

Preliminary position paper

Framework and Approach Papers for
AusNet Services, CitiPower, Jemena, Powercor
and United Energy 2026–31

March 2024

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1 Framework and approach

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

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

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

- Which incentive schemes will apply, for example, to service quality, improvements in network reliability or capital and operating expenditure.¹ The purpose of incentive schemes is to encourage network service providers to manage their business in a safe, reliable manner that serves the long-term interests of consumers. The schemes provide network service providers with incentives to only incur efficient costs and to meet or exceed service quality targets.
- Our approach to setting efficient expenditure allowances² and the establishment of the opening regulatory asset base for the upcoming regulatory control period³.
- For distribution network service providers, which services will be covered by our revenue determination⁴, and the form of regulation that will apply to them⁵. For example, we may determine that costs for a particular service can be bundled into a generic electricity supply service (standard control service). Alternatively, we may decide that charging for a service on a user-pays basis is more appropriate (alternative control service), or to allow consumers and network service providers to negotiate the price of a service (negotiated distribution service).

The F&As that have applied to the Victorian businesses in the current (2021–26) regulatory control period were published in January 2019. Since then, we have seen significant transition in the energy market and the rules, schemes and guidelines under which we regulate electricity networks. In December 2023, we therefore confirmed that we would

¹ NER, cl. 6.8.1(2)(iii), (iv), (v), (vi), (vii)

² NER, cl. 6.8.1(2)(viii)

³ NER, cl. 6.8.1(2)(ix)

⁴ NER, cl. 6.8.1(2)(i)

⁵ NER, cl. 6.8.1(1)(i); 6.8.1(2)(ii)

review and make amended or replacement F&As for each of AusNet Services, CitiPower, Jemena, Powercor and United Energy.

This paper sets out our preliminary positions on amendments and revisions to each of the elements above and invites stakeholder views to inform our final decision.

1.1 About this consultation

For network businesses, like the Victorian businesses, that have F&As in place from previous periods, the NER provides for a review every 5 years in preparation for the next regulatory determination.

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

Having received no submissions, we issued our Second Notice in December 2023 to commence the review. We considered the information provided by the Victorian businesses and decided that we will make amended or replacement F&As for each of AusNet Services, CitiPower, Jemena, Powercor and United Energy. Our reasons for commencing this review were set out in a decision published in December 2023.⁶

As indicated in that paper, we are now engaging with stakeholders as we consider preliminary positions on the amendments required, before making a final decision on amended or replacement F&As in July 2024.

Submissions

We invite stakeholders to make written submissions on our preliminary positions by COB Monday, 15 May 2024. Submissions should be emailed to vic2026@aer.gov.au. Alternatively, you can mail submissions to:

Gavin Fox
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested. All non-confidential submissions will be placed on the AER's website. For further information regarding the AER's use and disclosure of information provided to it, see the ACCC/AER Information Policy.

We request parties wishing to submit confidential information:

- clearly identify the information that is the subject of the confidentiality claim

⁶ AER, [Replacement of framework and approach papers: AusNet Services, CitiPower, Jemena, Powercor, United Energy, 1 July 2026 – 30 June 2031](#), December 2023.

- provide a non-confidential version of the submission in a form suitable for publication.

2 Service classification

Service classification determines the nature of economic regulation, if any, applicable to specific distribution services. Classification is important to customers as it determines which network services are included in basic electricity charges, the basis on which additional services are sold, and those services we will not regulate.

Our decision reflects our assessment of a number of factors, including existing and potential competition to supply these services. Our Electricity Distribution Service Classification Guideline 2022 (2022 Guideline)⁷ provides a practical explanation of how we classify distribution services. The 2022 Guideline has been amended since service classifications for the 2021–26 period were determined, to take into account the *National Electricity Amendment (Regulated stand-alone power systems) Rule 2022*. This rule requires regulated stand-alone power systems (SAPS) to be treated the same as the interconnected components of the distribution network for the purposes of service classification, and directs us to include regulated SAPS as a distribution service.

We approach classification on the basis that we:

- classify the service, rather than the asset – we can only decide on service classification if we understand the service provided. That is, distribution service classification involves the classification of services that distributors supply to customers rather than the classification of:
 - the assets used to provide such services
 - the inputs/delivery methods distributors use to provide such services to customers
 - services that consumers or other parties provide to distributors.
- classify distribution services in groupings rather than individually. This avoids the need to classify services one-by-one and instead defines a service cluster, so that services similar in nature receive the same regulatory treatment. As a result, a new service with characteristics that are the same or essentially the same as other services within a group can simply be added to the existing group and hence be treated in the same way for pricing or ring-fencing purposes. This provides distributors with flexibility to alter the exact specification (but not the nature) of a service during a regulatory control period. Where we make a single classification for a group of services, it applies to each service in the group.

The classifications available to us are:

- classify a service so the distributor may recover related costs from all customers (direct control – standard control service)
- classify a service so the user benefiting from the service pays (direct control – alternative control service)

⁷ [AER, *Distribution service classification guideline*, August 2022.](#)

- allow customers and distributors to negotiate the provision and price of some services – we will arbitrate should negotiations stall (negotiated distribution service)
- not classify a service – we have no regulatory control over this service or the prices charged by the distributor (unregulated service).

In July 2022, following an extensive period of consultation with Ausgrid, Endeavour Energy and Essential Energy (NSW), TasNetworks (Tasmania), Evoenergy (ACT) and Power and Water Corporation (NT), we published F&A papers for those businesses for their 2024–29 regulatory control periods. In conjunction with the 2022 Guideline, these F&A papers have guided our preliminary positions set out in this paper. We have looked in particular to bring consistent approaches to classification of services across networks and jurisdictions where possible.

