requirement
capex	capital expenditure
LMRP	legacy meter retirement plan
NEM	national electricity market
NER	national electricity rules
opex	operating expenditure
PTRM	post tax revenue model
RAB	regulatory asset base
RFM	roll forward model
SCS	standard control services