Revisions requested by the Victorian businesses, and some additional (or alternative) revisions we are proposing, are set out in appendix A to this paper. We summarise our preliminary positions on key issues below, and in appendix A have presented them in annotated tables marking amendments proposed by the businesses and by us.

2.1 Common distribution services

Common distribution services are concerned with providing a safe and reliable electricity supply to customers and are intrinsically tied to the network infrastructure and the systems that support the shared use of the distribution network by customers. Providing common distribution services involves a variety of different activities, such as the construction and maintenance of poles and wires used to transport energy across the shared network. The precise nature of activities provided to plan, design, construct and maintain the shared network may change over time. Regardless of what activities make up common distribution services, this service group reflects the provision of access to the shared network to all customers. The range of activities that make up the common distribution service are not contestable. As a consequence, common distribution services are classified as direct control services, and further as standard control services.

Where no amendments to the common distribution service grouping have been requested by distributors and the services remain consistent with the 2022 Guideline and our most recent service classification positions for other distributors, subject to submissions, we remain satisfied for the reasons set out in those decisions that these remain appropriate.

2.1.1 Customer export services

The Victorian businesses proposed to classify export and dynamic services as direct control and standard control services, in line with the Australian Energy Market Commission’s final determination on Access, Pricing and Incentive Arrangements for distributed energy resources (DER)⁸ and our F&A decisions since that rule change. Consistent with those decisions, our preliminary position is to classify export and dynamic services as direct control and standard control services.

⁸ <https://www.aemc.gov.au/rule-changes/access-pricing-and-incentive-arrangements-distributed-energy-resources>.

2.1.2 Essential System Services (ESS)

Essential System Services (ESS) are used by the Australian Energy Market Operator (AEMO) to maintain security and reliability of energy supply, thereby supporting the energy market. These services perform the following functions:

- **maintain stability:** ESS keep the grid's frequency and voltage within acceptable limits, allowing for fluctuations in supply and demand. This prevents blackouts and protects equipment from damage.
- **manage disruptions:** ESS are required to respond quickly to sudden changes in the network, such as unexpected outages or spikes in demand.
- **support renewables:** as Australia transitions to more renewable energy sources, ESS provide grid voltage and frequency stabilisation services that were previously provided as inherent by-products of coal and gas generation.

ESS have been separated into two groupings by the Victorian businesses:

- **mandatory ESS:** including the Emergency Backstop Mechanism and Under Frequency Load services – provided by the Victorian businesses to AEMO under the NER or their licence conditions
- **non-mandatory ESS:** Frequency Control Ancillary Services (FCAS); Reliability and Emergency Reserve Trader (RERT) and Operating Reserve; System Strength; Inertia – provided to AEMO via contestable markets.

We discuss each of the above ESS groupings in the sub-sections below.

Context for consideration of these issues, as noted by the Victorian distributors in their F&A submissions, is that all NEM distribution network businesses are subject to an existing class ring-fencing waiver allowing them to engage in AEMO markets. The existing class waiver expires in April 2025. We will review the class waiver in the second half of calendar 2024.

2.1.2.1 Mandatory ESS

The Victorian businesses proposed that mandatory ESS be added to the common distribution service, and classified direct control and standard control.

Our preliminary position is to classify mandatory ESS as direct control and standard control. These services align with provision of the common distribution service. It is reasonable for all customers to contribute to recovery of the efficient costs incurred by the Victorian businesses in providing mandatory ESS, as provided for under the standard control service classification.

2.1.2.2 Non-mandatory ESS

The Victorian businesses proposed that non-mandatory ESS be classified as either standard control services, negotiated services or unregulated (unclassified) distribution services.⁹ Should non-mandatory ESS be classified as standard control or negotiated services, the Victorian businesses further proposed to establish new mechanisms to share with customers

⁹ CitiPower, Powercor, United Energy, *Proposed framework and approach 2026-31*, October 2023, p.9; Jemena, *Framework and approach letter and proposal*, October 2023, p.19; AusNet, Request to replace framework and approach, October 2023, p.9.

the revenues they would earn from AEMO markets. Jemena also proposed a new incentive scheme to incentivise the Victorian businesses to provide ESS efficiently.¹⁰

The Victorian businesses submitted that their provision of non-mandatory ESS would:

- reduce ESS and wholesale market costs by freeing generator capacity that would otherwise be reserved for ESS
- contribute to better system security
- share a reasonable portion of earned unregulated revenues with customers.¹¹

Under a direct control classification, including standard control, the Victorian businesses would be able to provide non-mandatory ESS to AEMO without a ring-fencing waiver. While we recognise that provision of energy services at lowest available cost is important, we are cautious about allowing monopoly networks to engage in contestable markets without regulatory oversight. Through the ring-fencing waiver process we may exercise judgement in specific circumstances about the merits and potential detriments of monopoly networks engaging in contestable energy services markets. We do so in the long term interest of consumers.

Our preliminary position is not to classify non-mandatory ESS as direct control, including standard control.

Under a negotiated service classification, the Victorian businesses would require a ring-fencing waiver to provide these services to AEMO. As such, it is unclear what practical benefit a negotiated service classification would provide to either the Victorian businesses, customers or other parties. It is also unclear what benefit would accrue from the creation of a new revenue sharing mechanism when an existing mechanism that performs this function is already available in the Shared Asset Guideline. The Shared Asset Guideline is enlivened when electricity network businesses earn unregulated revenues from assets that otherwise provide standard control services.

Our preliminary position is not to classify non-mandatory ESS as negotiated services.

The Victorian businesses further proposed that, should we not agree to classify non-mandatory ESS as either standard control or negotiated services, they should be treated as unclassified (unregulated) distribution services. As unclassified distribution services the Victorian businesses would require a ring-fencing waiver to provide these services to AEMO. Any revenues earned by the Victorian businesses would be subject to the Shared Asset Guideline. Given the application of both ring-fencing waivers and the Shared Asset Guideline, again it is unclear what practical benefit would accrue from this proposed regulatory treatment. Moreover, under the NER the AER does not have a defined role in determining what is, or is not, a distribution service or a non-distribution service.

Our preliminary position is not to change the regulatory treatment of non-mandatory ESS.

Under our preliminary position, the Victorian businesses will continue to require a ring-fencing waiver to provide non-mandatory ESS to AEMO markets. As noted above, we will

¹⁰ Jemena, *Framework and approach letter and proposal*, October 2023, p.21.

¹¹ AusNet

review the existing class waiver in the second half of 2024. The Shared Asset Guideline will also continue to apply to revenues earned by the Victorian businesses by providing non-mandatory ESS to AEMO markets.

2.1.3 Provision of data

The Victorian businesses proposed a new framework for provision of data to customers or other stakeholders. Under this proposal the provision of basic network data, such as visibility maps and data portals, would be incorporated within the common distribution service, and classified direct control and standard control.¹² Data requests beyond the automated data set, including requests for advice on how to incorporate data into businesses cases, would be classified direct control and alternative control. The Victorian businesses submitted that their proposed framework would provide for more equitable cost allocation and is consistent with the objectives of the AER's Network Visibility project.

Our preliminary position is to approve the Victorian businesses' service classification proposal for provision of data. We agree that provision of basic or automated data aligns with the common distribution service. It is appropriate that costs associated with provision of basic network data are recovered from all customers, as is facilitated under a standard control classification.

We further agree that provision of data beyond basic data would likely require the Victorian businesses to incur additional costs which should be recovered from the parties requesting it. Cost recovery from specific customers is facilitated under an alternative control classification. We also support the Victorian businesses providing analytical support to requesting parties in relation to data beyond basic data, under the alternative control service classification.

The Victorian businesses' service classification proposal for data provision is consistent with proposals by the NSW businesses. While definitions may vary, with businesses referring to basic, or core, or automated data, there is a common intention that this data be provided without an explicit charge to requesting parties. Additional, or non-core, or non-basic data is commonly intended to be classified alternative control so that associated costs may be recovered from requesting customers.

2.1.4 Regulated stand-alone power systems (SAPS)

The *National Electricity Amendment (Regulated stand-alone power systems) Rule 2022*¹³ determined that regulated SAPS are to be treated the same as other distribution services for the purposes of classification. Further, the rule change stipulates that the distribution services provided by regulated SAPS are to be classified as a standard control service.¹⁴ These amendments were incorporated into the Electricity Distribution Service Classification Guideline 2022.¹⁵

¹² CitiPower, Powercor, United Energy, *Proposed framework and approach 2026-31*, October 2023, p.6; Jemena, *Framework and approach letter and proposal*, October 2023, p.22; AusNet, *Request to replace framework and approach*, October 2023, p.15.

¹³ [National Electricity Amendment \(Regulated stand-alone power systems\) Rule 2022](#).

¹⁴ NER, cl. 6.2.1A(b),(c).

¹⁵ [AER Decision - Updating instruments for regulated stand-alone power systems - August 2022](#), p. 12.

The Victorian businesses requested the inclusion of regulated SAPS as a new activity, to be classified as part of the standard control, common distribution service. The service is described in their revision requests (as it is in the 2022 Guideline) as “work related to a distributor-led SAPS deployment, operation and maintenance (including fault and emergency repairs) and customer conversion activities”.¹⁶

Consistent with the 2022 Guideline, we propose to classify regulated SAPS as a direct control service, and further as a standard control service, consistent with the rule change outlined above. The service is listed as an activity under the common distribution service grouping and classified as part of that grouping. This is consistent with our classification approach, as outlined above and in the 2022 Guideline.

2.1.5 Rectification of simple customer faults

The Victorian businesses proposed to add rectification of simple customer faults to the common distribution service group, and therefore as a standard control service. This is to allow for the rectification of simple customer faults that are generally located behind the meter on the customers’ premises that are discovered when investigating customer outages.

Our preliminary position is to support the Victorian businesses’ proposal to add rectification of simple customer faults to the common distribution service. We think that this activity is likely to improve the customer experience and potentially reduce costs of repeated visits to customer premises. We considered and accepted the addition of a similar service in our F&As for NSW and Tasmanian distributors in July 2022. We propose to accept the addition of the new service for the rectification of simple customer fault.

2.2 Network ancillary services

Ancillary services share the common characteristics of being services provided to individual customers on an 'as needs' basis (e.g., meter testing and reading at a customer’s request, moving mains, temporary supply, alteration, and relocation of existing public lighting assets). Ancillary services involve work on, or in relation to, parts of a respective distribution network. Therefore, similar to the common distribution services grouping, only the relevant distributor may perform these services in its distribution area. The network ancillary services grouping is classified as alternative control services on the basis that the costs of providing the relevant service are directly attributable to the person to whom the service is provided.¹⁷

2.2.1 Customer energy advisory services

Further to section 2.1.3 (“Provision of basic energy data”), the network businesses have proposed services in relation to network data and advice, beyond the scope of basic data provision. This would include the fulfilment of bespoke data requests, advice in relation to the type of data that would fulfil an information need, and interpretation of results. These services have been proposed as alternative control services.

We consider the classification of this service as an alternative control service to be appropriate, and propose to classify these services accordingly.

¹⁶ [AER - Distribution service classification guideline - August 2022](#), p. 23.

¹⁷ NER 6.2.2(c)(5).

2.3 Connection services

Connection services are the services a distributor performs in order to:

- connect a person's home, business, or other premises to the electricity distribution network (premises connection)
- get more electricity from the distribution network than is possible at the moment (augmentation)
- extend the network to reach a person's premises (extension).

As we indicate in the 2022 Guideline, while we consider the provisions under Chapter 5A of the Rules provides a consistent set of terminology for connections, we realise that there are differences in classification approach across distributors. These differences arise due to jurisdictional and operational requirements.¹⁸

2.3.1 Enhanced Connection Services

The Victorian businesses proposed minor clarifications to their alternative control 'enhanced connection services', to include the management of export and load at a customer site that provides the customer greater network capacity than they would otherwise be eligible for. AusNet Services has also proposed the classification of additional customer dedicated connection lines / assets (including reserve feeder) and connections provided by multiple parties (e.g. community group upgrades).

Our preliminary position is to approve the Victorian businesses' proposed changes to their enhanced connection service, classified direct control and alternative control. We also intend to approve AusNet's proposal regarding additional customer connection lines and multiple party connections.

¹⁸ [AER - Distribution service classification guideline - August 2022 pp 14-20.](#)

3 Control mechanisms

A distribution determination must impose controls over the prices and/or revenues of direct control services.¹⁹ Direct control services are classified as either standard control services or alternative control services. Different control mechanisms can apply to each of these classifications, or to different services within the same classification.

The form and formulae of the control mechanisms in our distribution determination must be as set out in the relevant F&A.²⁰ There are only limited circumstances in which the AER can depart from these and these are set out in the NER.²¹ For example, where the AER considers a material change in circumstances justifies departing from the classification of a service set out in the F&A, and no form of control set out in the F&A should apply to that service.

For the 2026–31 regulatory control period, we propose to apply the same control mechanisms as currently applies. That is,

- revenue cap mechanism for standard control services
- revenue cap for metering as an alternative control service
- price cap mechanism for all other alternative control services (public lighting and ancillary network services)

We consider these controls have been working well over the current regulatory control periods and have not been provided with compelling reasons to depart from them. However, the distributors have requested amendments to the formula that calculates the price cap for quoted and fee-based ancillary network services. The current formula for the price cap is:

$$\text{Price} = \text{Labour} + \text{Contractor Services} + \text{Materials}$$

CitiPower, Powercor and United Energy have proposed that the formula also includes the economic tax component. AusNet and Jemena have proposed that the formula includes tax and margin. All businesses have proposed that the definition of the extra components should be defined during the course of the determination.

¹⁹ NER, cl. 6.2.5(a)

²⁰ NER, cll. 6.12.3(c) and 6.12.3(c1).

²¹ NER, cll. 6.12.3(c)(1) and (2); 6.12.3(c1).

4 Incentive schemes

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

- Efficiency benefit sharing scheme (EBSS).²² This provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between the business and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.
- Capital expenditure sharing scheme (CESS).²³ This incentivises efficient capex throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods.
- Demand management incentive scheme (DMIS) and demand management innovation allowance mechanism (DMIAM).²⁴ The DMIS, which applies to electricity distributors only, provides network service providers with financial incentives for undertaking efficient demand management activities instead of more expensive traditional network investments with long lives. The DMIAM, versions of which apply to both distribution and transmission networks, funds research and development in demand management projects that have the potential to reduce long term network costs.
- Service target performance incentive scheme (STPIS).²⁵ This balances incentives to reduce expenditure with the need to maintain or improve service quality, by providing financial incentives to maintain and improve service performance where consumers are willing to pay for these improvements. Once improvements are made, consumers benefit as the benchmark performance targets will be tightened in future years.
- Customer service incentive scheme (CSIS).²⁶ The CSIS is designed to encourage electricity distributors to engage with their customers, identify (through customer engagement) the customer services their customers want improved, and then set targets to improve those services based on their customers' preferences and support.
- An Export Services Incentive Scheme (ESIS), which allows distributors to propose bespoke incentives related to export services based on their network circumstances, customer preferences and evidence-based performance data. The scheme is a product of our consultation with stakeholders on incentivising and measuring export service performance, which considered appropriate incentive arrangements for export services to balance existing incentive schemes related to consumption services, as well as the introduction of network performance reporting on export service performance metrics.

²² NER, cl. 6.8.1(b)(2)(iv).

²³ NER, cl. 6.8.1(b)(2)(v).

²⁴ NER, cl. 6.8.1(b)(2)(vi).

²⁵ NER, cl. 6.8.1(b)(2)(iii).

²⁶ NER, cl. 6.8.1(b)(2)(vii)

- Any other small scale incentive schemes.²⁷

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

Since we published the F&As for the current 2021–26 period, we have completed reviews of a number of the incentive schemes in place at that time, and introduced others. This allows the application of new and revised schemes as part of our 2026–31 determinations. Our preliminary position is that the current suite of schemes will continue to apply, as amended through those reviews. It will also be open to the businesses to propose (and/or to us to decide) that any new scheme introduced also applies in the 2026–31 period.

4.1 CESS and EBSS

On 30 April 2023, we published a final decision on our review of incentive schemes, including the CESS and EBSS.²⁸ Our decision in that review was that revisions to the EBSS were not necessary, but that changes should be made to the sharing ratios in the CESS to implement a tiered arrangement, with a:

- 30 per cent sharing ratio for any underspend up to 10 per cent of the forecast capital expenditure allowance,
- 20 per cent sharing ratio for any underspend over 10 per cent, and
- 30 per cent sharing ratio for any overspend.

Our preliminary position is that our 2026–31 determinations for those businesses will apply the EBSS and the CESS as amended by the incentives review.

4.2 Distribution STPIS, DMIS and DMIAM

The STPIS, CSIS, DMIS and DMIAM that have applied to AusNet Services, CitiPower, Jemena, Powercor and United Energy in the current, 2021–26 period are still in effect, and our preliminary position is that they should apply again in 2026–31.

4.3 Potential new export services incentive scheme

On 29 June 2023, the AER published its final export service incentive scheme explanatory statement.²⁹ This scheme allows distributors to propose bespoke incentives related to export services based on their network circumstances, customer preferences and evidence-based performance data.

The scheme is a product of our consultation with stakeholders on incentivising and measuring export service performance, which considered appropriate incentive arrangements for export services to balance existing incentive schemes related to consumption services. It is designed to encourage distributors to engage with their customers and provide export services in accordance with their preferences. It allows us to

²⁷ NER, cl. 6.8.1(b)(2)(vii).

²⁸ AER, *Final Decision, Review of incentive schemes for networks*, 28 April 2023.

²⁹ <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/export-service-incentive-scheme>.

set targets for export service performance and require distributors to report on performance against those targets. Distributors may be financially rewarded or penalised depending on how they perform against their export service targets. The networks have all proposed to develop new schemes as part of their 2026–31 determinations. Our preliminary position is that we are open to the application of any new scheme to AusNet, CitiPower, Jemena, Powercor and United Energy in that period, and will consider it as part of the determination process.

5 Expenditure forecast assessment guidelines

Our F&As for AusNet Services, CitiPower, Jemena, Powercor and United Energy will set out our proposed approach to the application of our Expenditure Forecast Assessment Guideline³⁰ (the EFA guideline) to each business.³¹

The EFA guideline contains a suite of assessment/analytical tools and techniques to assist our review of the expenditure forecasts that distributors include in their regulatory proposals. We intend to have regard to the assessment tools set out in the guideline. The tool kit includes:

- models for assessing proposed replacement and augmentation capex
- benchmarking (including broad economic techniques and more specific analysis of expenditure categories)
- methodology, governance and policy reviews
- predictive modelling and trend analysis
- cost benefit analysis and detailed project reviews.

We exercise judgement to determine the extent to which we use a particular technique to assess a regulatory proposal. We use the techniques we consider appropriate depending on the specific circumstances of the determination. The guideline is flexible and recognises that we may employ a range of different estimating techniques to assess an expenditure forecast.

We applied the EFA guideline in our assessment of AusNet, CitiPower, Jemena, Powercor and United Energy proposals for the current, 2021–26 period. On 1 August 2022, we released an update to the EFA guideline, to give effect to the new rules allowing distributors to provide SAPS to existing customers, and to offer to connect new customers to existing distributor-operated SAPS where it is more economically efficient than connection to the interconnected national electricity system. Our preliminary position is we will apply the updated EFA guideline in our assessment of their proposals for the 2026–31 period.

The incorporation of emissions reductions into the NEO³² will impact the framework and guidelines we use to assess regulatory proposals. This is something that we, and the businesses, will need to be mindful of as we progress through the 2026–31 determinations.

³⁰ <https://www.aer.gov.au/industry/register/resources/guidelines/expenditure-forecast-assessment-guideline-2013>

³¹ NER, cl. 6.8.1(b)(2)(viii).

³² <https://www.aer.gov.au/system/files/2023-09/AER%20-%20Guidance%20on%20amended%20National%20Energy%20Objectives%20-%20Final%20guidance%20note%20-%20September%202023.pdf>

6 Depreciation to establish the opening RAB

Our F&As for AusNet Services, CitiPower, Jemena, Powercor and United Energy will set out whether depreciation for establishing the opening RAB for the 2031–36 regulatory control period, commencing 1 July 2031, is to be based on actual or forecast capital expenditure.³³ As part of the roll forward methodology, when the RAB is updated from forecast capex to actual capex at the end of the regulatory control period, it is also adjusted for depreciation.

The depreciation approach we use to roll forward the RAB can be based on either:

- actual capex incurred during the regulatory control period (actual depreciation). We roll forward the RAB based on actual capex less the depreciation on the actual capex, or
- the capex allowance forecast at the start of the regulatory control period (forecast depreciation). We roll forward the RAB based on actual capex less the depreciation on the forecast capex approved for the regulatory control period.

Our preliminary position, consistent with the capital expenditure incentive guideline,³⁴ is to continue using the forecast depreciation approach to establish the RAB at the commencement of the 2031–36 regulatory control period for all five businesses. The businesses supported continuing with the use of forecast depreciation for establishing the opening RAB.³⁵

³³ NER, cl. 6.8.1(b)(2)(ix).

³⁴ AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 10-11.

³⁵ AusNet Services. *Victorian Electricity Distribution Determination 2026-31, Request to replace our Framework and Approach*, 31 October 2023, p. 18; CitiPower, Powercor, United Energy, *Proposed framework and approach, 2026–2031 regulatory period*, October 2023, p. 14; Jemena Electricity Networks (Vic) Ltd, *Submission for replacement Framework and Approach paper, 2026–2031 regulatory control period*, 31 October 2023, p. 34.

Glossary

Term	Definition
ADMS	Advanced Distribution Management Systems
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
augex	augmentation capital expenditure
capex	capital expenditure
CCP30	Consumer Challenge Panel, sub-panel 30
CER	consumer energy resources
CESS	capital expenditure sharing scheme
CSIS	customer service incentive scheme
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service provider
EBSS	efficiency benefit sharing scheme
F&A	framework and approach
GSL	guaranteed service level
ICT	Information and communication technologies
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objectives
NER	National Electricity Rules
opex	operating expenditure
RAB	regulated asset base
repex	replacement expenditure
RRG	Reset Reference Group
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme

Appendix A: AusNet Services, CitiPower, Jemena, Powercor and United Energy service classification

Service group	Further description	Proposed classification 2026–31	Comments
Common distribution service - use of the distribution network for the conveyance/flow of electricity (including the services relating to network integrity)			
Common distribution service	<p>The suite of activities that includes, but is not limited to, the following:</p> <ul style="list-style-type: none"> • the planning, design, repair, maintenance, construction, and operation of the distribution network • the relocation of assets that form part of the distribution network, but not relocations requested by a third party (including a customer) • works to fix damage to the network and recoverable works caused by a customer or third party • support for another network during an emergency event • procurement and provision of network demand management activities for distribution or purposes • activities related to ‘shared asset facilitation’ of distributor assets³⁶ • emergency disconnect for safety reasons and work conducted to restore a failed component of the distribution system to an operational state upon investigating a customer outage 	Standard control	

³⁶ Revenue for these services is charged to the relevant third party and is treated in accordance with the shared asset guideline. ‘Shared asset facilitation’ refers to administrative costs. It does not refer to the costs associated with providing the unregulated service itself.

Service group	Further description	Proposed classification 2026-31	Comments
	<ul style="list-style-type: none"> • use of dynamic network capacity management capabilities (including communication of import and export limits) for distribution purposes • establishment and maintenance of National Metering Identifiers (NMIs) in market and/or network billing systems, and other market and regulatory obligations • ongoing inspection of private electrical networks (not part of the shared network) required under legislation for safety reasons³⁷ • training internal staff, accredited service providers and contractors undertaking direct control services • supply abolishment of basic connection • customer safety information, e.g. 'dial before you dig' services • bulk supply point metering - activities relating to monitoring the flow of electricity through the distribution network • third party-initiated network asset relocations/re-arrangements, including under ESCV Guideline 14 ³⁸ • transmission network support • investigation of customer-reported network faults • rectification of simple customer faults where: <ul style="list-style-type: none"> • the need for rectification work is discovered in the course of the provision of distribution services 		

³⁷ The Victorian Electricity Safety Act 1998, clause 113F, requires Vic DNSPs to inspect overhead private electric lines.

³⁸ This classification applies where a customer contribution is calculated and applied in accordance with Essential Services Commission (ESCV) Guideline 14 or where a customer contribution is calculated and applied in accordance with any other relevant Victorian legislation or regulation, including regulations made under the National Electricity (Victoria) Act, 2005. The party requesting such works under this classification must pay the net cost of the works, subject to any rebates specified in Guideline 14 or by any other relevant Victorian legislation or regulation.

Service group	Further description	Proposed classification 2026-31	Comments
	<ul style="list-style-type: none"> • the work performed is the minimum required to restore safe supply • the work can be performed in less than thirty minutes and does not normally require a second visit • work related to a regulated stand-alone power system (SAPS) deployment, operation and maintenance (including fault and emergency repairs), and customer conversion activities. • provision of network data 		
Network ancillary services – customer and third party initiated services related to common distribution services			
Access permits, oversight and facilitation	<p>Activities include:</p> <ul style="list-style-type: none"> • a distributor issuing access permits or clearances to work to a person authorised to work on or near distribution systems including high and low voltage • a distributor issuing confined space entry permits and associated safe entry equipment to a person authorised to enter a confined space • a distributor providing access to switch rooms, substations and other network equipment to a non-Local Network Service Provider party who is accompanied and supervised by a distributor's staff member. May also include a distributor providing safe entry equipment (fall-arrest) to enter difficult access areas • specialist services (which may involve design related activities and oversight/inspections of works) where the design or construction is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets • facilitation of generator connection and operation of the network • facilitation of activities within clearances of distributor's assets, including physical and electrical isolation of assets 	Alternative control	

Service group	Further description	Proposed classification 2026-31	Comments
Sale of approved materials or equipment	Includes the sale of approved materials/equipment to third parties for connection assets that are gifted back to the DNSP become part of the shared distribution network	Alternative control	
Notices of arrangement and completion notices	<p>Examples include:</p> <ul style="list-style-type: none"> • Work of an administrative nature where a local council requires evidence in writing from the distributor that all necessary arrangements have been made to supply electricity to a development. This includes but is not limited to: receiving and checking subdivision plans, copying subdivision plans, checking and recording easement details, assessing supply availability, liaising with developers if errors or changes are required, and preparing notifications of arrangement • Provision of a completion notice (other than a notice of arrangement). This applies where the distributor is requested to provide documentation confirming progress of work. Usually associated with discharging contractual arrangements (e.g. progress payments) to meet contractual undertakings 	Alternative control	
Network related property services	<p>Activities include:</p> <ul style="list-style-type: none"> • network related property services such as property tenure services relating to providing advice on, or obtaining: deeds of agreement, deeds of indemnity, leases, easements or other property tenure in relation to property rights associated with a connection or relocation • conveyancing inquiry services relating to the provision of property conveyancing information at the request of a customer 	Alternative control	
Network safety services	<p>Examples include:</p> <ul style="list-style-type: none"> • provision of traffic control services by the distributor or third party where required • fitting of tiger tails, possum guards, and aerial markers • high load escorts • customer-requested site visit relating to location of underground cables/assets 	Alternative control	

Service group	Further description	Proposed classification 2026–31	Comments
	<ul style="list-style-type: none"> customer initiated network outage (e.g. to allow customer and/or contractor to perform maintenance on the customers assets, work close or for safe approach) 		
Planned Interruption – customer requested amendment	<p>Examples include:</p> <ul style="list-style-type: none"> where the customer requests to move a distributor planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours 	Alternative control	
Fault Response (not DNSP fault)	Attendance at a customer’s premises where it is determined that the fault was not related to the DNSP’s equipment or infrastructure.	Alternative control	
Customer requested supply outage	<p>Examples include:</p> <ul style="list-style-type: none"> customer or third party-initiated network outage (e.g. to allow customer and/or contractor to perform maintenance on the customer’s assets) 	Alternative control	
Inspection and auditing services	<p>Activities include:</p> <ul style="list-style-type: none"> inspection and reinspection by a distributor, of gifted assets or assets that have been installed or relocated by a third party investigation, review and implementation of remedial actions that may lead to corrective and disciplinary action of a third party service provider due to unsafe practices or substandard workmanship customer or third party-requested inspection of privately owned low voltage or high voltage network, infrastructure (i.e. privately owned distribution infrastructure before the meter) auditing and inspection of a third party service provider’s work practices in the field 	Alternative control	

Service group	Further description	Proposed classification 2026-31	Comments
	<ul style="list-style-type: none"> re-test at a customer's installation, where the installation fails the initial test and cannot be connected or has been disconnected for more than 12 months or for safety reasons 		
Provision of training to third parties for network related access	Training services provided to third parties that result in a set of learning outcomes that are required to obtain a distribution network access authorisation specific to a distributor's network. Such learning outcomes may include those necessary to demonstrate competency in the distributor's electrical safety rules, to hold an access authority on the distributor's network and to carry out switching on the distributor's network. Examples of training might include high voltage training, protection training or working near power lines training	Alternative control	
Authorisation and approval of third-party service providers design, work and materials	<p>Activities include:</p> <ul style="list-style-type: none"> authorisation or re-authorisation of individual employees and subcontractors of third party service providers and additional authorisations at the request of the third party service providers (excludes training services) acceptance of third party designs and works assessing an application from a third party to consider approval of alternative material and equipment items that are not specified in the distributor's approved materials list 	Alternative control	
Security lights	<p>Provision, installation, operation, and maintenance of equipment mounted on distribution equipment used for security services, e.g. nightwatchman lights.</p> <p>Note: excludes connection services</p>	Alternative control	
Customer requested provision of electricity network data	Data requests by customers or third parties including requests for the provision of electricity network data or consumption data outside of legislative obligations	Alternative control	
Third party funded network alterations or other	Alterations or other improvements to the shared distribution network to enable third party infrastructure (e.g. NBN Co telecommunications assets) to be installed on the shared	Alternative control	

Service group	Further description	Proposed classification 2026-31	Comments
improvements	distribution network. This does not relate to upstream distribution network augmentation		
Customer initiated network asset relocations/re-arrangements	Relocation of assets that form part of the distribution network in circumstances where the relocation was initiated by a third party (including a customer), not provided under ESCV Guideline 14	Alternative control	
Mandatory provision of essential system services	<ul style="list-style-type: none"> • interruption or curtailment of generation of embedded generating units connected to the distribution system at AEMO's direction to manage minimum system load (MSL) risks, as part of Victoria's Emergency Backstop Mechanism • interruption or disconnection of supply to premises at AEMO's direction to manage under-frequency load (UFL) risks • other activities required to provide mandatory essential system services 	Standard control	
Community network upgrades	Collective customer requested network enhancement. Activities related to community requests to augment the network to enable higher PV exports.	Alternative control	
Network data and advice	<ul style="list-style-type: none"> • specific data requests by customers or third parties for network data beyond the scope of Standard Control Service provision • advice related to network data where customers or third parties seek assistance to understand or interpretation of data, or assistance to identify the data they require to meet their needs 	Alternative control	
Metering services - activities relating to the measurement of electricity supplied to and from customers through the distribution system (excluding network meters)			

Service group	Further description	Proposed classification 2026–31	Comments
Type 1 to 4 metering services	Type 1 to 4 customer metering installations ³⁹ and supporting services are competitively available	Unregulated	
Type 5 and 6 (inc. smart metering) services where the distributor remains responsible	Includes: <ul style="list-style-type: none"> • recovery of the cost of type 5 and 6 metering equipment⁴⁰ including communications network (including meters with internally integrated load control devices) • testing, inspecting, investigating, maintaining or altering existing type 5 or 6 metering installations or instrument transformers • quarterly or other regular reading of a metering installation • metering data services that involve the collection, processing, storage and delivery of metering data, the provision of metering data from the previous two years, remote or self-reading at difficult to access sites, and the management of relevant NMI Standing Data in accordance with the NER • at the request of a retailer or metering coordinator, provide notification to affected customers and facilitate the disconnection / reconnection of customer metering installations, where a retailer-planned interruption cannot be conducted 	Alternative control	
Auxiliary metering services (type 5 to 7 including smart metering) where the distributor remains responsible	Activities include: <ul style="list-style-type: none"> • requests to test, inspect and investigate, or alter an existing type 5 or 6 metering installation • testing and maintenance of instrument transformers for type 5 and 6 metering purposes 	Alternative control	

³⁹ Includes the instrument transformer, as per the definition of a 'metering installation' in Chapter 10 of the NER.

⁴⁰ Includes the instrument transformer, as per the definition of a 'metering installation' in Chapter 10 of the NER.

Service group	Further description	Proposed classification 2026-31	Comments
	<ul style="list-style-type: none"> • non-standard metering services for Type 5 to 7 meters and any other meter types introduced • works to re-seal a type 5 or 6 meter due to customer or third party action (e.g. by having electrical work done on site) • change distributor load control relay channel on request that is not a part of the initial load control installation, nor part of standard asset maintenance or replacement • remote de-energisation and re-energisation • remote meter configuration • field based special meter read • office based special meter read • metering exit services 		
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the NER and jurisdictional requirements. Includes the processing and delivery of calculated metering data for unmetered loads, and the population and maintenance of load tables, inventory tables and on/off tables	Alternative control	
Emergency maintenance of failed metering equipment not owned by the DNSP (contestable meters) [Ausnet only]	The DNSP is called out by the customer or their agent (e.g. retailer, metering coordinator or metering provider) due to a power outage where an external metering provider's metering equipment has failed or an outage has been caused by the metering provider and the DNSP has had to restore power to the customer's premises. This may result in an unmetered supply arrangement at this site. This fee will also be levied where a metering provider has requested the DNSP to check a potentially faulty network connection and when tested by the DNSP, no fault is found.		
Planned supply interruption – retailer requested [Ausnet only]	Retailer (or their agent) requested planned supply interruption to customer premises and subsequent restoration when providing competitive metering services.		

Service group	Further description	Proposed classification 2026–31	Comments
Embedded networks [Ausnet only]	Processing embedded network requests		
Connection services⁴¹ - services relating to the electrical or physical connection of a customer to the network			
Basic connection services	<p>Means a <i>connection service</i>⁴² related to a <i>connection</i> (or a proposed <i>connection</i>) between a <i>distribution system</i> and a <i>retail customer's</i> premises (excluding a non-registered <i>embedded generator's</i> premises) in the following circumstances:</p> <p>(a) either:</p> <ol style="list-style-type: none"> 1. the <i>retail customer</i> is typical of a significant class of <i>retail customers</i> who have sought, or are likely to seek, the service; or 2. the <i>retail customer</i> is, or proposes to become, a <i>micro embedded generator</i>; and <p>(b) the provision of the service involves minimal or no <i>augmentation</i> of the <i>distribution network</i>; and</p> <p>a <i>model standing offer</i> has been approved by the AER for providing that service as a <i>basic connection service</i></p>	Alternative control	
Non basic connections [Ausnet only]	Non-basic connections are standard and negotiated connections provided under Chapter 5 and Chapter 5A of the NER. Non-basic connection services include:	Standard control	

⁴¹ When discussing connections, we must consider how connection policies and chapter 5A of the NER impact the regulation of connection services. For this reason, we will not be able to completely address the classification of connection services in the classification guideline.

⁴² Italics denotes definitions in Chapter 5A of the NER.

Service group	Further description	Proposed classification 2026-31	Comments
	<ul style="list-style-type: none"> • premises connection services – includes any additions or upgrades to the connection assets located on the customer’s premises (note: excludes all metering services); • extensions – includes an enhancement required to connect a powerline or facility outside the present boundaries of the transmission or distribution network owned or operated by a DNSP; and • network augmentations – includes any shared network enlargement and/or enhancement undertaken by a distributor which is not an extension. <p>These services are subject to customer contributions determined according to the AER’s most recent Connection charges guideline for electricity retail customers and the DNSP’s connection policy.</p>		
Enhanced connection services [Ausnet only]	<p>Other or enhanced connection services provided at the request of a customer or third party that include those that are:</p> <ul style="list-style-type: none"> • provided with higher quality of reliability standards, or lower quality or reliability standards (where permissible) than required by the NER or any other applicable regulatory instruments; • in excess of levels of service or plant ratings required to be provided by the Victorian distributors DNSPs; • other additional customer dedicated connection lines/assets (including reserve feeder); • reserve feeder maintenance; or • connections provided to multiple parties under a common process (e.g., community group upgrades); or • negotiated and agreed dynamic load and export management at customer site that provide the customer greater network capacity than they would otherwise be eligible for. 	Alternative control	

Service group	Further description	Proposed classification 2026–31	Comments
Standard connection service	Connection services (other than a basic connection service) for a particular class (or sub-class) of connection applicant and for which a model standing offer has been approved by the AER	Standard control	
Negotiated connection	<p>Connection services (other than a basic connection service) for which a DNSP provides a connection offer for a negotiated connection contract.</p> <p>This includes connections under Chapter 5 of the NER</p>	Standard control	
Connection application and management services	<ul style="list-style-type: none"> • Connection application related services • Works initiated by a customer or retailer that are specific to the connection point. This includes, but is not limited to: <ul style="list-style-type: none"> • field based de-energisation⁴³ and re-energisation • non basic supply abolishment or reposition non-basic connection • temporary connections (e.g. for builder's supply, fetes etc.) • overhead service line replacement – customer requests the existing overhead service to be replaced (e.g. because of a point of attachment relocation). No material change to load • protection and power quality assessment • supply enhancement (e.g. upgrade from single phase to three phase) • customer requested change requiring primary and secondary plant studies for safe operation of the network (e.g. change protection settings) • upgrade from overhead to underground service 	Alternative control	

⁴³

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

Service group	Further description	Proposed classification 2026–31	Comments
	<ul style="list-style-type: none"> • rectification of illegal connections or damage to overhead or underground service cables • calculation of a site specific distribution loss factor on request in respect of a generating unit up to 10 MW or a connection point for an end-user with actual or forecast load up to 40 GWh per annum capacity, as per clause 3.6.3(b1) of the NER • calculation of site specific loss factors when required under the NER • power factor correction • embedded network management • assessing connection applications or a request to undertake relocation of network assets as contestable works and preparing offers • processing preliminary enquiries requiring site specific or written responses • undertaking planning studies and associated technical analysis (e.g. power quality investigations) to determine suitable/feasible connection options for further consideration by applicants • liaising with groups representing multiple connecting parties (e.g. community group upgrades) • site inspection in order to determine the nature of the connection service sought by the connection applicant and ongoing co-ordination for large projects • registered participant support services associated with connection arrangements and agreements made under Chapter 5 of the NER 		
Enhanced connection services	Other or enhanced connection services provided at the request of a customer or third party that include those that are:	Alternative control	

Service group	Further description	Proposed classification 2026-31	Comments
	<ul style="list-style-type: none"> provided with different levels of reliability of service or quality of service (where permissible) than required by the NER or any other applicable regulatory instruments. This includes reserve feeder installation and maintenance in excess of levels of service or plant ratings required to be provided by the distributor management of export and load at a customer site that provides the customer greater network capacity than they would otherwise be eligible for 		
Public lighting - lighting services provided in connection with a distribution network			
Public lighting	<ul style="list-style-type: none"> Operation, maintenance, repair and replacement public lighting services Alteration and relocation of public lighting assets New public lighting services incl. greenfield sites & new light types (distributor provided) Provision, construction and maintenance of emerging public lighting technology 	Alternative control	